CONVERSATIONS
WITH THE ST. LOUIS FED

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JIM FUCHS (St. Louis Fed):

Before I turn it over to today's speakers, just want to go through a couple of logistical and housekeeping items. First, those of you who were logging in inevitably notice this is our first time offering the *Conversations* program through the WebEx platform. This is historically been a teleconference. But as we've adjusted during the pandemic, we've become a lot more reliant on WebEx. It's also a way just to develop a little more connection because we aren't able to get out and see you as much given the current state of affairs. At the end of this call today, your feedback on using WebEx versus a straight teleconference option is appreciated. This call is being recorded and archived like we do for all conversations program. So if you hear something today that you'd like to share with your colleagues at your bank, we will have a file available that you can share. The *Conversations* website is at www.supervision.org and is a very easy website and you'll see a link to *Conversations* program on the screen.

Some tips on using WebEx audio right now, I'd also like to maybe highlight a few points there and then talk about how we're going to take questions today. So you'll note those of you have joined us that you can't on mute yourself and you're unable to turn on your video. That's really just to make sure there's no accidental interruptions during today's call, but we do want to hear from you and so there's plenty of ways to do that. If you look in the lower right hand corner of your WebEx screen, you'll see a Q and A panel. You can just you can type in a question directly there, and we'll be sure to get to it. You can also just simply say I have a question or type in a question mark, whatever you're most comfortable with, and we can elevate you so we can elevate you as a Panelist to ask a live question. If we do that, we appreciate you turning on your video, and then our traditional method. You can always email us at conversations@stls.frb.org.

A quick look at today's agenda. I'm going to be turning the call over to Carl White here in a second who is going to reflect on 2020 and look forward to 2021. From supervision standpoint, Allen North is going to discuss the FDIC process for obtaining service provider reports and then Doug Kerr in our Consumer Affairs Division is going to talk about the advanced notice for proposed rulemaking on the Community Reinvestment Act. So with that, Carl, I'll turn it over to you.

CARL WHITE (St. Louis Fed):

Thanks, Jim. And hello, everyone. Thanks for joining us this afternoon. So I just want to go through a few reflective comments, I guess, and then cover some new guidance and just remind you some things that are out there so might give you some homework to, go back and look up especially some few things that are out there. This has been obviously a challenging year for all of you. But for us here in St. Louis we've gone through a lot of management transition along the way. We have used our succession planning process, it seems like on a monthly basis, but it's going extremely well. I'm very happy with our team that we have in place. Many of those individuals are on the call for today's session so we're in a very good spot from a supervisory perspective going forward. We have done very well during 2020 despite the pandemic challenges.

As you know, back in mid-June, we did resume safety and soundness exam activity. Everything has been off site. We're using a risk focused approach for those that have gone through an exam process you're familiar with that and if not, this consists of us relying a lot of our ongoing monitoring that we do, relying on information that we already have from you. But then, filling that with a very shortened request letter. I'm sure many of you would appreciate that, and really focusing on key risks. So we're relying on the information that you normally provide us through regulatory reports. But then we're adding to that some conversations with key leaders and this is all contingent upon you being able to go through an exam. So we have those conversations first to make sure that you're able from an operational perspective to go through an exam event. We realize this is one additional event that you have to plan and prepare for with your staff. So I will say, thus far, we've been able to move forward on every exam event, so we haven't experienced issues with our institutions. So that's great news. I think everyone realizes the challenges and we've worked very well together, not just with you all, but also with our state partners.

Hopefully you've joined us for many of our *Ask The Fed*® sessions. I will tell you, this is a record year for us. Summer DuMond and Jim Fuchs are very involved in that program, and we're going to reach almost 50 sessions this year. Normally, it's under 20 so I just want to remind you that those are all archived and available for you to go back and review, and I really wanted to highlight a few recent ones because they were, unique and very informative. One was when we had Governor Bowman and also the FinCen and Director Blanco join us for session on BSA and AML effort. We had a session on the accounting considerations on loan accommodations tied to COVID and actually, Allen North, one of my officers, was one of the lead presenters and that was very informative so that's one I'd recommend. Then just recently, we had our annual economic update with Dave Altig who is the director of Research at the Atlanta Fed, I think this is his seventh year, so that was very interesting. Then also our annual ag updates so all those are available and I highly recommend them.

