

UNITED STATES OF AMERICA

FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON COMMUNITY BANKING

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THURSDAY
JULY 22, 2021

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The Advisory Committee met via Video
Teleconference, at 1:05 p.m. EDT, Jelena
McWilliams, Chairman, presiding.

ADVISORY COMMITTEE MEMBERS PRESENT

MIKE BOCK, CEO, Dairy State Bank
ANTHONY CAPOBIANCO, President & CEO, American
Community Bank
SARAH GETZLAFF, CEO, Security First Bank of
North Dakota
STEPHEN K. HAYES, Chairman & President, Dakota
Prairie Bank
HAROLD HORVAT, President, CEO & Chairman,
Centreville Bank
BETSY JOHNSON, President & CEO, Solutions Bank
KENNETH KELLY, Chairman & CEO, First
Independence Bank
BRUCE LOWRY, President & CEO, Ireland Bank
NEIL D. McCURRY, Jr., President & CEO, Sabal
Palm Bank
TERI MESSERSCHMITT, President & CEO, South
Ottumwa Savings Bank
PATTY MONGOLD, Chairperson, President & Chief
Executive Officer, Mt. McKinley Bank

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GILBERT NARVAEZ, Jr., President & CEO, Falcon
International Bank
MARGARET "Marnie" OLDNER, CEO, Stone Bank
MARK PITKIN, President & CEO, Sugar River Bank
JOHN E. "PJ" WHARTON V, President & CEO, Yampa
Valley Bank

FDIC BOARD MEMBERS & STAFF PRESENT

JELENA McWILLIAMS, Chairman
LISA ARQUETTE, Associate Director,
Anti-Money Laundering and Cyber Fraud
Branch, Division of Risk Management
Supervision
DOREEN EBERLEY, Director,
Division of Risk Management Supervision
MARTIN HENNING, Deputy Director,
Operational Risk,
Division of Risk Management Supervision
MARTIN J. GRUENBERG, Director
ARLEAS UPTON KEA,
Deputy to the Chairman for External
Affairs
JAMES LAPIERRE, Regional Director,
Kansas City Region
ANTHONY LOWE, Ombudsman
SULTAN MEGHJI, Chief Innovation Officer
KATHY MOE, Regional Director,
San Francisco Region
SHAYNA OLESIUK, Associate Director,
National & Regional Risk Analysis,
Division of Insurance and Research
ELIZABETH ORTIZ, Deputy Director,
Consumer and Community Affairs,
Division of Depositor and Consumer
Protection
NICK PODSIADLY, ESQ., General Counsel
NIKITA PEARSON, Director,
Office of Minority and Women Inclusion
BETTY RUDOLPH, National Director,
Minority and Community Development Banking

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

1:05 p.m.

CHAIRMAN McWILLIAMS: Good afternoon and good morning for those of you on the West Coast. Welcome to this meeting of the FDIC Advisory Committee on Community Banking. Thank you for making the time today to participate and to help us inform our decision making and thinking about community banks at the FDIC.

I'm pleased to say that since our last meeting in April, the United States has made great strides towards returning to normal as we recover from the pandemic. We're not out of the woods yet and we may not be there for a while, but we are in a much better position than we were back in April of this year and certainly in April of last year.

Community banks throughout this period have proven to be a true steward of their communities and the lifeblood providing the necessary capital credit, and more than that,

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providing strength and solidarity in the communities that you serve. For that, I'm grateful to you and I know all of us at the FDIC are as well. So I'm excited to see how we have made progress since April and what else we can do to make things even better for our community banking sector.

Before we get started, I would like to take a minute to welcome a new committee member, Anthony Capobianco. And I hope I said that right, Anthony, President and Chief Executive Officer of American Community Bank, Glen Cove, New York. Thank you for joining our committee and welcome.

While I wish I could welcome everyone in person, we're not there yet. We are hopefully going to be there soon. I'm nonetheless pleased that we are having this important meeting and I look forward to our discussion today. So again, welcome to everyone. Thank you for giving us your time and your attention and your feedback.

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And I will now turn the program over to Arleas Upton Kea who will serve as the moderator for today's meeting. Thank you.

MS. KEA: Thank you so much, Madam Chairman. We'll move on. At this point, as I said earlier, we're fortunate to have Director Gruenberg and Acting Comptroller Hsu with us today. I'm not sure that the comptroller has joined us yet, but he will be in and out at the meeting and I would like to recognize both and ask both of them to make some opening remarks. If the comptroller joins before we move beyond this portion, we'd like to hear from him.

But Director Gruenberg, we'll start with you.

DIRECTOR GRUENBERG: Well, thank you. Thank you, Arleas, and welcome to everyone. Thank you for taking the time. It seems like it wasn't that long ago that we saw you all, but it will be really of great interest to hear how things are going for your institutions and for

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your communities, how you all are being impacted by the overall economy and how you view the outlook for the rest of this year.

I think the last time we met, my recollection is that most, if not all of you were really pretty positive about the performance of your institutions, and I think we'll be most interested to hear whether that's continuing or even improving. So I very much look forward to the discussion today. And I think we're really very grateful for the willingness of all of you to take part and share your experience with us.

Thanks a lot, and Arleas, thank you.

MS. KEA: Thank you so much, Director Gruenberg.

I'm not seeing that Comptroller Hsu has joined us as of yet, so at this point I would like to move on. I'd like to ask our general counsel, Nick Podsiadly, to join us and make a few brief remarks.

Nick?

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MR. PODSIADLY: Thank you, Arleas. Before we begin today's advisory committee meeting, as Arleas pointed out, we have one housekeeping item. Because we may be joined by three members of the board of directors which would normally constitute a quorum of the FDIC Board, it's necessary for us to provide a reminder about the Government and the Sunshine Act.

Under the Government and the Sunshine Act, whenever a quorum of the FDIC Board of Directors deliberates on agency business such as regulator or matter of policy, the board meeting is generally required to be open to the public and subject to certain notice requirements.

Today's meeting is not a board meeting called for such purposes. Accordingly, general discussions among board members on subjects relevant to the FDIC's responsibilities, but which do not pose specific issues for official board resolution either now or reasonably

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anticipated in the future, do not constitute a meeting that is required to be open to the public and subject to the notification requirements in accordance with the Sunshine Act.

Similarly, informal or exploratory discussions among board members do not constitute a meeting that is required to be open to the public and subject to the notification requirements provided that any such discussions are preliminary in nature, that there are no relevant proposals for action pending before the FDIC, and that the merits of the matter could be proposed by agency action would be open to full consideration at a later time.

If during the course of today's meeting staff identifies matters that should be discussed by the board members at a subsequent board meeting in order to comply with the Sunshine Act, staff will advise the board members that those matters should be deferred and presented to the board in a meeting at a later

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date, at which time the board members can engage in full deliberation on those proposals.

If you have any questions, I'll be glad to answer them and my staff will be here as well to monitor the discussion. Thank you.

MS. KEA: Thank you so much, Nick. So we're going to start this afternoon by turning to the committee members for an update about trends and issues related to local conditions in your communities and that's something that we certainly always look forward to hearing.

After we hear from you all, the committee members, then we'll also hear from FDIC staff members as they share their observations.

Shayna Olesiuk, our Associate Director of 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 then we're also joined by Jim LaPierre, our Regional Director from Kansas City, and then Kathy Moe,

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our Regional Director from San Francisco. And they're going to discuss some observations of local FDIC staff.

So I'd like to start at this time with our committee members' discussion and we'll start with Betsy Johnson, President and Chief Executive Officer of Solutions Bank. And then Ms. Johnson will be followed by the other committee members.

At this point, to you, Ms. Johnson.

MS. JOHNSON: Hi, hello, and thank you. I think banking is well. I think it's doing well in our rural area in Illinois and I'm glad. I'll start out with that first of all.

I am Betsy Johnson, President and CEO of Solutions Bank. We're located in rural Illinois, northern Illinois, currently a size of \$350 million and good agricultural communities, although not a concentration for us in lending as has been historically as we're required more commercial business over the years through growth and acquisitions.

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Ag continues to be a strong part of our business and remains to be a constant challenge also to retain those customers as we compete still with outside agencies in rate structures and services. Compeer, to name one. As well as I'm also hearing from other bankers just across the state line that very strong competition with credit unions, so I continue to advocate the competition with credit unions, so I won't say any more about that at this point. But it is a concern and we compete with their banking services as well, but now in the ag arena.

I believe that it's much better. However, I'll let you know that our ag economy is going well from northern Illinois to Southern Illinois, the crops seems to be very, very good and we hope and pray that continues through the harvest season.

Other demands for lending opportunities have been steady. Building and commercial, even municipalities is occurring and

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of course refinancing in quarterly numbers are higher than normal. They've tapered off in the last month we've seen and our bank does not service mortgage loans, so we're not heavily involved in that, but I do hear from other banks that are full-service banks, they remain in Illinois to be very busy and they see even a lag behind in the title companies involved in that process and everybody else that they're behind at least several weeks, even up to possibly a month.

However, we know this is not just a volume that we see, but it's also due to COVID as workers are remote and some have not even returned to work yet. Illinois, coming out of COVID, you know, doing fairly well. Our banks, as I said before, many times they've been very resilient. Our lobbies are fully opened. Our particular bank was only closed for a short period of time.

With regard to vaccinations, some of the staff are vaccinated and we don't monitor

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that. We've chosen not to do that, but it's my best guess, we're 70 to 75 percent vaccinated. So a little higher than the full State of Illinois

On the positive side, we continue to operate with staff working remotely and we find out that we can do that. We think it's a huge advantage, so we continue to improve on those efficiencies and fortunately, most of our work staff does remain in place.

However, just as I hear nationally, this is a job seekers' market and employees demand better benefits, perks, along with higher pay has dramatically increased. So that is a challenge that not only our industry, but all sectors which affect our customers and it's affected their businesses.

Even our small rural areas, restaurants, as well as some stores have reduced their hours and even not for lack of being able to open, it's a lack of ability of staffing. And just this week, I have heard from a banker that

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they're closing on a Thursday and that typically, if they had done that before or even historically, with some of our banks closed on a Wednesday. They're closing not because of the lack of traffic in their facilities, but ability to staff. So I feel bad in reporting that, but I stated I think in the last meeting unemployment in Illinois has been about seven percent in April. As of June, it kind of remains unchanged, the needle hardly moved.

From our knowledge, rates in our area, a lot of that stems in dollars that they received for COVID relief and we're going to see how that changed. I know Illinois workers, you know, just in Illinois from the Fiserve Forum in Milwaukee, they had to recruit from the United Center in Chicago to work the NBA finals because they didn't have enough people to hire locally.

Phoenix Sun has reported the same thing that they've recruited from California. So it will be interesting to see what happens when

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employment benefits do run out and what type of work force that we had to recruit from, but hopefully, we continue to remain safe in our daycare and in our schools and be able to operate safely as well as because both of us know families we know what type of burden and challenges that COVID had created.

This brings me to talk about the deposits that we have in our bank. I had thought that through the COVID relief there are increases in deposits which gradually decreased and we find that that just isn't the case. So I'm very interested to hear any thoughts or conversation going forward in the consideration given to -- for at least some period of time of any adjustments that will be made, considerations for the capital ratios that these large deposits have created for us.

Information technology is always continuing with us. It's very, very important that we protect our systems and our information

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that we have for our customers, as well as the digital services arena which I'm very interested to talk more about that as we hear from our new innovation person at the FDIC.

Crypto currency, although it's not prevalent in our area, I do have a few customers and people that I know that have attained it. It's nothing that's in my arena, although I know it is very important and we should all be educated and informed about that. That's probably about all I'll say on that.

Otherwise, banking in Illinois, in our area, I think it's very good and I'm probably at the end of my time limit. So thank you and I apologize. I need to know who my next person is because I wasn't able to bring up my agenda quickly enough.

MS. KEA: And that's quite all right. Thank you so much for that very informative report.

And our next speaker is Harold Horvat.

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MR. HORVAT: Good afternoon. And thank you and thanks to the FDIC for including me in this. My name is Hal Horvat. I'm the CEO of Centreville Bank. We are a very old institution. We've been around for 193 years. We're based and founded in West Warwick, Rhode Island, just south of Providence, Rhode Island.

During 2020, we expanded -- we acquired a bank in nearby Connecticut. We now have 17 locations in Rhode Island and eastern Connecticut. And we're about \$1.9 billion in assets.

One of the things we're really proud of is we are a community bank and last year in 2020 we donated over \$1 million through our foundation throughout the community primarily in education-related nonprofits.

In terms of our market is southern New England, so really eastern Connecticut, southeastern Massachusetts, and the very large State of Rhode Island. Rhode Island is really a

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little bit ahead of the region in terms of reopening from the pandemic, a little bit ahead of Connecticut and Massachusetts, and that's given us an advantage, our businesses an advantage.

As of June 1st, as a bank, we're completely back to conducting business as normal. We're in person. Our lobbies are open. They've been open for a while, but all of our employees are back in the office. And we were really concerned initially as to how that was going to work out. Most of them had been out of the office for well over a year. And employees have been very, very happy to get back in the office and get back to some level of normalcy.

In the marketplace, we've seen networking and community activities gradually returning. There's a great deal of enthusiasm, and participation, more than we've ever seen. And there's a high level of optimism. I think folks are really happy to get back to seeing each

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other.

In Rhode Island, in this area, tourism is a very large part of our local economy and it was hit very, very hard last year as you would imagine, directly impacting a lot of our customers. The hospitality industry is gradually seeing a big surge in business this summer. And this is a key summer for most of our customers and most of the folks in that industry.

Pre-pandemic occupancy rates are being reached and resort-type hotels and Airbnb and B and Bs in some of our resort areas, and restaurants are crowded. The one real issue, as Betsy had talked about, is we can't get any help. This year, we're used to seeing an influx of international students come to New England and working restaurants, hotels, et cetera, and they have not been able to do that.

In addition, most hotels have had to actually close for a couple of days a week or Airbnbs have had to not operate because they

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can't get enough help to turn over the rooms. Restaurants are operating the same. They've had to return to their hours or in many cases reduce or not have lunch hours at all. So it really has been kind of a two-edge sword. The good news is the surge is back, the business is there. But unfortunately, a lot of businesses can't handle it because of the help issues.

And there is a lack of qualified workers in other industries and particularly in the construction trade. So it's an interesting time in Rhode Island because unemployment is very high, so it will be interesting to see how that all plays out as unemployment benefits go back to a level of normalcy.

In terms of the bank, we're actually doing quite well this year. We did about \$108 million in PPP loans to 1200 customers and we're seeing the benefit of that in our increased income from forgiveness of those loans.

Earnings are positive to its budget,

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but our margins are still tighter than expected and that's something that we're really concerned about as we head into 2022.

Asset quality remains strong, but we're cautious as some of these businesses and industries come out of the pandemic.

As of June 30th, we're very happy to say we have no more deferrals. We had deferred a significant amount of business during 2020. We've got a couple of customers that are on interest only that we're working with.

Residential lending is thriving with low rates, substantial refinance activity. Housing inventory has seen a very small uptick as people look to take advantage of a hot market, but it's still essentially a refinance market.

Deposits are very high, well ahead of budgeted projections and as Betsy mentioned, we haven't seen any drop in that at all. The challenge is really how do we put those deposits to use.

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In terms of expectations for the future in 2021, we're expected to continue to have a strong year. We're more concerned with 2022 when planning for the increased margin pressure and some of the impacts of the long-term impacts of the pandemic.

We anticipate recovery in the hospitality industry. We think that the resort hotels are doing better than the hotels that are related to business travel because that's been much slower to come back.

On the technology front, we've actually implemented ITMs. We did that prior to the pandemic and that actually has worked really well. Usage was very limited. It was hard to get our consumers to get used to using the ITMs, but once the pandemic hit, they essentially had no choice and they really -- that usage has not gone down since our lobbies are now open. You'd think that's a big positive for us. It certainly differentiated for us in this market.

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We continue to focus, as many companies are, on diversity, equity, inclusion and we've made some great strides in that arena and we anticipate continuing that in 2022.

Overall, we are pretty optimistic. We're focused on growth, but we're cautious about how we come out of the long-term effects of the pandemic in our interest rates.

So thank you very much for this opportunity. And at this point, I'll turn it over to Stephen Hayes. Thank you.

MR. HAYES: Good afternoon. Thanks, Harold. Can everybody hear me okay?

MS. KEA: Yes, sir. We can.

MR. HAYES: Well, first off, I want to thank you again for this opportunity. Participating here in the last couple of years on this group, it's been a wonderful opportunity and I really appreciate this.

My name is Steve Hayes. I'm President and CEO of Dakota Prairie Bank located in central

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South Dakota. We're a third generation, family-owned bank and about \$120 million in assets. Some of that had to do with the PPP loans and so forth.

We have four locations. Three of the locations are in small, rural ag communities of 800 or less in population. Our main office is located in a central part, just across the Missouri River near the capital, in Pierre. And that's about 2,500 to 3,000 people. But overall, we are primary ag and our main location is more diversified than our branches into the commercial and consumer.

As far as the bank, we had another -- we had a pretty good year. We still are having similar issues that both individuals have already spoken on this afternoon. We're still facing with the liquidity and the challenges that go along with that. Net interest margins maybe see a slight uptick, but I think some of that to do with the PPP, the income that came with that.

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But overall, loan demand has been good. Asset quality has been good. I'll talk a little bit more on asset quality when we get into the economy. I have some concerns there. I'm looking forward.

But overall, I think the bank is doing pretty well. You know, working with the COVID in South Dakota, as Madam Chairman talked about, I think we're seeing a little bit of normal, back to normal if you will. The thing about this is and as mentioned and it's going to be mentioned again about the shortage of workers up and down Interstate 90 here. You're seeing businesses with signs that say shortage of help. And so that obviously has an impact on growth and also has an impact on wages and salaries and benefits as far as looking for people, too, that has changed that immensely. But overall, COVID, I think we're moving along pretty well with that.

The area that I really wanted to cover is our economy in central South Dakota and really

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the entire state. You know, our commercial accounts have done well. I think overall I think they're starting to come back from the COVID. We're starting to see less past dues and deferrals. I think it's showing better gains on some of our commercial.

The issue right now and I call it -- we used to call it regulatory hot buttons. We still do. This is our internal hot button here is the drought we're faced with right now. The heat, the lack of moisture, the lack of feed. And we have grain producers. We have cattle producers. The grain producers are seeing some pretty good commodity prices right now. The row crops, the corn, the beans, the flowers, that's going to be hurting and it's a major impact as far as the cash flow on the grain farmers.

