September 24, 2024 Minority Depository Institution Advisory Committee Minutes

The Minority Depository Institution Advisory Committee (MDIAC) convened its hybrid (in-person and virtual) meeting at 8:30AM Eastern Daylight Time on September 24, 2024. The meeting was open to the public, as required under Public Law 92-463. The committee members, Office of the Comptroller of the Currency (the OCC), management, external panelists, and staff attended largely from OCC Headquarters in Washington, DC. Public observers and some OCC management and staff not in OCC Headquarters attended virtually from around the United States.

Committee Members Present:

Jamie Aller, General Counsel, The National Bank of Malvern, Malvern, PA; John Hou, Chief Executive Officer and President, Asian Pacific Bank, San Gabriel, CA; William Hurley, Chairman, Chief Executive Officer, Chief Financial Officer and Legal Counsel, Southeast First National Bank, Summerville, GA; Jonathan Jacob, Head of Minority Depository Institution and Strategic Partnerships, Wells Fargo, Charlotte, NC; Jody Lee, Chairwoman, Southwestern National Bank, Houston, TX; Beverly Meek, First Vice President, CRA Director, Flagstar Bank, FSB, Troy, MI; Kelly Skalicky, President and Chief Executive Officer, Stearns Bank, NA, St. Cloud, MN

Speaker Present:

Michael Hsu, Acting Comptroller of the Currency, Washington, DC

Management and Staff from the OCC Present:

Charlotte Bahin, Senior Advisor for Thrift Supervision, Washington, DC; Julie Blake, Director, Banking Relations, Washington, DC; Generra Boozer, National Bank Examiner, Dallas, TX; Emily Boyes, Counsel, Bank Advisory, Washington, DC; Amanda Brennan, Deputy Comptroller Analyst, Washington, DC; Chanis Brown, Community Relations and Minority Affairs Specialist, Washington, DC; Beverly Cole, Senior Deputy Comptroller, Washington, DC; Crystal Dully, Community Relations and Minority Affairs Specialist, Washington, DC; Lisette Flores, Community Relations and Minority Affairs Specialist, Washington, DC; Suzanne Frazier, Acting Associate Deputy Comptroller, Cleveland, OH; Mairelis Jessup, Deputy Comptroller Analyst, West/Midwest Regions, Denver, CO; André King, Assistant Deputy Comptroller/Designated Federal Officer, Chicago, IL; David Krisch, Senior Financial Economist, Washington, DC; Amy Klein, Associate Deputy Comptroller, Denver, CO; Ernie Knott, National Bank Examiner (Financial Analysis), East and Northeast Regions, New York, NY; Shari Lamar, Acting Deputy Comptroller, New York, NY; Paul Moloney, Lead Economic Expert, Washington, DC; Andrew Moss, Director for Minority Outreach, Washington, DC; Nicolas Nivision, Attorney, Enforcement, Washington, DC; Chandni Ohri, Director for Community Development, Washington, DC; Valarina Oliver-Dumont, Bank Examiner (Licensing Analyst), Chicago, IL; Grant Rada, Assistant Deputy Comptroller, Dallas, TX; Ancris Ramdhanie, Special Counsel, New York, NY; Christopher Sadej, Risk Specialist, Treasury and Market Policy, Washington, DC; Jasmine Talton-Holmes, Special Counsel, South and Southeast Regions, Dallas, TX; Troy Thornton, Deputy Comptroller, South/Southeast Regions, Dallas, TX; Tracy Velez, Associate Deputy Comptroller, East/Northeast Regions, New York, NY; Barry Wides, Deputy Comptroller for Community Affairs, Washington, DC

Public Observers:

Brian-Alvarez-Bailey, Artificially Intelligent Community Banking; Michael Batts, US Bank; Ernest Dio, United Bank of Africa, New York, NY; Shane Dixon, Warsaw Federal, Cincinnati, OH; Eric Donnelly, Capital Plus Financial; Sonja Ellis, FDIC, Office of Minority and Community Development Banking, Washington, DC; Tamer El-Rayess, Grand Bank for Savings, Hattiesbrug, MS, Adrianne Ferguson, Public Observer; Brooke Gates, The First National Bank of Gordon, Gordon, NE; Cindy Hart, Public Observer; Marcos Helbling, ABS Capital Company; Stephen Herbert, Compliance Management Associates, Miami, FL; Marco Antonio Huaman, FutureWave Finance, Chicago, IL; Osilama Idokogi, United Bank of Africa, New York, NY; Usman Isiaka, United Bank of Africa, New York, NY; Becky

Ledbetter, Pauls Valley National Bank, Pauls Valley, OK; Duane Lewis, BBIF, Orlando, FL; Al London; Old National Bancorp, Indianapolis, IN; Nikola Mijatovic, Bank Advisors, Ltd,; Lu Ann Milligan, Pauls Valley National Bank, Pauls Valley, OK; Michael Mwoso, United Bank for Africa, New York, NY; Gerald Phillips, Neighborhood Housing Services of Los Angeles County, Los Angeles, CA; Betty Rudolph, Director, Office of Minority and Community Development Banking, FDIC, Washington, DC; Christine Turner, FNBO, Omaha, NE; Nicole Wiese, Chief Operating Officer, National Exchange Bank & Trust; Doncella Young, Public Observer

Call to Order and Welcome

The event producer, Candice, welcomed and thanked everyone for joining the MDIAC meeting. She then provided technical instructions for virtual attendees to open the Zoom chat panel. Further, it was noted that all audio connections were muted and informed participants they could submit written questions throughout the presentation. These questions will be addressed during the Q&A. Persons requiring technical assistance, were instructed to send a chat to the event producer. The meeting was then turned over to André King, Assistant Deputy Comptroller and Designated Federal Officer (DFO).

DFO King opens, "Thank you. Good morning, everyone, and welcome to our September 2024 MDIAC meeting. It's a pleasure to have everyone here today. It's sort of bittersweet, right? This is our last meeting, convening of this prestigious group of 10 individuals that are committee members, and so it's been quite the journey. Before I speak any more, I'll go over a few housekeeping items. As the announcer suggested, this meeting is public, so be careful what you say and how you say it because it is being recorded. And secondly, whenever anyone speaks, can you please turn on your microphone? The microphone light will turn red to let you know that it's on.

In any event, you forget to press it because at times we get excited and we just want to speak. Can your partner, we're going to do the buddy system today, can your buddy at least push the button for you? I've been on some virtual calls and it is quite challenging to hear everything, minus the microphones, and so if we can do that, I think we'll all be a part of this overall conversation. As you can see by the agenda, we have the Acting Comptroller coming to hang out with us today. Also, we plan on taking a photo with the Acting Comptroller to sort of commemorate this group. Hopefully the photographer does come. He said, she said yes, so they'll be here and we'll take a photo. But I also wanted to take this time to sort of start this roundtable general discussion. I think over these past two years we had a lot of conversations about some of the challenges you all have been facing, some of the ideas to help address those challenges, and it'd just be interesting to sort of hear from everyone just briefly about their two-year journey on this committee, some things that went well, and maybe even some ideas for us to improve upon. Before we get to that particular discussion, I do want to spend some time to give you all an update on the overall nomination process. And with that, I want to pass it over to Charlotte to sort of give you all a highlight how the nomination process works, the cadence, just for those that may not be aware of how to be a member of the MDIAC. So Charlotte, if you may."

C. Bahin states, "Thanks, Andre and good morning, everyone. I just wanted to go over what we have to do every two years when we renominate or nominate new members for the committee. As you all know, your terms are for a period of two years and every year you have to, every time that you get renewed or want to be renewed, you have to go through the process again of submitting a nomination or having a nomination submitted. And then we go through an internal vetting process, which is where we are right now. We got really a lot of nominations, a lot of good nominations for people to serve on this committee. And we have an internal process where we talk to everyone involved. Then one of the most important things is that we have to create a slate that represents the universe of OCC supervised MDIs.

We have a membership balance plan that's a requirement of the Federal Advisory Committee Act so we have to comply with that as we look at the minority group that's represented.

We look at size. We look at location. We look at really all of the factors that go into the different kinds of MDIs that the OCC supervises and try to create a committee that is representative of the broader universe. Once the slate has been determined, we notify the individuals and I know this is everyone's favorite part. We send them the background forms and also an IRS tax waiver and those forms have to be completed each and every time that you're nominated. Once we get those back or we get them back here at the OCC, someone from our Office of Security sends them to the appropriate agency. That review, assuming that everything is moving correctly with the government, that review can take up to two months to be completed, depending on how many other people are going through the process at the same time. The same agencies do background checks for a wide variety of things, so it can take a long time. Once we get those background checks and IRS tax waivers back, we have to go through three steps that involve the Acting Comptroller and Treasury. So that process, each of those three steps can take as long as a month to six weeks. Sometimes we can get it done relatively quickly because we sort of know which buttons to push. However, as you all know, this is an election year, and sometimes that changes everything. So not that the people will change, but they have a lot of different priorities and it's not people who are just sort of sitting around waiting for our memos. So I'd say that the whole Treasury approval process can take several months. I'm hoping for only about two. Once that's done, then the committee is set. All of the nominations are approved through all of the offices that need to approve them and we can announce the membership, and the membership is announced in the mechanisms that need to be done through the Federal Advisory Committee. So that seems like a lot, and it is. It's not a hard process. It's just it takes a lot of time, and there's a lot of process to the process. So that's it. Any questions?”

DFO King states, “Thanks, Charlotte and as Charlotte mentioned, with all of those moving parts in the process, we want to try our best to get to a final list sooner than later because, again, we want to communicate out to the committee members as well as allow them time to set up travel arrangements and/or book their schedules because the next meeting is scheduled in October, not October, April 2025 so that's important. As I previously mentioned, we will do introductions once the Acting Comptroller comes down because I know that's a staple of our conversation. But to circle back to the sort of the roundtable, how we started and how we got here, I guess I want to share, I guess, my short story of the journey over these last two years for myself, and maybe that may inspire others to share some thoughts over the last two years as well. Because I can liken back to January of 2023 when I got the opportunity to officially become the designated federal officer.

I didn't know what I signed up for by any means, but when you get a call to service, it's hard to say no, and I definitely appreciate Senior Deputy Comptroller Beverly Cole for giving me this opportunity. And again, I didn't know. Nervous, paranoid, just all the emotions and when I woke up this morning, there was a sense of calm. I'm usually nervous before anything just because I like to be human, and it only makes you human if you got emotions, but there was a sense of calm. And it's like I'm feeling comfortable in this space, but also it allows me to get a lot more closer to my purpose. Not knowing what MDIs really were as an examiner and actually sitting in this chair the last two years, it gave me time to reflect on my upbringing and what was not available to me when it comes to these minority institutions. Driving around my neighborhood, there's churches available, there's plenty of liquor stores, some payday cash lenders, right, and definitely a lot of fast food restaurants. But lo and behold, no community banks available and my crash course to financial literacy started April 2004 when I started at the agency. So there's something near and dear to my heart in regards to what you all are trying to achieve in the communities that you all serve. And it's

important. So I'm just honored to be a part of this conversation. I don't have to go through the rigmarole that you all have to go through to be appointed to this committee. So I don't take this as a guarantee, but I also feel as if I'm getting closer to my purpose to making a difference.

Now, I won't be able to quantify or equate it over time, but I think through these conversations, some real-life results will be bare. And so I appreciate you all being a part of this journey with me. It's been quite the growth learning experience, but it's these 10 people in this room as well as the rest of the committee members that helped make this successful. That's why it was extremely important for me to be here today. I got a lot of things going on, but this is by far the most important I have going on today. So I want to thank you all. I really appreciate the conversation, and I look forward to what tomorrow brings. So that was just my high-level speaking. My staff calls it my Oprah moment. They're like, there you go, speaking from the heart. Now you're going to give away cars. Like, you get a cars, you get a card. But yeah, I just wanted to share. That's just sort of the journey and if anyone wants to take some time to kind of share their experiences, whether it's just over these two years or just any experiences in general, again, just to engage in the conversation until the acting comptroller comes. Any thoughts, any responses, reactions to those comments?"

A committee member states, "Thank you. There's a buddy system at play. I've been on the committee for quite some time now, and I think Joe, I don't know if he's participating virtually today and then John, I think, has been on it with me for quite some time. But it's been just amazing to sort of see the way the committee has sort of grown and evolved and expanded and taken on so much. And I think we started sort of down here, and I think now the momentum is growing, and it's only going to kind of like a snowball continue to sort of create more impact on the minority depository institutions. I feel really optimistic that with you at the helm, that we're continuing to sort of... Impacts are being made sort of more broadly across banks, reaching more banks, and opportunities are expanding. So thank you and thank you to Beverly for taking it from a little hatchling to where it was two years ago."

A committee member states, "Yeah. Kelly Skalicki, Stearns Bank. I would just piggyback off what Jamie said. The leadership of the OCC in this endeavor, just to bring us together, different size banks, different geographies, different minority deposit institution status, different roles. I think it's really been beneficial to us, but I think also the industry to have a respected regulator like the OCC to prioritize it, take leadership, and have a mission to strengthen and sustain minority deposit institutions. So the priority is in the existence of and the formation of the committee and bringing us all together and having a real focus purpose so I always really step back and appreciate that. There's a lot of things to do for the OCC, a lot of different priorities, but that this is one of them that they've really taken, I think, extraordinary leadership on for the industry. I would just thank the OCC for doing that and hope it continues."

A committee states, "I think I've been doing this with OCC now for 35 years. I said this in 16-17 when I went to my first MDI meeting in Miami. I mean, this is the most useful thing that I have ever seen that the OCC has done. I mean, I think it's been very useful for our institution and the education process and meeting with other MDIs. After those meetings, we became CDFI certified. And I mean, that has tremendously helped our institution. I would like to see, and I send you many emails, I mean, I wish we could push down the, you know, I've got these magazines sitting on my board table for when the OCC comes in, just so they'll remember the preservation and promotion of MDIs and CDFIs. I can't say that it, you know, maybe I don't know that it helped any or not, but I at least had them on the table. But it would be great if you guys could push down the work at this level to the different offices. I mean, you know, it's good to see ADC from another district here, but I think a lot of the, we're the only MDI-CDFI in the state of Georgia. I wish there were some, you know, I don't know if you could create an exam group that does just the MDI-CDFIs, but it's almost an education

process for our bank examiners, because the typical bank, you know, is chasing the doctor that's making a million dollars a year buying a Range Rover. You know, we're the poorest county in north Georgia. That's not who we're chasing, you know. So what we do is a lot different than what the typical commercial bank does. And if there were more familiarity with that in those local offices, that would be fantastic."

DFO King states, "You know what, Barry, I've been asked that question several times. I get it. And so as I mentioned previously, as far as my experience sitting on this committee, I've become a lot more aware of you all's plight. Now, from an examiner's standpoint, we treat all banks the same, right? Safety and soundness and ensure fair access to credit. But the educational, the awareness of what MDIs and their strategy and their plight, that's something internally we continue to grow and continue to educate our examiners on and make them aware of the MDIs. And so not necessarily a different supervisory strategy or supervisory approach, but understanding your story a little bit better may keep things in perspective as you continue to meet the needs of your communities. So that's one of the things that I've been trying my best to build upon is growing that awareness internally. And it has increased. As you can see, as you mentioned, Amy, joining us, you see some of the name tags around the table that want to be a part of this conversation so it's only going to continue to improve and awareness will continue to be out there. While we won't have a dedicated team that focuses solely on MDIs, the awareness and the understanding of what you all are trying to achieve, I think that's a way we can sort of bridge that gap a lot better."

A committee member states, "I think the end of the spectrum with some of the folks who've been on the committee for some time, I'm wrapping up my first term. But again, I want to express the same thanks and appreciation to the OCC for including us in these discussions because the work that we're doing with MDIs across the country, bringing some of what I'm hearing from our partner institutions, but also have conversations with our peers, thinking of, hey, how can we collaborate? How can we show up? And looking forward to Andrew's update on Project REACH. I think between this forum and kind of tangible progress that we've seen through Project REACH, we're seeing really strong initiatives to show up and support the institutions, ultimately the communities they're serving. So thanks and appreciation for the time that I've gotten to meet members of the committee and the institutions, figuring out, okay, what are new ways we can find to work together? I've already seen kind of things taking root."

A committee member states, "My name is John Hou with the Asian Pacific National Bank in San Gabriel. And I think we all know that running a small MDI is quite challenging. But over the years, from my serving on the MDIAC, I saw that OCC is very committed to support MDIs. From Comptroller Tom Curry to current Comptroller, I can see that OCC is very committed to support MDIs, and I appreciate that. And I think it's good that OCC has a good policy statement on how to support the MDIs. And through the years, I learned that a very important thing is communication with the ADCs. When we have a problem, any question, just talk to the ADC. That is very important, because each MDI is different, the community is different, and the strategy is different. So I remember like two years ago when Comptroller Hsu went to visit Los Angeles, I asked him, is there a future for the small community bank for MDI? He said, yes, the future is bright. He mentioned that people like banking with people. But fundamentally, of course, we need to have good strategies, how to find a good strategy, how to implement, that is very important. So I hope that OCC can continue to guide us, give us good guidance, and how to succeed in the long run. And that is my hope. Of course, I appreciate serving on the committee.