So real quickly, I want to go through some recent guidance that have been issued that that may interest you. One is basically a joint agency announcement about the delay in year end reporting dates. So basically, if you're going to cross a certain threshold in reporting, it's tied to year end '19 total assets and the idea is because of the pandemic, we realized that certain banks' balance sheets have been inflated. This is a way to give you some time to rebalance your portfolios so you have a more normal asset threshold. So that was just an interim rule, obviously, because that that will expire at some point but I refer you to that. There's also a joint agency statement that was just released on the LIBOR transition and the last one, I'll mention, is the extension of certain lending and liquidity facilities to March 31st, some weren't. As you know, the Main Street, for example, will expire at year end along with the municipal lending. But one in particular that has affected a lot of our community banks is the PPPLF that will be extended to 3/31 and a lot of that is because just operationally, that gives us a chance to kind of unwind the program, make sure that you have some time if you have some final decisions to make if you want to use that program.

Now two other quick things, the supervision reports, this comes out twice a year by the Board of Governors and that was just released early November, I think second week in November, and that tied to a speech by Governor Quarles. This highlights kind of overall banking conditions that we see throughout the system. A quick read of it, it's pretty consistent with what we're seeing in the district. But it also gives you a perspective on all the portfolio CBO, RBO and the large bank portfolio and it also will summarize all the regulatory and supervisory developments that have occurred since the last report.

The last thing I'll mention is hopefully you saw in the news today, big news for the St. Louis Fed is Chris Waller, our director of Research was voted, the Senate finally voted, this is an 18 month process, but he finally received the votes today and he will serve as one of the next governors. This is a big deal for us. We have a long working relationship with Chris, many of us on this call so I'm sure we'll have his ear on a lot of things especially related to supervisory matters. So that's going to be a very, very big deal not just for our bank, but not just our bank but for our division. So before I turn it over, Allen North has a topic he wants to cover. I did want to introduce, I know many of you have met Meg Kahlenberg, but here you'll be able to see her face. It might be just via phone calls, but Meg is our newest officer in safety and soundness, so she's one of Allen's junior officers, and I'm going to let Meg kind of cover exactly what her portfolio is but we're very excited to have Meg on the team. So let me turn it over to Meg for a few comments.

MEGAN KAHLENBERG (St. Louis Fed)

Thank you, Carl, and it is great to be here with all of this afternoon. As Carl mentioned, my name is Meg Kahlenberg and I am one of the junior officers on the safety and soundness supervision team and report directly to Allen North. I kind of split our district, the seven states, with my counterpart Scott Smith. So I have responsibility for our CBO's in Western Kentucky, Southern Indiana, Southern Illinois and eastern part of Missouri. So for many of you who have institutions in those respective states, I'm looking forward to working with you and getting to know your institutions a little bit better. I'm new to my role but have about 10 years of experience with the Fed and 17 in all in banking. So thanks again, I'll turn it back over to you.

CARL WHITE (St. Louis Fed):

Thanks, Meg. Just as a reminder, Allen overseas our CBO portfolio, and then Jim Warren, who's on the call, Jim Warren overseas RBO portfolio, our regional banking organization, so anything over $10 billion. That's kind of how we split up our portfolios. So thanks for joining us today. We have several other things we want to cover so I'm going to kick it over to Allen.

ALLEN NORTH (St. Louis Fed):

Well, good afternoon, everybody. And I want to echo Carl's comments on behalf of Jim Warren and myself, we really appreciate the relationship that we've had with all of you this year. It's been incredibly difficult. I know for everyone, but I feel like throughout this pandemic we've gotten really good information. The interaction with the bankers have been great, and, as you all know, fingers crossed, things seemed to be OK, at least at this point, and hopefully won't get any worse from a financial perspective, borrowers seem to be doing okay for the most part with the exception, of course, with the areas that we all know, hospitality and restaurants and so forth.

I just have one topic I want to cover this afternoon and will take just a minute. As part of your third party due diligence and vendor management, you all know that we ask you to take a look at the open sections of reported exams of your significant service providers. Many of you have your core provided by one of the big providers, such as Jack Henry or CSI out of Paducah,KY and we ask that you request and take a look at that open section. And in the past, you've contacted us directly, and we provided that through a secure email. Going forward, there has been a lot of discussion the last few years about how to do this on the interagency basis, because clearly the significant service providers affect all commercial banks. And so the OCC, FDIC and Fed really we're trying to figure out what's the best way to get this information out to banks. What we determined is that we wanted to have a secure system where you basically would get these reports exams automatically and not have to request them. So the FDIC using FDIC connect on because they have all banks have FDIC insurance, it made sense that they would actually coordinate this effort. So in order to get the information out to everyone, I just highly encourage you to attend this conference call scheduled for Thursday, December 10th. It's 11 o'clock eastern time, 10 o'clock central time, it's about an hour long and we'll provide the call and information for you on the post survey email that we do after these calls. I just highly encourage you to attend that or have someone on your staff attend that call. The FDIC seems going to present how the process is going to work and what you need to do to make sure you get those reports exams automatically. So don't know a lot more about the system, I hope it works well and of course, we'll be here to provide answers that you need. So with that, I'm going to turn it over to Doug to, cover the more substantive portion of our presentation today.