Really the folks we're starting to see struggling right now is our livestock producers. Normally at this time of year, we have our livestock out in open grazing areas and until

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closer to November and December. Now we're starting to see some of our producers start feeding that hay just because the grass isn't there. So because of that, we're starting to see people starting to sell their cow herd down and that's okay, but yet with small amounts, but we're starting to see more and more people starting to hold some of their younger herds just because of the drought.

And as I mentioned before about classifying the issues with that, I worry about that moving forward because of potential -- the income may not be there for some of those livestock producers because of the drought. But we'll have to see how that plays out. I mean it's just the moisture hasn't been there and the grass isn't there and people, because of the cost of feed, are ending up selling their livestock. So that is really my hot button here in our area. It's really been this drought and how much impact -- we're in cycles and last cycle was in 2012 and

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2013. And it's not going to happen overnight, so it takes a little bit of time.

But overall, things are going pretty good. An interesting truth -- and again, I talk about regulatory hot buttons, there was a group of about 250 to 300 bankers. Four states got together in June and one of the sessions we had was a question that we asked what keeps you awake at night in '21? Number one was cybersecurity, ransomware. The second one is the technology innovation, the anxiety -- the digital transformation for -- those areas were number one and number two.

So some issues we're looking forward, just a little anxiety, but we'll tackle it like we have everything else. So that covers pretty much for us in central South Dakota. Thank you and I'll turn it over to Neil McCurry.

MR. McCURRY: Hello, my name is Neil McCurry. I'm the President and CEO of Sabal Palm Bank in Sarasota, Florida. We are a \$400 million

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bank. We're about to celebrate our 15th year in operation. And we have three locations.

All we do is, I think, traditional community banking. We just focus on small businesses and individual entrepreneurs in our local market. We really don't do banking activities outside of our general region.

And a few comments since the last time we got together, there certainly has been a lot of progress when it comes to COVID, in general. We, like some of the other commenters, have opened up our lobbies and back to whatever the new normal is, we are doing that now.

That being said, I think this new Delta strain is causing concern and we're all watching it. I think just as an individual always when I'm out, I pay attention to what the people are doing. And last month we saw mask usage declining where you often go into stores and there would be no one wearing a mask. And just this past week, and as recently as today, I

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noticed the places where you might have 25 to 50 percent of people wearing a mask.

Why is that important? And that, I think, is people are one, paying attention to this new strain which is certainly good, but I think that will have some impact on consumer confidence if there's concerns that we're going to have some other type of prolonged issues. I think most people felt like the worse was behind us and now there might be some uncertainty. What impact that has on our bank, our community, our country is to be determined, but certainly I think it's an important topic for all of us to pay attention to.

It was talked about cybersecurity earlier and it's going to be talked about later on in this presentation, a later day. It's always been a big issue for us, for me, what I late at night worry about is that a crime that can kill an institution by a thousand cuts. And we spend a lot of time, a lot of money, a lot of

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efforts to try to prevent that, never sure if we're doing enough.

But it's becoming so common out there. We're also seeing businesses now in our community, I just found out about a local business that had a ransomware attack and they are going through that decision of how they address it.

And I think many businesses, small businesses in particular, medium-size businesses don't have the time, expertise, and ability to do a lot of the cyber planning that financial institutions do. So I think it's a concern as it grows, not only for our industry, but for business and how that can impact credit quality on an overall community. And it's a threat that I don't think that we can ever pause and not be concerned about.

Another thing I think as far as our industry might look at, my 30 plus years and I think most people feel the same way, there's

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probably been more -- we're in the midst of more changes than we've ever seen from digital platforms being used more and more from other currencies, cybercurrency -- cryptocurrencies to fintech. I think that's challenging us as an industry quite a bit. And I think that we have to go into these with the understanding of operating in a safe manner, but also realizing that these trends are upon us and aren't going away and how do we adapt to them as well. I think it's important that we make sure that we don't make ourselves irrelevant to certain people like businesses, consumers, particularly younger consumers as more and more of these different platforms get adopted.

So those are things that certainly as an institution, as an individual, I continue to pay attention to and a great concern, and hope to have the ability to partner and work with the FDIC and other banks as well to make sure we're all prepared for these changes in our industry.

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Back to just Sabal Palm in Florida, some different challenges I've heard, we actually had a significant amount of liquidity right now. It's almost the cup runneth over down here to the point where we've lowered our CD rates to almost zero percent because we just don't need -- we have so much excess liquidity. At the same time, credit quality continues to stay strong. And loan demand continues to stay robust.

Not to say there's not challenges ahead. We certainly have housing crises in Florida continuing to increase at unsustainable amounts which is going to cause the ability for labor shortage -- or working people to afford housing, younger families, et cetera. Construction costs have been going up and that, I think, is part and parcel to the inflation concerns that are out there. Whether that's temporary or not, we're not sure. Some raw materials, I think, wood, I think is starting to decline a little bit, but they're still

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significantly higher over pre-COVID numbers as well, and what impact will that have on the future.

And then labor shortages, I think, I heard some of the other guests talk about labor shortages are continuing to be a challenge in our market and different businesses, particularly that have to deal with lower skilled, lower paid jobs are having an incredibly difficult time filling those positions, cutting hours. Fast-food places are reverting to drive-thrus only as well. And what impact will that have in the future.

We have an Amazon distribution center that's going to be built. It's in the process - - latter stages of being built. They expect to hire 2,000 employees which on the outside sounds like great news for the community, but where are they going to get them in a tight labor market? Are they going to cannibalize other businesses? Are they going to recruit from other parts of the

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country to come to Florida? So these are all challenges that affect us in our local community and I think across the board as a country.

So I think there's a lot of things we're excited about and optimistic about. The bank continues to perform well. We're having another record year as far as profitability. But I think there's a lot of things that need to be concerned about and again, continue to look forward to partnership with the FDIC and our state regulators as we go through these unique, challenging, and new times for all of us.

With that said, I'll turn it over to Margaret from Stone Bank.

MS. OLDNER: Thank you, Neil.

This is Marnie Oldner and I'm the CEO of Stone Bank. It's a \$550 million commercial and ag bank chartered in Arkansas, but we do have a government-guaranteed lending division, USDA/FSA, and SBA that serves a multi-state region. We have six locations and all of those

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locations.

In all of those locations in Arkansas we do have ITMs. I know Harold or Hal mentioned the use of ITMs. That does help provide greater access to banking services, particularly in times like we've just gone through. However, we have found that the consumer is very slow to really use it to its fullest capacity, so that's still something that is evolving.

The financial performance in Arkansas is very good with ROAs above 1.6 percent, which is above the national average. At Stone Bank we're enjoying a profitable year with an ROA of 1.54 so far this year.

Asset quality numbers also remain strong, although there are uncertainties about the future.

While most banks have experienced some margin compression profitability remains strong. Liquidity, however, is a challenge. As one of my fellow bankers in Northeast Arkansas said, we

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have times of liquidity and loan demand is slow.

Now loan demand varies throughout the State of Arkansas. Northwest Arkansas is I think recovering quite well. In Central Arkansas there's a moderate amount of business for all of us to enjoy. But when you look into the rural markets throughout the state it is a bit slow.

Another banker in Central Arkansas mentioned that we are awash with liquidity, so that is an issue that I think is on the minds of bankers. Arkansas bankers have not shown any tendency to loosen credit standards, but we are pricing our loans much lower in order to compete. And it's our perception that non-bank lenders don't follow the same rules that we do or have the same credit underwriting standards that we have, and for that reason then it's a competitive threat for us.

The consolidation of our industry in Arkansas does continue, but assets and deposits have grown substantially. Susannah Marshall,

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our bank commissioner, shared with me that Arkansas is tied for sixth place in the nation for the number of state charter banks with assets in excess of 10 billion.

Deposits in Arkansas have doubled in the past 10 years with that trend accelerating in the past year or year-and-a-half. However, the number of Arkansas banks has declined 55 percent in the past 20 years, and in the past two years another 10 percent as banks do continue to merge with one another.

The unemployment rate in Arkansas is 4.4 percent, and it's been hovering there for the past three months, I believe. So I believe that's below the national average, but we do find that a lot of businesses are struggling to find the talent they need to staff appropriately.

COVID remains a very significant problem here in Arkansas. Only 35 percent of our Arkansans are fully vaccinated. New projections from researchers at the University of Medical

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Sciences say the pandemic in the state has radically changed in the last two weeks. The test positivity rate in Arkansas is 20 percent, which is 5 times the national average. The information released also indicates new cases are much more prevalent among young people now. Obviously we cannot subdue this -- if we don't subdue this pandemic, economic uncertainties will remain with us.

Arkansas banks are well-capitalized though, have strong earnings and reserves, good asset quality indicators, and a very resilient access sector despite some weather-related issues earlier this year and fluctuating commodity prices. According to our bank commissioners Arkansas banks as of May reported \$1.7 billion in PPP loans. I believe here at our bank we did about 1,200 loans totally about 80 to \$85 million.

So we do have a lot of positive things that we are proud of, but at the same there remain

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challenges with regard to COVID.

Thank you very much and I'll now turn it over to Bruce Lowry.

MR. LOWRY: Thank you, Marnie.

I'd like to start off by just saying thank you to Chair McWilliams and Director Gruenberg for the honor of being involved with this committee and getting the insight and perspective from the FDIC and my fellow bankers across the country. It truly is an honor.

I'm Bruce Lowry, President and CEO of Ireland Bank. Our world headquarters is located in a small community in Southern Idaho and we are currently in our 129th year of operations and have the distinction of being the oldest surviving state-chartered bank in Idaho.

The Idaho economy is doing very well. As a state we're leading or among the top five in many measures of economic improvement in the nation. The Idaho unemployment rate is very low, at about three percent, and we definitely have

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more jobs than workers to fill them in many parts of the state.

Our state is experiencing significant population growth which in turn is resulting in a very robust housing market, though state prices have increased in recent months and home inventory is very tight. Most new housing construction is sold before the homes are even finished. And to make that even tighter increasing lumber prices and labor shortages have slowed the construction progress, yet the demand continues to remain strong.

The agricultural sector in our state is a current -- is a significant portion of our economy and currently we are also suffering from a significant drought. Water storage systems used for crop irrigation are short of water in some areas and it will be a challenge to finish out the growing season. Dry land crops have been significantly damaged and some crops will not be worth harvesting this fall.

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We're hoping for above-normal snow pack this winter to refill water storage systems for the 2022 growing season. The positive side of that is luckily most farm producers in Southern Idaho are diversified and they're not single-crop-dependent. This will help them to weather through the drought.

The drought also impacts the recreation and the tourism sectors of our economy because of the higher than normal temperatures and the inability to participate in water-based recreation as nearly all the water storage reservoirs also provide recreational opportunities in our part of the world.

We're very ag-centric in Southern Idaho, so while our local economies are less dependent on ag than we've historically been, challenges in the ag sector will be felt across the entire economy. So it will be drag on our overall economy for the next several months.

At the same time that our reservoirs

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are dry community banks in Idaho are drowning in liquidity. Deposit growth has been unprecedented over the past 18 to 24 months. Loan demand is not keeping pace and with interest rates where they are, net interest margin compression continues to be a challenges. The effects of NIM compression on profitability is obvious and it appears to be with us for some time to come.

On the positive side our credit quality is very good. We just all hope that this continues for a period of time and at least until we've had a chance to kind of digest the growth in deposits and deploy those assets into better earning venues.

Ireland Bank is experiencing a reasonably good year so far in 2021. We have too much liquidity and resulting net interest margin are our biggest challenges at the present time. Luckily asset quality is very good and we are finding revenue streams, mortgages, and some

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other areas that have improved significantly that is offsetting the loss of interest income.

So again I thank you for the opportunity to be part of this committee and I will turn the time over to Kenneth Kelly.

MR. KELLY: Thank you, Bruce.

And let me say good afternoon to Chairwoman McWilliams and Director Gruenberg. Thank you so much for the opportunity to participate. Part of these discussions is really about learning.

And, Bruce, I will tell you what I just learned from you is that First Independence Bank also has a world headquarters and it's based in Detroit, Michigan. And I just want to tell you it just opened my perspective to hear you talk about a world headquarters.

But we are roughly a \$300 million institution based in Detroit, Michigan into our 51st year, and would like to share a little bit about what's been going on really since the last

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meeting we had in addition to maybe the course of the -- over the course of the pandemic.

In general I will tell you bank operations and our performance has been moving upward. 2020 was a challenging year for us just based on the construct of our business model. And when interest rates moved as fast as they did in March 2020, it really put compression on our income, and so we had to really make some tough decisions in the midst of also making a decision on technology because we changed from a traditional core provider to a digital platform and choosing and selecting Sinastra. Finastra. I'm sorry.

What I'd like to also say though is that employment rates in the city have started to come down to normal. Last year as you were aware we took it on the chin in Detroit. And we also are still seeing some challenges from the auto industry in Detroit. If any of you are now traveling, you will see that rental car rates are

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high because of the low supply. The purchase of automobiles in certain parts of the country is high. In fact they're charging over MSRP in some parts of the country because of the lack of the chips that have been a challenge for the automotive industry. And so we're seeing some of that really impact the economy.

The traditional language you heard from some of my peers is the same: high liquidity; low long growth is still an issue. We're still seeing issues with residential housing, meaning that there is just a low supply of desirable housing, and the cost of construction is very expensive. Lumber was very expensive here recently. We're seeing -- starting to trend down a little bit and hopeful that will come back into line at some point in time here in the future.

The concerns of (audio interference) in managing and balancing those is certainly something that was of concern for us, even in the first quarter of this year. And so we were very

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fortunate to have a capital injection from one of the G-SIBs that took place, and that's been publicly announced from Wells Fargo that was certainly an impact to us.

And as you think about DE&I, Wells Fargo basically made a commitment back in March of 2020, before most of the social unrest, to invest \$50 million into African American banks across this country because as they looked at the data they saw that there was some discrepancies there. I believe that they have completed that and we are seeing quite a few other of the large G-SIBs really engage in that way and supporting minority depository institutions.

Several of the MDIs and CDFIs will be participating in the ECIP, the Emergency Capital Investment Fund that is being run by Treasury at this point in time. I don't think they've set a deadline on that. And the intent is they'll come out with an FAQ and I think at some point in time shortly thereafter the applications will be due

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for going through that process. My speculation would be it will be very late this year before that is implemented or executed, or hopefully early of 2022.

Again the information technology sector and space inside of banking is a big concern relative to cybersecurity. We saw what happened with the gas pipeline and how it impacted the country. We are hopeful that as we talk about this from the business banking perspective it is an area that we lend a lot of resources to and it could help us protect the deposits in the banking system in this country.

I will tell you in looking through these slides to #GetBank IC is a great ideal. It really is comparable to the Bank On Program that our bank has participated in and was hopeful that we can get more people into banking.

There was a little bit of a shortage in looking at that presentation. Hopefully we can talk about that a little bit during the

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conversation today and that I didn't see Detroit, Michigan mentioned on their part. I thought I saw Atlanta and Houston. And Detroit of course has the highest population of any metro area for African Americans in this country and in addition, too, we are unfortunately one of the higher unbanked populations. So I'm hopeful in hearing some of the discussion from there later today that Detroit will be considered for part of that process.

The fintech space is one I think we are engaging, but we certainly need to be from a regulatory perspective mindful of how it impacts us. We are seeing the ability as we looked at the PPP roll out. All of our banks did exceptional and the big numbers were with our banks, but we did see fintech move in a way that was just very swift relative to some of our cultures on the banking side. And I think we have to continue to talk about that because there's got to be a way that we come together in

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a way that is beneficial to both banks, the fintech industry, and certainly the customers who are most important.

At a macro level I think we're seeing the discussion of DE&I really at the highest level it's been probably in my career. The question becomes how we turn that into something that is certainly meaningful, impactful, and certainly meets the standard of the metrics that we're using to guide the need for having DE&I discussions at this point in time. I made reference to Wells Fargo earlier. Again there are many other institutions that have made commitments on this, but the question becomes how do we effectuate that into something that has a tangible outcome five years from now, 10 years from now?

I do want to applaud the Chairwoman for her efforts in looking at the establishment of setting up a fund. I think it creates credibility in the space on this topic. We just

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have got to be sure that when we roll that out it's one -- it is done in a manner that is -- certainly that was intended. And so we'll be very supportive of that.

And so I'll end by closing the comments associated with what I think are the important pillars in particular when you look at that there are only 18 African American-owned banks in the country out of the over 5,000.

One is capital. There's no need to really kind of go down that path of describing that. The metrics kind of prove it in themselves.

Revenue opportunities. We're seeing some of those across the board with some of the larger banks, and even some of the regional banks. We have forged a relationship with -- the Chairwoman hosted a regional MDI summit I know in Chicago I participated in and we're seeing some of the fruits of that. That's been close to two years ago now, and so we need to see more of those

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opportunities to create revenue for these institutions so that they can do work in the impacted communities that they so desire.

And then lastly of course deposits. And I highlight that only because deposits sound like an easy lift for many institutions, but the reality is the economy in our banking system is flush with deposits at this point in time. We all know that that pendulum is going to swing again and so we're keeping it on the list as something that we know we're going to have to deal with and probably have a higher need for it at a point in time, but it is third out of the three major items. So it's capital first, revenue opportunities, and then lastly deposits.

So thank you so much for allowing us to have this opportunity to participate and I will pass onto Shaza Anderson, I believe, because Anthony Capobianco is not here, if I recall correctly.

MR. CAPOBIANCO: No.

MS. KEA: Ken, thank you. Shaza is in fact not here.

MR. KELLY: Oh, Shaza's not here? I'm sorry. So let me (audio interference) Anthony.

MS. KEA: Thank you.

MR. KELLY: Okay. Sorry, got ahead of myself here.

By the way, welcome, Anthony.

MR. CAPOBIANCO: Thank you, Ken.

I hope everyone can hear me. Thank you also to Lisa Roy for initially reaching out and offering me the opportunity to join this committee.

And to Shannon earlier for helping me out with the technical difficulties I had on the Webex.

So good afternoon. I'm Tony Capobianco, President and CEO of American Community Bank. We started this bank about 20 years ago, and for those not familiar with the

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area, we're located in the suburbs of Long Island, about 30 minutes outside of New York City in the counties of Nassau and Suffolk. Our footings total about 240 million and we have five branches throughout those two counties. The lion's share of our business is commercial real estate; I'd say about 95 percent-plus.

So our local banking conditions have obviously been impacted tremendously by the COVID pandemic for the better part of almost a year-and-a-half now, like all of us. However, all of our branches except one stayed open throughout the entire pandemic, and that really went a long way in building up good will with our communities. And our back office employees worked remotely for the most part, but only for a few months, and I'd say as far back as last July about 90 percent of even our back office employees were all back.