A committee member states, "I just want to echo everything that everyone has said. I really truly appreciate Beverly, Andre, for all the work that you guys have done on this committee. This is my second term I'm wrapping up, and I've seen how the discussion has elevated for us personally.

A few years ago, we hadn't heard of minority deposit institutions. We just didn't work with them. And what we've learned out of this is that there are new partnerships. You can be competitive, but you can also work together to help your communities. And as a result, we are more involved with MDIs than we ever have been, and we look forward to working more closely with them. I think the last thing I'll say is that I appreciate the OCC not only working with this committee, but also bringing in other groups, Project REACH and the Treasury and other factions of the government to really help us to learn how we can collaborate. As a result, we're working now with the Treasury and working with their mentee programs. So we're pretty excited about all the work that's being done here and really appreciate everybody here on the committee."

SDC Cole states, "Comptroller HSu is here, but I want to take just one minute and respond to all of you. One, thank you for the comment. But more importantly, I think when I started along this journey, Jennifer Kelly said there's something called minority-owned institutions working group. And guess what? As my senior advisor, you're it. And, you know, I have to say that like Andre, I was a little apprehensive, a little unsure of what to do.But I also want to echo just the collaboration that and learning that I also got from a lady that's in the room today from FDIC, Betty Rudolph. She was very good about sharing what they were doing with their programs. And as a result of that, I learned from that. Then when we morphed into the advisory committees, Charlotte Bahin was instrumental because they had had those committees at OTS. And she was instrumental in helping guide us through the process and all and continues to do that to this day. So I'm very appreciative of that.

Then there were people like Bill Haas who had this vision about MDI collaboration and bringing the midsize institutions to the table. Then there were people like Natalie Abetamarco? who was a member of this committee because you all basically said the large banks are not at the table. And so Bill Haas brought in, because he was the deputy for midsize community bank supervision, he was able to bring the midsize banks to the table. And then Natalie came in and was a champion as far as representing the large banks but also giving us perspective. I just appreciate everything that you all as individual members have done. Why? Because you have not only had dialogue but you've had very candid dialogue with us and sometimes it was hard to hear. But we appreciate that. That's the value of this committee because it helps push us forward in the things that we need to do and that we can do. It's not us just sitting here thinking, oh, we're going to do X, Y, and Z. But you all influence what we do because we want to be beneficial to this group. Sometimes what we were thinking was not what you all were thinking and it was very encouraging and helpful to us that you all spoke up and said, no, it's not that. It's this and that allowed us to pivot. I'm just appreciative of everything that you all have brought to the table and I just encourage you to continue doing that. Much like Jennifer told me that I was it, I kind of told Andre he was it. But it was also because of his interest and desire and commitment to minority institutions that he is sitting in this chair today. And I thought it was important to get someone that was really interested in all of you, whether you've come from a minority population, come from midsize institutions or large institutions, large bank institutions. We need that perspective to keep us growing and evolving. A lot of the things that have been accomplished could not have been accomplished without you. So I just applaud all of you and thank you."

DFO King states, "I think we want to take a picture first. Oh, we're taking a picture first. We're going to take a picture. "

DFO King begins, “Thank you all for your patience. So we're about to get started on our next part of the agenda. We have the acting comptroller, Michael Hsu, with us. Before we get started, I would like everyone to do a brief introduction to your name and the institution that you represent. And so I guess we can start with you, Ms. Meek. Sure.”

A committee member states, “Beverly Meek… <inaudible>”

A committee member states, “I'm Jody Lee from Southwestern National Bank. We're headquartered in Houston, Texas, asset size of about $1.2 billion, and been in Houston, started in Houston 27 years ago. We have eight branches all over Texas and California.”

A committee member states, “My name is John Hou, with the Asian Pacific National Bank in San Gabriel. And it's 10 miles east of Los Angeles. And we are 60 million, and maybe we are one of the – we are the smallest bank. I just mentioned that I learned a lot from serving on the committee.”

A committee member states, “Good morning. Jonathan Jacob with Wells Fargo, where I lead our minority depository in San Gabriel.”

A committee member states, “My name is Jamie Aller. I'm from the National Bank of Malvern in Malvern, Pennsylvania. We are around $200 million, founded in 1884, and we're about 97 percent female-owned.”

A committee member states, “Kelly Skalicki, Stearns Bank. We're a $3.3 billion bank, headquartered out of Minnesota, and a women-owned bank.”

ACoC Hsu states, “Great. Well, it's great to see everyone again. I think maybe to echo something that Beverly said, we really – we get a huge amount of value out of this roundtable – out of this advisory committee, using it as a roundtable, as a way to basically have feedback and information flow in both directions. And, you know, we have learned a lot and been inspired by many of the things you guys have done, amongst MDIs, which really helps inform how we should be approaching things and the things we should be prioritizing. So I would like to use this, again, to just open the door to hear what is on your mind. How are things going? You know, a lot has changed since our last meeting. And it's just – it's very helpful to me personally, and I think to us as an agency, to hear how your priorities have either shifted or not. You know, what headwinds – sometimes we talk about kind of headwinds and challenges. Sometimes we also talk about opportunities, wins, things that are innovative and new. That's just a way to kind of get the conversation going, kind of get the juices flowing in terms of how we can provide the most value in terms of this forum. So I don't have other – any other prepared remarks other than that. I really have found it kind of be most useful to hearing kind of what's on your mind, things that you're focused on, areas where you might feel like you're stuck, areas where collective action is particularly valuable, because that's something we can bring to the table is to basically get you and your peers together to focus on solving a particular problem. So with that, I will turn it over to whoever the brave soul is who wants to go first with a comment or a question.”

A committee member states, “One of the points she made was sort of how at some point, I guess it was Bill Haas said, let's bring in some bigger banks. You know, we had the minority banks. I think the challenge we face is that most of us are so small. I mean, I think some people sort of spoke to their asset size, but, you know, we're really beholden to our core system and we're not on the cutting edge of any kind of technology or any kind of new, innovative, you know, AI. I mean, we're sort of, if anything, we're, you know, several years after the bigger banks have adopted it, we're trying to

convince our core system to not overcharge us to be able to then offer it to our customers. Things like Zelle is an example, and that's sort of outdated now. But so I think being able to partner with bigger institutions that have access to these resources that are on the cutting edge, we were delighted we have a partnership now with Wells Fargo. On the deposit side, they helped us get feeders, which we didn't even have and worked through the process of getting that up and running. And they very kindly made a large deposit with us that, you know, the cost of funding has been wonderful. We've worked with Beverly. But I think a lot of it, I think collectively as small banks, we can sort of partner together and tackle some of these problems ourselves. Like, for example, I know I think credit unions a lot will sort of partner together and have sort of like IT people that maybe cover a couple credit unions, where you can get a little bit more scale. I think that's helpful to an extent. But I also think being able to partner with larger institutions is also really critical. When I think about sort of the impact that the committee has had on our bank over the course of many years, I think the biggest impact has really been through partnering with larger institutions, starting back with Natalie with having access to the Citi ATM, things like that, that on our own, we would just never be able to access. So I think that's been a great addition to the committee and I look forward to hopefully having that continue going forward. I do think collectively among the minority institutions or among just sort of small community banks in your region, there could also be some problems. The problem is like no one really has any extra time. We already have, we're a 24 person bank. So ideally, I'd reach out to all the other community banks in our area, which there are very few left, but reach out to them and try to come up with ways that we could work together. But it's like, everyone's so busy doing their day job that we don't have a lot of that bandwidth, which I think again, comes back to sort of maybe partnering with banks that do have people that are dedicated even to helping us."

A. Moss states, "That experience that you just, that observation you just made, it's very consistent with our experience with Project REACH, because we do have the MDI revitalization work stream within that project, which started off with this pledge from larger institutions. And as always, there's like a money component, there's a resource component to that. But I think what we've heard the feedback was that as important, if not more important than that, we're more on the soft side of things in terms of advice, training, technical assistance, et cetera, helping to navigate. And we found that that has been the case where that, those arrangements with some of the larger institutions can be quite helpful. I think one thing to maybe talk about is what specific areas are most, have been most helpful or would be most helpful? Because I think being specific can be really quite helpful, because it can sometimes be scary to say, well, just kind of, let's have a partnership versus we really need help with, you know, A, B, C, and D. I don't know if you have thoughts on, or others have thoughts."

A committee member states, "I can share an example that happened at our bank last week. And, you know, we sort of are always trying to update our policies and procedures, and there's so much fraud that goes on and so we have this voice verification system with wires, right? So, we recognize people's voices because we're such a small bank. But, you know, now people call with using AI, and they can fake the phone number, and they can even fake the voice. It's just incredible, the kind of things. You know, we had a voice call back, and everything was, or we called them, and then it ended up being a wire that was not a good wire. So, I mean, even things like that, like, what are the current, like, is it passwords? Is it code words? Is it? I think it is, in my mind, sort of the most important and the biggest sort of front where we have, when we try to be as safe as we can, but there's just to keep on top of all the different new things that are always coming at us, having sort of partnerships in that regard. I mean, it's a little bit tricky because some of it is, you know, how do you take a bank that has, you know, hundreds, probably even thousands of people in their IT department, and then you have a little community bank where we have one part-time IT guy. Like, it's hard to sort of scale it down in a way for them to sort of, but I think partnerships on the IT front would be wonderful and helpful, just because that's something that's harder for us to keep on top of."

A committee member states, “The MDI meetings are great, not just necessarily the MDI, the first MDI meeting that I went to that's where we're trying to educate small banks, and we've got, we've gotten about six million dollars in funding, but also going to apply for about four of these meetings in the educational process.”

A committee member states, “I mean, this group, at this level, knows what's going on, and they're educated.”

A committee member states, “I don't know that there's a lot of MDIs. We're the only MDI CDFI. So, how do you educate that group? Is there a way for this group to support forming more MDIs? I mean, how do we know that there are other communities?”

DFO King states, “I think, since I've been the DFO, I think we may have designated four to five new MDIs. We constantly are getting requests to review information for MDI considerations, and so, and not only that, again, the increased conversations that are taking place internally about MDIs, I think, sort of highlights our continued support of MDIs and the preservation thereof. So, I think we're living in that space. We're living in that vein, and here's a testament to the ongoing support when you have the acting comptroller.”

SDC Cole states, “I would say some of our challenges have been, you know, there are like maybe 54 MDIs that the OCC supervises. And, we have gone on a campaign to contact many of, you know, everyone. Some have said, yes, we'll come to the meetings. Thank you. We're interested. Some have said, leave us alone. We don't want to engage and we have to respect that. So, you know, that's the challenge that we have because we don't want to say, no, you're an MDI, you're going to come to this meeting, or you're going to engage with us. Others have said, we want to engage, but like Jamie, we don't have the staff. And so, it becomes what do you need most, and then how can we, and this is what the MDI collaborations were about with the midsize and large banks was trying to get you partnered with an institution that either had expertise or a program or interest in what you most needed. And so, that's what those meetings were for, to just give you exposure to each other. Why? Because you do business with people that you have a relationship with. You do transactions with everybody else. And so, our collaboration meetings were all about trying to help you build relationships. But then we started hearing from some of the larger institutions, hey, I'm here, I'm here, I'm here then people are saying on the other side, I don't have time to engage with them. So, it's kind of a double-edged sword at times for us, because we can bring people together, we can kind of be the facilitator, but we can't actually do the work, if that makes sense so, that's kind of our struggle.”

A committee member states, “And I told the group earlier, these MDI meetings, I've been full-time at the bank for 35 years, and we've been an OCC charter since 1968. And these MDI meetings are the most useful thing that I've experienced from the OCC in my 35 years. So, I mean, these are great meetings.”

SDC Cole states, “And so, we're hoping by making them virtual also, that that gives institutions that may not have the travel dollars to travel to a meeting, but it hopefully gives them the opportunity to call, to listen in, to engage, and then maybe follow up either with their PM or with Andre, Andrew, myself, others, or different institutions. So, that's the hope.”

An. Moss states, “Let me, I'm sorry, Jamie, I just want to add. So, I have here, and this is part of what we're trying to do as far as making sure we're providing the technical assistance to the NDIs through our Project REACH initiative. And we have our monthly meetings virtually to provide those forums

for the discussion on various topics. So far, I'm hearing that there's fraud prevention that we want to make one of those topics. And Crystal, who is actually leading those calls, will be putting out the schedule and letting you know what everything is. But you help us feed into how we can support you. So, listen to fraud prevention, IT, CDFI certification. So, if there are other things that you need in order to make sure that we can help with the preservation and promotion of your institutions, please use this forum now so that we can make sure we're building out our agenda for the next year."

A committee member states, "Oh, I was just going to respond to what Bill said about the fact that you were hoping that your examiners would maybe have more knowledge or experience with NDIs, CDFIs. And I would kind of take a step back from that and say that I think because we're all very small, not all of us, but most of us are very small institutions, we're less than 500 million, that a lot of times, I mean, unless you're sort of in trouble, we're getting the, like, most junior trainee examiners. So, we're not getting people that have experience working in a lot of different banks or really any banks. I mean, a lot of the time, we'll get people that are sort of straight out of the... So, I think maybe starting that education, and I know that you're obviously trying to train the substance most importantly, but incorporating into the training when people first join the OCC and you have these junior examiners that are straight out of college, however they came to the OCC, you know, starting at that level so that they have that sort of baseline information. Because I feel like a lot of the time, they're still learning even the substance of the information, let alone even knowing about what an MDI is or what it does. And then, you know, as Phil said, I think it comes up in different contexts. Like, for example, we do residential loans, but, you know, we don't fix for 30 years because we don't want to have the interest rate risk. So, therefore, we have different types of ARM products, which maybe right now are a little more appealing than they have been for the last many, many years.

But generally, the people that want an ARM are the people that don't qualify for the 30 year, and you're trying to help figure out ways to make it work. But a lot of the time, that isn't going to necessarily, like, check all the boxes that the examiners are looking for. On the commercial side, right, we try to help small businesses that are just starting, and you're looking at projections. Like, that's also something that, you know, we're not getting necessarily the people that are always so risky. I think what you said, what did you say something about the doctors that are buying their Range Rovers? So, we're sort of, we're, like, by kind of the nature of what we're offering, we're not necessarily attracting the people that are, like, really, really strong in every capacity."

A committee member states, "So, yeah, I wanted to just share, you know, what you said about technology resonates with me. I do think, though, that technology is very difficult at every level. Even though we are 1.2 billion in asset size, and, you know, we've got, we do have, like, a full-time IT team that's very, very good, led by a really very competent and experienced chief technology officer. It's still very hard, and we've had close calls. The hacking, the frauds, the way they go about things, you know, they're getting more and more sophisticated, and we're having to train at an institutional level in order to combat, you know, these risks. And, I mean, I, you know, for example, I had a 15-letter password for my own, you know, 15-character password. My team hacked it. I was like, what? They hacked it. They said, you need to change your password, because we were able to hack it. And I said, there's no way. It's 15 characters. We hacked it. You need to change it. And so, you know, I mean, with things like that, if my team can hack it, the bad guys can definitely hack it. So these are just things that you know, we try to automate, and I'm beginning to think that automation may not be as easy or good as the vendors marketing team make you believe. We've been, we signed a five-year contract with Abrigo, and it's been two, almost two and a half years now. And it's been really a disaster and trying to get help from them is, A, difficult, and, B, when we do get help from them, it's very expensive in addition to the 500 thousand dollars that we committed to. I mean, it's difficult. So, I share your frustration. It is difficult at every level. And really, I think the MDIs, if we can, like,

band together, and if there's anything, you know, we can do to im prove experience here, let me know. I'll be happy to help.”

A committee member states, “I think that, I think we'd like to have more technical assistance, like a virtual meeting. I think that is really helpful. I remember one year ago, we have one with Ernie from and hope that we can have more of different subjects. So, that will help. I think our staff, they love to go to the virtual meetings. They don't need to travel and I remember everybody needs to travel to do the training.”

A committee member states, “I think we just have more of the virtual training meeting. That would be great. I would just have one comment about, and I've mentioned it to Amy before the meeting. We're about $3.3 billion in assets, and we have partners with third parties and some FinTechs. We are a big supporter of regulation, of regulating those third parties, and consistently among the very large banks, the smaller banks that are, you know, it's all about, deposit gathering, and non-interest income today. So, a lot of times, smaller banks will just sign on the dotted line because they think the technology firm has the expertise. But if you don't have that expertise in-house, or contracted with another partner bank, if you don't have it in-house, you're not aligned with that third party. They are still a third party. And often I will get booed at conferences because I'm a banker that I like regulation, because we have so much competition.

Non-banks, unregulated institutions that are companies that are coming in to, you know, it's essentially rent-the-charter. They have enough where it doesn't appear so directly. But the comments the public comments, and then some of the regulation being proposed, I mean, we're a big proponent of it. I told Amy, we should do a better job of positively commenting to regulation because we don't, you know, everybody comments when they don't, when they object to it. But, of course, there's going to be a lot of negative comments because technology firms want no friction. They want, that's their job. In finance, FedNow, I don't care, immediate payments, some friction is good. So, faster payments means faster fraud, right? More technology means that puts the safety and soundness at risk. So, for us as regulated institutions, I always think bankers make the mistake of complaining about regulation. I think we can get support around it, but we are the conduit. We are the money mover.