DOUG KERR (St. Louis Fed):

Thanks Allen, I appreciate that the handoff there. Today I wanted to review the recently released CRA Advanced Notice of proposed Rulemaking. For those of you that haven't looked at it, it is roughly 200 pages and 99 question questions so we thought it might be a good idea for us to highlight some pretty important parts that we see. There are three main areas I want to cover today, the first of which is the objectives of the NPR - why we're doing it in the first place – then the history and the status of not only our ANPR but other CRA modernization activities that have occurred in the last couple of years. The last item, probably most important, is a summary of some of the key components that you as bankers might be interested in going forward.

We'll start with the objectives of the ANPR, and there's a few, but the first and primary is to more effectively meet the needs of low- and moderate-income communities and to address inequities that exist in credit access. This is fundamental to CRA and has been for a long time so we wanted to make sure this one was paramount going forward. In doing so, we also want to increase the clarity, consistency and transparency with regard to a couple of things. First is the supervisory expectations that we have of you on the standards regarding where activities are assessed. In other words, your assessment areas. In addition, we seek to clarify activities that are eligible for CRA purposes and how we evaluate those. There's always been a feeling that this was subjective and a black box type environment. We wanted to make sure that we addressed clarity in the forefront of this ANPR.

Next, we want to seek to minimize data burden and tailor the collection of data and reporting to banks of different sizes, different business models, etc. We also wanted to update performance standards due to the changes in the banking over time. We know that there's increased usage of mobile and internet delivery channels and that the facilities based assessment areas are not always the best gage of assessment areas for particular banks so we need to tailor supervision to financial institutions to reflect this. There's differences in bank size and business models and over time CRA has not reflected those. There's differences in markets and the needs and opportunities of those markets, and specifically with regard to small banks serving rural markets. As MSAs and large cities have grown, rural markets have suffered so how can we address those going forward?

Then, lastly, we seek to address expectations across business cycles for different types of banks. Throughout this process, we also want to promote community engagement, and the way that we feel we can do that is with transparency in performance standards. In other words, understanding what the performance standards are, what our expectations are, and having everybody including the public understand those as well. In addition, opportunities to comment on something like this that is going to change the way that we look at CRA going forward. The last piece of this is not new, but something we obviously wanted to stress and that is recognizing CRA and fair lending responsibilities are mutually reinforcing. Again, this is not new. This is baked into current CRA. But understanding that there is overlap between fair lending and CRA and a lot of the tenants for both are things that again, are mutually reinforcing.

For those not very close to this, there are a myriad of things that have been going with CRA. If you're not paying attention to which agencies were doing what if can get confusing so I wanted to go through a timeline to show you where we are as a Fed and where we've been, but also, where other agencies have been as well.

In 2018, the OCC announced that they were going to issue an ANPR and did so a couple days later. They did so in the Federal Register and opened a comment period. They got thousands of comments from bankers just like you, community groups, and they took all this seriously, and it took about a year to issue an NPR based upon those comments. In December of 2019, they then established the NPR and opened another comment period on that took us all the way to April of 2020. They then issued a final rule. I should back up, the NPR was issued with the OCC and the FDIC in joint form. In April of 2020, they issued a final rule and at that time, the FDIC, actually chose to withdraw support for the OCC and they have not come to the table with anything new to this point. So that's the OCC side, but now where are we? We're actually at the stage right now that the OCC was at in 2018. Earlier this year in September 2020, we announced the ANPR and about a month later, we published that to the Federal Register. We're in the process and in the middle of a comment period of 120 days which will end February 26 of 2021. We'd encourage folks to do is, take information that we're giving you here, reach out your regulators, really dig into the ANPR, and give us feedback. There's a variety of questions that have largely been informed by things that we saw in the OCC's comment responses. We want to make sure that we're getting this right, because it's going to have impacts in the long term. We're in the early stages and all comments and all questions will be seriously considered as we go forward and issue the NPR and then ultimately a final rule, but we're a little ways away from that.