So the initial impact of the pandemic began with temporary loan accommodations program

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of deferred monthly loan payments for either three or six months. Fortunately all of the borrowers that we provided loan accommodations for resumed their regular payment schedules as of November of last year.

The next phase of the COVID impact continued with the SBA PPP loan programs; round 1 last year and round 2 this year. We were able to provide close to 1,000 individual loans totaling over \$50 million that funneled back into small businesses to support our local communities. The median loan size was about \$20,000, so a majority of those loans went to businesses with less than 10 employees, and we were proud to at least try to help them save thousands of jobs.

So far all of our PPP loans from round 1 have been forgiven by the SBA as of June 30th of this year, last month. And while we are in a holding pattern now for the next several months to begin the forgiveness applications for round

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2 of the PPP loans, we're focusing on ramping up new commercial real estate loan originations since we kind of had a moratorium on them for -- I wouldn't say the entire pandemic, but probably between six and nine months.

So we really didn't get back into the commercial real estate lending game until the beginning of the second quarter of this year, but we only loosened up our underwriting standards by about 50 percent. Now with the start of the third quarter just recently we're back in it by about 75 percent and the plan is beginning fourth quarter, or October 1st, to get back to 100 percent of our normal underwriting parameters, so basically getting back to normal hopefully. That's provided there isn't another surge in the COVID pandemic and hopefully the Delta variant doesn't become a factor.

But the main impact I'd say of the pandemic to our local banking conditions has been a significant -- I'd say a tremendous increase in

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liquidity via core deposits, which most of you have also alluded to, as well as so much positive feedback tremendously from the local communities that we were there for them during the pandemic, unlike some of the local branches of the money center banks around here.

Also unlike the recession of 2008 when we were grouped with the larger banks as being the bad guys, this time I think the community banks like ours are being appreciated more and more and looked up as the good guys that we all are, right?

Anyway, overall I would say that the local banking conditions are positive and I've been looking toward 2022 probably for the -- starting six months ago as more of a challenge based on anticipated margin compressions due to increased interest rates on our deposits as well as increased competition for loan demand and loan growth. And that's before the anticipated increase in the corporate tax rate, perhaps.

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Right now we're having our best year in our history again for the second consecutive year and our credit quality remains pristine with zero past dues and zero sub-standards. And even though I expect a downward trend in earnings for 2022, I remain cautiously optimistic for a strong recovery in the economy pending continued reopening of businesses and the continued successful outcome from the vaccines.

So thank you and now I'll turn it over to the next speaker, Gilbert.

MR. NARVAEZ: Good afternoon, everyone. Our bank is headquartered in Laredo, Texas, and we've been in operation for 35 years and currently stand at about 1.7 billion in assets. We conduct a significant part of our business along the Texas-Mexico border. The bank's 17-branch footprint extends into the South Texas -- South Central Texas region, which includes the metropolitan areas of San Antonio and Austin, and we have entered into the Dallas

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market as well. Our branches service communities comprised of 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 between the U.S. and Mexico international trade and transportation sectors continue to be active and very important sectors of our operating environment. We are very grateful that throughout this pandemic the international bridges have remained open for international trade business.

Today our local economies have opened up to as close to business as usual to pre-pandemic levels and with the exception of the Mexican border still closed to the non-essential travel sector, which the sector includes retail and tourism activity. The border has remained closed to this non-essential travel sector since March of last year and the reopening of this specific sector still remains on standby. This

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specific sector vastly will improve the retail, hospitality and restaurant business sectors of those cities along the border.

Most of our markets have been experiencing positive and -- business activity, economic business activity, but we are dealing with challenges in the labor market. We have labor shortages primarily in the construction, restaurant, hospitality, and other entertainment-related sectors. We've been having difficulties hiring workers due to a combination of factors. One is the expanded and enhanced unemployment benefits, but we anticipate that the expiration of these benefits as of June 30th for the state is expected to improve the situation.

And also another factor is child care needs and responsibilities which have also affected our labor force, but it's also expected to improve once our youths return to in-person schooling this fall.

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Up until a few weeks ago the number of new COVID cases and hospitalization rates had been improving and declined to all-time low levels, however, recently we experienced an uptick in those cases and mostly due to this new Delta variant. This has not been disruptive to business so far, but if the trends continue, it may be.

Texas as a whole has been able to vaccinate -- fully vaccinate over 50 percent of its eligible population. Percentages in the areas that we operate that are fully vaccinated range from over 50 percent to up to -- in the high 70s. I'm happy to report that at the bank company level we have over 90 percent of our staff that is fully vaccinated and continue to make -- encourage our staff to get vaccinated.

We're hoping that we can continue to avoid future business disruptions and from the continuing effects of these new COVID variants, but we remain optimistic that the economic trends

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will continue.

I'd like to conclude my report by sharing our most recent regulatory exam experience on our safety and soundness exam. We had been hearing that most of the banks had been experiencing some positive and welcoming experiences from their regulatory processes. Our recent exam was conducted jointly by the FDIC and the Department of Banking of the State of Texas. Although the exam was 100 percent virtual I can tell you that it was non-intrusive to our day-to-day operations. The regulators from both agencies were very accommodating and understanding throughout the entire engagement. All in all we, too, experienced a very welcoming and positive experience and we expressed our gratitude for their helpful and understanding mind set and posture.

That concludes my report and I'd like to introduce Teri Messerschmitt as our next speaker.

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MS. MESSERSCHMITT: Thank you, Gilbert.

And good afternoon, Chairman McWilliams, all the FDIC staff, and fellow bankers. I'm Teri Messerschmitt and I am the President and CEO of South Ottumwa Savings Bank in Ottumwa, Iowa, located in Southeast Iowa, and we're about a \$570 million bank.

The State of Iowa is rebounding. In general we've opened up our businesses. We do have a few exceptions where some people are still working remotely from home. We also have several restaurants like was mentioned earlier that only have their drive-thrus open. I think in most cases what we're seeing is it appears to be a labor shortage also. There's an issue due to that and we see help wanted signs posted in most of the businesses just about wherever you go.

Iowa does have one of the lowest unemployment rates; we're at 3.9 percent compared to the unemployment rate of the national rate of

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5.8. Iowa also has one of the highest participation rates in the country, and so most of our Iowans are already working. And we're continuing to see a shortage in our workforce.

We have seen an increase in wages also. I heard that today as well. We're seeing a lot of competition from some long-term employees actually moving from their current jobs and going to other positions where they can better themselves just because of the shortage of eligible workers that are out there.

Effective June 12th the State of Iowa was one of the first states to opt out of the extra unemployment benefits that were offered by the Federal Government, and I do think that will help. We really need to attract and retain people to our state, and that really continues to be a major concern for us.

And update on the COVID situation in Iowa: The risk level for the coronavirus in Iowa is at a medium level. Approximately 50 percent

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of all Iowa residents are fully vaccinated. Our positivity rate is running pretty low at about four percent. Masks are not required, both indoor and outdoor, for vaccinated people.

The bank, we're doing really well. It's been a very busy year for us. We've been very busy with the second allocation of the PPP funding. We processed 656 PPP loans for the second go-around for a total of about 13 million. The number of loans was twice the number of our first go-around in the PPP funding, although it was about half the dollar amount.

We were very happy though this time that many of our farmers were eligible under the second round of the PPP proceeds, and our bank really was a leader in assisting many individuals and businesses in our market so that we could help them with the PPP funding. And actually we were very aggressive to reach out to potential applicants that could qualify for the PPP funding, both customers and non-customers, just

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to make them aware of the program.

The PPP program really was a great opportunity for our community and community banks like ours since we focus on trying to deliver outstanding customer service every day and building that relationship with our customers really helps set us apart from our competition.

The bank was actually recognized by the U.S. Small Business Administration from round 1 of our PPP loans and we were given an impact award for our efforts in keeping the small businesses up and running and the workers employed during the COVID-19 pandemic.

To date all but one of our first go-around of PPP loans have been forgiven and approximately 40 percent of our second round have been forgiven now. So we have been very busy with that program.

We have also been busy with the residential real estate lending. It really is a seller's market in many areas of our state. This

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is really due to a high demand and a limited supply of inventory of homes and it really is resulting in some increases in some sale prices. We're actually seeing homes being sold for more than their asking price.

Also the long-term fixed rates are still relatively low and I think as people's concerns get more and more concerned about the inflation and the interests rates going up -- that is why a lot of the people have started to really think about buying that house now or continue with their refinancing in that market.

We do have a concentration of ag credits in our loan portfolio, and I mentioned that before. Our ag portfolio really is in good shape right now and that's due in part to the PPP Loan Program. We've had the Corona Food Assistance Program, the CAP payments, and then the current commodity prices. Even though there's been some volatility in those commodity prices, the prices are still up.

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Farmers have taken advantage of those commodity prices during 2021. They've been selling their inventories of their stored grain and they've also sold some of their -- locked into some future pricing for their 2021 new crop production as well.

Southern Iowa has had plenty of moisture. I think that Northern Iowa could use some additional rain, although overall I think Iowa does have a potential for a good 2021 crop at this time.

Our loan quality continues to be very strong with very little delinquencies. All of our COVID modifications that we made during the pandemic have returned to a paying status. We continue to increase our provision for loan loss and we continue to monitor all of our business sectors with the uncertainty out there still of the economic impact of COVID that's still ahead of us.

We are currently getting our CECL

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model implemented with a goal of being completed by the end of this third quarter. We're not sure what that impact is going to be on our ALLL at this time, but we are anxious to get it up and running and want to have it up and running for at least a year before it's actually implemented.

Our capital continues to be very strong and even though that we're having a really great year I'm already concerned about the budget for 2022. We know we've had significant fee income this year. That's due to the PPP program and also due to the residential real estate mortgages. The volume that we've had in that area has been significant. If interest rates start going up I'm sure those residential real estate mortgages will start to slow.

We also have limited loan demand in our area especially and there is really extreme competition from our competitors for new loans and existing loans that are on our books.

The net interest margin compression is

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definitely something that I am very worried about. We have, like some many other people have mentioned today, an extreme amount of liquidity. With limited loan demand our option is to go into investments. With the low interest rates that are available in the investment portfolio there's not a lot of margin you can pick up there. And in addition to our existing investments we continue to get pay downs, we get the investments called, and some of them are maturing. So those continue to roll off and we have to continue to put it in into the lower yielding investments.

Another area of concern that really continues to keep me up at night is the increased number of cyber-attacks. We have a local JBS meat processing plant in our community. And JBS, the world's largest meat processing company, just paid them 11 million in ransom when they were hacked in June. The company did shut down their cattle slaughtering and all of its U.S. plants for a day and the disruption threatened the food

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supplies and risked higher food prices for our consumers.

That attack came on the heels of the Colonial Pipeline attack as well. We continue to work very hard at educating our staff to help them develop their skills and their awareness and to help limit our exposure in this area.

In closing I want to extend a thank you to the FDIC and to the Iowa Department of Banking for all their assistance and support throughout the year. Thank you very much for your time and I'll turn it over to Patty Mongold.

MS. MONGOLD: Good morning. For me it's still morning, so I'm happy to be here with the group. I am Patty Mongold, President and CEO of Mt. McKinley Bank in Fairbanks, Alaska. We are a mutual bank. Right now we're at about 615 million in assets.

We've been enjoying quite a good year (audio interference). We exceeded our expectations for both income and balance sheet

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growth. We're cautiously optimistic that we will have similar earnings in 2021 as we did in 2020.

We're seeing an influx of deposits primarily due to customers leaving bigger banks in order to avoid fees, but we also see some growth, continued growth due to the pandemic, mostly in the areas of businesses, municipalities, and travel (audio interference) but also from individuals.

Our mortgage loan demand remains robust and our title companies and appraisers are struggling with this demand, which of course slows the closing process. We are seeing multiple offers on homes and there is a -- it's like everyone -- other people that have discussed it today it is definitely a seller's market.

Like the rest of the U.S. Alaska has seen an uptick in coronavirus cases and our vaccination levels continue to be lower than ideal. The state remains open with no restrictions placed on business operations and no

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mask mandate. Many organizations have begun holding in-person meetings, but some do continue to offer a virtual option for those who prefer it.

As to PPP loans Mt. McKinley Bank made 385 first-round loans for about 39 million, 212 second-round PPP loans for right around 19 million. On June 30th we had 300 loans in a total amount of 30 million still outstanding. We're encouraging our remaining PPP borrowers to apply for forgiveness and I'm really happy to report that the SBA process has been going very well.

We continue to monitor our non-owner-occupied commercial real estate loans as we believe that this is an area of risk to the bank partially due to the fact that many businesses are allowing people -- employees to continue to work from home. At present our non-owner-occupied commercial real estate portfolio has low delinquencies. Our values are holding steady and

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the CAP rates are also holding steady. We have adjusted our allowance for loan on lease losses to account for the increased risk we believe this portfolio has.

There's not much new to report on the Alaskan economy. We're still experiencing an unemployment rate above seven percent. It still shows the effect of the pandemic.

Tourism numbers are better though than we expected and that's -- we've seen a dramatic increase in the individual traveler, those people who must have been tired of sitting at home and wanted to get out and now they're coming to Alaska. Our businesses that cater to tourists are happy to have them, but the independent traveler does bring a higher level of interaction and increased workload for their businesses. And this is at a time when they don't have the employees to help as the farm workers, the J-1 workers that they rely on aren't able to get those visas and are not able to come to the U.S.

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With the recent announcement that Canada will open its borders to vaccinated U.S. citizens we may see an increase in traffic from the tour operators. That will be welcomed by the tourism-reliant businesses, but still problematic since employees remain scarce.

At the bank we are experiencing difficulties hiring people as well, but we are grateful that our employees have remained healthy throughout this experience and continue to be available for customers all while taking on a heavier workload as we try to hire people to fill vacant positions.

We're in the midst of our first virtual safety and soundness examination and it's obvious that the FDIC has worked hard to make the process as easy as possible for the bank. The FDIC team along with the examiners from the State of Alaska have been understanding as we deal with some limitations on our systems that have caused delays and we really appreciate their efforts,

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however, I must say that there's really no replacement for meeting across a table from an examiner and discussing some topics that are -- some of them are very complicated and it's really nice to have that in-person opportunity. So I will look forward to the next exam when we can have at least a hybrid of that opportunity.

I want to thank the Chair and the rest of the staff at the FDIC for this opportunity to participate. I really appreciate it. I enjoy hearing the stories from the other bankers, I enjoy hearing the presentations from the FDIC staff, and Chair McWilliams' comments. So thank you for this opportunity. It's a pleasure to be here. And I'm going to turn it over now to Mike Bock. Thank you.

MR. BOCK: Thank you, Patty.

Mike Bock here, Dairy State Bank. Rice Lake, Wisconsin is our headquarters. Bouncing right around 700 million in assets right now, up significantly from where we started pre-

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COVID. Obviously that means a lot of liquidity, like everybody else has said.

Like Patty's bank we are right now in the middle of a virtual FDIC exam. It is nearing the end. It has gone extremely well. Compliment the FDIC staff and its organization process to prepare for this. Started advance prep with us earlier than normal which gave us plenty of times to get things ready and in their hands and I think it's worked very, very well. So compliments to the FDIC and its staff and everything you're doing to get this process completed.

Northwest Wisconsin in general is rebounding nicely from COVID. We're in a market that -- where our southern market is largely agriculture. The year started off very, very well for agriculture growing. We are touching a drought world right now. If we don't get rain sometime with the next week or two we're going to have some farmers that had some very promising crops look a little bit more difficult. So

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hopefully we'll get some rain soon. There's a chance in the forecast and hopefully it comes.

The northern part of our area is largely resort, hospitality, tourist-driven and we've seen a phenomenal rebound in that area through the summer. Hotel occupancy is almost running 100 percent on weekends. Staffing is the problem for those folks. It's a great rebound for what's going on.

We do know some of that traffic has stopped here because the Canadian border has been closed, but we do have some fishing and tourist opportunities here. We don't know how that may change our environment, how that folks can start running up to Canada soon, but up to this point it's been a great summer for anybody in the hospitality, resort, and vacationing business. So it's been a great summer that way.

Businesses have been going strong. Those in production are producing about as far as their staff and their raw materials will allow

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them to do that. There are some supply chain challenges in some of the industries. It seems like they get 90 percent of what they need to finish a product, the last little piece, they don't know when it's going to come, which is resulting in significant backlogs, even though they're busy at the current time.

So what I think I'm hearing from a lot of businesses because of the backlogs, they're looking at a very optimistic 12 to 18-month period coming down the road with the backlog that's out there. What they don't know is when they finally get caught up what may follow beyond that. So I think 12 to 18 months is a very optimistic business world around here, but uncertainty beyond that. As was mentioned earlier we've got some tax implications that may come down over the next year or two that may also influence businesses.

So real estate demand is unbelievable. It's almost impossible to find a home to buy. We

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have a labor shortage here as people try to relocate labor. There's nowhere to go. So there has been some construction of residential rental property which with the price of construction and everything that goes into that property now and it takes a very high monthly rent to make those pay on the back end. And we are in kind of what I call a mid-market income area so some of those rental incomes could be a challenge going forward. So I think if there's an industry segment that I could see a challenge coming down the road is a residential rental that's being constructed right now, a high rent rate that's going to be required to service those debts.

COVID is low right now. Pretty much everything is open, pretty much mask-free, but there has been a little rebound lately with the new Delta variant. Hoping that will stay under control. We are running about 40 percent vacancy -- fully vacancy rate, which is a little bit lower than what the state would like to see,

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but that's where we are.

What are the challenges in the economic scenario? It's a lot of good stuff with labor, labor, and labor. We've heard that many, many times. It's a shortage for virtually everyone: skilled, unskilled, or whatever the case might be. There's just not enough people. Those people that want to relocate right now just do not have a place to live, so multiple challenges on that front.

Supply chain challenges. Almost every industry is going through some form of a challenge they are figuring out how to get around it, but it still makes their life a little bit more difficult. Like I said, real estate pricing is just off the map, and it's being driven partly by local demand, but also there's a number of out-of-area folks that are looking to come to our area. We have some lakes here, some nice lake homes. We're close enough to the Twin Cities that people can commute or they can work from

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home and it works out very well. So we're having very, very high demand in all forms of residential real estate right now.

Regarding the bank, like almost everybody else, our liquidity is off the map and it's in various sectors. It's the government entities, it's business entities, and it comes right down to the consumer level. In visiting with a lot of the business sectors that have the higher-than-normal deposits right now pretty much all of them have shared with us that they don't plan to do much with that money for 6 to 12 months because they have some uncertainty in their world.