We have also the privileges and benefits of FDIC insurance and that governmental, it's not authority, but we're seen that way as protector of data and protector of money. So, I think the even handedness of regulation for those third parties, and I think the only way to regulate it is through the institution. I think we have to continue to do that and force the institutions to uphold that regulation and hold those third parties, right? We've had to unwind some early stage Fintech. If you do not, if you cannot reconcile those accounts to those subaccounts, if you do not, cannot cut that end check to that customer, don't know that identity, you're not doing your job. Because if you get the benefit of the deposits or the non-interest income, and you should be responsible. So, I'm a little probably at odds with other bankers who feel too much regulation, too much regulation, but we are to safeguard. It is ultimately, and this has been at bank technology conferences, everything, it's ultimately a consumer protection. It protects you. So, you don't like that little bit of friction, but that little bit of friction at some point is going to protect you, you know, as you said, or as you said, calling on that wire. Yeah, we're going back to the old school, we have a lot of technology, but there's nothing like making that direct call out. And it's easy to say to customers, this is for your protection, and they really appreciate it. So, there's a huge divide of a $50 million bank and a $5 trillion bank and this is the challenge you all have. But we need to have really strong third party regulation, and that has to be on the institution. So, I, you know, we will make our public comments because we have to do a better job of that when we see these regulations coming out. Yes, putting more burden on the institution, but that is really where it belongs. Because ultimately, if that doesn't happen,

those non-bank, unregulated entities are going to be our financial system, which puts, you know, not only us, our institutions at risk, but our clients and consumers and customers at risk."

ACoC Hsu responds, "So, thank you for sharing that. I mean, there's so many things I want to react to, but I want to kind of open the floor as well. First, my sense is that there are more people who share your view than you might think. I am sensing both within the banking industry itself, and even within the non-bank, the fintech industry, there's a growing recognition that a free-for-all is not good. Like, it really does lead to harms. And more importantly, people don't know what to trust. They don't know who to trust and what to trust. And that is what makes banking banking, is that it is trustworthy. It is something that is reliable. People can leave their money, they can borrow, they can make payments, and they don't have to worry about how all this stuff works, because there are standards, and folks are being prudent. So, I think we're strongly aligned on that. I like your suggestion about making sure that we not just highlight the risks and the bad things that have happened, which we can all read about, but there are those who are doing it right.

There are banks and there are fintechs who are doing it right, and they're able to do all of those reconciliations. They're able, they put the controls in place, and we should highlight that, because it's not a unicorn. It actually exists, it gets done, and unfortunately, things that are done really well, they don't make the headlines versus the things where the wheels fall off the bus. Another thing I think that's interesting, I do sense a little bit of the pendulum swinging, where certainly two years ago, when this topic came up, the consumer wanted the most frictionless experience possible, just one tap. Let me just do one tap to get everything I want. I think that's starting to change a little bit.

I mean, I can sense this, even with my own kids, who, you know, they get direct deposit, they have jobs, they're starting to make some money payments. They want the app to ask them, is this really you? You know, are you really, do you know the person you're sending? They don't mind that, because they've heard horror stories of their friends and others who basically had their accounts drained through a scam. And so, I think this highlights maybe, Jamie, something you would point out, that sometimes, you know, the kind of a, like a common sense approach to this is not a bad one. It may feel kind of antiquated in some kind of IT circles, but at the end of the day, this is about trust, and it's about trust. One thing I want to kind of hear more from you guys about is, I know a number of non-bank syntax like to talk about democratizing finance, and I think banking, many of the populations that you're really focused on, and we want to make sure there's a level playing field, that consumers are protected, and just your perspectives on that, like, because I think there's both opportunities and there's some risks there, and just hearing folks' experiences and perspectives on that would be really helpful."

A committee member states, "I will make a comment on that, because I think there's a little bit of a misnomer that technology is the way to reach underserved communities. I think that is not correct. I think there's a huge gap in that approach. I think community banks, MDIs are a way to reach more underserved and unrepresented communities, but I think technology can provide, and you can think about all the tools for fraud, but sometimes technology doesn't do that either. If you look at the PPP program, where was the fraud? Well, it was on all of the technology platforms. I think the small community banks didn't have much, if any, so it's easy. In my mind, it's like, well, what's the shortcut? Let's put a technology piece out there and say we're reaching all of these underserved. Well, you may be just creating exploitation. I mean, there's a lot of what I would call payday lenders of small business out there, quick money, fast money. We counseled a small business, a small business $25,000 loan. They're paying XX% and had no idea because they're taking it out daily and weekly. They had no idea, but they have cash flow problems. They go out and get this debt.

So that is the danger of saying, I keep saying we're having the wrong discussion when we keep saying access to capital, lack of access to capital. I think we need to reframe that because all small businesses, I don't care if you're starting up or if you're seasoned, you have a bank account somewhere. Well, why is it that you don't have access to capital? Well, let's look at where the deposits are. I just happened to see an article the other day, so I'm not picking on Chase, but they were called the least generous bank in the nation. That's a kind word. 45% of their deposits, they pay 0%, $1.1 trillion at 0%. And then they're putting with the Fed and I'm sure they're being those customers. Now again, I'm not picking on Chase, but that's a problem. Those customers shouldn't have access to capital issues if Chase also then were extending capital to them. So they're holding the deposits, but they're not giving them access to capital.

How many decades have we had conferences on lack of access to capital? Why is that? Because where those customers are holding their deposits, they're not earning interest, they're getting fees, and they're not getting access to capital. Then they come to CDFIs or they come to our banks. There's a disconnect. And so I think that for all of us, we need to start reframing that. What is a good, healthy banking relationship for you? There are options. I think you could ask around the table here. There's not a deposit account, the checking account or savings account that we don't pay interest on. We pay interest on checking accounts. There's a misnomer among consumers and businesses. You don't earn interest on checking, you only earn interest on savings. No, that's not like a bank rule. That's a bank choice. So it's consumer education also that if you look at the concentration of deposits, so we can all do the lending, but where are we getting the deposits to lend? Or will you always be relegated to be a $50 million bank because there's just no way that you can compete with this? And it's hard because these are what, too big to fail systemic banks? Well, that does a lot in the consumer mind that I don't want a bank with a platform where I can't call somebody and nobody knows me, but they have this idea that they're so big that I'll always be protected then rather than the smaller bank. So I think that there's this idea that technology will reach communities, and I don't think that that is the way to expand. I think it's an easy shortcut that we think about, but I don't think it will be effective, and I don't think it has been effective. I think in the long run, that's transactional. That will not develop a relationship.

A committee member states, "One thing that I wanted to maybe just double click on there, I don't disagree, but I think I have seen good examples of a healthy ecosystem developing between MDI partners that we work with and then FinTechs. I think the common thread between those two groups, and it's really hard to paint with a broad brush, if you've met one FinTech, you've met one MDI, you've met one FinTech or one MDI. Very wide range of difference. We've seen MDIs say, to the points made around this table, we don't have the tech resources to invest in the digitally native experience that people either come to expect or that's going to be easiest to reach them at their fingertips. But we've found FinTechs, not necessarily attacking neobanks, but there's other flavors of FinTech where they are dedicated on, hey, let me introduce you to the credit journey. You shouldn't think of the time to prepare for how to access capital, what are the sources of capital available when you are trying to form your business. It's, hey, build your personal credit score, develop your business plan. So there are good FinTechs that have worked hand in hand and say, hey, there's a common thread with what MDIs are in meeting people where they are. So I think there are good ways, and Acting Comptroller, the comment that you made at the prompt about democratizing finance, I think there are opportunities to do that with FinTechs that are developing those resources and if MDIs can be a platform to amplify the signal and saying, hey, here's how you should think about the importance of the things that we said about the friction points. Hey, you should be concerned about instances of fraud. Make sure that you don't have to go through a lengthy, painful period of correcting fraudulent activity on your account. Here's why you want to build towards this step in the journey."

A committee member states, “Kelly's and Jonathan's comments resonate with me. We've had a lot of FinTech companies approach us to say, hey, we've got these products, and we think we can help you. And we've done a lot of vetting. Some are very good, and some are not. Some are sort of sophisticated technologically, while others are not. I mean, once you kind of dig below the surface, you kind of know or you think you know who's good, who's not. And some FinTech companies, the ones that we've found success with are the ones who have been proven with a track record, and a lot of times they've been referred to us by either another bank or another service provider. I would love for there to be maybe a database of these vetted, good FinTech providers who serve a very good, specific function. I've found that these FinTech companies, like the really good ones are kind of like the one-trick ponies, right? They're really good at this one thing, and that's all they do. And if that works for our institution, then we try them. Sometimes you don't realize how expensive they are until six months into it, and you're thinking, they're really good, but they're kind of expensive, so maybe we'll back off. But at least we know that there's an extra arrow in our quiver, so that in the situation that we need something in the future, we have that tool.

ACoC Hsu states, “That's very interesting. I recall getting in a debate once with a venture capital, the head of a venture capital firm who invested a lot in FinTechs, and we were debating about community banks and the number of banks in the U.S. And, you know, I think it was widely thrown around, you know, 4,500 banks, another 4,000 credit unions. There's too many banks in the U.S. I think it's often the kind of the conventional wisdom. But I push back on that because, A, the U.S. has a humongous economy, right, $27 trillion economy. It is the biggest economy by far in the world, and it's extremely diverse. And so, in tech speak, there's an extremely long tail of specific cases where that community has a particular set of banking needs which doesn't fit scale very well. Just by its nature, they have very particular needs, and that's the MDI, CDFI niche, right? That's where I think your institutions play a humongous role because those communities aren't otherwise going to be able to get the standardized product that will – it's a square peg into a round hole, and you can tailor that in a way. Now, I think where the tech challenge is most technology companies are built for scale. That is kind of the premise, that it can scale easily. But then how do we get that to reconcile with a lot of specialized verticals, quote, unquote, that you are particularly good at working with and identifying and promoting? I think that's something that is going to take some time to work through because the economics of it are different.

And I think that this is where now – this conversation then expands. Now we have to talk about the cores, the core processors, and how do fit into this equation? Because once you start drawing the ecosystem of the players, it's not just one institution with another institution. There's a whole set of relationships, and this is something that I think we are very interested in having these conversations and knowing what to prioritize, to focus on. Because every dollar counts, every resource counts, like where can we make these incremental improvements, which I think would add up over time. There's not going to be a magic bullet. Sometimes the attitude is, oh, we'll do this relationship and it will solve all our problems. That's never the case. Sometimes it creates new problems. But what we can do is I think if we prioritize correctly, you can really ease that extra burden, give a little bit more breathing space to be able to do what you guys do best. I think that's what we're all really, really interested in.

A committee member states, “One other challenge I'll just throw in is, and I think we've talked about how a lot of the stuff that we do, where I mentioned, and I think this is probably prevalent among our MDIs, is that we're helping the customers that don't fit inside of the box, which is the FinTech software. Oh, you can automate all your underwriting. Well, none of our people would. Every single customer, every single loan tends to be you have to figure out how you can try to get it to work. We have customers that come in that aren't citizens. Well, we figured out, okay, we can get this thing and help bank them.

We're not immigration authorities. We're here to help the people that are in the country that want to open a bank account. But I'm certain that if you go on Chase's website, you're not going to be able to open a deposit account. But this is the person that you have to come in, and then they come in four times, and they finally bring the documentation that they need with the PPP loans. I remember some of the bigger banks were even excluding people that were not already existing commercial customers. So we're the ones that are getting the $500 PPP loans that we're manually sitting down with them, going to their house. It's a difficult thing because we're getting the customers that require the most time, the most attention, the most touch. Really, those are our customers, which are also the customers that are much more expensive to bank than ones that just fit in these models and you can crank out in volume. It's a challenge.

I think we're blessed that we've been around as long as we have, and we still have a wonderful customer base. I think, in a way, the fact that a lot of banks have merged and there's fewer community banks means that we're some of the only people in town that can now walk in the lobby, and you see the bank president there and the chairman of board, and that experience has become unique. It's also an aging customer base. I think younger people, I hope that more and more people are like your children who are like, wait, maybe we do want to slow down a little bit. Maybe when you call our phone number, it's one of our 20 employees that answers the phone rather than getting these call centers, which are much more efficient and probably save the bank a lot more money. But if you take a step back financially, I think it is much more expensive for us to operate. We don't have the scale, and I just hope that we're able to keep going."

A committee member asks, "I'd like to hear your thoughts on, because you mentioned the number of banks. When I got in this business, there were 11,000, 12,000 bank charters. Now we're down to 4,000, somewhere in that range. In our little community, we had three banks at one time. Now we're the last one left. In the county, they had three banks. Now they're down to one left. In northwest Georgia, probably every county had two or three banks. Now there's maybe five left.

Where do you see that? Like they were saying earlier, most of the customers that we bank, they can't bank at Truist or Regions. The other regionals are nationwide banks. When we're gone, in a town the size that we are, there'll never be another community bank that's chartered in that town, just because of the size of the town and the capital it takes to charter an institution. I'd love to hear your thoughts. Of course, the credit unions are buying up a lot of the banks in our area, too, so that's another issue to talk about. Anyway, just interested in your thoughts. You're the first regulator that I've heard there's a lot of folks out there who felt like we had too many banks. If we didn't have the number of banks that we have now, there are a lot of these communities that would not get served. Strongly agree with that.

ACoC Hsu states, "In part, that's because I think it's being disciplined in thinking about the data. In part, it's because when I travel, every city I go to, I meet with bankers, I meet with our staff, and I meet with community groups. Every city I go to. That's just the practice. When I meet with bankers, when I'm going to cities that are less populated, these stories, every single time, it's very similar. You can sub in the name of a community and say, hey, we're now down to one here, and they kind of go through that history. Banks are absolutely critical to economic vitality in any community. You have to have a bank there. People have to have a bank they can go to to do basic banking services. That's part of the economic ladder. I strongly believe that if you look at the data and you travel the country, the statement that we have too many banks is a challenging one to make. Now, what do we do about it? What are the forces that drive consolidation? A lot of the initial 10,000 to 4,500, this is regulatory, a lot of history on unit banking, interstate branch restrictions and whatnot. There's a lot

of noise there. I think we can kind of peel through that noise and say, well, where are we now? One of the challenges we have is with regards to de novo. You had raised this earlier.

In a healthy banking system, you would have more de novo activity. And this is something we've looked into. I've looked into this quite a bit. Part of the issue is there's very low risk appetite in the U.S. for bank failures and that's for a lot of different reasons. If you look at other jurisdictions, they simply have higher risk appetite. So without naming names, there's jurisdiction across the Atlantic where they have a de novo process where a quarter to a third of their de novos fail within three years, and they're perfectly fine with that. There's no political ramifications from that. That's just life. That's part of the mandate of having a competitive banking system. We don't have that here. When we have a bank failure here, there's a pretty intense process that's both because we want to be good bank supervisors, but also there's a lot of public and political attention on that. That makes it hard. I think that this is something that we need to reckon with if we want to have a healthy banking system. I've spoken privately and publicly about this. Same thing in terms of kind of merger activity. I know there's a lot of discussion. Every merger is different. At the end of the day, we need mergers that are pro-competition and pro-community. That community aspect is really, really critical. Sometimes those mergers can help the community because you've got a really struggling bank that needs a little bit more scale in order to be able to serve the community.

That's different than those where it's just all about expense savings and cutting and basically the community ends up with less so we have to do these on a case-by-case basis with an eye towards putting the community first and these are complicated things. Of course, you throw in technology and the economic environment and these are all factors we have to take into account. But we're guided by understanding we need to have a diverse banking system. I think that's really, really critical. I think a steady march towards a banking system that people in their minds think makes more sense. I don't think the data supports that. I think a more rigorous view of that would say, not so sure. Let's make sure we do that. We have strong analytical foundations for what we're advocating for."

A committee member states, "One other topic that I want to bring up, and I think Barry mentioned the Greenhouse Gas Reduction Fund. That's a space that we're starting to spend more and more time with MDIs in eight ranges. Just as an anecdote, I was speaking with one bank and they said, hey, we need to think broadly about technical assistance because deals are coming across our credit team's desk and they're saying, yeah, I can't get my head around this and they're rejecting things. They want to think about what's the opportunity, first and foremost. But then the other range, we have a call coming up with one of our MDI partners in our properties group. And they said, hey, can you talk to us about how you are thinking about the design and retrofitting of your buildings, your branches. But they, to their credit, they're taking the view that, hey, we also want to think about how can we think about going into our community and working with businesses that want to do that work. I think there's a lot of interest and energy as those funds finding ways to get deployed that MDIs capture that opportunity.

ACoC Hsu states, "Yeah. So we do try to pull together those resources and try to, as much as we can, serve as a hub and provide that technical assistance back out. I do know there's an MDI roundtable that we host. There's the MDI CDFI conference I think is coming up where we are going to, I think this is one where there's an inflow and outflow aspect to this. So the more ideas that you have, we can gather those and we can share those back out as part of the education process to make sure. There are a lot of fascinating things out there that are opportunities and also some really good innovations.