The next piece that I wanted to cover is a summary of the key content of the ANPR as a whole. There are four main topics here. The first is asset size thresholds with regard to performance standards. As you're probably well aware, currently there is a small bank and ISB or intermediate small bank and large bank threshold, and we'll talk about what we're doing to address those. Additionally, we want to talk about data requirements, because depending on which proposal you're looking at, there are variations in that. We also want to talk about assessment areas and how we plan to work through that, some suggestions that we have. Lastly, there are separate sub tests for both retail and community development activities at assessment area levels and we'll go into some detail there as well.

The first thing I wanted to address is asset sizes and data collection. The goal here is to again to increase clarity, consistency and transparency, but at the same time minimizing data collection and reporting burden on the banks that we're assessing. The ANPR throws out a couple of different asset size thresholds, but these are just placeholders. The idea is to get something out there and get folks to react to it. The two thresholds that are in place are $750 million and $1 billion. It should be noted that the difference between these two is not the ISB threshold. The NPR actually proposes eliminating the ISB altogether. You're going to be a small bank or a large bank, and I'll talk about what that means here in a second, but just for your reference, if we were to say that $750 million is that threshold, that's something like 20% of all banks charters would be subject to the new evaluation rules. If it was a billion, it is decreased to something more like 15%. The other piece that I want to talk about a little bit is the data. To the extent possible, the ANPR seeks to rely on existing data that we already have. It exempts small banks from any sort of deposit data requirements and does not require any new data from them. It also uses existing data sources for large banks which will inform large bank evaluation measures. The one item that we are asking for new data on is the reporting of community development financing activities, and a little later on, I'm going to talk about why that's important. In general, the idea is that we want to be able to provide transparent benchmarks as opposed to a subjective, and to do that, we need data that we don't currently have.

I mentioned the deposit data would not be collected. The ANPR does mention considering deposit data options for some large banks, but these are banks that have the majority of the deposits outside of their physical assessment area where their branches are. Those banks currently are few and far between. For the most part, we feel that the FDIC summary deposits data would be as much as we would need to calculate some of the metrics that we're going to talk about here in a minute. So again, no new data reporting collection for small banks and only a little bit with regards community development financing activities for those large banks subject to the large bank test.

The next piece I want to chat about is the assessment area component of it. Again, the goal here is to modernize assessment areas to reflect changes in the banking industry, specifically internet and mobile banking. We have; however, heard that branch locations are crucially important for many communities, and there needs to be a continued focus on these branch locations. As such, the ANPR actually does propose that branch locations keep assessments around them. It does ask questions around loan production offices and deposit taking ATMs and what effect that should have on assessment areas. In addition, there's some feedback sought on these deposit based assessment areas that we mentioned above for some banks and lending based assessment areas for banks that have nationwide mortgage platforms with no branches. In addition, it asks about a nationwide assessment area for internet banks, the idea being that if you're getting your deposits from across the country, could you not meet your CRA needs across the country? Lastly, there is mention of a partial assessment area for mainly rural banks. The idea here is that if you are a small rural bank, you may not be able take an entire county because of the sheer size of that county, given population demographics and those sorts of things. So there is some carve outs for that mentioned, and they're again requesting feedback for that.

Jumping into the evaluation framework for large banks, and again this would be banks that are over the $750 or $1 billion, or wherever that threshold comes out, the ANPR would propose that we still have a retail test and a committee development test separate but by assessment area. Small banks would be exempt from the retail test unless they decided to opt in. They can also submit retail services if they like for qualitative consideration. Community development tests, similar to how it is today, would be for large retail banks and wholesale or limited purpose. Again, small retail banks can then submit community development activity to be considered at this point if they would like to have it for qualitative purposes. Jumping more specifically into the retail lending sub test, there are a few differences to the current, but some things are largely the same. The retail lending screen starts all of it, which basically replaces what you would call the In and Out ratio now. It would take your dollar volume of HMDA, small business, and small farm lending in an assessment area, divide it by the dollar amount of deposits in that area and compare against a metric. What this is really trying to do is get at the outliers that are not participating in their community. The ANPR suggests that the metric might be something like 30% of a benchmark. If you pass this, you then jump into the geographic and the borrower distribution. Both these things are similar to what you have now. In other words, it compares demographic data or the number of LMI people in these areas and then it goes into the aggregate performance which is the lenders in your area and the percentage of loans that they're making to LMI borrowers and in LMI tracks. It compares your lending against these benchmarks, which is very similar to what you have today. The difference; however, is that it gives you a threshold. It says that if you meet 65% of this demographic, the demographic again, being the number of LMI individuals in your market or 70% of the aggregate number, you receive a presumptive satisfactory, and you go on down the path. There's very little that can change that aside from things like FL or UDAP issues. If you do not meet those things, it then goes to examiner judgment and they use things like performance context to determine your rating, but you could still be satisfactory. Retail lending service will also be considered, but that is something that's not as defined. Again they're asking for feedback on that in the ANPR.