They plan to stay on that cash with some I think some gunpowder at hand. There is some discussion sometimes about some expansion projects, but again enough uncertainties. They're just not pulling the trigger. All that cash plus the lack of inventory, which we do a lot of financing of -- with the lack of inventory

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nobody needs inventory financing. So the byproduct is our loan demand has been somewhat soft throughout the course of the year, outside of PPP of course, which we did a whole bunch of those loans.

Margins are being challenged like almost everybody else in this particular world and asset quality has remained very, very good. Virtually every loan that was put on some sort of a modification due to the COVID scenario is back on full P&I; they're brought current. And now with occupancies specifically in our hotel industry we did some specific reservings -- specific reserves for that industry when we felt a little bit of uncertainty there. Those are coming back. We may be able to dial those back a little bit, too. So PPP. Again, the forgiveness process, as someone else had mentioned, the second round is going much easier with the SBA. They're going very quickly. They're turning that money faster, just providing

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with a little more liquidity, which we probably don't need any more of, but we know it's coming back some time soon.

Still a lot of real estate being refinanced. We don't know where these folks are coming from yet. As long as rates have been low, you'd think everybody would be out there, but they're not. They're still coming in. So between the PPP fees, real estate fees -- and we had the good fortune of a very significant loan recovery this year, we are going to have a phenomenal year in terms of income.

Going to specific banking challenges we got here, we are really running short of commercial appraisers even though we're not having a lot of new commercial work being done. When any commercial appraisal is needed we are having some difficulties finding appraisers that are licensed and available to do things on a relatively timely basis. We have gone outside of what we call our typical appraiser market to

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find a few more bodies with the skill sets that we need, but it's something we needed to.

And we see some more of the folks that are in this business looking to retire. I think this is going to be a challenge for our area for probably some years to come until we can convince some folks that commercial appraising is a good business and you can stay busy and make some good money.

Probably the biggest change that's going on right now in our market is one of our biggest national banks that has multiple branches in our market has recently announced some changes in terms of closures or service reductions. We aren't in a lot of small communities out here yet and when the big bank makes the announcement that through COVID we found a lot of people go to online banking and we think we can close these locations and people can stay in the online world, there's still a lot of people in small communities that want to go into a bank, see a

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person, and be helped on a face-to-face basis.

So we, over the last -- since the announcement of this two weeks ago, have experienced a significant increase in new accounts, not that we need them right now with the liquidity we have, but it is a trend that is happening. And I think that it's going to continue to happen with some of the large banks in our area as again they work through COVID. And they've found a lot of people went to Internet banking, but when having options coming back, when the community bank -- they're back to a full-service mode, I think they're going to start leaving the large banks and have deposits run off like they weren't anticipating.

They've also reduced staff significantly, which provided some staffing opportunities for us. Some trained people and skilled people are out there in the market now, so we've got some opportunities to pick up from that.

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So overall banking is good here, economy is good here. Again, 12 to 18 months I think there's a ton of optimism, but beyond that there's a lot of question marks. We're going to enjoy the next 12 to 18 months and we'll start dealing with those questions on a day-to-day basis as we go forward.

So that's the end of my comments. So with that I'm going to turn over to John Wharton. Thank you.

MR. WHARTON: Thank you, Mike. Door County, Wisconsin is one of my favorite places in the world. My family has a cottage there. So kudos to you.

Greetings from Steamboat Springs, Colorado. We are a town of 12,500 people. Just to give you an idea of our reliance on tourism, on New Year's Eve and Fourth of July we go from 12,500 to 25,000. So we are a ski community and summer community.

I'm very excited to report that

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Alterra, which is the owner of Steamboat Ski Corporation, has committed and actually torn down our gondola building. They're spending about \$120 million in our ski town and we are anticipating the largest gondola in terms of length in North America. So I want to invite all of my fellow bankers to come join me in skiing in about three years. Give us a year to get this new gondola and new base area constructed.

I want to thank Madam Chairman McWilliams for your comments and for your leadership of this group and how honored I am and in awe of the bankers from across the country in terms of your amazing success and what you do for our communities and for community banking. I'm very, very optimistic in regards to our future. The mega banks continue to leave our small communities. They continue to not necessarily be open and continue, when it came to PPP, give a 1-800 number and actually refer business our way. So I'm very, very bullish on our community

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banks across the country.

I want to thank Director Gruenberg for your leadership, and most importantly Arleas and Lisa. Herding cats. I know all of us, we have been on Zoom meetings every day, GoTo meetings, but it still technically is a challenge. So thank you for your leadership there.

In regards to banking I'm the Chairman of Independent Bankers of Colorado. We just had a meeting for our board about a week ago. And my friend Kyle Heckman from Boulder, Colorado I think said it best, and he said we're having a severe drought of loan administrators and credit analysts.

I think our number one issue, and again ditto for everyone who has spoken, has been staffing issues. Historically our Loan Department here in Steamboat Springs -- we have two branches. We have 42 employees in Steamboat, 20 employees 44 miles to the west in Craig, Colorado, and historically our Loan Department

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has been our most stable. As of yesterday I had a meeting with our Compensation Committee.

We are actively recruiting 8 positions in our Loan Department out of a total of 15, and we have been forced to go to 3 of those positions being 100 percent remote. We've had to think way out of the box. We've hired a fantastic lead credit analyst who lives in Tampa, Florida. Her husband is in the military and obviously with being moved on a constant basis 100 percent remote is the only way. We are hiring a loan administrator out of South Dakota. We are also looking at a credit analyst out of Washington, D.C. So again, significant pressure on wages.

Same scenario. We have lost employees to other industries in the Yampa Valley. We had one employee who joined us from Alaska.

So, Patty, he thought he wanted to get back to the Lower 48 and within a year he was hired back for a \$50,000 pay raise. So he joined

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us for one year. Lost him.

And we are seeing significant housing shortages and price problems. Here in Steamboat Springs the average home is about 650,000. We're seeing construction prices 400 to \$800 per square foot, which seems shocking. We're seeing residential homes in Old Town, in Downtown Steamboat Springs, tear-downs being a million, and moderate homes being 2 to \$2.5 million. So our employees are forced to live 25 miles from town, and obviously that puts some pressure of why am I here? Maybe I'll go to the Front Range.

Significant competition for talent. So yesterday in our Compensation Committee I did a presentation for increases to the majority of our team between 4 and 8 percent, and we're now projecting next year our SG&A expense to be up 11 to 12 percent for 2022.

We've been very blessed with PPP. Like most of you, PPP One created -- we did 566 loans. Our bank has assets, total assets between

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460 and 500 million. It's been very volatile this year with deposits coming in from all over the place. Real estate sales of \$20 million, et cetera. So 566 PPP One; 281 PPP Two. The total volume was \$58.3 million. We were very honored to be recognized by the governor as one of the top PPP lenders in the State of Colorado. And I could tell you on Main Street it has made a tremendous difference. Specifically restaurants and retail that may not have made it through last year are now thriving.

Again similar to most of you, our tourism market has been off the charts. As we all know, you can't find a bicycle, you can't find a camper, and they are coming to beautiful Northwest Colorado.

We are experiencing a drought. We have a fire 11 miles to the north of Steamboat Springs and another fire 15 miles to the southeast of Steamboat Springs. We're blessed that our wild land fire fighters are doing an

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amazing job of basically managing them. There is no major structures, so unlike Oregon and Washington, California, we're not losing houses for the most part. It's in the national forest.

So actually tourism and camping is actually still doing very, very well.

A couple things just to talk about. Again, liquidity. Normally we have \$8 million on overnight at the Fed at 0.07 percent. Right now it's 65 million. Due to the great PPP revenue for the year, which we anticipate is around 1.5 million, we will set a record for 2021, but obviously I'm very concerned about 2022 when that jolt of PPP fee income goes away. And as I described our SG&A expense is looking at a 12 percent increase.

The good news is our board of 16 are mostly community business leaders and every one of them to a person is experiencing the exact same problems. And again as many of you have commented, restaurants being closed a couple

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nights a week, hotels not having daily cleaning because they do not have the staffing. On the construction side we have carpenters going from \$30 to \$40 an hour and being stolen from one business to another.

So all in all things are actually very, very strong. I can tell you from a management perspective this has been the most difficult year specifically from talent managements as well as technology. Again you guys have done a great job of covering how open we are to all things technology.

And from a diversity perspective I'm so excited about #GetBanked and we are working very, very hard -- we have large Hispanic population that is not comfortable with going into banks for a variety of reason, and we have very strong leadership and are working with the local integrated community, which is a non-profit, to educate and reach out to this population. And because of our Spanish-speaking

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leadership at the bank; we have four leaders who are doing great outreach, we're really hopeful that we can really make a difference.

Last but not least, just talking about fraud attempts. From our perspective we have never seen a year like this where we've had at least one customer per month have some type of either ACH fraud or man-in-the-middle with emails specifically going after real estate transactions, or other situations. And again, these are many times experienced business owners so they are not necessarily our most vulnerable. And we have seen again generally in that 25 to \$150,000 range of fraud attempts. We've had great fortune working with the Colorado Bureau of Investigations by reaching out to them proactively. They've helped us and we've had really actually excellent protection for our clients and getting money back for our clients.

So again I just want to thank the FDIC for the honor of being on this committee and with

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such esteemed fellow bankers. And again, hope to invite each and every one of you to Steamboat Springs in the winter, or the summer, and get out on some skis.

So with that, I want to turn it over to Mr. Mark Pitkin.

Mark?

MR. PITKIN: Well thank you, John, I appreciate it. Thank you all very much, as always, for giving myself and the others the opportunity to prepare and provide our thoughts. That's certainly much appreciated. And like many others have indicated, it's a great learning experience for all of us around the table.

Certainly thank you to Chairwoman McWilliams, Director Gruenberg, and the entire FDIC team. Again, it is an honor to serve on this committee.

So, Sugar River Bank is a 126 year old state chartered mutual institution. We operate six branches spanning from the west central part of

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the state to the central part of the state.

Although as many of you know, you can go one end to the other in two hours. So when we're talking about our markets, for the most part, New Hampshire could be considered all of our markets.

Our current assets total \$362 million. And our mission is to exceed the expectation of our customers.

I am pleased to report that banking in the overall economy in New Hampshire is strong, both locally as well as state wide. So as of July 19th, New Hampshire was down to 224 active COVID-19 cases.

This was certainly before some of the upticks with the Delta variant over the last couple of weeks. And we are down to 18 hospitalized patients in the state.

Pleased to say that 64 percent of the state has received at least one dose of the COVID-19 vaccine, which places New Hampshire seventh

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among the states with the highest percentage of residents vaccinated.

And also at the present time, all New England states have reached a 60 percent or higher vaccination rate. And again, we are fortunate to have a couple neighbors that have surpassed 70 percent. So that said, business at most banks, certainly in the state, is back to normal.

So New Hampshire's current housing inventory, like many others, remains at all-time lows. To address the issue, our state legislature recently attempted to amend some statutes to provide municipalities with incentives in what they call a little additional oversight, to increase the number of locally issued building permits and to review all denied permits.

Needless to say, the bill inevitably failed, but it clearly signifies the severity of the housing situation in the state. Many believe

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that the consequences of our existing housing shortage could negatively affect economic development efforts in the entire state for years to come. So we're looking very closely at that.

The total number of residential sales in New Hampshire, year-over-year, was up ten percent as of April 30th. However, the total dollar volume of sales was up a remarkable 31 percent.

So that validates a significant price depreciation in the state over the last 12 months. It's becoming very difficult for individuals to afford housing in most parts of the state.

As a result of this booming housing demand, the turnaround time for appraisals, if we can find any appraisers, continues to be 60 days or more. Which is almost twice as long as the pre-pandemic average turnaround time.

So with this backlog, unfortunately our origination of closing throughput has slowed,

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resulting also in a loan pipeline that's running about twice its normal volume.

On the commercial front, while some sectors saw business plummet during the pandemic, most are recovering at a very healthy pace. Including restaurants and lodging facilities.

And thankfully, tourism from adjacent states has rebounded to near pre-pandemic levels. Which has contributed to that economic rebound.

The local and state construction industry, as I heard from a couple other distinguished panel members here in New Hampshire, has also been moving ahead at full steam. However, while residential and commercial construction projects are in high demand, like others, there are headwinds from ongoing workforce shortages, rising cost in materials, and also supply chain disruptions, all of which are raising some concerns in that particular industry.

Also of note, is the continued gain of

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migrants moving to New Hampshire from other U.S. destinations. The largest gains are among young adults.

So whereas just a couple of years ago, the state was trying to figure out how to keep young adults here in New Hampshire. So these recent migration gains certainly have provided some additional human and social capital to a state which is challenged by an aging workforce and population. So good news with regards to the migration.

With that said, we are facing, like others, much higher than average turnover. And the prospects of finding new qualified employees continues to be a challenge, not only for the bank, but most employers in the state.

At the current time, New Hampshire exhibits a very low unemployment rate of only 2.9 percent. So we are truly fighting for employees amongst several different companies in our markets.

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And unfortunately it appears that the only way folks are getting employees, especially in banking, is to call those that are at other banks. So we are seeing a lot of what we term, poaching, here in the state.

So with continued low interest rates and high housing demand, as previously noted, the banks residential mortgage lending continues to be very strong. However, the bank's net interest margin, like others, continues to erode due to the fact that we have to reinvest those dollars in much lower yielding loans and securities.

Also with little movement anticipated in rates for the near future, coupled with what some are calling, "transitory inflation," the bank continues to explore new opportunities and strategies to sustain, and hopefully grow our earnings, in the future.

So the bank's on-balance sheet liquidity remains very strong, bolstered by growing increases in cash balances. As a result,

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our total assets have grown by over ten percent in the first half of 2021.

Tier 1 leverage remains strong despite the significant asset growth. And again, like others, we're doing well with regards to earnings, mid-year earnings, and tracking about 56 percent above budget.

Although I will note that they have been bolstered in part by some security gains, which became available.

The bank's asset quality remains strong. Adversely classified assets to capital, nonperforming assets and delinquencies remain historically low.

As a result of the strong credit quality, coupled with a minimal impact from the pandemic, fortunately, the bank has resumed pre-pandemic funding levels to the allowance.

From a governance standpoint, and I have heard this loud and clear from several others, their recent proliferation of the

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cybersecurity threat attacks in the U.S. has certainly led our board and management to enhance our cybersecurity training, readiness and preparedness. And ransomware, in particular, has been a very hot topic of discussions at all levels of the bank.

So with that, I thank you all, again, for the opportunity to share what's going on at the bank in our great state of New Hampshire. And lastly, as a final plug, I would like to thank Sultan, for accepting our invitation to speak at our upcoming New Hampshire and Vermont bankers association annual conference, which, yay, will be in person. So, look forward to seeing you seen.

And now I will turn it over to Sarah Getzlaff.

MS. GETZLAFF: Good afternoon, everyone, I am Sarah Getzlaff. I am the CEO of Security First Bank of North Dakota in Bismarck, North Dakota. It's a \$220 million community bank

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that is family owned. And I am a third generation banker.

Thank you to Chairman McWilliams, Director Gruenberg and FDIC for this opportunity. Since I am last, I'll try to keep it a little bit shorter.

But in North Dakota COVID currently isn't a huge issue, other than when you're at the airport or entering a medical facility there really isn't a mask to be seen. We currently last had, have less than 200 cases, have less than ten people hospitalized. And 40 percent of our total population has been vaccinated.

I think the thing on everyone's mind right now is what happens when it starts to get cold in North Dakota. Our surge happened earlier last year, and I think part of that is because everybody goes indoors a lot earlier around here because it gets colder so much faster.

So, that's kind of weighing on the back of our minds, but as of right now, all of

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our businesses are operating normally. Our unemployment rate is back to the pre-COVID, above 3.4 percent. And our loan portfolio is the cleanest it's been in a really long time.

On the residential side our portfolio is strong. We're kind of coming off the re-fi boom.

The one concern that we do have is finding an outlet for loans secured by second homes and investment properties. FHFA and Fannie Mae recently came out with a seven percent limit.

And we sell directly to Fannie Mae and our volume isn't that large and so seven percent for us is basically a game ender. We won't be able to sell those types of loans anymore.

Which is a huge competitive disadvantage for us and so we're currently searching for an outlet for that.

We're not really sure is whether FHFA realizes the disparity impact this ruling will have on small community banks, but we're hoping

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that they'll realize that and maybe have a different set of standards for smaller banks to maybe be volume based or origination based.

We are also concerned that our commercial real estate market might get tough. Many employers, especially the state of North Dakota, who is our biggest employer locally, have decided to keep people working at home permanently. And so we are going to have a lot of office space opening up as leases start to expire.

Our agricultural portfolio at the end of 2020 was really good. We had a good crop. And a lot of people received government payments and PPP loans.

However, this year we are in a massive drought. We didn't have snow this winter and now we've had almost no rain this spring and this summer. When you combine that with temperatures in the 90s for most of the summer, most of our farmers won't even have a crop to combine. Which

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will make for a very, very tough 2021.

Overall our earnings will be strong, as a lot of others have mentioned. PPP income will really help us through 2021.

We have already received forgiveness on over 50 percent of our round two PPP loans. And so that income is being recognized as we speak.

But as others have also said, we are swimming in deposits that we thought would go away as the economy got back to normal. Usually we're in a borrowing position this time of year and we're borrowing maybe \$10 million, and right now we have \$35 million in fed funds sold.

When you combine these excess deposits with the lower loan demand, and then you add in increased competition from non-banks and credit unions who don't have the same regulatory burden as us and don't have the same tax consequence as us it makes it really tough.

And then when you turn to the bond

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market, it's a terrible time to buy bonds because rates are low and if you go out on a seven year bond at one and a quarter percent, you know rates are going to rise and that bond is going to become even less valuable than it already is.

And so, our margin is shrinking. And so we're not so concerned about earnings this year, but we're concerned about earnings next year and in the next five years because most of our loans lock in for five years or more.

And we have seen a lot of competitors starting to do ten year locks or longer to try to get loans. And so it's just kind of, you know, an increasingly difficult situation.

With that, I really would like to thank you for your time. I really do appreciate this opportunity. And I will turn it over to Shayna.

MS. KEA: Thank you, Sarah. First, before Shayna, let me just say I really want to thank you all for sharing your observations from

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your communities.

We heard a lot of trends, we heard a lot of themes. And at this point, just as a reminder, I'd like to turn it over to Shayna, and we also have Jim and Kathy. Thank you.

MS. OLESIUK: Great, thank you, Arleas. And thank you to all of the participants in today's discussion.

I've really enjoyed hearing all of your information and insights, and so I'll spend just a few minutes talking about some of the FDIC's observations, which are very much in line with what I heard today. And then I will provide a summary of our 2021 risk review, which we published earlier this spring. And a link to the report was included in the materials.