I was in New Orleans recently. We had an all-staff conference. I met with some bankers there, CDFIs, that are doing some really fascinating development work with healthcare institutions where healthcare institutions were getting involved in the capital stack for a development because by putting qualified, I'm going to get this wrong, there's certain qualified medical, they're not doctors, there's a designation that if they're on-prem, there are healthier outcomes for the residents. And the healthcare providers are saying, well, if we're insuring those residents, then it may make sense to actually invest on the ground level in development that puts those providers on premises so there's healthier outcomes for all involved. It's a complicated structure. It's quite innovative. And in New Orleans, they've gotten two or three of these buildings up and running. So there are these very interesting innovations out there. I know in Charlotte there's another one where an OCC regulated institution did a community land trust for affordable housing for seniors in a majority-minority neighborhood in order to keep it affordable. Again, quite creative, but it's one of these where it is pretty tailored. There's a lot of work up front to get those going. But what I think we can do is try to help pull these ideas together because it may work for you. Some of these may make sense in your neighborhood, in your situation, or maybe for a peer. Rather than reinventing the wheel each time, the benefit of a roundtable like this is that we can make that menu a bit more visible and I'm sure others would benefit from things that you guys are doing in terms of making it work in your neighborhoods as well."

A. Moss states, "Yeah. I'd just like to piggyback on that and just add that part of the whole process of why we've built in this executive exchange, a lot of times it goes to the point about being supervised and you might get dinged on not having the expertise to go into a certain area. That's where we want you to utilize those sort of executive exchange programs where you can have someone who's worked in that particular area. For instance, Jonathan was just talking about having someone from a particular area of his operations talk and provide that type of TA. That's where we want to use the Project REACH MDI technical assistance platform to support you. I did have one question for you. I'm hearing this around the technology and everyone's familiar with the CrowdStrike breakdown, but curious, a few MDIs have reached out to us and talked to us about continuity of operations from a manual standpoint and strategically, how do you put that in place? Is that something that you find would be beneficial as a TA platform to provide you with some best practices on how other MDIs and banks have worked in that area? So with the CrowdStrike, there was one where a provider, a vendor for a lot of corporations had pretty much shut down and pretty much put the country in a standstill for a moment. I'm hearing from around the members of the committee that you're worried about the use of IT and how that could impact your operations if the IT gets shut down, if there's some type of compromise of it. With a continuity of operations training, how do you prepare for that from a manual standpoint so that you're able to continue on and not be affected by any type of third-party vendor that you rely on?

A committee member states, "We have our own emergency system like that in place, and part of the reason why we have that is that we actually see hurricanes on an annual basis, so we have to be prepared for it. But if there's something like that, best practices, these are the things to think about. We would love to kind of double-check what we're doing against the best practices so yes that would be helpful."

A committee member asks, "It's primary from a cyber standpoint, right?

A committee member responds, "Yes. One thing, if you lose your internet completely, what happens if you lose electricity completely?"

A committee member states, "I should be more up to speed on this because I know we were involved, one of our lead technology people were involved in the working group that put out sort of

the Fintech playbook. I don't know if that committee is still formed, but that would be a good kind of central hub, that group, because I know there were some pretty good technology people on there, and I can check with our person, but to have that kind of as an ongoing working group to consult or be the source of questions, right? They could even meet once a quarter or something like that with or in an emergency situation if people are impacted by that, what course of action are they taking? That was a pretty sophisticated group, I think, from the MDIs, and if you had a small working group that could kind of field those questions or do specific technical assistance or vet some firms, put resources together from that group, that might be a really good, because I know they worked well on that playbook and actually had a few cores participate in that as well, so good collaboration.

ACoC Hsu asks, “Other things on your mind?”

A committee member responds, “I guess liquidity. It's been an issue for us. I think over the last probably six months, it's been a little bit better for us, but before that, we were going 95% loan-to-deposit, and now we're at about 91%, 92% and we're paying our 2023 interest expense quadrupled. So our interest income actually went higher, but our interest expense went so high that we had a really busy year in 2023, but all the earning metrics were down significantly. And that's an issue for us, and we look at our neighbors, and they're struggling with similar issues, and I'd love to have some experience share on how other banks combat the problem. t's almost like there was this tsunami, and we never saw it coming. We never saw it coming. We had our, at the end of 2022, we'd had our budget set for 2023, and then a quarter into it, we're like, okay, we need to redo our budget. We did. And then another quarter into it, we need to redo our budget. Really? We've got to do it twice? And even readjusting it, we couldn't keep up.

A committee member states, “Yeah, I would say we talked about this last meeting, I think we've seen even with the regulators, I think they're much more in tune with the distinction between core deposits today and brokered deposits. The idea that core deposits are sticky, not so much anymore. There's so much competition, and I think because of that liquidity crisis, once people moved, it's really difficult even to tell local, long-term, 20-year, well, I could go to the credit union or the treasury or something and get more. You don't want to tell your customer, well, come on, we were here for you for 20 years. Stay with us and accept less from us. So it's the stickiness of those core deposits. You do have to go out and buy them, and we talked about this, Jody. The minute you put up your rate, one across the street is putting up the rate, and it's just like this. So it's not surprising when we look around everyone's cost of deposits, because you are buying those core deposits, and they are not very sticky, because the minute you adjust, they will, today, I mean, they'll go across town or across the street. So I think we're all seeing this, and I don't know that it will come back. When you have a relationship with a customer, it's really hard to say, well, stay with us for loyalty, when you want the best for them, right? But I think that I'm not sure that might be the going forward, but I think the difference, I think we've seen our regulators understand that sometimes you need to take care of your bottom line and have that mix of broker deposits when, in fact, you're just paying for one or the other and getting a brokered CD. They can't even pull it. Your other customer could pull it and just forego the CD. So I think we're seeing a lot more flexibility and understanding of managing that cost. But I think even in our mind, core deposits don't have that traditional stickiness that they used to. So maybe I'll highlight two things.

ACoC Hsu states, “Well, one is, with my FDIC hat on, there was a notice for proposed rulemaking, kind of updating the broker deposit rule. So just encourage folks to take a look at that and weigh in, because on the regulatory side, there is recognition that the deposit landscape has changed. And what is sticky, not sticky, risky, not risky, et cetera, those all need to be updated. So the broker deposit rule, that's one vehicle. There's also a broader request for information just on uninsured deposits, period. Just because I think there's a lot of the lingo. It's interesting. Before Silicon Valley

Bank, no one really focused on uninsured deposits. We talked about brokered deposits. We talked about operational and non-operational deposits. But I think this really speaks to, Kelly, what you're talking about, is that this landscape has changed, and we really need to update our perspectives on this, both as regulators and I think from a business perspective. And I think these releases are opportunities to just get feedback. So we're all kind of doing that together. One thing to keep an eye on, with 1033 open banking, this is going to further complicate the landscape, because the promise of 1033 is account portability. It's just like significantly improved account portability.

So really, it's about data rights, right? The whole rule is about consumers having rights over their data. But I think embedded within that is this idea that if you have rights over your data, that can then facilitate greater choice and competition in banking services, broadly. That's all good. That does potentially have pretty significant impacts on just your book of business, and then how to think about liquidity. It's something that I think it's good to start thinking about that sooner rather than later. It's not going to happen overnight. That rule, I think, will get finalized, I think, the CFPB has indicated, sometime this year. But it's something where I think the sooner you start thinking about that and having conversations about it, the better because I think there's something that could potentially be pretty impactful overall."

A committee member states, "I had a customer reach out to me yesterday and said, oh, you know, what do you think about this online bank? Yes. It's like a nightmare."

A committee member agrees, "Yes."

A committee member continues, "So I said to her, and I hope that, like, that's going to create trust for our customers, and we know we want what's best for them and in the long run, that'll eventually maybe come back to us."

A committee member states, "Just to round out or just build on, I think, Kelly, some of the comments you made. We've continued to hear from some of the MDIs, because we placed deposits, as Jamie mentioned, but some of the banks were limited, saying, hey, the most we can take is $250K. And it is case-by-case, and it's what the ongoing dialogue they have with their supervisory organization to say, hey, how do you interpret a bank? It's like, can we provide a letter that just speaks to, this is the program that it sits under. We want to differentiate it from, quote-unquote, hot money. But that's a challenge, because one of the banks was, I think, one of the more recently established institutions. And they said, hey, this is the most we can take. We appreciate the support, but there's only so much that we can take on. So that's been a challenge. Then the last comment I'd make, I participated in a roundtable a few months ago, with Deputy Secretary Adeyemo and members of Congress. They had corporate banks of different sizes in the room. They were talking about the need for deposits to support mission-driven institutions, MDIs and CDFIs. A few folks were talking about their deposit programs and I think the prompt came, hey, non-banks aren't incentivized by CRA considerations. What is a potential opportunity for corporates in the markets served by the banks in this room and attending virtually? What's the potential opportunity to incentivize them to strengthen the banks that are serving the community?"

ACoC Hsu responds, "So that's going to require legislation. Or their regulators would have to do something. We don't regulate the non-banks. But I think that does kind of shine a light on the need for a kind of just broader level playing field. I think that that's something that I certainly support, we certainly support. This idea on the deposits, it can be a double-edged sword, because you're getting, I think, large corporate banking support in terms of deposit support can be helpful to an MDI.

But if that money is hot, it's not so helpful, because they can't deploy that in the way that would be most beneficial. So I think we have to be wide-eyed, open-eyed about that, because there have been instances in the past, I can think of a few, where there was very good intentions, and then things change, and then that money just comes flying out. I think that's even more disruptive in some ways than the kinds of commitments that you're looking for, which are a bit more stable. But I think this is exactly the kind of topic that does lend itself to having lots and lots of conversations about this, because these practices and behaviors are changing, and we need to be appropriately taking this into account, and that we're getting feedback from you as to how you're running your business, how you're meeting the needs of your communities."

A committee member states, "…because that's what's top of mind for us. I have a question. When the institution says they can't take on more deposits, is that because of their capital base doesn't support it, or?"
A committee member responds, "I think it's mostly it's the cap on how much they can take as what would exceed their brokered deposit limit."

ACoC Hsu concludes, "I apologize, I have to go now. Thank you very much. It's great seeing you all, and it looks like a great day in terms of content. Looking forward to hearing about it more. Thank you. Thanks very much. Appreciate it."

DFO King states, "Great conversation. With that said, we'll take a break. For those online, we'll take a break, and we'll reconvene at 1030 with an economic update presentation."

DFO King starts, "Thank you. Okay, it's 1030. We are getting ourselves together, sitting back in our seats here in the room. Up next, we have an economics presentation Senior Financial Economist David Krisch."

D. Krisch, "So as Andre noted, and hopefully we can get the slides up on the screen. My name is David Krisch. I'm a senior financial economist here at the OCC. And I've been at the OCC now for 13 years. And, Amy, I see a lot of familiar faces around because actually part of my role here at the OCC is not just doing this kind of macro financial analysis, but then really trying to get out into the field and speak with CEOs or other stakeholders for banks that we examine, kind of discuss some of the economic trends, and then hear feedback from you guys, what you're seeing on the ground, because that helps inform our research as economists here at the OCC for the future quarters. So with that in mind, I urge everyone to kind of stop me in the middle of a slide or a sentence, ask a question. If something kind of looks off or doesn't look familiar, doesn't resonate with you, if you have a question on the slide, please stop me. I promise you, despite the kind of thickness of the deck, we're going to get through it in under 60 minutes. So with that, I'll kind of start. Can you advance to the next slide, please?

There are really kind of three key issues that I'm going to discuss today. First is kind of an overall broad look of the U.S. macro economy, right? So how the U.S. economy is performing, and within that, kind of the two key things are that, one, the labor market, which had had supply shortages, right, and really unemployment rates were at 50-year lows, has cooled modestly. That word cooled implies some sort of, like, material softening. I would say that's not the case, right? I mean, the unemployment rate has kicked up from a historic low, and historically, it's still low. On a GDP perspective, right, GDP is still growing at a clip that, you know, is extremely expansionary and not consistent with recession. And I think the forecasters expect that to cool in the coming quarters, but they have expected it to cool this year, right? And that has not been the case. So feeding into all that, right, is the disinflation. The rate of inflation has continued to decelerate through the year, which I think gives the Fed more confidence to cut rates with the labor market cooling. And that kind

of feeds into the next point, right, that financial conditions-I'm not just talking here about financial markets, but broader financial conditions also include kind of bank lending measures, other types of financial metrics that we measure are consistent with a soft lending, meaning that they're priced for soft lending and the Fed has eased with a sizable rate reduction. I think there was a lot of back and forth about what word to use for sizable. I think we all felt-they reduced interest rates by a material amount and that markets and forecasters kind of split on whether the Fed would do so, but they expect a pretty aggressive easing cycle through 2025. And NIMs typically decline during easing cycles. We'll go through some of the bank performance, which our group works on as well from a system level. Then finally, we'll conclude with CRE, talk about kind of that ongoing stress in the office sector and that's expected to peak in 2027. But the multifamily sector, which we've been highlighting as a potential area of stress, I know for the past year or year-and-a-half, has shown signs of stabilization and only pockets of stress in some metrics. So moving on to the next slide.

A committee member asks, "<inaudible>"

So we'll get into this in the last section. It really depends on the region, right, where the building-the supply has come online. And as that supply, you know, kind of abates, right, too much supply-I mean, there have been overbuilding in some metrics, right? As the supply and demand comes into better balance, that's where we're starting to see some of the stabilization but we can go through more of that. You know, there are like-there are lots of charts and stuff to show, I guess, and we'll go into the retail sector as well if there's interest in that. And in the appendix, there's an industrial sector slide as well. So happy to get more onto the CRE. But as I mentioned before, you know, I'm the macro financial economist, and we have an actual whole other group of economists that just work on CRE. Luckily, we work together, and so I'm able to highlight some of their work today. So happy to take any questions. And ones that I don't know, I'm not shy, as Ernie can attest to, I will say, I do not know. I will get back to you, right? And I'm sure that Andre can make sure that a response can get back to you personally from our team.

So if we could go to slide four, please, and just briefly just show the strong economic performance of the U.S. economy over the past few quarters. I mean, if you look at just the past year, right, this is a delineation by bar. You can see these are the key categories of GDP on the left-hand side. Inventories and net exports are volatile. Inventory builds, for instance, that would contribute to GDP positively typically occur when the economy slows down because the inventory is building in the warehouse. So what we can see is that GDP actually accelerated in the second quarter, but it's expected to slow from 3 percent to 1.9 percent to 1.5 percent by the fourth quarter of 2024. You know, part of that is the idea that consumption and business investment, those bars, the blue bar and the gray bar that are highlighted there, will slow. But you can see on the right-hand side, this is private, real domestic demand. Basically strip out all the volatile categories of GDP, and you're left with basically business investment and consumption. And what does this show? It shows it's incredibly stable and high. There's no kind of inkling that there's been a slowdown in either metrics. And so forecasters have been forecasting for a while that you would see a slowdown in consumption with high interest rates still passing through. We'll get to all that, but I think the key takeaway is the U.S. economy as we measure it today is in great shape. Moving on to slide five, the labor market, though, has been showing signs of cooling. Now, I think measuring the unemployment rate month to month is a risky business because the revisions between the first release of the unemployment rate and the third release are pretty high. There are also kind of back and forth that have occurred between different schools of economists about estimating the population, how you estimated, how you kind of count the population in the correct way.

That could influence how we measure the unemployment rate, for instance. But you can see here that the unemployment rate picked up from a low of 3.6% right there in 2022 and 2023 to where it is

today on a quarterly average basis at around 4 or 4.1%. I know the most recent monthly indicator that we got last month for August-well, for-I guess that would be July-would show it at 4.2%. And there was some alarm about the rise in unemployment, specifically over the last few months because of an economic rule that was broken, which was surprising to see so much press coverage of the rule itself and I'll get into that as well. But on the right-hand side, this is total job openings to unemployed persons. So how many job openings for each unemployed person is there in the economy? I mean, what's astounding is that there were two openings for every unemployed person during the peak of kind of the labor supply shortage. That's come into better balance. So it's really closer to one-to-one. And historically, that's still a good job market. I mean, I think if you look at 2017 to 2019, that's the job market that, you know, was at previous record low unemployment rates and consistent with wage gains. That's where we are today.

I think if you turn to the next slide, on slide six, where the alarm comes from is the pace and rise of the unemployment rate. So Claudia Som was a former economist who worked at the Federal Reserve Board here in Washington. There's a misunderstanding, I think, about what it is that her research shows and I'm not sure if it's a lack of reading it. I think, you know, I think her research is basically coined around the idea that if the unemployment rate rises on a three-month moving average basis by more than 50 basis points from the prior 12-month low, that that means that we are currently today in recession. Okay. So why might that be valuable? Well, the recessions are identified and dated by the National Bureau of Economic Research's Cycle Dating Committee. They can change the month or the date of that cycle. It takes them about a year to identify the start of a recession before they announce the start and then they announce the end. That can change. Those dates are revised. For instance, the COVID recession was longer, and then it was revised to only be like a month or two or a quarter, right? It was two quarters, and then they revised it to be one quarter. That's the bar that you see today there on the chart. So markets, you know, experience a pretty significant decline. You saw treasury rates decline as well, right? That recession footing came into better balance, and that's because this rule was violated. It's not a rule. It's an observation.