The last piece is the community development financing metric. This combines CD loans and CD investments into a financing figure that then divided that by deposits in an assessment area and then compares that to a national benchmark and a local benchmark. The idea being that instead of a subjective goal, you should be able to know if I meet this number, this is what my rating is going to be. This is where the additional data that I mentioned above comes into play and is crucially important for us to be able to develop a metric going forward. That's why we'd ask for more information on CD activities. Along with this, the Fed has indicated that they were going to publish a list of CRA qualifying activities to increase transparency going forward. One note, this is probably not going to be exhaustive, but will change frequently as new and qualifying investments and loans come into play. The results of the financing test or the community development test and the retail lending tests will then be rolled up to an overall rating. This overall rating has actually is changed from how is currently as they're eliminating the limited scope assessment area. What they're basically saying is, instead of this, we're going to use a weighted approach, possibly based upon deposits of each assessment area. This is not well defined yet so they're looking for feedback from you guys on what this might look like.

To sum up: we want your feedback - and this is how to comment. Don't write this down because we're going to send this contact information to you guys after the session. We want to build a foundation for bankers to converge on a consistent approach that has support of all the stakeholders. To do this, we want all your feedback now, at the NPR, and in the final rule. The ANPR can be found in totality on the Federal Register. A simple Google search of the Fed ANPR will get you there. We're in a 120 day comment period right now, which ends on February 16th and there are instructions for submitting comments on the Federal Reserve website. You can email at regs.comments@federalreserve.gov. There's a fax number and a mailing address that we'll get you as well, should you consider submitting it snail mail. So again, there are a variety ways for you to comment and I would encourage you to do so. We'll take the feedback and the information seriously, as we've done all along. So with that, I will turn it back to Jim Fuchs.

JIM FUCHS (St. Louis Fed):

Great, Doug, thank you very much. And I know we're in the final two minutes here, and we want to be respectful of everybody's time today. If there are any pressing questions, however, I believe we have time to field maybe one or two quick questions. As a reminder, if you look in the right hand side of your screen and WebEx, you'll see a Q & A tab. You can type of question and directly there or you could simply just type word question or a question mark, and we can elevate you. And, that would allow you to ask a live question as well. So I'll pause here for a second, to see if there are any questions and while I'm doing that, I will remind folks, I know a number of folks joined us as the program already started, if you didn't hear the opening comments, similar to past conversations programs, this program today has also been recorded, will be archived, and we'll make that available to you as well. So if you felt like you missed something up front or you heard something today that you want to share with your colleagues, this will be available shortly on supervisionoutreach.org. All right, well, we're in the final minutes. So not seeing a question, I'm going to move to wrap us up here again. The *Conversations with* *the St. Louis Fed* program is a program of the St. Louis Fed Supervision division. And we conduct these periodically as issues arise and we appreciate your engagement with us today and in all of our calls in 2020 we look forward to scheduling calls in 2021. I'm sure we'll have a variety of new topics and new concerns that arise through the supervision process again. This is just one forum for connecting. We know that you have regular conversations with our examiners in both safety and soundness and consumer affairs.

We would encourage you to continue that. If you have any comments or questions again, you can always, talk to the folks within our supervision function that you speak to regularly. But you can also email us at conversations@frb.org specifically if you have comments on this program or on anything that we covered today and as Doug mentioned, a number of the resources that he referenced you didn't need to write those down. They will be not only sent to you in the form of an email, but on supervisionoutreach.org where we will post the audio file for today's call. There is a resource is section, you'll see links there as well. So again, thanks to all of you for joining us today, we appreciate your continued engagement throughout this rather challenging year. We wish you a very happy holidays and look forward to reconnecting in the New Year. Take care, everybody.