So, in summary, we agree that economic conditions continue to improve across the country. And importantly, banks have remained very resilient.

However, there is still uncertainty

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about post-pandemic risks and the implications for major lending portfolios at banks. Particularly real estate.

There is also a lot of uncertainty in the outlook for inflation. The consensus forecast show that by year end inflation will settle at around two percent. But it's currently much higher than that, so some uncertainty there.

Looking at GDP growth. In first quarter 2021 we had GDP growth of 6.4 percent. And the current consensus is that we'll even increase for the entire year to about 6.7 percent.

So the consensus shows that also the economy will reach and surpass its pre-pandemic GDP level in second quarter of this year, which is great news. Of course the significant stimulus payments have been instrumental in boosting GDP over the last several quarters.

As many of you mentioned, employment continues to recover from the lows back in 2020.

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And as I've pointed out in recent meetings, this recovery has not been as quick as GDP.

Payrolls have recovered about two-thirds of what was lost last year, so still about a third of the way to go.

And as we heard from several speakers today, the recovery and job growth is slowing in many places because of the labor shortages that we're seeing. With some workers being unable to return to work for a variety of reasons.

And the labor force participation rate has dropped to record lows nationwide. So this is certainly a concern for the pace of growth going forward.

Thinking about, or turning to the 2021 risk review. This is an annual publication that we put out. So just a few highlights from that, that may be of interest.

So we covered several key credit risks, looking at the aftermath of the pandemic. We looked at several sectors, including

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commercial real estate, energy and small business in areas, that was, this group was sectors that had been particularly challenged in 2020.

In particular, we looked at commercial real estate. And we focused on this partly because commercial real estate loans held by FDIC insured institutions reached a record high at the end of 2020. So continue to grow even despite the pandemic.

And community banks hold about 28 percent, or about \$725 billion, in commercial real estate loans. This is well above their share of the banking industry's total assets and total loans. So there is considerable exposure to this sector.

Commercial real estate asset quality remained stable at year end 2020. And actually much more favorable then after, in this point in the cycle and prior recessions. But of course we still await the post-pandemic period after the loan accommodations and forbearance.

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We also wrote about some credit portfolios that did better than expected in 2020. Including housing and agriculture.

So housing, as was mentioned today, even though there was a low early in 2020, home sales continued to climb last year. The inventory of available homes for sale continued to decline. And all of this supported price growth.

And some encouraging signs is that there is a record low supply, which is helping to support prices. And also, there is a very small share of homes with negative equity.

Especially compared to what we saw back in 2008, 2009. So, that also could help insulate banks and other lenders from potential losses, like we saw last cycle.

And we also touched on agriculture, but I know that Jim will be talking about that, so I will pass on that. Basically, as we heard today, agriculture did very well in 2020.

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And then finally, the risk reviewed talked about manager's margin compression, which we know is certainly a challenge. And we heard that from several of the participants today.

As we pointed out in the quarterly banking profile for the first quarter of 2021, NIM for both the industry and community banks reached a record low. And this is going to be particularly challenging when combined with the low rates and low loan growth going forward.

So I encourage you to read the risk review and let me know if you have ideas or suggestions for topics for the next issue. We'll be starting to work on next year's report soon. So with that, I will turn it to Regional Director Jim LaPierre.

MR. LAPIERRE: All right. Thank you, Shayna. And thanks everybody for joining the meeting today. I want to say hello to my three bankers, Teri and Steve and Sarah.

I also want to say hi to Mark Pitkin

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in New Hampshire. As you said, Mark, you drive across the entire state in a couple of hours. I'm from Gilford, my wife is from Concord, so her and I are practically your next door neighbors, so always good to see a fellow New Hampshirite.

I'm going to talk about what's happening in the Kansas City region. It's interesting, as we run around, and all of you spoke, not only has everything on my list been covered, it's all been covered at least by a couple of you across the country, so really clearly what you're seeing is what we're seeing.

But my focus is very much on our seven states, which are Kansas and Missouri, Iowa, Nebraska, North and South Dakota and Minnesota.

So, we are a very ag centric region. And we do, probably you've heard Shayna talk in the past about what we do. We do what we call regional risk committees twice a year.

Our regional risk committee always starts with a presentation on what's happening in

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the ag sector, just because we have so many ag banks.

Right now a combination of very strong government payments in 2020. And commodity prices for the commodities that are grown in our region. Being mainly three row crops, wheat, soybeans and corn. And then livestock, in particular, cattle, calf pricing has been good.

And that's been a lot of farmers, as I think Teri mentioned, many farmers have actually taken, not only been able to sell inventory that they had on hand, but also to lock in what will be good prices with using the future's market.

So we're pretty positive on the ag sector. What we are concerned about is the drought. And both Steve and Sarah mentioned that.

Like Teri, Teri and I are not that far apart. Geographically I'm in Kansas City. We've had a good moisture here in the southern

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part of the region, in the eastern part of the region.

And I'm not going to go a lot into the drought just because Kathy is going to cover it. The drought is even more severe in the western region, thank you Michael for showing the graph here.

And as you can see, the San Francisco region, and my colleague and Kathy Moe is going to talk about the situation out there so I will skip over that. But I do absolutely agree, Steve and Sarah, that is a concern here.

Unemployment in the Kansas City region has been very low. June numbers just came out at the end of last week. 2.5 percent is our low. That's Nebraska. Actually the lowest in the country, that 2.5 percent unemployment to 4.3 percent here in Missouri, where I am.

And that's versus 5.9 percent national unemployment rate. And that's been, really been true throughout the downturn.

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Our states were much more open than a lot of states on the east and west coast. And we had a return to job growth very quickly last summer.

The labor shortages, all of you mentioned it, and I'll just agree with what all of you said. The local restaurant that my wife and I frequent that just not even a mile from our house, they had to close on Monday nights because they can't find people to work there.

What's interesting is it's a family owned restaurant and most of the people who work there are family members. So they have a very small number of people that they employ that are not family members, but even keeping those folks has been a challenge. So no different than what you're hearing across the country.

I'll talk about exam ratings. Exam ratings in the region are better than they have been since prior to the 2008, 2009 downturn.

I've been regional director here for

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16 years, so I was here before the last downturn through the downturn and beyond, and we have not seen ratings as good for examinations, safety and soundness exams, since before the last downturn.

Compliance and CRA exam rating also, very, very strong in the region. They are also just a little bit better than they were at year end 2019. That's the part that I find really surprising.

They're only a little bit better because 2019, year end 2019 we already had very strong exam ratings across the region.

One thing that I am very concerned about, and we talk about a lot in our region is loan demand. Loan demand, if you back out PPP and you back out the residential real estate activity that is, many of you talked about, just the low demand, or I'm sorry, low supply and very high demand, when you back those out, loan demand is very weak and is negative in a lot of sectors.

And so, we worry about loan demand.

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We talked about liquidity. In my region the loans to assets at the median, the bank that's right in the middle, is less than 60 percent.

Historically, banks in our region run from the low 60s to the high 60s to about 70 loans to assets. So 59 percent is a low level of loans to deposits, or loans to assets. And you talk about those deposit rates, agree with you that that deposit activity, they're very sticky even with the low rates that banks are offering just because of the people's desire to remain liquidable, both individual consumers and banks.

Asset quality is very strong in our region. Past due and nonaccrual. Again, at a rate less than 0.9 percent rate at the median, below where we have been since prior to the '08, '09 crisis.

I will agree with the comments about net interest margin and agree with the comments that Marnie and Teri made about competition. The bankers in our region tell me that they are

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competing ferociously on price for high quality borrowers. Whether those borrowers are consumers or businesses. So, I'm hearing exactly that.

Last two items I'll mention, cybersecurity. I was talking to the commissioner in Iowa last Friday, Jeff Plagge, and I said, I made a comment, I said, cybersecurity is a game you can't win, you just play for a tie every day, you play for a tie and the next day you have to come in and play for the tie again. And so it's just a very, it is a great challenge. It's something we talk about a lot within my management team.

The last thing I'm going to talk about is M&A. I would just, Shayna and I have been having a conversation back and forth the last month or so about M&A.

If you look at the consolidation rates that the FDIC puts out every quarter when we do our quarterly banking profile, you'll see

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consolidation numbers have slowed pretty dramatically, but the announced transactions have increased very dramatically.

So Raymond James reported at the beginning of July that in the first quarter of this year were there 35 transactions nationwide announced. In the second quarter was 60.

I can tell you in our region we're seeing an awful a lot of M&A. I think there is pent up supply and pent up demand from last year. And I think we're going to see that work its way through in the second half of '21 and into '22.

So with that, I will turn it over to Kathy Moe, my colleague from the San Francisco region.

MS. MOE: All right, very good. Thank you, Jim. Well, similar to Jim, the bankers on the call today have covered a lot of the topics I had planned to cover.

The San Francisco region includes the 11 western states from Canada to Mexico. And

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that includes Patty's state, Alaska. And also Hawaii, Guam and the pacific territories. So you can see that's a very large and diverse geographic area.

I just want to highlight a few aspects that make the San Francisco region somewhat unique and share some local banking and economic trends.

Locally, some of the key concerns raised by bankers, and the regulators, relate to drought, housing affordability and keeping pace with tech innovation, competition, the factors that you've mentioned today. The labor shortage comes up a lot. And then certainly last, but not least, that cybersecurity.

Our recovery here in the region has been very favorable as well. But there are really widespread differences by state, and really by micro-metro areas as well.

Utah, for example, the unemployment rate is the fourth lowest in the country at 2.7

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percent, while Hawaii is the highest at eight percent. Then that's followed just behind by California.

Also, our banks have really experienced tremendous asset growth. I spoke with a bank in Washington State yesterday, a smaller \$600 million community bank, they had 18 percent growth. A growth rate of 18 percent in the past 15 months.

One thing I would say for the region, the transportation autonomy, I use that word sort of broadly, is really key in the return to work and in the recovery. And really impacts commercial real estate conditions.

Shayna mentioned that commercial real estate loans reached a record high at the end of last year. And in the San Francisco region, a median commercial real estate concentration is 244 percent of capital. Tier 1 capital. And that's well above the nation at 144 percent.

But for the San Francisco region, it's

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the lowest rate since 2013. But again, still the fast growing portfolio besides C&I loans, which is represented by the PPP loans that you all have mentioned.

As far as trends in retail and lodging, I think those really mirror the national trends. Vacancies are high in terms of retail in the bay area and Honolulu. Those areas that were really most notably locked down very significantly, California, Hawaii, for example.

Lodging really depends on the location and the type of property. Several of you mentioned the national parks and ski areas and so forth, and those have been really popular and have fared pretty well.

I think the key here is the return of the business traveler and foreign visitors. There are really paramount to the full recovery, as far as the lodging sector.

Our office performance continues to weaken, but mainly along the coast. Seattle,

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southern California, Bay area. And then other markets are really improving, Salt Lake and Phoenix.

And really, I think it's the story of the telework and tech companies pushing remote work. And that really continues to evolve.

We are seeing some positive signs for office. For example, Los Angeles recently saw their largest office lease signed since early 2019. And that was to a talent agency.

One of the things I have been telling bankers, in terms of commercial real estate, is just the importance of reviewing the future prospects of their commercial real estate portfolio since I think we've all seen the radius of where people live compared to where they work is much wider now. So, how does that effect your portfolio.

Some businesses rely on that physical location presence and others don't. So that might impact who shops where, who leases what

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space and so forth.

So I think that's really, those are really good questions to think about when analyzing the commercial real estate portfolio.

Like Jim said, good news on, as far as ratings are concerned. Our ratings have really remained stable. And so that's a positive for all of our banks.

And again, I want to take this moment just to recognize all the hard work that the bankers have put in to this past 15 plus months and the programs that you've implemented. And the flexibility you've shown in terms of remote examinations. It's really been a collaborative partnership so I certainly appreciate that.

Mike, if you can go back to that drought map. My banker friend in Idaho mentioned some of this already.

Out here in the west some of the conditions here are pretty dire, as you can see. The dark red really represents the worst of the

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worst.

Twenty-eight percent of our region is in exceptional drought. And that's the most dire category. Ninety-five percent of the west climate is experiencing drought, with 64 percent in extreme drought. But the exceptional drought is almost a third. Alaska and Hawaii are the only states that really have had a less impact.

So I think, what does this mean for us, it's early in the year so that is a concern. But I think the conditions are expected to persist or intensive through the summer.

Reservoirs are at very low levels. Lake Mead, or the Hoover Dam, which supplies water to people in Southern California, Arizona and Nevada is rapidly depleting. And I understand that the government, they actually declared the first ever shortage on the lake next month, and will trigger cuts in water deliveries, perhaps starting as early as January of next year.

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Right now there aren't any water restrictions or mandatory state wide water restrictions at this time, but curtailment is certainly being encouraged. And the agriculture area will have a huge impact on, or will be significantly impacted by the drought and the water restrictions.

The drought has also caused increased fire activity, which has been mentioned. We've seen an unusually early and active start to the wildfire season here in the west.

There are 70 active large wildfires in the nation. All but three of those are in the San Francisco region. And we've had over a million acres burn so far. The largest one is the one in southern Oregon, which is roughly 400,000 acres and only about 30 percent contained at this point.

The concern I hear in this area is really one about insurance concerns. It's become too expensive. Or in some cases, it's just not

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available in mountain areas, higher elevations.

And Mr. Wharton from Colorado may have had that experience too that it's just not available to some of the customers.

San Francisco is also unique from the perspective of some of new bank interests, the applications we've received as well as the range of strategic partners and activities we've seen here in the west. Roughly a third of the banks have some kind of a relationship with a fintech or they're developing their own technologies.

And we certainly saw that increase during PPP implementation. But I think we've all experienced an increase observation of people being more comfortable with online activity and digital lending and so forth. And with that brings some new interest in crypto and different types of technology.

I wanted to share yesterday, we had a meeting, and my local fed counterpart mentioned that they performed a LinkedIn search of jobs

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that mention crypto. Seventy-five hundred jobs came up. Fifteen hundred of those are in California.

So it just tells you what interests there is and how these technologies and different things are becoming more and more prominent.

Wyoming also has a unique charter, special purpose depository charter, which is not yet operational. But focuses on digital assets.

Our de novo activity in the west clearly is reflective of the animation out here. And we've seen pretty robust de novo activity. And certainly have seen groups also take advantage of the FDIC's draft proposal process.

We have not seen the M&A activity that Jim alluded to. At least not as robust as other parts of the country. Although we do see some announcements, but we just haven't seen quite the level of activity.

And lastly, I'll just quickly touch on housing affordability. Many of you mentioned

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that today. It is increasingly a concern. And I'm not referring to San Francisco.

I think what we used to refer to as the hot housing markets or sort of the, a boom town, we're now referring to those hot housing markets as zoom towns. Those people that are living elsewhere and able to do their job.

Markets like Boise and Jackson and Phoenix have really, have really benefitted from that migration. But it's amplified the housing shortages.

And local residents are out priced or out bid. And there is not new construction available or the construction costs, as was mentioned, are really prohibitive.

So I think I'll stop there. But again, bankers, I think you all have been very resilient and very flexible with us in our remote working examination environment and I appreciate that. Thank you.

MS. KEA: Thank you all. To the FDIC

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Staff. I would like to invite the bankers to ask any questions that they might have for Shayna, Jim or Kathy.

Any questions, comments? I'll give it just a moment, in the event there is a delay.

If not, I'd like to just thank all of the bankers for your observations. Once again, thank you to our staff for giving that very insightful information and reaction to the trends and themes that we've heard from our bankers.

And to the extent that there aren't any questions, after we take a short break then we can come back. Thank you all.

At this point let us take a ten minute break. I show that we have 3:15, let us come back at 3:25.

(Whereupon, the above-entitled matter went off the record at 3:15 p.m. and resumed at 3:25 p.m.)

MS. KEA: Well let me welcome everyone back. And thank you once again to all of our

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members for that very meaningful sharing that you provided in terms of your local conditions. And thank you to our staff.

Now that you've had just a brief pause, I did want to ask whether any of our members had any questions, had any comments or observations for our FDIC Staff? Related to our earlier discussion. I'll give it just a moment.

Okay, if not, then I'd like to go ahead and move on to our next agenda item. Some of you may be aware that on yesterday we had a meeting at the minority depository institution subcommittee.

And you may also recall that Gilbert Narvaez serves on both this committee and the MDI subcommittee. So I've asked Gilbert and then Betty Rudolph, our national director of minority and community development banking, to provide us with a brief update from yesterday's meeting.

So at this point I'd like to turn it over to Betty and to Gilbert.

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MS. RUDOLPH: Thank you, Arleas. I'd like to briefly remind the Committee that the FDIC established the MDI Subcommittee back in 2019 under the authority of the advisory committee on community banking, or the CBAC.

And the Federal Advisory Committee Act requires that subcommittees provide advice or recommendations to the agency through the parent committee. And as a result, the MDI subcommittee reports directly to the CBAC, or all of you, and not to the FDIC.

The three goals of the MDI subcommittee are to serve as a source of feedback for the FDIC on strategies to fulfill its statutory goals to preserve and promote MDIs. To provide a platform for MDIs to promote collaboration, partnerships and best practices. And finally, to identify ways to highlight the work of MDIs and their communities.

The MDI subcommittee is composed of nine MDI executives representing a diversity of

types of MDIs. African-American, Asian, Hispanic and Native American. And a range of business model size and geographic mix.

The nine members of the MDI subcommittee represent about ten percent of the 94 MDIs that the FDIC supervises. In addition, we have three MDIs represented on the CBAC. Kenneth Kelly, Gilbert Narvaez and Andrew West.

At this time, the MDI subcommittee does not have any recommendations for the FDIC, but the subcommittee does want to share a brief summary of our discussions yesterday. And I'll turn it over now to Gilbert Narvaez to walk you through these updates.

MR. NARVAEZ: Thank you, Betty. We had a briefing on BankOn accounts, which are safe affordable accounts that are designed to attract customers who historically have been unbanked. The accounts are low cost and feature no overdrafts or surprise fees.

Over the past year these accounts have

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grown in popularity as a way to receive a direct deposit, a variety of benefit payments connected with COVID-19 pandemic recovery.

We heard about the benefits of these accounts and how the certification process works. And how two MDIs had successfully implemented these accounts to reach an important customer niche. I think CBAC will hear more about these accounts in the next session of our meeting.

Also, during the roundtable, each MDI member discussed their current banking conditions and unique issues facing their institution. Many of the themes were echoed, those discussed earlier today.

Which included the recovering economy, labor constraints. Particularly in the hospitality and tourism industries. The hot real estate markets and the increases in material costs for construction.

Next, the FDIC chief innovation officer provided us an update on the initiatives

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of the FDiTech. Including tech sprints to reach the unbanked. That the CBAC will also hear later on this afternoon.