It's an observation that when this occurs, typically it's an alternative indicator to identify recession, whether you're in a recession or not. There's a lot of economists who spend a lot of time trying to figure out whether today we're in recession. And so, you know, that's kind of why there was a sell-off in August, why there's been a little bit more alarm. It's been interesting to read in the financial press more about this rule. You know, the paper itself is really about how you can introduce fiscal stimulus and monetary stimulus to help counteract the recession, because ultimately what the failure on a policy level is, is that by the time you're in a recession and you identify you're in a recession, it's harder to counteract some of the effects through countercyclical policy. For instance, cutting monetary policy by more or introducing alternatives like unemployment insurance or other types of programs that could help soften, you know, the decline in GDP. If we turn to the next slide, why am I kind of confident here that we're not in a recession? Well, typically these are all the indicators that the NBER uses to date recessions, and you see GDP is not one of them. It's nonfarm payrolls, industrial production, personal income, household employment, manufacturing and trade sales, and then personal consumption, PCE. Each one of these indicators declines on average four months prior to the Som rule being violated, right? So it's not that the NBER cycle dating committee is like circling each one of these things and then coming and saying we may be in a recession. They have to come back and say, well, on a revised basis, do these data points kind of point to the fact that there's a real material contraction in economic activity? What we see today is despite the rule being violated, all the NBER indicators are positive, meaning that industrial production is growing, right? Employment is growing, right? So consumption is growing.

So it would be unique to think that there has been a violation where we're actually in recession today, but it doesn't mean that the economy hasn't, you know, the momentum in the growth hasn't slowed. If we go to the next slide, on slide eight, what do I mean by that? I mean, in 2023, you can understand that, despite the rise in interest rates, we had an additional 100 basis point increase in interest rates over that period. Economic indicators really did surprise a consensus forecast to the upside. So positive values for this city economic surprise index indicate that the release, each data release so housing starts or industrial production or retail sales, if those surprise on aggregate on a rolling average basis to the upside, then the index is positive. If it's negative, it means that it surprised to the downside. Consensus has kind of not marked down those numbers enough and I think that what we've seen since May has been the economy has kind of surprised to the downside. And that's led to, you know, downside on the labor market. There have been other kinds of downside surprises that we've seen. We saw an uptick, for instance, and claimed data for a month or two before it fell back down. There have been disruptions, for instance, with Hurricane Beryl that may have played kind of some one-offs there. But more generally speaking, retail sales have softened on a real basis during this period and we've seen some gyrations on the CPI data that I don't really want to get into. But, I mean, generally speaking, that economic data hasn't been as strong in the last few months as it has been in the last 12 and that's led to some downside surprises."

A committee member asks, "David, is this the reason that Jamie Dimon talks about the economy a lot?"

D. Krisch responds, "I've noticed, yes."

A committee member asks, "I'm sure that's not a surprise to you. Is this data why he keeps talking about his concerns about the economy on an ongoing basis, where he thinks, you know, it might not be a soft landing, and that he has concerns about the resilience of the economy? Or is it something else?"

D. Krisch responds, "I can't speak to what Jamie Dimon thinks, or actually what his end goal is by saying what he's saying. I can speak to the idea, right? Like, he might be saying something that might perhaps kind of have a goal in mind, right, by his words, like a Fed governor would, right? They might take a position to influence certain things. I think from what I can say is that, you know, the economic data has softened, and that soft landings are rare, super rare. I want to, like, emphasize that and underline it. It is very rare that the Fed can engineer a disinflation without causing a recession and there are maybe a handful of times, not just with the Fed, but with all central banks that target inflation that this has occurred. And so, you know, odds are, right, that if you were to raise the Fed funds rate by 525 basis points in 75 basis point increments from the zero lower bounds and not have a recession, then obviously something's changed, right? Some dynamics have been misunderstood or mismeasured in the economy. And I think that's maybe what he's talking about, right, is that, you know, we've raised the rate of interest so high, and there's been, I mean, look at the blue. It's really been amazing to see that not only has the economy performed, but it's just, it's outperformed. We can get more into the natural rate of interest, which is my bailiwick, which is our star, but we can save that for another time offline. I think, just moving on to the next slide, thank you, Amy, for the question."

E. Knott adds, "So, something with Jamie, too. I mean, he's been calling for an economic hurricane two years ago, but Milton Friedman famously said it takes-there's a long and variable lag before we see the impact of the rate hikes in the economy. Most people feel we're in that window now, that minimum of-now, March of 22 was the first 25 basis point hike. So, they said between 24 and 30

months. So, we're in that. If something's going to happen, it could be happening now, and that's why the markets are very sensitive to the continuing unemployment claims and retail sales and…"

D. Krisch states, "Anyway. Ernie, I think, you know, you skipped ahead a couple slides, but we're going to get there. You know, I think, as you said, policy inertia, the measurement of policy inertia, I think, among academic economists and practitioners, especially in financial markets, has been a topic of debate, how quickly those rate cuts feed through the markets versus rate hikes feed through the markets. It's typically asymmetric. But just to start here, right, what gives the Fed confidence? We're not at 2%, right? I think part of the reason that we just talked about that hard landing is that-I mean, to stick the soft landing would be incredible, because we've come from an inflation dynamic that was completely misunderstood. And, you know, I can't-like, if everybody can kind of rewind two years to the word transitory. I was not in that transitory camp, and I was lambasted for it. And it's not transitory, right? It's the goods inflation was transitory. But there was a real kind of stickiness in some of the inflation measures and you saw that through the wage dynamics, right, the wage price dynamics that began to develop. What's important here is that we're really close to target. That does give the Fed more confidence to cut and really brings the dual mandate back into a better focus. We can move on to the next slide, slide 10. The disinflation by cycle actually is pretty consistent with what we've seen in prior successful disinflations. Here I break out kind of three disinflationary periods. One, on the left-hand side, this is headline PCE. This is indexed to one. You can see the rate fall. 80, 89, and 2022. So those two prior periods are what we've observed for each of these categories so headline PCE is what the Fed targets. Goods and core services are kind of two breakouts of that. On the goods side, why does it fall so much more than the prior disinflations? That's really because the supply chains were coming back online. And the supply chain disruptions kind of abated and that allowed for prices to stabilize.

On the core services side, excluding housing, service sector inflation is stickier and is kind of less susceptible to rate hikes and then it's harder to make the disinflation go. But in fact, what we've seen is that it just follows the historical disinflations that we've seen before. I feel like what has changed from these two prior disinflations, I think it might be the information environment. We've spoken about liquidity, for instance, right, banking deposits. The asymmetric information that used to occur for prices, right, now you can look up prices on your phone or interest rates for bank deposits. They're just kind of, there's less asymmetric information than there was so that can kind of, you know, it feels when you're in a disinflation more painful than maybe it's been historically. So if we can move on to slide 11. The other thing that kind of gives us confidence that the disinflation is occurring is that this is the soft data, okay? So this is small business planning to raise prices. This is the NFIB survey of thousands of small businesses. You can see there when we lag it, core CPI on the left-hand side, it's highly correlated with firms that are going to or plan to raise prices over the next year. So it's kind of like an information signal. On the right-hand side, this is ISM prices paid. So the larger firms, right, those larger firms, we put a two-month lead on that and so when you align it with core CPI, it also is tracked and highly correlated. So what is that saying? It's saying that firms are less and less saying that they're going to raise prices by more and more, and that the disinflationary trends that we've been seeing are kind of confirmed by that. Moving on to slide 12, the kind of, like, breakout, though, that I want to make is that outside of, like, financial press or, you know, whatever, minute-to-minute, the Fed actually targets inflation expectations. They do not target headline PCE despite the statements.

So when they say that inflation is well anchored at 2 percent, the bulk or disinflation had occurred with a period before and after of unanchored inflation, right? So inflation was kind of not anchored to a target, and it would be moving around, and there would be wage price spirals that would occur. In fact, when we measure it either with this common inflation expectations measure that uses a survey-based and financial markets-based data on the left-hand side or the right-hand side, the five-

year, five-year break-even inflation rate, so 10 years from now, the inflation rate as calculated by forward markets, both show that it's close to 2 percent, and it's off its highs. So with that, turning to slide 13, I'm going to get a little bit more into the policy inertia with slide 14. So why has this cycle been different? I think that's been the challenge, right? I think especially in the last few months, it's puzzled many economists, market observers, bank CEOs, as was mentioned. Part of that is, you know, interest rates are not feeding through in the same pace as prior cycles. So when you look at household share of debt that adjusts to variable rates, right, on the left-hand side, 87 percent of all household debt is fixed. That's the lowest percentage you know, 13 percent variable interest rate, right? So, like, 13 percent of all households' debt adjusts with interest rates. That's the lowest amount that's been ever.

We talked a little bit about the ARMs, right? The ARMs were very attractive products after the bulk or disinflation, because interest rates were kind of high, but they were declining, and there was some belief that inflation expectations would be anchored at a lower point than they were in the 70s. And those products were very attractive to households looking to get a mortgage, right? On the corporate side, what you see is that corporate business net interest expense as a share of profits before tax. It's really kind of showing what is the percent of business interest expense that's being paid towards servicing debt. It's at an all-time low. It's right around 3.9 percent so when you ask the blue-chip consensus, a consensus of 50 different forecasting shops, what that shows you is that-and it's the gold standard, by the way, of how we measure economic forecasting so it's got a long history. It doesn't need to be right. But it is typically the gold standard in the industry and it includes not just banks, but hedge funds like Point72 to academic institutions to Ford Motor Company to Caterpillar. It's a very broad range of forecasters that forecast specific things in the economy. When they're asked, has the U.S. economy yet to feel the previous interest rate hikes that Ernie mentioned, 79 percent of respondents in the September 10th release said that it's still pushing through. So those prior interest rate hikes have still yet to be felt. If you have a mortgage at 2.75 percent, I mean, interest rates can fall, but that doesn't mean that, you know, unless you need to move, then you will realize the interest rate hike, right? Then it will feed through. Unless you need, as a company, to borrow or refinance, you're not going to feel the interest rate hike. So moving on to slide 15…"

A. Moss asks, "David, just one quick question. I'm just curious as to how much you feel or you think that traditional models are kind of antiquated at this point where we see more disruption from new entrants and other types of external factors that may impact why the traditional model is not really forecasting the way that-or giving us the expectations that we're looking towards seeing?"

D. Krisch responds, "Andrew, and I don't know if you're on our weekly condition of the banking call. I think, yes, the forecasting-I spend my summer basically trying to figure this out, right? One of the answers, I think, is population estimates and I'm not trying to kind of get into a hot topic right now, but I think that how we measure the population, how many people are in the United States, varies by source, right? Census Bureau, Social Security Administration does one. The CBO releases one. That was a little bit controversial. We only measure the population in the United States every 10 years through a decentennial census, and then there's the annual American Community Survey. So how we measure economic data matters. So some of these effects as I mentioned, it could be kind of a policy inertia-driven. Some of the effects could be kind of labor supply coming online, right? New entrants to the labor markets and that's an important distinction, as Andrew mentioned. I think-gosh, I'm not trying to say one thing or the other. Does that make sense? You know, I think there's a famous quote that's, you know, I wish we just had a one-handed economist, right? So on one hand, I think you're totally right. On the other, it could be kind of policy inertia.

It could be economic measurement. And I think, you know, slide 15 kind of delves into some of the dynamics that we've seen from a financial sector or financial conditions basis. This is a measure of

financial conditions. It's in standard deviations so it's a Z-score. I don't want to get too wonky here, but positive values means that it's easier, right? Financial conditions are easier than average. Negative conditions mean they're tighter than average. What we've seen kind of over the past year is they've moved to easier than average, right? Markets are at new highs. Bond yields are currently falling. Credit spreads are tight. Foreign exchange rate volatility is actually pretty low, despite some of the headlines. And those have all contributed to favorable financial conditions. Turning to slide 16, right, so what makes it different this time? Andrew maybe previewed this a little bit more. I think what's been frustrating the models, the economists, the forecasters, has been when we look at traditional measures of recession, right? I talked about the SOM rule and the MBER, all the indicators the MBER uses. You know, the Fed tends to use the near-term forward spread. I didn't show that here. I just made it simple, okay? It's the 10-year note minus the three-month bill. So it shows the yield curve. The short versus the long, we've shown in research here at the OCC, this is most pertinent to the banks that we serve. So this is typically the measure that we try to look at in terms of short-term funding versus long-term exposure. Then I threw in there, based on some of the CEO feedback that we've had from prior outreaches in the last month or two, what is the market-implied forward 10-year minus the three-month term spread? And what you can see here is that the yield curve inverts. I really want to point out something, though, is that in each one of these kind of areas where the yield curve turns negative, the term spread turns negative and the yield curve inverts, there's a recession within the next 12 months. There's no violation of that, right? What makes this unique is that we've had an inverted yield curve for this amount of time and not seen a recession. Why is this time different? It implies that they're going to stick the soft landing and cut interest rates and re-steepen the curve without there being a recession, which is rare, as you can see, right? I mean, it's a very rare thing to have an inverted yield curve. The economists, the blue-chip consensus, the panel was asked about this phenomenon, 76% now say it's a less reliable indicator. That's part of what you're talking about, Andrew, right, is that these traditional kind of model-based driven variables are less indicative than they have been in the past. So turn to slide 17.

When you look at the corporate spread market, we've just talked about all these indicators that have said recession, recession, recession, right, growth slowdown, restrictive conditions, right? When you look at credit risk, and I worked in an organization where most of the people who work here do focus on credit risk, and so, but when you look at market measures of credit risk, it's historically low, and it's not signaling really a broad-based rise in credit risk that would either be consistent with a real kind of liquidity crisis, right, that we saw in 2020 of March, or recession. I didn't show the history going back, but, you know, obviously, to kind of detail this, the Fed has made this, the Fed board has made a U.S. corporate bond market distress index. Markets, U.S. corporate bond market is in the 14th percentile, with the 100th percentile being the most stress that you can encounter. So, really, markets in the corporate space, you know, that's not to say that yields haven't risen. Treasurer yields have risen, and so have corporate yields, but they haven't kind of expanded."

A committee member asks, "Because the interest expense is now a much smaller share of the non-financial corporate earnings, so even if it's more expensive, it's not as material a percentage of their earnings as historically, or not? Like, I can see in the, it looks like it was..."

D. Krisch responds, "Yeah, that could be part of it. I mean, I think what's been interesting about the cycle is that margins, corporate margins have maintained. I'm sure you've seen some of this in your guys' own experience or book of business, right, that some of the pricing ability of larger firms, at least, has still been there. You know, I think that's contributed partially to it. We've also seen a lot of refinancing activity actually come in the bond market in the last few quarters so it's not like there's no issuance going on. I mean, it's almost 40 percent, the issuance is 40 percent higher today than it was at this point in 2023. So, there's stuff coming online, right? We're seeing refinancing, we're

seeing activity. It's being met by capital markets and so, those windows are open. The liquidity is there despite the rise in interest rates. So, if we can move on to slide 18."

D. Krisch continues, "I just want to kind of briefly recap how unique this is, right? I mean, first of all, look where we've gone. The 2022 tightening cycle was the steepest in 40 years. It wasn't just by a little, it was by a lot. I didn't put the Volcker disinflation on here just because it's not appropriate, because they were re-anchoring inflation expectations, which is a different type of thing than what's going on here. But they followed on 425 basis points of hikes with 100 basis points of hikes in 2023 and held that consistent until, you know, September 16th, I think, was the date of this year. And so, forecasters, obviously, as you stated, Andrew, I mean, if you put that in the models, I think retail sales would have slowed. People would have cut back, right? Saved more of their money, collected that interest income, you know what I mean? And not gone out there and aggressively spent on travel, for instance. Only now are we seeing some of those discretionary categories come in a bit. Moving on to slide 19, what's puzzling here is that easing cycles are not like tightening cycles. For today's discussion, I cut short the 84 cycle because I don't want to get into the nuances of it. The chart is fixed for tomorrow, I guess. I will send a corrected chart out for those interested. Because the Fed funds rate actually did increase during the 84 cycle before decreasing. The Fed did not use interest rates in the same way that they did in the Volcker period. So, I don't want to get into the nuances of that. But what you can see here is that dark blue line, that's 2024. Here we are. What does that mean? I can't tell you, right? Because it depends on where you are and if there's a disinflation that's a soft landing, which is rare, like 95 is up there. You can see it's one little kind of percent down. Or, I mean, even look at 07. I mean, look at the time that it took them to cut to zero. You know, it's not as steep as the 84 cuts in the beginning. It's not as steep even as the COVID cuts that we saw in 2020. And so, there's really kind of, it's hard to make sense of the diversity of the easing cycles and make comparison between them, unlike the tightening cycles, right? Because those are more straightforward and have to do with inflation dynamics.

Moving on to slide 20, what is clear is that professional forecasters were really caught off guard by the Fed's actions. So, on September 10, 2024, the Blue Chip Consensus was released. 100% of the respondents expected the Fed to cut interest rates at the September meeting. 14% of them expected that the cut would be 50 basis points. That's in large contrast to what markets have priced in. I mean, what's been the story here is that that orange line, June 2024, for the futures markets have moved down kind of this higher for longer. I don't know. I've been here for many interest rate cycles now. I feel like we've done the higher for longer and the lower for longer. I think it's really hard to kind of pin one or the other and we'll just kind of speak in facts here. The long run kind of 2025 level of interest rate that the markets are pricing today, right? Well, this is September 10, so I aligned it to the Blue Chip, was much more aggressive and much more dovish than what occurred. You can see that drop down of about 125 basis points between June and September. What changed? I mean, the unemployment drifted up, right? The economic conditions softened, and the inflation numbers on a monthly basis, on a year-over-year basis, kept aligning with this soft landing narrative. Moving on to slide 21, with that said, future market pricing of expected policy rates, however, have, I mean, this chart should show you, have always missed the mark. I mean, it's really kind of showing you the expectations of policy rates in the moment. Does that make sense? So, like, in the 04 cycle, you can see, right, that markets kept pricing in. The Fed is not going to keep raising interest rates higher and higher and higher and higher, and they kept doing it higher and higher and higher and higher. In the 2008 cycle, right, what did futures, Fed funds futures show? It showed that the Fed was going to quickly rebound and raise interest rates. What changed in 2012 and 2013?

The Eurozone debt crisis. You know, markets underpriced the increase in 2022 of the tightening cycle, because they hadn't wrapped their arms around the transitory thesis not being correct, and it wasn't being priced in. And then in 2025, markets have been all over the place. I mean, that pink

kind of highlight there shows that markets were expecting a more dovish pace and magnitude of cuts. The Fed delivered one, but that's because it's been in line with economic data, not because it's been in line with what markets want. And then turning to slide 22, if you just look at kind of the natural processing language models, this is the Fed speak index. It's still on a neutral stance and so that's really important to understand is that we haven't switched to a dovish stance, even though their Fed has started cutting. The language out there is neutral, right? Because we just don't know how the data is going to turn out. They're data dependent. They're not cutting for recession. That's a different thing. Turning to slide 23, you can see that because the markets, this is the cost hedge bonds per inflation above 3%, it's now kind of at a 10 and 5-year maturity. It's still at 250 basis points for 10 years in the future and 150 basis points meaning that there is a tail risk to inflation and it's not zero. So the cost to kind of insure against the risk of capping inflation above 3%, is not a zero probability by markets. And then turning to slide 24, I'm almost done here with the financial market section. So what's interesting is that when you look at bank performance, so this is NIM on the right-hand side for all FDIC insured federal commercial banks. And then on the left-hand side, you can see the Fed funds rate by easing cycle. What's clear is that NIM has generally moved together with interest rates with the 1989 cycle being the notable outlier.

Remember what I said about easing cycles is that they're all different, right? And in 89, we had a rolling regional recession and there were unique circumstances that could have pushed NIM higher. We're going to get into that more on a condition level. But I'll kind of turn now to slide 26 and get into CRE. So I mean, generally speaking, what's been the story in CRE and what's changed? The story, this is national. I want to caveat that and say that. National does not mean your local metros. It means kind of, and I think that's the problem with presenting national CRE is that what does that mean for you, right? But on a national level, it's the trends that we have been seeing. I mean, we know that office vacancies are continuing to rise. Not at the pace that we first assumed because there's not net new supply coming online. There's not new office towers being delivered, things like that. But apartment vacancy rates are expected to level off as those new constructions, the permits being pulled, those start to soften a little bit. And generally speaking, the retail sector is expected to have pretty strong occupancy rates, right? So what we've seen, the continuation, the strength in the consumer, that's driving some of the forecasts for COSTAR here. From a property price perspective, I mean, obviously industrial has been the shining star. There are reasons to believe that some of the supply that might come online for the industrial sector, I include that in the appendix, might cool some of this trend. But apartments are expected to actually rebound because the net new supply is expected to actually abate in the COSTAR forecasts. And for office, you can see property prices actually stabilize despite the vacancy rates increasing and that's really because net new supply is not coming online.

Next slide. So on slide 27, we go into that vacancy rate and I think what's key here is that, once again, I'm going to repeat myself. Each metro is different, right? But what's clear is that the large metros with the urban business districts have the highest vacancy rates, right? We can see that just by walking around the 10-block radius of where we are now. There are more vacancies in the urban business districts than there are in the suburbs or the kind of core rings around the urban business districts and you can see that the vacancy rates are kind of high in the places that one would expect, right? The tech hubs, some places, some metros in Texas, right? New York. But other than that, it's not exceedingly bad at this point. I want to caveat that and say at this point because leases will run off, right? There might be changes in back-to-office behavior. For instance, Amazon just announced five days a week in office so it's not that those tech hubs can't turn around and there can't be changes in office demands and leasing space. Ernie could probably talk more about the New York market. But turning to slide 28, I think what we really tried to communicate to bankers over the past year has been let's not just focus on office. I mean, I think we know the risks in office but we need to start looking at the risk for multifamily. That's really because of the construction boom that we saw

in the south and the southeast. And you can see that the vacancy rates reflect that, right? As more net supply comes online, vacancies have actually increased rather substantially in the south and southeast and that's expected to continue. Rent growth for those jurisdictions, those metros that are contained within the south and the southeast, it's going to underperform the others.

The key here, though, is that rent growth is not negative for those jurisdictions outside of the south and the southeast, right? It's just slowing from a very high pace. And so, you know, rent growth is still there. Turning to slide 29, finally, and this is kind of my favorite slide out of the deck, maybe one of them, the CRE section is, you know, we talked about how retail is doing kind of the shining star outside of industrial. We know the kind of Amazon logistics, all the types of online transitions that have occurred that would make goods and warehousing industrial properties outperform. What's interesting here is that, one, retail vacancy rates for the urban business districts in those urban cores are still underperforming. They're continuing to underperform. I mean, you can go to Chicago and look at the ground floors. What's interesting is that in New York, for instance I didn't see a space vacant when I was there two weeks ago. So it really depends on what metro you're in and kind of the occupancy of the office towers, right? Who's going to work where they're going to go. But on the left-hand side, the underperformance also has been there and is going to be there for shopping malls. I think that's the weakness that we've seen. I think neighborhood center is short for strip mall. And we have like in, I live in Montgomery County, Maryland, right? We have these like little, I don't know what you call them. They're neighborhood centers. Okay. It's got like a grocery store, dry cleaners. Those have expected to be kind of weaker. I'm a person who likes to go walk around malls. So I see the vacancies, right? They're there and there's not as much foot traffic, obviously, just because behaviors have changed since the pandemic so with that, if you can move to the next slide, that's it. I've gotten you through kind of a lot of information and we have three minutes. Maybe I can extend it by another couple minutes."

A. Moss states, "You know, like we do in the Senate, I'll yield my time to the gentleman from our econ department. So that's fine. Go ahead, David. I'm following you."

D. Krisch continues, "I mean, please, I would just love to hear your questions because you must have questions about the economy and there must be questions that you must be seeing in your town, your business, your metro. I mean, just questions more generally that helps us and the OCC kind of form research to help kind of inform our and everyone else's ideas that kind of like on what's happening or what we need to look at more closely, right? What are we missing? And that's something that we try to do with on the ground CEO conferences and other things. But yeah, go ahead."

A committee member asks, "My first question is, so I think we've seen sort of the decline in obviously the strength of the office space because more and more people are working from home. And I feel like kind of similarly in the retail market, there's this shift to online shopping, right? Are you seeing that sort of the effect of that kind of dwindling where we've kind of reached at least a plateau for now or I'm kind of impressed that retail is looking so strong?"

D. Krisch responds, "Yeah, I think the death of retail has been greatly exaggerated. I think that story has been one that has been talked about, right, for 10 years. And it just hasn't occurred. I mean, it occurred during the recession and then what happened? I mean, people kind of went back and I don't know if there's something human about wanting to go touch a piece of clothing before you buy it, right? I mean, like a nice suit. You don't want to buy that online. There's something human about like not buying cars online and maybe you want to go like look at the paint or just something like that. That's not to say that there's not activity in Carvana going online. Do you know what I

mean? There's just a difference between what we're seeing on the ground, right, versus some of the stories that we see in the financial press."

A committee member states, "Would you say there's also, though, kind of in the way that there's been a lot of bank mergers, have you seen a lot of sort of consolidation so that the retailers that are still out there are bigger retailers that isn't sort of the mom and pop dry cleaners and stuff like that? Like you're seeing more targets and Walmart and maybe less of the just because of sort of the same things that we struggle with as community banks, the kind of economies of scale. And like are you seeing a shift in that direction or not necessarily either?"

D. KRisch responds, "I don't know. But I would like to say that I actually I would like to come back at that and say that, you know, when Gimbels failed, Macy's didn't take over Gimbels. You know what I mean? Gimbels just failed. That's what happens in retail. You know, the mattress store went out of business. It just means that the competitor gains the business. It doesn't take I mean, that's basically how, you know, stuff works, right? If Target went under, Walmart would have probably absorbed that customer base without actually taking any inventory from Target at all, taking any lease space from them."

A committee member adds, "So I guess like separate from mergers, are you seeing the shift of like retail population that it is more bigger box stores and fewer sort of like smaller?"

D. Krisch responds, "Yeah, I mean, actually, it would be the opposite, right? Less big box stores like Circuit City. That's what I'm trying to say is that, you know, there's usually a winner and a loser."

A committee member states, "I mean, you don't hear in the news, the headlines, though, about the local dry cleaner going out of business. I mean, you're talking about the bigger, you know, Kmart, I think just closed their last store and everyone reads about that."

D. Krisch responds, "But like the sort of Kmart...?"

A committee member asks, "You don't know Kmart?"

D. Krisch responds, "The blue light specials. Absolutely. You're talking to somebody that, you know, I have the unique advantage. I was raised in the South, but my mother was from industrialized Detroit, Michigan. So I have kind of been to the A&W drive throughs. I went to Gettysburg College. I've been in your neck of the woods in Pennsylvania and I feel like I understand some of the environments, right? I mean, think about that regional picture of what I just talked about, the A&W drive throughs, right? Some of this is regional. Some of this is like not being well captured. Like Furriers, for instance, like for coat makers, those have all gone. I mean, there's a few of them left, right? It's just trends change and so it's not necessarily that they get bigger. I think the Walmart story actually did occur in the nineties where they did, you know, because they compete on price because they're such a large buyer. Like they determine the price that item they're selling is manufactured at and no one else can do that because of the volumes they produce. So it's, you know, it's a hard example to like go through, but yeah."

A committee member asks, "Yeah. David, I'm just going to thank you for your work and all of the economic analysis that the OCC does. I read a lot of it for objective economic data. I also look at a lot of the feds, you know, different feds have different focus, but their economic papers, it's very hard when you see these public pronouncements from investment bankers or other economists who might have some agenda or other banks, you know, the large scale that you just don't know where these comments are coming from. So it's really good to go back to this objective data. We do

business across the country so, you know, what you're saying is really, it becomes very local. We have to dissect sort of multifamily is that market rate, affordable workforce, you know, different housing, but even in that, it is really the drivers and very geographic locally specific. One, you know, maybe take away for the exam teams, it would be useful, I think, for them to really be as steeped in your economic data and your work, because this is really instructive, because when you start looking into individual projects in the location to not just understand the bank's underwriting, but also the economic drivers, because you're such a, I mean, you're a really valuable resource for a bank like ours to complement all of the other, like I said, Fed, Federal Reserve data that we look at and read to contrast with some more of the, you know, the costars, the private, you know, players, and then not to be too influenced by the normally fear mongering that you see in the headlines. You know, you got to really drill into the data because it's easy to get driven out about every industry, if you're just…"

D. Krisch responds, "First of all, I just want to say thank you. I mean, thank you for saying those kind words. I mean, I think that the OCC specifically really tries to make our economic analysis independent, and, you know, the numbers and the data say what the numbers and the data say, and we've never been kind of hindered in any way."

A committee member adds, "And that's why we rely on it. I just want to say, we really do look at all of them, even from, you know, the OCC in general. So I think most people don't think that regulators have that capacity and those resources, but I think too many people don't rely on them, even, you know, in the public sphere, even banking. I mean, we do a lot. So I just want to, between Ernie's work on his, but we go study this, and then anytime anything comes out, we are really..."

D. Krisch adds, "I mean, the other thing, I know I'm over time, so I'm going to cut myself off, but, you know, when we talk about local market trade, I kind of... Amy and I were at an event last year in Seattle, and, you know, banks of different sizes were there. I mean, smaller banks. I mean, this was kind of in the depth of this CRE panic. You know, they were saying they would have... The bank CEO would, like, go down to the project site to look at it, to look at whether that would work, right? Fire hydrants around it. I mean, details like that. So I think when you're talking about hyper-local issues, it really does matter and I think the other thing that you kind of touched upon, and I know I'm eating into Andrew's time, but we're on exams, and we hold... Gosh, our condition of the bank system weekly call, where we go over both economic trends and bank performance data, we're up to, I think, 700, 600 people join the call weekly. So we've got 2,500 to go, and we're going to get kind of everybody, but we do kind of build up a presentation that then goes to the executive committee, where Mike and Beverly can ask questions about the analysis that we do every quarter. So the next time your local ADC asks you, what would you like to see at the upcoming CEO meeting, and you don't know the answer, call me. Let your ADC know that you'd like an economic update, because a couple other folks go around and do presentations. It's just great to connect with you guys. So any opportunity, we're going to have to do that."

DFO King states, "That's what we try to do here. And I think, David, your overall theme of the presentation, you know, kind of highlighted, we tried our best to forecast what was going on, but it's such an anomaly that's taken place, and we're trying to figure out where the common threads are. I think from a supervision examiner standpoint, that's the same thing.

You hear all the white noise about doom and gloom, repricing risk, but as we go into some of these community institutions, some of these community banks, we haven't seen the concern that has been expressed outside. Now, granted, the office real estate, the office sector, that's definitely something to keep our eye on, but that multifamily, outside of the certain markets that have..."

D. Krisch concludes, "But that's contained within large banks. That's contained within mid-sized institutions. I mean, I don't know of a lot of small community banks like are represented here today that have outsized exposure to the San Francisco office sector. I mean, it's just not there. So... Well... I appreciate the time. And I would just... I would kind of offer this up. Please email me. If you think of a question later, please email me or any of the other kind of... As you see reps in here, they'll push it towards me. We are responsive and happy to help. So, thank you so much, guys."

DFO King states, "With that said, before we get to lunch, Andrew and Crystal are between us and lunch. And so..."

A. Moss states, "We can make this pretty quick. So, I just want to give everyone an update on where we are with Project REACH. As you know, or maybe not know, we held our Project REACH Summit, Financial Inclusion Summit, this past May here at headquarters to introduce the new structure of what we call REACH 2.0. If you want to see or actually find out some of the topics that we discussed on our website at OCC.gov forward slash REACH, you will find the link to the recording of the event. As I move into it, part of this REACH redesign or 2.0 was to help us shift our focus and allow for more agility in what we're trying to accomplish with increasing financial inclusion. We had started off Project REACH with four different workstreams, what we called back then, around home ownership, small business, and minority business opportunities. And we also looked at alternative credit assessments where we would bring in or designs for new credit risk models to help with extending or looking at other criteria to help with evaluating credit worthiness for individuals who came from communities that were typically historically disadvantaged from getting the same types of consideration for credit. And then lastly, which was our MDI revitalization workstream, which a lot of the work to help support the preservation and promotion of MDIs continued. It's kind of incorporated or encompassed our MDI collaboration roundtable, which Barry had mentioned early on, but also looking at ways that we could support technical assistance for the institutions we supervise that are designated as MDIs and how we can facilitate more relationships and partnerships. Under this new structure of 2.0 and the agility, we've shifted towards how we can establish a new sort of like openness for participation around the different participants. Because we found that in some of those, we had individuals who felt that, hey, I just have my home ownership team here, but not my small business team, and I would like to participate in the alternative credit.

So this new agility gives us the opportunity to open up all of the different working groups or new workstreams to accommodate that type of like scheduling. So under our new structure, we have four new working groups, which are focused on the first one, tools, products, and services, where innovative products and tools and other types of like resources can be created to help with accelerating the innovation towards solutions that help with increasing financial inclusion. The other is underserved and disadvantaged populations. Third is our technology workstream and understanding that technology is starting to play a greater role in what we do and how we can facilitate these types of activities or accessibility to capital and credit. Then lastly is our place-based working group and in the place-based working group, we found that there are specifically geographically dedicated or specific initiatives that are underway to help with developing some type of like process or either program or even in some cases a product that will help with these types of like solutions that we're trying to accomplish. Under this new place-based working group, which I'm right now co-leading with Crystal and Chanis, who's here on my team, we are all like focusing on how our local demonstrations can look at new and specific challenges that are facing geographies that are typically seen as either what we call like financial or institution deserts or banking deserts or either other types of like economic disparities that we don't see a lot of flow of capital in and out of.