Next we received an update on the mission driven bank fund. FDIC is developing the framework structure and concept of operations of this fund. Which will channel private sector investments into FDIC insured minority deposit institution and community development financial institution.

The FDIC will not be an investor or make investment decisions, but will retain an advisory role.

We learned about the governance structure that is designed to emphasize the mission, orientation of the fund. We also learned that the FDIC and investors will be providing addition information about the fund to the public in the near future.

Finally, we had an update on recent MDI program initiatives. The FDIC board approved

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the final statement of policy regarding minority deposit institutions that was published in the federal register on June 23, and becomes effective on August 23rd.

We updated the statement of policy. Clarifies the FDIC's expectations for technical assistance and illustrates opportunities for engagement with variety of FDIC Staff.

It also highlights the FDIC outreach efforts, including the MDIC subcommittee. It defines terms used in the MDI program. And it details considerations made by examination staff when evaluating performance and assigning ratings.

We also reviewed the 2021 MDI program effectiveness survey. The FDIC has 12 outcome program goals related to MDI satisfaction with technical assistance outreach and education and training. Eight-five percent of the respondents are either likely, very likely or almost certain to participate in technical assistance, outreach

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and educational initiatives in the future.

We also heard about some of the key features of the 2021 interagency MDI and CDFI bank conference that will be held virtually at the end of September.

And we also discussed the recording of the MDI origin stories. Which are videos that the FDIC will be facilitating in the coming months as part of this advocacy initiative.

This concludes the report of the MDI subcommittee. Betty and I welcome any questions you may have.

MS. KEA: Okay. Any questions for Gilbert or Betty? Let me thank you, Betty, and let me thank you, Gilbert, for giving that report.

We'll move on to the next item. In the many trends and themes that I heard you all, members of the subcommittee mention, almost everyone talked about the importance of financial inclusion. You also mentioned diversity, equity

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and inclusion.

And I think that you will really find the information that we have to share in this next session very, very informative and important to you. We have Nikita Pearson, who is our Director of Office of Minority and Women Inclusion, and Elizabeth Ortiz, our Deputy Director of Consumer and Community Affairs.

And they are going to discuss some of our initiatives in these areas. So, Liz and Nikita, I'd like to turn it over to you.

MS. ORTIZ: Thank you, Arleas. And good afternoon everyone.

I think I am going to start us off. And I want to start by thanking everyone for making time on the agenda for me and for Nikita to talk about FDIC's efforts to expand financial and economic inclusion.

You can go ahead and move to the next slide. And I would not be at all surprised if Sultan Meghji doesn't speak about it a bit during

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his presentation as well.

And that's not just a happy coincidence, that really reflects this agency's longstanding commitment to bringing the benefits of a banking relationship. That idea of belonging and participating in the financial mainstream to all consumers.

The easiest way for me to describe the FDIC's economic inclusion strategy is to ask you to picture a ladder. Each rung on the ladder represents a point of connection between the consumer and his or her financial institution.

Our ladder envisions five specific points of connection. And as consumers work their way up the ladder they are deepening their relationship to the financial system, and we hope increasing their financial stability and resilience.

I wanted you to see the whole picture, even as I now turn to the second economic inclusion opportunity area. Access to an insured

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account.

And by now I hope all of you have heard or seen something related to the FDIC's GetBanked initiative. And if you have not yet visited fdic.gov/getbanked, our landing page, please feel free to do so now.

GetBanked is a three pronged effort to motivate unbanked consumers to begin a banking relationship by opening a bank account. First, we envision that there will be more banks offering accounts that work for consumers. Particularly those consumers that are new to banking or have had a bank account before and now want to begin again.

Second, we hope to increase consumer awareness about the benefits of a banking relationship and the availability of accounts that can work for them.

Third, we are investing in strong local networks. Those coalitions of community based organizations, non-profits, government

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agencies, that act as a bridge connecting consumers and communities that need access to financial services with the banks that can serve them.

And if we want to move the needle for the unbanked, then we need to be firing on all three of these cylinders at once.

I would also like to offer my personal perspective on why this matters. The FDIC has seen economic inclusion as mission critical going back to the last financial crisis, and even well before that.

Broad based participation is an essential element of stability. It's the most tangible indicator of public confidence.

So banking access matters all the time. However, right now, and especially in the past year and a half, we have seen that there is an overlap among those communities hardest hit by the pandemic and those facing economic hardship.

And when you're trying to get

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financial assistance safely and quickly to those that need it the most, adding a bank account and having a direct deposit is the best way to do it. However, many of these same families are among those represented in the unbanked. And so you have a disconnect.

As an industry and as a regulator, we are well positioned to address this challenge. And we can work together with non-profit and government partners and we can make a difference when it comes to closing the gap among the unbanked.

So, let's talk a little bit more about #GetBanked. Next slide please. The FDIC created its GetBanked landing page in English and Spanish for consumers that were interested in opening a bank account.

The webpage has resources that address questions from consumers about why it's important to have a bank account and how to find one that's going to work for them.

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Our goal was to have a one-stop shop so that any organization or any agency that wanted to promote account opening for their clients or contacts, especially as it related to direct deposit, had a trusted resource that they could point to.

Next slide please. The first phase of the GetBanked initiative actually kicked off last April when the first round of economic impact payments were announced.

The FDIC wanted to communicate the importance of getting banked so that low and moderate communities who were hardest hit by COVID could more easily access government financial assistance.

We worked closely with three groups of stakeholders in order to achieve the initiative's goals. First, government agencies at all levels. Federal, state and local.

Two, we've looked to bank trade associations. And three, intermediaries. Those

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community based organizations that help connect consumers to the financial institutions and other resource providers in their communities.

And we continue to use all avenues to communicate with all of our stakeholders. Outreach and events that are delivered by our community affairs specialists across the country.

And these events have continued virtually throughout the pandemic. And this allows us to keep our local connections active and alive and working, even as we continue to align the relationships with our contacts and partners here in D.C.

We use social media, podcasts, publications and short videos, like FDIC Explains.

Historically much of the FDIC's communications have been through institutions and through partners. Although more recently we have tried to be creative as look to increase the level of communication with the public.

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We are learning and experimenting with different avenues for communicating and getting our messages to consumers directly. Which brings me to the next slide.

On April 5th the FDIC launched a public awareness advertising campaign to motivate unbanked consumers to join the banking system. We worked closely with our colleagues in OMWI to develop messaging that would resonate with our target volumes.

There are approximately 7.1 million unbanked households in the United States. That's roughly 5.4 percent of the population.

But there are important distinctions when you drill down. With Black and Hispanic households being many, many more times likely to be unbanked.

Our advertising took place in two metropolitan areas. The Atlanta and Houston MSAs.

And we tried to reach our target

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audience directly. Through streaming audio advertising, digital banners, streaming TV, mobile video advertising. Basically anything that you can get through your phone, which just about everyone has and uses for just about everything.

The ads ran through July and they encouraged people to visit fdic.gov/getbanked and open a bank account. We are still processing the data on the results of this campaign pilot, but the preliminary numbers are encouraging.

Individuals who saw the digital videos watched them through to the very end. Individuals from both cities clicked on the FDIC GetBanked webpage with noticeable increase in the number of visitors coming to that page from Atlanta and Houston during the period that the campaign was running.

And we know that visitors to our page also visited the websites of organizations like BankOn as well.

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So what now? Next slide please. I leave you with a couple of things to consider. Review the research that's available from the Federal Reserve Bank of St. Louis.

They are tracking data from now ten banks that are voluntarily reporting information about their institutions experience with BankOn certified accounts. And as of right now, over 100 banks have become certified.

Just one nugget. In 2019 1.9 million accounts were opened by the ten institutions that are reporting data. Of which 85 percent were new to the institutions. As more institutions get certified and volunteer to report, the database will become even more robust and more useful.

The second thing I'd like you to do is continue to assess the benefits of working with a local network that promotes economic inclusion. Such as the FDIC's alliances for economic inclusion or BankOn coalitions or other financial empowerment organizations that exist in many

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cities across the country.

And then finally, determine how offering an affordable account might allow your bank to cultivate and grow successful customer relationships. Consider offering a BankOn certified account or a similar type of low fee, no overdraft account.

And know that the American Bankers Association is working with the core service providers to make it easier for community banks to adapt their platforms to accommodate some of the accounts most important features, like no overdraft.

And I would offer just one final anecdote. Beginning July 15, child tax payments have started to flow to millions of families across the United States.

The FDIC's webpage is listed on the IRS's webpage. That encourages tax payers who are eligible for this child tax credit to update their account information so that they can start

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to receive monthly payments, to provide additional support for their families.

In the first week that the IRS portal was opened, roughly 350,000 people input their bank account information. And last week, we are seeing at the FDIC as many as 10,000 visitors to the FDIC's GetBanked webpage each day.

And our partners at BankOn report to us that at least half of their website traffic comes from the FDIC. And half of those visitors clicked through to a bank.

I share this with you so you can see how we are making the connections we can in order to bring consumers closer to a banking relationship.

Next slide. So contact me or any member of the Community Affairs Team. Their contact information is listed here.

Follow us on social media, use our hashtags and let's work together to get American banked. Thank you. I now turn it over to

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Nikita.

MS. PEARSON: Thank you very much, Liz. I'm so excited to have the wonderful opportunity to work with Liz, because financial inclusion is particularly important to me and to the FDIC. And it really -- the work that Liz is doing and the work that I'm doing in our Office of Minority and Women Inclusion intersects, and that is because true equity and inclusion cannot be achieved until every American has access to the benefits of the U.S. banking system. And so that's one of the many reasons that we released earlier this year our very ambitious DEI, diversity, equity, and inclusion strategic plan.

Mr. Kelly, I heard you earlier mention about how do we make our efforts in this area meaningful and have real progress and make it more impactful. And I told you and Madam Chairman McWilliams really must have had a conversation together. And I'll tell you a short story related to that. I've been with the agency

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for 23 years, and I must say when I took on this job, it had a start like no other. On my first day on the job, I learned two things.

The first thing I learned that I needed to represent the FDIC to testify before Congress about diversity. That's a story for another day.

The second thing that I learned is that the Chairman hated the draft DEI Strategic Plan that we actually had. And so I had a meeting with the Chairman. I said, Madam Chairman, I know this is my first day on the job here. There are a lot of people who put in a lot of great work into this plan. You know, we got all the fancy words, all the nice -- the dots and the connections. And I asked her, "What don't you like about it?" And she looked at me and she says, "It's two things I don't like about this plan. One, it is a whole lot of nice great corporate words. It has all the DEI lingo, but I can't tell what we're actually going to do.

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The second thing is that I have no idea what our desired outcome and results are and how we're going to measure our success." Then she looked at me and said, "Fix it after you testify before Congress." I said, "Okay, we got this."

So we started working on the DEI Strategic Plan, and there are a few ways, if you take a look out on our website and you look up our plan, there are a couple of ways that it's different that I'll point out to you today. The first thing is that we wanted to make sure that we defined our mission, our values, and our vision as it relates to diversity, equity, and inclusion. Beforehand our plans had the list of, you know, the vision and everything got more so related purely to our bank supervision activities, but we really needed to take the time to say what DEI means to us, how we plan to accomplish it within our mandate.

The second thing is that we wanted to make sure that we did not go and just focus on

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our workforce. Our workforce is important. It's our greatest asset. We also had an opportunity to have an impact on the communities that we serve. And so this is the first time our DEI Strategic Plan also incorporated that all in an effort to be more meaningful and more impactful.

So we got to what our vision is. Our vision is to foster a safer, fairer, and more inclusive workplace and banking system, and there are ways that we can get to this. We call them the five C's. When I'm speaking out in public groups, I say named them all C's so that you can remember them better. It's a marketing ploy. But when I'm actually talking with bankers, I want to make sure that I make the point I'm also a commissioned bank examiner. So just like you have five C's of credit, that resonates with me, so we have our five C's for DEI. And those C's are culture, career, communication, consistency, and community.

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I'll briefly walk you through each one of those before telling you a little bit more. When you think about culture, there's a book and also this great saying that culture eats strategy for breakfast. When we started to think about DEI, if we just came up with a strategy, we could make the best strategy in the world, and it can be great, and everyone can tell us it's great. But if our culture isn't right, everything that we do would absolutely be for naught. So we focused first on our culture.

The second thing is related to career, and when we started dealing with career, we had to take a look at from the moment we started our recruitment activities to the moment the employee comes on, the training and development that we give them, all of those parts of the employee life -- employment cycle. How can we make sure that those are meaningful and everyone has equal opportunity to succeed wherever that they are? And I heard that and I point this out because

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there are a couple of things that we're doing that I think may be beneficial for some of you. One thing that we're doing is we are increasing our outreach and work with minority-serving institutions. For example, I am the Co-Chair of the Economic Development Cluster for the White House Initiative on HCBUs.

As I listen to you all, each of you talk about some of your staffing challenges and some of the challenges that your businesses are having. If you haven't already, I would encourage you to look at some resources that you may not have looked at in the past, build relationships with minority-serving institutions, and look at hiring opportunities for them. This may be the opportunity that is perfect for this time and moment and it's particularly when you're having staffing shortages, it's great when you can expand your talent pool in that kind of way.

Some of the other things, this third

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C relates to communication. We determined that there is a great way for us to build trust through transparency in this area. We didn't just need to build trust through transparency with our workforce. We also needed to do it with the public and with you. You'll hear more about our financial institution diversity program, and we want you to know the same things that we are asking you to do that we're actually doing ourselves. You can read more about some of our efforts in our annual report to Congress.

The fourth C relates to consistency, and there's this really great quote -- I can't remember who said it at this moment, but what this quote says is that intensity makes for a good story and consistency makes for progress. That one's for you Mr. Kelly. And that is because there are a lot of things happening and have been happening over the past year or two that there are a lot of intensity around it, a lot of news stories around it, but how do we make

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sure that we put things in place that actually results in meaningful progress so that we can have that consistency in it.

And then the last C relates to community. When I think about community, I really think about two aspects of our program, our minority and women owned business program as well as our regulated entities.

So I'll start with our minority and women owned business program. When I think about minority and women owned businesses, minority and women owned law firms, and minority and women owned investors, we are looking for ways to incorporate and help these entities be able to prepare to compete for contracts with the FDIC or for any government entity. And so we provide a lot of technical assistance. You might ask me, Nikita, why should I care about the technical assistance that you're giving for people to compete for your contracts. That is because these minority and women owned businesses, law

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firms, investors, or diverse attorneys, they will be looking for -- they also will need capital. They will also have loan requests. They will also have bank accounts. And so if you are having opportunities or you have some type of small business program or any other type of program where this audience is reached, and actually anyone can participate in our technical assistance event, we ask you to use us as a resource. This is what we do and we are happy to help.

The last part I'll talk about in community is related to our regulated entities. This program is near and dear to my heart for two aspects of it. The first is the financial institution diversity program. This is where annually, we ask all of our banks that have 100 or more employees to self-report their diversity self-assessments to us. And we heard you when you told us it was an arduous program, and then you also let us know that it was, at the time,

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the year 2020, and who does anything in paper. We heard you. So we created an automated system, and we have an automated system to submit your diversity self-assessments.

But we didn't stop there. We needed to make sure that when you provide us with information, that it actually results in something that is meaningful for you. So when you submit your information, we actually analyze the data that is submitted to us, and we share it out on our website. So if you're looking for ideas about what other institutions are doing in a diversity, equity, inclusion space, you can come to us.

But I have a challenge. My challenge is we are still struggling to get banks to submit their voluntary diversity self-assessments. So I ask for your help in that space. We are looking and working very hard to make sure that this is a good use of your time for the small amount of time that it is and that we can give you a return

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on your investment in that.

And then the next part, it relates to something that we did earlier this week, because we are constantly looking for ways to take our programs up to another level. Earlier this week, we did a co-hosting with the Ohio Bankers League. And as a part of the event, we did what's called the perspective diverse director's symposium. And in that symposium, what the Ohio Bankers League did is partner with diverse trade organizations and other federal regulators like the FDIC, and we talked to some perspective diverse board candidates and told them the things that they needed to know. We had a panel of diverse directors along with the regulators and some other folks. And with that, we hope that there is an opportunity to increase the representation of women and minorities on bank board leadership.

So those are a few of the things that we've been working on in the FDIC to help foster

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diversity, equity, and inclusion. And with that, I'm going to pause because I want to make sure that we have time for questions.

(Pause.)

Arleas? Any questions for either Liz or myself?

MS. KEA: I see a very nice comment in the chat from Mr. Kelly. Thank you very much for that. Let's just pause for a moment in the event there is a delay in this platform. Someone is repeating culture, career, communications, consistency, and community.

MS. PEARSON: Yay, five C's.

MS. KEA: Okay. I hate to let you go and I feel like this is just the start of what can be a very long conversation, and I'm sure that as time goes on, there'll be more opportunities to interact. So let me thank you, Nikita, and let me thank you, Liz. That was a great presentation of your updates. Thank you.

So let us move on. You had heard

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mention already of Sultan Meghji, our new chief innovation officer. And I'd like to ask him to come on at this point, and he's going to give you an update on a lot of our tech initiatives. Sultan?

MR. MEGHJI: Thank you very much, Arleas. And I have to say, following Nikita and Liz is -- sometimes it's great and sometimes it's bad, it's great, because it's fantastic to follow them. They get everybody woken up after a couple of hours of meeting like this. The bad thing is you have to live up to that expectation, so I'll try to do that. And for those who haven't met me yet, my name is Sultan Meghji. I'm the chief innovation officer. It's wonderful to meet all of you.

I'd like to thank all the bankers who've been participating in this. I've been listening for the entire meeting so far. I'm just really, really interested in hearing what you guys have -- what you guys were talking about.

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By way of banking, my experience in the banking sector is, you know, some in New York at large institutions but also in the Midwest around smaller institutions. And so hearing, you know, what's really going on out there was, I think, hugely valuable for us. And I just wanted to thank you. Also, just say to Mark, I'm looking forward to sitting with you and the rest of the guys up in New Hampshire and Vermont here in a month or so. I lost track tack of when that event actually is.

You know, it was interesting listening to all of you guys talk. I was really excited to hear talk on cybersecurity; obviously, very excited to hear talk about diversity, but also this undercurrent of innovation that lives across banking right now and an energy inside of this market that is, I think, unlike what we've seen, you know, previously. And some of that is because of necessity from the pandemic. Some of that is because of pressures from both inside of

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the banking sector as well as with out. But it also speaks very highly to the fact that I think this is one of the most exciting times to be in banking. Whether it's sitting here in a seat like this at FDIC or sitting or in a bank or, frankly, being an American consumer or a small business owner, there is more optionality out there. The market is thriving and robust and there's a lot of great activity going on. I just -- and given everything we've seen over the last few years, I think it's actually fantastic that the resilience, which is a word I'll come back to in a moment, the resilience of the sector is so strong.