When I say that, I'm referring to affordable capital that flows in and out of those particular communities. And so with that, we rolled a lot of our MDI activities in there because most of the

MDIs that we have working in Project REACH or participating in Project REACH have a specific focus to their relative markets and communities that they're supporting. So that's why a lot of the new initiatives under our MDI revitalization you'll find going forward will have a geographic focus as well as how we can partner them with MDIs and other types of stakeholders in their markets to develop products, I'm sorry, projects that are specific to those communities. So Jamie, you've mentioned a lot of times about how your communities can be like get the same types of like considerations and thought we want to look at other partners that may have an interest in that market as well. That's just one example. Barry, you've mentioned Southeast Georgia and how there's a need for a lot of support there.

Another one, Jody, you've talked to me about several initiatives on how we can incorporate the types of work that MDIs are doing as well as partnering with historically black colleges and universities in the Houston market. So all of these would now be a part of this new working group with specific projects. But the focus is we do want to ensure that these new projects place forward a deliverable because it's not just about us getting together to meet for the sake of meeting. We want to see some type of like action that's going to at the end of the day we can point to to show that Project REACH was more than just the convening, but making sure that all the participants develop something, whether it's a paper, a product, program, or service, or some type of resource that will support moving forward in supporting the economically disadvantaged communities around the country. I've heard from most of you today that you want to do more around or you want to get support around TA in specific areas as I listed those like fraud prevention, IT, CDFI certification.

Please make sure that you reach out to Crystal and let her know about topics that you would like to have placed on the docket for our TA calls that is dedicated to MDIs. Over the past four months we've had several. Jonathan has been very helpful with being one of our facilitators on the brokered deposit placements. We've had one on cybersecurity, another one to educate all of the MDIs about how to structure special purpose credit programs, and then lastly third-party relationships, which we're going to hear that's going to continue, especially now in the post-Synapse world that we're living in, and ensuring that all of you are getting that type of understanding and giving us also feedback on what we need to take back to our policy departments to support this as well. Kelly had mentioned the FinTech playbook and some comments that have been very helpful and beneficial to MDIs, but again, we need to make sure that whatever it is that you are participating, your institutions are participating, and that you're also spreading the word to other MDIs so that they are participating in these calls because it's important that everyone gets this type of information. We host these every, what is it, Crystal, the first? The second Thursday. Second Thursday of every month, so if you are not on the list and if someone from your staff or team you would like to designate to be a part of this, please let me or Crystal know so that we can include them in the invitations. Lastly, just a couple of announcements. You have in front of you the new, our 2023 report to Congress on the activities that we have in support of MDIs. It's also online as well, and then we will have coming up in June of next year, 2025, the next round of our interagency coordination with the FDIC and the Federal Reserve for our interagency MDI and CDFI Bank Conference. June 17th and 18th at the FDIC. Here in Washington, D.C. in June of 2025, 17th and 18th. And with that, I will stop here to see if there are any questions on Project REACH."

A committee member adds, "Yeah, Andrew, thanks for that update, and I thank everyone who's participated in any of the meetings, work streams, and events. I found it incredibly beneficial. You mentioned briefly secondments, and I think earlier you talked about the Executive Exchange Program. Can you maybe just spend a minute or two on there, just sharing a little more light?"

A. Moss responds, "Sure. So, the language is kind of interchangeable. The secondments or Executive Exchange Programs are where there's been the building of relationships between large institutions

and MDIs, where the large institution will send a person who's a subject matter expert in a particular area to the MDI to help them with building out a particular area of expertise that they may not have. I hear a lot from the MDIs that, you know, hey, our examination team is very critical about us doing this because they say that we don't have the expertise or we don't have the history of doing this, so it elevates risk. This is one of the ways that you can reduce that, using those technical experts that come from larger institutions that you can then say, hey, you know, we have them here. They're helping us with understanding this particular new product or new service that we want to offer and by that, they'll stay with you for either three months or sometimes up to a year. Jonathan, how many do you all have right now underway?"

A committee member responds, "So, we're building it out, but we don't yet have any placements. So, I'm interested in some of the challenges with standing it up, but I know our peers at Citi have a handful."

A. Moss continues, "Yeah, there have been a few. Citi, Fifth Third. I want to say Chase has sent a few people out to a couple, and I know that Wintrust in Chicago has also provided a lot of support to GN Bank in that market. So, if there's additional information you need, happy to connect you. I don't know how much you've had those discussions with Harold and Blair, but I know that they are looking to do more, and we're trying to find more of a way to centralize. Bill Haas, as we mentioned earlier, a former deputy comptroller for midsize banks, put together an inventory so that we would have a particular point person to explain or be the contact for those respective institutions. I think that's something we'll have to update and provide, but it is available on BankNet, but we will work on updating that so that you have more information. It's not just for the MDIs, but also for larger banks who are participating in this initiative to also learn about it as well and to reach out to those particular individuals."

C. Dully adds, "Andrew, can I say something real quick? In that particular space, for all the MDIs that are in the room and listening in that are OCC supervised, can you please leverage this opportunity? We are in these spaces. We have these discussions, but oftentimes there are bank representatives that OCC do not supervise that take advantage of these programs. I'd be happy if more and more of our own institutions take advantage of this program because it speaks to a lot of these items that you've been talking about today. Thanks, Andrew."

A. Moss states, "That's what I'm saying as far as we have that inventory that we built out, but there's been a lot of changes in the points of contact at those respective institutions, so we're going to go through and update that and provide you with that new information of who you can discuss."

A committee member states, "I'll jump in and add is a couple of years ago when this was updated, I reached out to different members of the committee and said who is interested in X because if all of us are interested in, say, deposits, or whatever it is, it's more efficient and they get more value out of being able to do it for eight banks, however many there are that want to participate in it, rather than each of us individually having to coordinate it. At that time, I don't think I had tons of traction. I think I reached out to every single bank on the list that said they were interested in placing deposits with us, but actually maybe it was Beverly, but I think sometimes approaching them as a group, they're able to make a more material impact than having to one-off with each, so that could be something that we think about as a committee too after, or any MDI really, after the list is updated. Absolutely."

A committee member asks, "At the project REACH meeting, Appalachian Capital, Donna, she was there at the meeting, and I don't know what kind of partnerships between banks and loan funds that you've seen. We have a big loan fund in Georgia. It's ACE, Access to Capital for Entrepreneurs, and

they actually got most of the SSBCI monies, so we've partnered with them on a few projects that might not necessarily, I mean, because they can do 100% financing, they can do rates at 2%, so we've partnered with them on some builds. Are you seeing some cooperation between the loan funds and the Appalachian Capital, I think they got about $3 billion of the greenhouse gas money as well that they'll start dishing out, and same thing with Justice Climate Fund, so I was just wondering if you could kind of give us some insight on what you're seeing from that?”

A. Moss responds, “Absolutely. They are actually doing a lot of outreach to, those CDFI loan funds are reaching out to the MDIs to find ways that they can partner with the distribution of those types of resources, because it is quite a bit of money and funding to go into, like, MDIs, and not only that, but, I'm sorry, CDFIs, but not only that, but just having those relationships, this is what REACH is about, how can we work together in unison to help with solving the problem and not just keep talking about the problem, and so that's our focus with what we're doing with the new Place-Based Initiative, a place-based working group, how can we get more partners who are focused on dedicating resources to specific geographies where we can help with increasing those economies within those respective areas. So, I'm happy to talk with you more about it and who we can connect you to, and not only that, but my team has different regions that they cover, so if there's someone in the south, so either Crystal or Chanis, if Chanis can raise her hand, but they have the southeast that they kind of overlap in those spaces, and that will be where we can bring together other partners, as well as Barry's team, Barry Wides, his team with our community affairs group, we can also work with them, they are very closely tied with a lot of our activities as well. Any other questions? All right, see, Andre, I knocked it all out in 20 minutes.”

A. Moss continues, “Please, if you have any other questions, feel free to reach out to either me, Crystal, Chanis, anyone on my team. Again, we also have a mailbox, if you forget, it's reach at OCC.TREAS.gov, and we'll just route it to whatever region you're in, and we'll make sure that we are responsive to any questions you have.”

C. Dully adds, “We also have a website for our minority deposit institutions, so if you go to OCC.gov and type in MDIs, or minority deposit institutions, you'll find our policy statement, Ernie's list of MDIs, which we update quarterly, as well as the FIWE report and other resources on our website.”

DFO King states, “Thank you, Andrew. I think the Project REACH and all the efforts are what we're here for, and as far as promoting and preserving, because we're only limited in what we can do from a DFO MDIAC standpoint, by statute, things of that nature. But this Project REACH call, and all the things, the exciting things going on within that umbrella, let's make the most of it while it's still fresh and new with everyone. So, thank you, Andrew. And with that said, we'll break for lunch for an hour, and we will be back at 1 p.m. Eastern Standard Time for State of MDIs from Ernie Knott. Until then, we will sign off.”

DFO King states, “Well, welcome back, everyone. I hope you all enjoyed your lunch break. It was very networky here, if that's even a word. Conversations were being held. Ideas were being exchanged. So, that's my communication for further physical participation for future events to be a part of some of these informal discussions, which, you know, result in some significant progress on a variety of fronts. To kick off our afternoon session, we have Financial Analyst, National Bank Examiner, Ernie Knott, providing an update, State of MDIs presentation. So, Ernie, the floor is yours.”

E. Knott presents, “Andre, thank you very much. And thanks for having me. For those of you who don't know me, but I was just saying, I know everyone at this table, and even the public observer section. So, I know everybody. But someone on the phone, in case you don't know me, my name is Ernie Knott. I've been an OCC Financial Analyst for many years. I've actually been on for 39 years. I

started in Miami, Florida, years ago, after graduating from Florida State University. After passing the commissioned exam, I moved to New York in the early 90s. I'm cross-credentialed, which means I can examine Federal Savings Associations. It was a great opportunity when Beverly Cole asked me to get involved with the MDIs in 2020, during COVID. We made it down here all the time in person for those meetings. And now with Andre I've been serving this committee and the designated federal officer for four or five years now. It's been great so when I'm not doing this, I'm out with our employees talking about saving and investing for retirement, keying into financial literacy. I joke and say I'm making the financially literate more financially astute. We have a thrift savings plan, which is a public version of the 401k and I kind of share information and mistakes I made early on, so they won't do the same. But a couple of good comments. Kelly mentioned about how important it is to understand interest rates and that. In my training of our new people, people ask me going back, what would you have done differently? I would pay more attention to the Federal Reserve, Federal Funds, and the 10-year Treasury yield and how important is the banking.

So, great stuff. And I have a next slide, please. Let's go right to the agenda. We've got four parts. We're going to start out with portfolio demographics. This is high level trends on the number of institutions, size, the MDI group. Next, we're going to talk about supervisory information. This is information we gather from examinations of your bank, supervisory ratings, supervisory risks, MRAs. And next, we're going to get into the financial performance piece. This is mainly from call report. As a bank examiner, I'm going to go in the CAELs order. We're going to talk about capital, asset quality, earnings, liquidity, and sensitivity and then I have a piece on economic challenges. This is not going to duplicate anything of that great presentation we heard from David this morning. Many times, I'm not with an economist, and the most common question I get is on the Fed and where we're heading with interest rates. So, I'm just going to share my perspective. But to dovetail what Amy said earlier, I go out a lot with the economists in these meetings or in any kind of CAEL outreach. I think we really complement each other. You want financial analysis about the trends in your specific group of institutions, but also the bigger picture of the environment in which banks operate in. So, I think it's really good to have both of us during these meetings. Now, my presentations are green and growing, to quote Ray Kroc from McDonald's.

Each year, they're different and a little bit more focused now on liquidity. You're going to see that in the cost of funds. I'll probably take a fresh look at this next time around. And again, if you have any questions at all, please feel free to ask them at any time. We're going to start off on the portfolio demographics. And before we get into the MDI-specific data, I always like to talk about the big picture. OCC supervises a diverse group of 1,095 total charters, and I want to focus on the first three columns. When we talk about banks, we're talking about national banks, stock FSAs, and mutual FSAs. So, that's kind of what we refer to. There's 933 of those, again, in those first three columns. But going down below, taking those numbers, MDIs represent 54, up from 52. Last time I was here was 52. We did not lose any, and we have 54 now. And they represent 5.8% of OCC charters, up from 5.5. Assets are now at almost $40 billion, or 4.7%. Last time they were at 4%. So, I have a chart there. You can see the breakout of the assets. And because there's no MDI in midsize or in large banks, I thought it was only fair to compare assets for MDIs to community bank population. And we have that there.

So, okay. Next slide. Looking at this, it's a trend. And we talked about consolidation this morning. The banking system continues to consolidate, state charter banks, national banks. You can see over the top, this is due to mergers and acquisitions as well. But Comptroller Hsu was mentioning the denovos. And yes, that's the second piece people don't always talk about, on how there's so many fewer. To give you a quote, in 1999, we had, as the three agencies, 232 new banks chartered. In that year, take a guess, from 2012 to 2023, how many total charters for those 12 years? 67 total.

There was a period of time after Dodd-Frank that there were certain years there were no new banks chartered. So it's not just the mergers and acquisitions. The pipeline coming in is really dwindled down to single digits and that's the other part of it. But what's important, looking at the top chart, you can see the number of total charters declined by 718 or 42 percent since 2013. But look at MDIs, the blue piece, 54 in 2013. There's 54 now. So the reason that the number of MDIs increased as a percent of the population, the population declined by 42 percent, but MDIs did not, we did not lose any. So we lost any, the net number did not change so we remain in that 54. So we were able, if we do lose an MDI or a merger and all that, there's new ones in the pipeline coming in. Looking at the bottom, we're unbundling that MDI population of 54 by MDI group and you can see the breakout there. The only big change, I mean, small change from 2023, we have two new women MDIs in 2024, one from the great state of Minnesota and one in Texas, and that was here. Let me pause. Next slide, please. This is just taking the last column and breaking out the MDIs by MDI group. The largest group right now is women, and they represent 20 or 37 percent of total MDIs. And I was just talking up our relationship with the FDIC at lunch. We have a process, Andre and I, I know Betty's involved with it. We reconcile the numbers each quarter. I told Betty, I said, I have confidence in putting these out there. So in addition to the 54 MDIs supervised by OCC, there's another 115 supervised by the FDIC and Federal Reserve, and that's on the bottom. This is a new slide from last time. I'm constantly trying to add things, so we have this package can be like a fact book on MDIs in general. Next slide, please. We're on slide number six.

This is showing, oh, by the way, you might notice that some of the fonts are much bigger. I did it for others can see it more easily, including me. So we have 23 states either have one or more MDIs, and you can see MDIs are concentrated in the states of Texas and California. Next slide, please. This is just some documentation on your own if you're wondering when I talk about peer groups, I wanted to document. So as of June 30, 24, the smallest MDI is a little bit under $30 million. The largest is about $5 billion. MDIs are either national banks or stock FSAs. There are no mutual or trust company and none in midsize and large banks. When I created this peer, I thought it was important to bring all MDIs less than $6 billion because size is important for some metrics. I didn't want to include such larger community banks in there so when I talk about the community bank peer, that's what we're talking about. I'm also comparing the OCC supervised MDIs to those supervised by the FDIC and Federal Reserve, and I'll refer to them as the other MDIs or non-OCC and those numbers are in this presentation as well. We are on slide number eight. Next slide, please. Again, just some facts here. 83%. I'm going to move through these quickly because they don't really change that much. 83% of MDIs are national banks. And we have of the population, we have for MDIs, 24% of MDIs are Subchapter S. I just wanted to provide that as information. Subchapter S passes income directly to the shareholders to avoid that double taxation so MDIs a little bit less than the CB community bank population as a whole, and those numbers are there. Next slide, please. Again, we're going to move through this quickly. These don't change much, but I thought it'd be nice to have in your package.

Generally, MDIs are smaller in size than community bank peer group, and they're younger. There's less banks that were open MDIs over 100 years ago, and I just broke those out. This is a piece of information. Okay, slide number 10. Now we're getting into the supervisory ratings piece of the presentation so I want to point out here on the top, MDI ratings are improving. I'm looking at the number of one and two rated institutions. The last column on the top, 87% now are rated one or two, and we're holding our own on that one rated population remains at 13%. In looking at the bottom slide, we're looking at the specialty ratings, information technology, asset management, or trust consumer CRA. Notice that there's no three slash four or five. The worst specialty rating, and this is great news, is a three rating, and actually there's only one for two of the categories and three ratings. So again, this is all good news. The recap composite ratings as a group are improving, and we do not have any four or five rated specialty areas for the MDIs. Slide number 11, please. We're looking at, again, supervisory information on top.

The top three risks for MDIs are strategic, operational, and credit, and this is showing you the year-over-year change in the categories. We'll be talking, actually, liquidity is a close fourth, but you want to point out that that did change a lot. I know Jody and others have brought up liquidity, so we're going to see that in a second. On the bottom, we're looking at the percentage of MDIs that are on the expanded or 18-month supervisory cycle, and you need to be over $3 billion in size, have a one or two rated composite in management, and not undergone a change of control in the last 12 months, and you must have a well-capitalized category for PCA. Let me make sure I got that. I got the numbers right here. There's four MDIs that cannot be on the 18-month cycle due to size.