As a reminder from my previous time here -- and in case some of you didn't hear it, we have organized innovation here at FDIC into four themes. The first is around inclusion, and it comes, you know, right on the heels of talking about our bank initiative and our other DEI initiatives. But inclusion is really about how

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we foster the most inclusive, diverse, and equitable banking system out there.

As we continue to build up our muscles in this way, one of the first things we did when I started here was bring on one of our colleagues from CFPB to join us who specifically works on something called "tech sprints." And tech sprints come out of the tech community. They used to be called "hack-a-thons." And it's where you would define a very specific problem, and you would bring a very disparate group of people together who would all propose ways of solving that problem. And then you'd create an environment where they could work together. And then you would give them the opportunity to demonstrate after a finite amount of time interesting solutions around that.

And so that's what we're doing. We're going to do a series of these through this year, but the first one is on inclusion. It's especially focused on, as you've heard

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previously, this last mile problem. There is amazing banking out there, whether it's traditional banking just done really well attacking mainstream challenges, or it's digital, or it's everything in between. And there's a lot of great opportunity there.

As we -- you know, as we always hear in our "How America Banks" survey, there are still far too many Americans who don't have great access and don't have access to this robust system. And so we're looking at new and interesting ways of how we can do that.

I will say just as an aside for everyone listening, and the bankers especially, please do -- I'm going to leave some time at the end of my time to get any questions answered -- so please, if you have questions, do that. But I'm also soliciting a little bit of homework from all of you. What do you think we can be doing better, or we as the FDIC, or we as an industry, or we -- or bankers, you know? And I'd love to hear

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that. We have an email that you can send to, or you can just send it to me directly, innovation@fdic.gov. It's an awesome opportunity and I'm really trying to instill not just a little more transparency into this but also a culture of listening. I really want to hear from all the experts here.

And so on that, just the day before yesterday, applications for our first tech sprint at FDIC closed, and it's specifically on inclusion. We had just under 60 applicants and, you know, we're still working through the whole list but there are some absolutely amazing proposals, even just the proposals got our juices going. And I'm very excited for us to work through that list and to announce more of that in the coming weeks. So that's our first meeting theme. It's around inclusion.

Our second is around resilience and a lot of you talked about cybersecurity here earlier in the meeting, and it is a tremendous

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issue and a huge problem in this market, and it's becoming larger. And it's really, you know, growing because of two ways. One is the use of technology in this market is just growing, and it's growing tremendously.

But then the second is there are more bad guys out there with better tools who are coming after us, and it's everything from -- you know, you've heard about the Microsoft hacks, from the energy pipeline and other ransomwares. There are a lot of activities out there. We're seeing attacks against our digital supply chain. Now what's a digital supply chain? It is where all the code is written and all the chips are manufactured and the dependencies across all of that is becoming more and more of an issue.

Yesterday we actually released one of our innovation podcasts here where I interviewed a former Homeland Security Secretary, Michael Chertoff. You know, I've known Michael for a long time and Michael's a really thoughtful guy,

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and he talks about resilience as being able to take a punch and get back up. But it's not just being able to do it. It's knowing that you're going to get punched, and it's knowing that that's coming. And so you plan for that. You know, in the case of ransomware, we see banks that are successfully navigating that and it's really because of the strength of their backups but also defensive technologies around cybersecurity. But resilience is a big issue, and it's something that we're putting a lot of energy into, and I expect to be able to tell you more about that.

But if you're into podcasts, I would absolutely listen to it. Michael's an incredibly thoughtful guy, and he said some great stuff that I think everyone should hear.

One of the other things that we're very focused on and our third theme is around amplification. You know, there are a lot of experts listening to the sound of my voice,

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people with decades of experience. And we don't always do the best job in our industry of making sure that those people have the most efficient and straightforward way of doing their jobs, whether you're sitting in a bank and you're maybe a bank secrecy officer looking at potentially, you know, bad transactions or you're a regulator or you're someone sitting in an office like this. We have decades of technology, some of it very good, some of it not so good. And we need to find ways of removing the friction from every -- the day-to-day lives of people across the system. You know, at FDIC, it means if I've got an examiner and they spend an hour every day working but 45 minutes of that hour is, you know, typing into keyboards or something like that, that's not a very efficient use of their time. So let's see if we can amplify them so they can spend an hour being an expert and not 45 minutes. I would much rather have some -- a commissioned bank examiner like Director Pearson focused on being the expert

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that she is and not, you know, pecking away at a keyboard.

The final theme is what we call the X factor one. I call it "protecting the future." You know, the 20th Century, in many ways, was defined by the American experiment leaning on the American banking system and being a leader globally, whether it was our manufacturing base, or the strength of our balance sheet, or the strength of our foreign policy, or the strength of our military, so much of that relied on the banking system being that backbone. And as I look to the 21st Century and an era where now we're starting to talk about great power conflict again, and we're looking at how to not just continue but extend our leadership in the world, making sure that we have a banking system that can be positioned to tackle those challenges is a big piece of this, so whether it's artificial intelligence or crypto or quantum computing or, you know, people putting crypto notes into orbit,

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or Elon Musk putting a bank on Mars, you know, these things are all coming, and some of them faster than we expect. You know, I'll talk about two and then I'll look for some questions.

The first one is I was making this -- I thought it was kind of a hyperbolic joke about people putting crypto in orbit a few months ago. And then I was -- you know, I got a little new alert and there was a company that took a crypto note and actually launched it onto a satellite not too long ago. So I guess my far off science fiction was, you know, reality.

And the second is around quantum computing. You know, right now, we work in digital computers, ones and zeros. Quantum computing is not just one or zero, but it's one and every other number. And what that fundamentally means is for every one piece of any one computer that's a traditional digital computer, a quantum computer of similar size, etcetera would be many, many times faster. And

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so many, many orders of magnitude faster in calculations. And one of the biggest concerns that a lot of us have is that that can be used by bad guys to attack our financial system. And so the National Institute of Standards and Technology is running a multi-year program to create new encryption standards for all of us, and we're incredibly excited to watch that work come. But as that comes, we need to be ready for it.

And so it's not just one of those things where it comes and you install it, you do an update like all of you guys do on a weekend. This is going to be different. This is going to be more like a Y2K or maybe even a little more intense than that, because it's not just changing the software, but it's also changing the hardware. And so getting to change management in place, getting the people in place, getting ready for that is something I think we should start thinking about.

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So with that, giving you a little bit of an update. We've got more to come. I look forward to speaking to you all again. And if I don't see any questions, I will very happily cede the floor back to Arleas.

MS. KEA: Thank you, Sultan. Let me just in to see if there are any questions or thoughts. I think some of your initiatives were mentioned earlier by some of our members, so we appreciate your being with us. Okay. Let's move on then to our next agenda item. Sultan, Thank you again.

I'd like to welcome up next Anthony Lowe, who is our ombudsman. Anthony is going to also provide an update on information which has been gathered by his office, and I think he's looking forward to engaging with all of you. Anthony?

MR. LOWE: Okay. Thank you, Arleas, and I appreciate having the opportunity to present and talk with the bankers this afternoon

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and look forward to some questions and comments that you might have also.

So I'm going to take a few minutes. I've got a handful of slides to capsulize our recently-issued report of activities for 2019 and 2020. This is our second publically-issued report in the modern era, and if you reviewed the previous report, you'll see that we did take to heart quite a few of the comments that we got from the industry. We've added some more substantive details on specific assistance that the office has provided to the industry. And again, it does cover two years and hopefully, this is a one off because we do want to issue this report on an annual basis going forward.

As you have or if you will observe when you review the report, the previous two years were extremely period for the agency and for our office, the Office of the Ombudsman, where we dealt with a lot of incoming comments, questions, observations from the industry

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including concerns about the disagreements with specific exam findings or recommendations about delayed responses to correspondence or requests from bankers, about the professional conduct of the examinations and requests for assistance and identifying relevant parties that could help with getting some item or some matter to a conclusion.

The report, if you have a chance to look at it, provides information about the composition of our office, our responsibilities, and some really detailed information about individual industry cases and comments that we got from the external stakeholders. So again, hopefully, you'll have an opportunity to review it if you have not already. Next slide, please?

So although COVID did affect, you know, everyone, I think, in the country and definitely the FDIC and my office, the Office of the Ombudsman, in many ways, I think we were able to continue to remain a source of strength for the FDIC during a very difficult time. You know,

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we had to alter our format for conducting our outreach. The majority of our outreach after March of 2019 was conducted virtually either through using Microsoft Teams or through a conference call, but we were able to use that technology, and it actually allowed us to see a little bit of an increase in our outreach activities in 2020. So it is very important for us to continue, I think, with that outreach, which is extremely important for our responsibilities, because it allows us to be able to provide timely responses and information to the industry, allows us, from an internal standpoint, that we can provide feedback from the industry to internal stakeholders and decision-makers about issues, concerns that are coming up from the industry.

And most importantly, I think it allowed us as ombudsmen to continue serving, to some degree, as a clearinghouse resource for bankers, you know, that were dealing with a

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dramatic change in operating environment over the last couple of years. And the volume of inquiries and requests increased in 2020, and a portion of that, I think, is attributable to, you know, 230-plus specific pandemic-related conversations, questions, and inquiries that we got. And I'll talk about some of those in a little bit more detail later. But, you know, compared to 2019, we also experienced a 57 percent increase in calls and also increase in industry cases. Next slide, please?

So industry cases, those pretty much represent questions, concerns, complaints, requests for assistance from banks, trade associations, some bank commissioners regarding the FDIC's operations, our procedures, and our communications. As I mentioned, you know, a material increase in cases, a lot of it can be, you know, attributed to a number of factors. I mentioned the pandemic-related inquiries about PPPs, SBA, call reports, branch closings. Also,

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the office assumed responsibility for overseeing the post examination survey process towards the end of 2019, which has also resulted in some additional activity for the office.

During the period that was covered by the report, we received over 200 requests for information but, you know, over half of those, more than half of those involving regulatory-specific matters, CRA, appraisal regs, national interest rates, HMDA, those type of items that came up consistently. We also assisted in resolving close to 150 issues in 2020, which was double what we had in 2019 with regard to examination topics, enforcement action compliance, classification, clarification on assigned ratings, information on the appeals process, also ineffective or untimely communications between a bank, a specific banker or counsel in a regional office, you know, with regard to correspondence, trying to get a response, and also, again, providing

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clarification on regulatory requirements and expectations.

We also received close to 50 unsolicited contacts often involving allegations of questionable activities that were being taken by financial institutions or their employees. And in most of these cases, after we, you know, did a review and tried to determine, you know, the proper direction, those would be either referred to one of the operating examination divisions or to our IG for further review. Next slide, please?

You know, when we think about the outreach visits, I think it's also important to, you know, make sure that it's clear that they provide an opportunity for our stakeholders to obtain answers to questions about the supervisory process and they also provide the corporation, you know, feedback. But for bankers, I think it's very important that they have that opportunity to provide their comments, their

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questions, you know, their observations in a safe and confidential environment.

During that two-year period, we had 2,600 or close to 2,600 feedback items. Over half of that feedback that we received from the external stakeholders, again, focused on examination matters, you know, broadly distributed both risk management and the compliance side. I would say that the feedback overall, generally, was favorable with regard to, you know, our examination processes, applications, everything that we do with the external stakeholders opining; specifically got this comment several times, the examination processes now are more collaborative and cooperative than in the past.

Also, we got specific comments about consumer compliance examiners, that they were more helpful in ensuring bankers could understand and develop strategies for affecting compliance with governing laws and regulations.

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We also got a lot of feedback regarding a pilot program for a streamlined report of examination that Division of Depositor and Consumer Compliance is looking at, and that will be used, I'm sure, when that division gets ready to get to a final product.

Again, overall the commentary and feedback was consistently favorable, but we did see, you know, one item that I did want to comment on -- and I think Director Mongold mentioned it earlier -- in regard to the virtual examinations. You know, there was positive feedback about the flexibility, the communications, you know, moving dates around, meetings and everything else communications. But we have seen a growing sentiment from the industry asking, requesting, you know, that there be some type of a hybrid product going forward for future examinations, that there be some build out for making sure that we do have some portion of the exam that is conducted onsite.

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You know, regardless if the feedback that we get is positive or not, we try to make certain that we report this information up again to the internal stakeholders, specifically, you know, the chairman's office and also to the division directors of risk management and depositor -- the compliance group. So we do try to make sure we get that information to them in a timely manner. Next slide, please?

I did want to talk a little bit about the post-examination survey. You know, consistent with the FDIC's trust and transparency process that we went through, we did have some outreach activities at the end of 2019 and 2020 to, you know, try and get some additional information about the post-exam surveys, but we did a lot of focus at those listening sessions which we held with regard to -- I think we went over one slide -- I'm sorry -- next, slide 5, please? Okay, that's pertinent. Sorry about that.

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So we did have these webinar -- we had a webinar in eight sessions around the country, different locations. We had close to 250 participants. And a big part of this was to look at the existing guidelines that we had with regard to the appeals process. A couple of things that we built in to encourage candid discussion, we limited the participants from the FDIC in that it was mainly just people from my group and some folks from the Legal Division.

No one from Examination Divisions did participate. And we also, other than handwritten notes, there was no recordation of the discussion. And we also made sure that the participants knew that any of the commentary, anything that we put into any type of report would not have any specific attribution to a specific bank or an individual.

And we learned a lot from, you know, the people that participated, you know, specifically because we were trying to get to the

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core question, why are not more appeals or disputes of examinations filed, that we're advocating for that but we had a question about that. And I think at the end of the day, after talking with the bankers, it comes down four or five major issues; they're concerned about the potential time that it might take to go through that process, concerned about the cost, concerned about the outcome and the fairness of, you know, getting a fair decision; and also, there was a fear, to some degree, of retaliation if they did pursue that process.

You know, I will say that the participants' comments when we did get those aggregated and shared those internally, those were considered last year as the agency began to move forward on proposing some revisions to the guidelines for the appeal of supervisory determinations. And of course, we published a proposal in August of last year and after a comment period in January, the Board did approve

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some amendments to the guidelines for the appeal process. I'm not going to try to get into all of the specifics of the revisions, but I will note that the SARC, or the Supervisory Appeals Review Committee, will eventually be replaced by an independent standalone Office of Supervisory Appeals which comports with several of the comments and recommendations that we did receive during the listening sessions. Now back to the next slide?

I've referenced a couple of times the post examination surveys and as you all are probably aware, the survey is an important tool for us to gather valuable information from bankers about their examination experiences. And we definitely want to get candid responses. So to enhance the confidentiality and help ensure bankers felt empowered to provide candid response, this office did assume responsibility for that process towards the end of 2019. You know, there had been some variances among the

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different regions, the geographical regions and also along the divisions.

But we have seen a trend of improved response rates with regard to bankers completing the post examination survey, which I think is very good. Also, we've seen a pretty remarkable increase in the number of bankers that use the survey and check the box and ask for a call from this office after the examination has been completed, you know, the completed process, the transmittal letter. I think when we assumed responsibility back in 2019, it was in single digits, the number of follow-up calls that were requested. Last year it was up to 34 and so far this year, in 2021, it's close to 25, so that number, if you project it out, is continuing to increase.

So again, I do want to encourage you and your colleagues -- you know, it's very important to use that process and the post examination survey. Next slide, please?

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So I did want to make sure that you knew that we are embracing technology. Each of the committee members, you should be receiving in the mail here pretty soon -- hope you can see that, maybe you can't, but it's a card, a business-sized card that has a QR code on it that you can use your smartphone, and this will immediately take you to the report which, again, has a lot of -- lot more information, more granularity than I was able to provide this afternoon but hopefully, you'll find it useful.

Definitely looking forward to hearing, you know, feedback, comments, recommendations, what we can do to make the report better for next year. And, you know, for now that's my prepared comments, and I welcome your questions. Thank you. Back to you, Arleas.

MS. KEA: Anthony, thank you so much. We didn't want to have this meeting without also providing you with the opportunity to get an update from the Division of Risk Management

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Supervision. And so next up, I'd really like to present to you Doreen Eberley, who is the Director of the Division, and I'll ask her to introduce some staff members that she has with her. So Doreen?

MS. EBERLEY: Thanks, Arleas. Hi, everybody. We're really happy to be able to be here with you this afternoon and hopefully talk about some topics that are of interest to you. At least I think they will be based on the conversation this morning. We wanted to have a chance to talk about cybersecurity risk management practices and some best practices in that area and how you're approaching things. And then we also wanted to give you just a quick overview, a very high-level overview of some changes coming to the Bank Secrecy Act area coming out of some legislation earlier this year.

So Martin Henning, Deputy Director for Operational Risk, will present the cybersecurity portion of the program, and Lisa Arquette, who is

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Associate Director for Bank Secrecy Act and Anti Money Laundering, will provide the second presentation. So Martin, take it away.

MR. HENNING: Great. Thank you, Doreen. It's good to see you all, even if virtually. I think the last time we presented on cybersecurity was back in October of 2019, but we certainly value a discussion on this old but still very relevant topic, as your comments alluded to at the beginning. The threats continuously change. The threats continuously react to the defenses you put in place, so you have a significant challenge to adjust to and remain at low risk levels.

So we really want to hear from you, how you're leading your companies to continuously improve and being careful to avoid talking about specific controls in this public meeting, more managerial techniques for keeping ahead on this important topic. I think as much as I can try to put myself in your shoes, it's tough to know

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where to go next. There's any number of vendors out there that will sell, but how do you zero in on the next best thing for your company to do.

So perhaps we can talk some about even not only your own defenses but those of your customers. I heard Neil McCurry comment at the beginning about, I believe, either a customer or at least a local business in Sarasota that had this morning reported a ransomware attack and even the comments he made about the impact of cybersecurity incidents on the credit worthiness or the repayment ability of borrowers is a whole nother dimension to cybersecurity. So Mike, if you could move to slide 3?

So the threats on this list are familiar to all of you except for maybe the last one. Sultan mentioned that one but with regard to the first one -- I won't cover them all -- ransomware continues to be a top threat. It's why it's first on the list. The successful attacks in the U.S., when compared to other

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countries is low, knock on wood, but as several of you pointed out, U.S. companies are not immune. And when I say "successful attacks," I mean big payments. We are researching to see what happens in companies that are attacked and differentiate and understand the differences between those companies that are unsuccessfully attacked and those attacks that are successful. What are the key differentiators? We're doing some work on that right now intending to go back to our exam procedures and our public statements and see is there anything we're missing, is there anything as a regulator we're missing in what we're saying or what we're telling our examiners to look at, what questions they're asking.

But and really, the successful -- there are attacks on banks. The successful attacks are minimal but when there are successful attacks on any company, as, again, was alluded to at the beginning, and the Colonial Pipeline, the JBS Meat Packing, they're debilitating. They're

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-- they have a huge impact.

So I'd say one of the things we highlight here is that CISA and others, CISA being the Cybersecurity and Critical Infrastructure Agency, and DHS analyze threats across sectors and publish really good information routinely, much faster than any regulator could, to help their readers understand and protect against the ransomware threat. So something to keep, in terms of threat monitoring, to keep your eye on.

The last one on the list real quickly, encryption, breaking quantum; the risk here is that the power of emerging quantum computing capability will be used by malicious actors to crack encryption protecting sensitive data. And as I listen to experts talk about this risk, they point out that when malicious actors begin using quantum computing for this purpose, not only will they be able to get at sensitive encrypted information they steal from that point forward

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but would obviously be able to potentially get at sensitive information from previous threat -- thefts.

So this is really, I think, the first time the FDIC is even mentioning this particular risk. It's certainly a strategic risk, and by that, we mean something that hasn't resulted in observed related incidents yet, but over the long timeframe, you know, 5 to 10 years, there is action that's needed. And Sultan already mentioned some of the things the U.S. Government, NIST is doing. The purpose in bringing it up today is simply for initial awareness, might be something to ask your critical vendors about how aware are they.

Mike, if you can go to slide 4? The controls; the controls relevant to the threats in the previous slide are also familiar to you. These controls, if you look down at the bottom, were the ones highlighted in a message we sent out to all banks back in May related to the

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DarkSide ransomware that was used in one of those successful cyber-attacks. Again, something written by CISA -- jointly by the CISA and the FBI.

The question, though, for your company -- again, getting back to my intro -- is what should your company do next. One of the things I want to highlight on this slide, one of the controls is multi-factor authentication. The FDIC, working with the other FDIC agencies, has talked over the years about identity and access management, authentication in particular. Looking back even today, I was reminded of a sort of an entry into that space in 2001, a piece titled, "Authentication in an Electronic Banking Environment." In 2004, we did a study putting an end to account hijacking, identity theft; 2005, we updated the authentication statement, in 2011 again; 2011 was the last time.

And one of the things we're working on right now is updating that authentication

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guidance again. Our agencies are considering changes to it at the moment. That is a particular control that is foundational to mitigating risks of things like ransomware but many other cybersecurity threats as well.

So just as we move off this slide, FDIC cybersecurity, you use the FDIC cybersecurity at Google, you'll come straight to, if you click on the first link, an FDIC page that contains FDIC cybersecurity resources. One of the things -- not to forget that we presented to this group in the past -- was our cyber challenge series. It's a pre-made series of scenarios and videos and challenge cards to use in a tabletop exercise, perhaps with your directors, as a reminder, cyber challenge vignette number 7 is a ransomware scenario. So if you haven't done a tabletop lately, business continuity tabletop, and you want to use those resources, they are there and available.

Will also be on that page, I think,

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the first links are to an FDIC Directors Resource Center, a set of technical videos on cybersecurity awareness is something that you can send your directors to, again, just to keep aware we're working on updates to those. So again, a page with a lot of resources. It's not only FDIC. Some of them we've done interagency with FFIC agencies.

So if we turn, Mike, to slide 5? We really like to hear your thoughts on these questions before we turn it over to Lisa. You know, I was thinking ahead of time, you know, what would be appropriate in a public setting to share. And I know we've received some comments on these via email, but what has been most significant to you in leading your bank to continuously improve. There's a -- you know, probably the -- one of the challenges, there's so many sources of information that you could use to choose the next best thing. What's been most beneficial for you, what has been the most

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significant impediment to continuous improvement, and I'd just end by saying covering all of this, what we can we do, what can I do at the FDIC to help community banks in this country improve in cybersecurity.

So I'll stop there and Arleas, hopefully, open it up for some questions or any comments from our committee members.

MS. KEA: That's fine. Please, I invite everyone at this point for your questions and comments to Martin.

MR. HENNING: And to cede it a little bit, I won't say the name but one of the committee members mentioned in an email ahead of time incidents have been a big influence. There's nothing like actual facts, not theoretical, things that have actually happened to crystalize the thinking. Hopefully, incidents close but not at your company, you know, and incidents that you can observe how they happened or your CISA or your CIO can observe how they happened and do

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something about it, but other --

MS. KEA: Martin, I do see a hand raised. Is it Bruce? There might be another hand as well but Bruce, go ahead.

MR. LOWRY: Thank you. All of these that you have listed are important, and we've used all of them in our bank. But you asked the question how can the FDIC help with this, and I think that through the exam process, as long as examiners have recommendations and observations and are positive in maybe making suggestions or things to consider versus punitive, that that is a big -- that would be a big help. In the San Francisco region where we are examined out of, I think that's what we've experienced of late, the last several years. And so we've appreciated that. They see a lot more things than we do, and they have the full resources of the FDIC behind them, and the feedback that they provide has been very beneficial over the years.

MR. HENNING: Thank you, Bruce.

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That's helpful.

MS. KEA: Martin, there is another question. Mark Pitkin has his hand raised.

MR. PITKIN: Sure. Well, first of all, certainly appreciate you presenting to us and giving us certainly a number of things to consider. But I am happy to answer which one of those particular items most has led us to continuously improve, and it comes from discussions not only with the Board but certainly with our technology department. And the answer was, by far, unequivocally -- and I think Bruce just said this -- it was incidents; right? So when we hear things that are happening and we see things that are happening to like and similar kind businesses, you know, you step back and say as well as we think we are doing things, I'm sure all of those businesses thought they were doing things appropriately as well. So that has been very helpful for us to just sort of go back and forensically look at all of the incidents that

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have happened in order to help us improve our processes as well as our cybersecurity.

And the other thing that has been very helpful, certainly on a director's level, and I am not sure if this happens in all regions, but at the last trustee and director's college that was put on by the FDIC through the New Hampshire Bankers Association, the cybersecurity session ended with these are, I think, five or six questions that you should be asking your IT department, and those were directly to the Board. So guess what my Board did was they came back to the bank and said, "Hey, Mark, we would love you to report to the Board on these five or six questions." And it has created just a wonderful sounding board for us to better educate the Board, to better educate management and honestly, to better create a culture of cybersecurity in the bank. So I mean that is not necessarily incidents. That is sort of information and questions that were put forth by the FDIC

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themselves. So certainly appreciate that.

And then lastly, what has been the most significant impediment to continuous improvement, and that is pretty much universal, too, and that's just cost. So every layer of defense, and we go over everything here at the bank by multiple layers of defense, you know, that start at the network level and potentially make its way down to -- I'm sorry -- starts at policies, procedures, and awareness, and we look at all the levels down to devices and every single level that we try to improve on just comes, in some cases, at a substantial cost, so we're always weighing that benefit. But again, we -- or I appreciate this discussion.

MR. HENNING: Thank you. That's very helpful, Mark.

MS. KEA: Martin, I'd like to recognize Neil McCurry.

MR. MCCURRY: Thank you, Martin. Neil McCurry. And I probably just wanted to

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touch on a theme that I believe I touched on at last meeting and certainly have at all of our regional FDIC meetings that we've had in the Southeast about cybersecurity. And again, talking to our own company, with our staff and our employees, it's that, you know, the greatest risk to our company is a cyber-threat. And we look at that and it comes in so many different ways.

And we've seen vendors that we work with that have gone through cyber-attacks. Our core provider on a cyber-attack and services we use like Microsoft, who, you know, I think you hear the name and you feel like there's some competence in it. They had theirs. And then we've had customers as well. So literally, everybody around us has been bitten at this point. And we keep saying we haven't at this point. We think we're doing the right things, but it's such an overwhelming process and ever changing.

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So I think, you know, it kind of was said earlier, is about working with the FDIC and there was comment about the exams not being "got you." I think if there's a shortcoming, you know, we want to know it but again, I think that this is a risk that for the banks that are trying their best -- you know, we're outgunned, we're outmanned, we're understaffed to the groups out there as well. And, you know, we'd like to have partners like the FDIC and other resources, and I know there is support already for the banks as well, but we've got to continue to work side-by-side and look at saying that a problem a bank has is a problem at the FDIC and that we all are in this together.

And, you know, the comment about cost is extensive and I think many banks recognize there's expense to it all but, you know, a community bank like the institutions on this call, you know, we can't have 550 cyber IT people inside our bank when our staff is 50 right now.

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So there are some limitations even if we are committed to putting resources that are just some amount we can do.

So my comment isn't really a question just so much as I think many of the banks that I've talked to are -- take this seriously, are committed, are worried, are scared, you know, name it all. And we continue to look towards the FDIC as a source of strength and information and, frankly, help and more so than any other area. You know, compared to credit risk, I mean the bankers are very good about understanding threat risks and so are the FDIC. So I think there is equal minds, but we feel outgunned right now, outmanned and again, I just would say ideas that we can all collaborate together would be greatly appreciated.

MR. HENNING: Great. Thank you, Neil. That's -- we want to do great IT examinations, so that seems like a vote for continuing to improve ourselves, continuously

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improving ourselves or continuing to challenge ourselves and how we think about that. You know, I think in this group, we discussed the new IT examination work program when it came out back in 2016-2017 timeframe and really pushed at that point in time to rethink how we did IT exams and update. And so thank you for those comments. We will continue to be creative in how we adjust our IT examination programs. Arleas, is there any -

-

MS. KEA: I'd like to recognize -- yes, Teri Messerschmitt.

MS. MESSERSCHMITT: Yes, Martin. I just wanted to tell you that in looking over the list, I agreed that all of these are super important. I do believe the incidents probably is the one factor that we just continue to monitor realizing that it can happen to anyone at any time.

And one thing that we have done is that we do have our IT personnel attend our board

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meetings and at the beginning of each board meeting every month, we do have that person come in and do some training and just update all of the directors that are attending, board members as far as, you know, what's going on, what's the recent hot button out there and just keeping everyone as informed as possible.

We also work really hard to try to continue to have training for all of our staff throughout the year including social engineering. We do that very, very frequently and we do report that back to the individual departments so they know if we have areas where we need maybe some improvement.

As far as impediments to the continuous improvement, I would say limited resources, both money and time. We do outsource our managed services, and we also have one internal IT person on staff. So we really take a look at our CAT tool. We use that a lot to determine where we are within our individual

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categories, and we prioritize where we feel our risk -- our highest risks are, and we just kind of take them piece by piece and attack them one at a time.

As far as the FDIC helping, just keeping updated communications, I think, is super important to the banks to hear what's going on, different best practices, I think, are very helpful to hear as well. Thank you for your time.

MR. HENNING: Thank you, Teri.

MS. KEA: Right now I don't see any other hands at this time.

MR. HENNING: Great. Well, thank you, Arleas, and thanks everybody for your comments, very helpful and, you know, our email addresses are easy to figure out in fdic.gov. If some thoughts come to mind afterwards, I'm here for those calls and communications. Thank you. I'll turn it over, I think, now to my colleague, Lisa Arquette, to give you some highlights on the

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Anti-Money Laundering Act of 2020.

MS. ARQUETTE: Thank you, Martin, and good afternoon, everyone. I plan to highlight certain significant and time-sensitive provisions of the Anti-Money Laundering Act of 2020 that will impact community banks. The Anti-Money Laundering Act, or the AML Act, was passed by Congress January 1st of 2021 as part of the National Defense Authorization Act. The AML Act is the most comprehensive set of reforms to the Bank Secrecy Act, or BSA, and its implementing regulations since the passage of the 2001 USA PATRIOT Act. The AML Act is intended to modernize the Anti-Money Laundering and Countering the Financing of Terrorism, or AML CFT, regime. Mike, next slide, please, slide 7?

The first section that I would like to highlight directs the Financial Crimes Enforcement Network, or FinCEN, to establish and make public AML/CFT priorities. On June 30th, FinCEN published these priorities which focus on

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threats to the U.S. financial system and to national security. These priorities include, in no specific order, corruption, cybercrime, terrorist financing, fraud, transnational criminal organizations, drug trafficking organizations, human trafficking and smuggling, and proliferation financing. These priorities are intended to assist all covered financial institutions in their efforts to combat money laundering and to counter terrorist financing.

FinCEN is required to update the priorities at least once every four years to account for new and emerging threats to the U.S. financial system and to national security. The FDIC, along with other federal banking agencies and FinCEN, issued a statement on the same day that the priorities were published. I would refer you to the FDIC's Financial Institution Letter 46-2021. That statement makes clear that FinCEN's publication of the priorities does not create an immediate change to the SA requirements

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or to supervisory expectations for banks. Mike, slide 8, please?

FinCEN recognizes that not every priority will be relevant to every bank but that each bank should review and incorporate the priorities into its BSA compliance program as appropriate. FinCEN is also required to promulgate regulations regarding these priorities. A notice of proposed rulemaking from FinCEN is expected in the near term and will announce FinCEN's proposed modifications to incorporate the priorities into the ANL Compliance Program Rule for Banks. The final rule is expected by year end 2021.

We plan to revise our BSA Compliance Program Rule to incorporate these priorities in a manner similar to FinCEN. The final rule and the preamble to that rule are expected to provide clarity regarding how these priorities should be reviewed and incorporated into a bank's BSA Compliance Program.

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In the meantime, if you or your staff are interested in getting a head start, you could review the 2020 National Strategy for Combating Terrorists and Other Illicit Financing and three related risk assessments. These documents which form the basis for the ANL/CFT priorities were issued by the U.S. Department of Treasury and can be located on the FDIC's public website under the Bankers Resource Bank Secrecy Act page.

The documents include various vulnerabilities in the financial system that banks can review and consider. However, at this time, there is nothing that banks are required to do related to these priorities. Mike, slide 9, please?

The next important provision to be aware of is referred to as the Corporate Transparency Act. It addresses changes in how beneficial ownership information will be reported. FinCEN will soon issue a notice of proposed rulemaking associated with this change.

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FinCEN will be required to maintain beneficial ownership information in a confidential secure and non-public database. After the development of the database and consistent with the implementation date of FinCEN's new regulation governing the collection and storage of beneficial ownership information, banks will no longer be required to collect an official ownership information. FinCEN is authorized to disclose beneficial ownership information with the consent of the reporting company to banks to facilitate compliance with customer due diligence requirements. Regulations implementing the beneficial ownership information reporting requirements are expected to be finalized by January 1st of 2022. Slide 10, please?

The last section that I want to highlight for you requires FinCEN, in consultation with the federal banking agencies, law enforcement, and other agencies to undertake a formal review of the regulations implementing

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the Bank Secrecy Act and related guidance. The purpose of the review is to ensure that these regulations and the associated guidance continue to protect the financial system from threats and continue to require certain reports or records that are highly useful in countering financial crime.

Additionally, the review is intended to identify regulations and guidance that may be outdated, redundant, or otherwise do not promote a risk-based ANL/CFT regime and do not conform with international standards. FinCEN will seek public comment during this process which provides an opportunity for community banks to make suggestions either independently or through a trade association regarding changes that you believe are needed to BSA regulations and guidance. FinCEN is required to report to Congress by year end on findings and provide any recommendations for administrative or legislative changes.

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That is the high level update, and I thank you for your time and would welcome any questions if you have any. And if there are no questions, I would turn it back over to Doreen Eberley.

MS. EBERLEY: I don't see any questions so thank you very much, Martin and Lisa, and thank you to our members for participating in the conversation. Thank you very much.

MS. KEA: Thank you to Doreen, Lisa, and Martin. That was very, very informative, and I'm sure the members all appreciate that discussion. So we have come now to the end of our meeting. We recognize here at the FDIC that this is a big investment in time for all of you, our members. We really do truly appreciate the time that you have given us today and all of the time in between. These meetings sometimes can be a little bit challenging when they're long meetings like this one, but you all have been

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very engaged, and we truly appreciate your thoughtful comments and all of your participation. The Chairman has, unfortunately, had to step away a few minutes early to attend to some other business meetings, but Director Gruenberg has graciously agreed to close out today's meeting. So if there are no other questions or comments from any of our members, I would like to turn it over to Director Gruenberg to close us out. Thank you, Director Gruenberg.

DIRECTOR GRUENBERG: Thanks a lot, Arleas, and I promise you all I'll be mercifully brief here. I did want to thank you all for thoughtful participation in today's meeting. I really thought the roundtable was an extraordinary overview of how community banks are doing across the country and the range of challenges that you face. So anybody that is looking in on today's discussion, I think, has gotten a remarkably insightful overview of the issues that you all are confronting and I think

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are quite relevant more broadly to the financial system and the economy.

And just a few thoughts to share with you as we conclude the meeting. One, if we think back to where we were 12 or 15 months ago, I think frankly, we might have expected to be in a more difficult situation today, certainly as far as the economy and the financial system is concerned. I can tell you that as we were doing our planning this time last year, we were anticipating a more severe environment now. And at least thus far, it has not played out that way, to all of our benefits. And I'm struck that all of you have come through this extraordinary period in pretty good shape and fairly positive about the outlook, which is certainly encouraging for us to hear.

I guess I'm also struck at the extraordinary uncertainty we face in the near term and in the midterm. We are going to see a process of winding down, I think, the

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extraordinary public support that the economy and the financial system has benefitted from. There's going to be a challenging transition from the -- to a post-COVID environment with consequences for how work is done, how business functions in the United States that I think we can't yet fully appreciate that will have consequences for your institutions that I'm sure you're quite focused on.

We're specifically focused on financial risks in commercial real estate but frankly, there may be other underlying risks as we go forward that we don't yet fully appreciate.

So I think this next period and whether it's the next 12 months or 24 months is one that's going to require careful attention from all of us. I think we certainly will intend to remain closely engaged with all of you. We hope you don't hesitate to reach out to us as you encounter issues for your institutions. Discussion on cyber risk is probably a good

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example, and it certainly argues for the continued value of this advisory group and the FDIC's engagement with you.

So I think we're scheduled to see you all again in early November. I can tell you we look forward that meeting and to hear what you all are experiencing at that time. So once again, thank you for your diligent participation on this advisory committee. We're asking for a lot of your time and you have shared it with us, again, in a most thoughtful and constructive way. So thanks again. It was great to see you all, and we'll see you all again later this year. Thanks a lot. Arleas, it's all yours.

MS. KEA: Thank you so much, Director Gruenberg. And once again, thank you to the members. This concludes our meeting and we look forward to interacting again with you, as the Director has said, in November. Thank you, all. (Whereupon, the above-entitled matter went off the record at 4:58 p.m.)

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