I look at consistency in the ratings based on metrics. For example, a one-rated bank for each population, there's a minimum, a maximum, and a median, but I do not look at it geographically, per se. Yeah, but it's important, because you want to have, and I can tell you, I just did this. I had a question for a banker. It's uncanny on how accurate we are over time. You can see once a bank goes over a certain classified level or earnings flaw at a certain point, they move down to the next category, so it's kind of almost a straight line in a way, but thank you for looking at it. I mean, we want to make sure we're as fair as possible, and it's important to do those exercises. Next slide, please. We're on slide number 12. I thought this slide is more about looking forward in terms of the rating, more coming attractions. The rating upgrades and downgrades have been balanced. We have a net rating downgrade of one.

The two categories, and going right back with Jody's comment about liquidity, most of the downgrades and the highest margin is liquidity. We had 11 MDI rating changes, nine downgrades in liquidity, and two upgrades. The only other category where there were more downgrades than upgrades in earnings, and a lot of that had to do with net interest margin compression based on Jody's comment about the increasing cost of interest expense and how that cut into the margin. So, those are the two big issues and again, looking forward, MRAs, we have no change in the number of MRAs set year over year, and you can see here the number one category is capital markets in the recent 12 months and a lot to do with liquidity and interest rate risk, and most of the MRAs that were increasing a lot for bank information technology have fallen off. Either you have addressed those issues, or yes, you addressed the issues in that, and no new ones have entered the picture as a result. That's important. It's addressing the old issues, and there's no new issues for the banks. Slide 13. We are now in the financial condition piece. We're going to start with CAMELS and looking at capital, the MDI leverage ratios are above pre-pandemic. They dipped a little bit this year, and I also wanted to show, along with the leverage ratio, the equity capital, the total asset ratio for wealth and why I want to show this, the unrealized depreciation or AOCI is not included in the leverage ratio, so you cannot see the impact of that so in the equity capital to total asset ratio, you have that. Just a refresher, banks had to make a one-time election back in 2015 if they wanted to opt out from including the AOCI. Most community banks did. All MDIs did so what that means is that to see the impact of unrealized losses from the available for sales securities, you have to see that on the bottom. And here's the point. As the Fed started raising rates in 2022, you could see the orange, the community bank peer on the bottom.

There was a lot of unrealized losses, so that ratio fell. But you can see, and looking at the top, the blue and the green, it's not a big deal for MDIs. They didn't have the level of depreciation in the securities that the community bank peer had and just to show you on how important, if you look at the MDI's leverage ratio, it's 227, looking at the top, 227 basis points higher than the peer. But the equity capital is 269 basis points higher than the peer, and that shows the impact on the community banks and that's important because capital acts as a financial cushion. If you have a lot of depreciation, you have a greatly reduced cushion so the bottom line is MDIs look a lot better when you look at equity capital because unrealized losses is not a big deal at MDI. I want to give you some

credit for that as well. We are talking about the Silicon Valley Bank at lunch, and they had over 100% depreciation and again, not a quality issue. They're all U.S. government securities, but that's how big it was for that particular bank. You can see the median is still about 11% or so. We are now looking at the ratings. So capital ratings are satisfactory. Most are rated one or two. Look at the one-rated category. It's held up during this period, and that makes sense. You saw the unrealized losses is not an issue, 48% one-rated, and we have more MDIs rated one or two right now and then looking at the PCA categories on the bottom, 96% of MDIs are rated are considered well-capitalized. There's only two that are not. Those two have levels above the four PCA threshold, but because they're under a formal action that requires a higher minimum, they're knocked down to adequate width, in other formal action of some sort. We have more MDIs now in the CBLR framework and for those who are not familiar with the capital rules, if you opted into this community bank leverage framework, you are just maintained 9% leveraged capital, do not have to complete information for total or tier one capital, and you're well capitalized as long as you stay above 8%. If you did not opt in to the framework, you need to have a 5% leverage ratio, 8% tier one ratio, 10% total, and then 6.5% for the CET1 and not be under a formal action requiring a higher minimum. All right. Next slide, please.

We're now into asset quality here. Looking at the top, we're through this whole rate cycle. Total past due loans are actually lower for MDIs since year-end 2023. And the title of this slide says it all, asset quality is resilient. Again, through this whole 525 basis points of rate hikes, asset quality has held up. I want to point out the change, and we're looking at the 30 to 89 days past due, or I call that early stage delinquencies or noncurrent. Noncurrent has edged up a little bit, but the pipeline coming in is lower now. I'll quote you the numbers on that. We have for the noncurrent loans in Oreo, it went up from 37 to 47. However, the 30 to 89 fell from 0.49 to 0.37 so that's good. Looks like we have well-identified problems, but the pipeline coming in has declined so that's a good sign. And I know Andre mentioned this, we're talking about, we're focused on the allowance for credit losses now. CECL has been here for a year. Our MDIs have higher levels today of the allowance compared to, I use 2019 as more like pre-pandemic. And the reason I'm going to say it is, CECL is part of it, but also going off the presentation this morning, while we expect a soft landing, I think there's a scenario that we're going to have some economic slowdown. There's always a chance that we can enter a recession. I think that chance is small so I think the allowance analysis considers that there is an impact of an economic slowdown. I think those two factors, CECL and an economic weakening, we have a 1.3 median for the MDI allowance versus 1.29. Next slide, please. We're looking at loan growth. Loan growth has been, has improved to over 10% for MDIs and I also want to talk about CRE here. We have six MDIs, or 11%, that exceeded the CREE concentration thresholds.

I want to pause there for a while because CREE has always been a hot topic for banking and for regulators. If we go back to 2008 financial crisis, many banks failed during that period for commercial real estate due to concentrations and coupled with imbalances in supply and demand or weak fundamentals. So that's always on our radar as regulators. I think Beverly and I, and maybe Andre have been through three CRE action plans over time. But the good news is off of 2023, I'm looking at the slide on the bottom right, we're down from 15% now to 11% so there's two less banks that are over the threshold. For those of you who are not familiar with the threshold, there's guidance, OCC bulletin 2006-46, that may not mean anything to you, but there's interagency guidance. When banks have commercial construction development loans that exceed 100% of capital, or you have total CRE, there's four pieces of CRE, including multifamily, non-residential, over 300% and has also increased during the prior three years. So again, that's not limits. What we expect as you approach those limits, heightened risk management so the guidance talks about stress testing, looking at underwriting, having the board set internal limits. Again, when we get to that point. So we're a little bit higher here and looking at the slide on the upper right, if you look at the total commercial real estate, non-farm, non-residential, that 40 is one piece, multifamily is another,

and C&D. We have 62% of our loans for MDIs increase so it is important for us in MCBS to follow that for the MDIs. Let me pause there for a second.

Now, because of that, I added a slide on, next slide, please. Because of that, I added a slide on the CRE concentration because capital is a little lower for MDIs now, if you look on the top, the C&D level, the capital increased from 41% to 55, the blue columns. The red is also up a little bit from 202 is up to 232. Let's look at the shift within the four categories. Now, this is looking at the commercial real estate, the way the circular looks at it so it's a C&D loans, construction development, multifamily. It's other non-farm, non-residential. In other words, we take out owner-occupied. In other words, you have an owner of a building and they operate a business, that is not considered commercial real estate. If they rent it to 7-Eleven, then that's considered so we considered the other. The last piece when people forget about is commercial real estate alone, not secured by real estate so looking at this, there's been a shift out of the green. We have minus seven on the other non-farm, non-residential, and that's where the office piece would be. But as David said earlier, there's not in community banks, don't have a lot in the office area and the shift has been more plus four in the red, which is the multifamily and plus four in C&D. So you can see that those shifts there.

Next slide, please. Loan losses remain low. I decided to put this in here on that slide on the upper right is the median. Because a lot of banks still don't have losses, I don't think it's really fair just to look at the median. The bank in the middle is near zero so I looked at the weighted average. I took your... Again, this presentation is for 54 MDIs so you can read something about that interest margin in the news. It doesn't mean it's happening to this group. Look at unrealized losses. Look how bad it is. No, it isn't so that's why it's important for us to look at our 54 banks. When you do that, the weighted average losses to the loan portfolio is at 0.15% in 24, and it came down three basis points. But what was important, I put some detail on the bottom. We're seeing some losses in commercial real estate so looking at the 100%, in other words, that small piece of 0.15, if you look at 100% of the pie, we have losses in C&I consumer, but now 31% of that is in commercial real estate. There's only two banks that reported it, but still it is. And we may see recoveries down the road, but so far this is how it looks as of second quarter 2024. Let me pause there. Next slide, please. We're getting to the earnings. In other words, for the residential real estate, the recoveries exceed the charge off so you have a negative 2%. So absolutely. Next slide, please. We're going to get involved with the earnings. And looking at the earnings here, and I think, Jody, you've said a lot of things today that I'm just tying into about earnings are lower as well and about interest expense. It's almost like I think you can sit up here and do this presentation for me. So looking at this, earnings have weakened. Now, 75% of MDIs are either rated 1 or 2.

That's from the bottom. Now, earnings has always been an area that's lagged safety and soundness other ratings, but it's been that way for years. But now we're at 24% are rated 3, 4, and 5 so that's important to point out. Now, looking at the upper right, we're looking at the median of those 54 banks. Earnings, our ROA is coming down for all groups, the OCC supervised MDIs, the 115 MDIs at the FRB and FDIC, and community bank here. On the bottom, I want to unbundle the MDI piece so that 0.83 is on MDIs. You can see the generally banks that are larger have better ROAs, but not necessarily. Now, MDIs are only 54 banks, so you can see more of a pattern would appear so there's definitely a size advantage. And I do want to point out the MDIs of the group are much smaller than community banks. Again, to have the MDIs have better performance, that's a big deal because of the size here. I want to point that out as well. All right. Next slide, please. Oh, let's see. Yeah, if you can go back one slide. Beautiful. Hey, I put this in here for net interest margin. This is important. So what's been happening? Going back to the bottom for the net interest margin was in first quarter of 22. In March of that year, the Federal Reserve started raising rates. What happened?

Assets repriced upwards immediately for banks so margins expanded. We had a huge volume of pandemic-related deposits in the banking system so banks were either reluctant or didn't need to raise them, or based on your appetite, there was a lag. Margins expanded for a while until 2023, where as that balance of excess liquidity or pandemic-related deposits started to dwindle, competition as rates kept going higher, interest rates were higher, but there's also more competition. That second part is also what's driving the net interest margin.

I did want to point out the reason the title says year-over-year margin contracts. You can see on the top, with the Fed cutting rates now, there's going to be less pressure on the deposits. Some populations, looking at community banks, actually quarter to quarter saw three basis points increase and also for our MDIs, we're stabilizing. You went from 3.55 to 3.54. But on the bottom tells a story, again, year-over-year. If you look at first quarter 23, the blue columns is the numerator for the margin. That's your net interest income in a normal environment, when you see compression, you usually have the numerator goes up slower than the denominator. The reason I highlighted those columns in red, we actually saw a decrease in net interest income for some quarters. Then while the denominator, the average earning assets continue to go up. Simply put, I'm going to say it two ways. You had a 3% increase over the year in net interest income, but an 8% increase in the denominator, leading to the compression. Said another way, the assets, your asset yields repriced upwards. The 61 basis points, but the cost of funds increased 79 and that was the 18 basis points. Anyway you want to cut it, that's what happened. And I put those numbers in there so if you want to check, you can do your own. I thought it made it easier on that bottom slide to see that compression exactly how that unbundled. So now next slide, please. Now looking at this, there's two ways to look at the earnings. I like to look at the bank in the middle for ROA or the median, but you also got to look at the weighted average and looking at the upper right, Jody, if I was here a year ago, net interest expense, you see that 68% was exactly 300%. It's getting better, but you can easily see the margin compression looking at the income statement. Interest income went up 23%, but interest expense went up a lot more and you could see that very clearly on here so that was the sharp rise in the cost of funds.

On that bottom, it's just like an executive CEO slide. If you just want to look at the categories there, and also because non-interest expense is your biggest category, I broke that out on the left side and you can see here the personal expenses really maintained itself and occupancy is coming down the yellow in the middle. Other has been going up a lot over the last two years. So first it was a personal expense going up. The reason that personnel and occupancy don't look like they're going up is because there was a 9% year over year increase in other. And I did write down, I did want to share what is going up with the other because you have your IT expenses are your largest. You also have FDIC insurance assessment, legal fees, and accounting and auditing. And the reason I can't give you an exact number, most banks file the 5150 call report, you only file these numbers annually. So in other words, I got a feel of it, but until December, until you put those numbers in. But that's what's driving basically your IT budget and the legal fees, auditing, and FDIC assessments. Let me pause there. Next slide, please. Hey, we're in liquidity finally. So looking at liquidity, I know it's a hot topic. I'm going to go over this quickly. I know we have someone coming in to go into it in a lot of detail. Okay. So looking at slide 22 here, our liquidity ratings, and you saw those downgrades. So look at the slide on the bottom left. You can see that shift. Look at that large shift from 1 to 2 rated. We're looking at, it was 43%, the green, and 23 were rated 1. Now only 33. So again, most of the downgrades were from the 1 to the 2. Again, looking at the rating changes earlier, you knew this was coming, and that's what it looked like. Looking at the deposits, I put this in the comments. If I came here a year ago, I would have said your deposits have actually declined for periods. The great news is your deposits, the MDI deposit remains solid. They increased 1.4% for the quarter and almost 7% for the year. What I like about those numbers, if you take the deposits slide as a group so that's important. And on the right side, we're just looking at two ways of looking at the free funds or the non-interest bearing deposits. It's 21% now, that gray. All we're doing is getting back to where we

were pre-pandemic. So 2019, there were 22. And on the bottom, I wanted to break out brokered deposits. Brokered deposits were higher. Look at broker deposits for the MDIs in 2019, 7%. Actually, we're in better shape now than we were for MDIs with 6.4% in broker deposits. So again, MDIs have been doing good with liquidity. Again, some downgrades like the rest of the banking population due to the environment. Let me pause there for a second.

Next slide, please. We're looking at on-hand liquidity. On-hand liquidity, if you see, we peaked in 21 along with the pandemic-related deposits coming in, and we're down about three years, consecutive years on the ratio. But look at the MDI median. It's higher than the community bank pair and other MDIs. And on the bottom, I broke that out so you could see that at 23.84%. As you can see, it's very clear. Our smallest, I'll give a shout to our smallest MDIs, have the highest level of on-hand liquidity, looking at the chart, the table on the bottom right. Again, we're unbundling that 23.84% that's in that chart and bringing it to looking at each asset group. Okay. Next slide, please. I thought it would be helpful to see the cost of deposit. We know from the interest expense, the cost of deposits went up. You can see they really went up a lot, looking on the upper left slide. Again, we're under 4%. With the Fed cutting rates, 50 basis points, this should now take a lot of pressure off that. We could have probably peaked, which is good. Going clockwise on my square clock, MDI liabilities, you can see that this whole deposit is a little less. We have a little more other borrowings, which is common for the banking industry but I wanted to show you this shift. We had a lot of talk about this. On the bottom right, MDI deposit detail. Now, non-return deposits, which we love as regulators, I'm sure you love as bankers, they're usually priced lower and they don't tend to leave your banks as quickly as others. That's the orange, your demand deposits, and the gray. Look at the number in 22 for the orange. We went from 26, 36, 31, minus 5. Look at the gray, 37, 32, minus 10. Where did that money go? Look above in the green and the blue. Pretty much for people who had money market deposit accounts, those interest rates weren't good enough and they wanted CDs and they wanted higher rates.

Basically, we had a shift out of our non-return deposits, the orange and the gray, and into the time deposits. Jamie, you can tell your bankers that you sent away that, you know what? You can get more competitive now with them. Get them back in that bank there. I know from talking to bankers, they said, Ernie, we call our customers, our big customers, we're willing to pay maybe 25 basis points more to stay with us, but after that, they seem to go and they said also, the Treasury bills are also tough to beat, too. Not only did the money go to other banks, the Treasury bills were another place they went. We peaked out with the Fed cutting rates, so hopefully it's all going to get better. But anyway, I wanted to give you-and no, on the bottom left shows, you can see the big change in the rates for the green and the blue for the time deposits there, pretty much out of your other savings and into higher yielding deposits. Next slide, please. Sensitivity, we're going to cover this very quickly. It's not an issue. The unrealized depreciation, which is on the bottom right, is not an issue. Actually, I was surprised to see you're managing interest rate risk very well. We have more one-rated MDIs in 2024, and 22%, and total 91%, either rated one or two. Again, you've been really good here through Fed tightening. Your depreciation is on the low side, along with the other, FDIC and FRB. So MDIs have done really good on this area. Next slide, please. Actually, I think about Jill Sung. I go out and actually, as Amy said, you want to make sure you invite economics and me. We kind of complement each other. I was at a CEO outreach in New York. Jill Sung, an MDI with Advocates Bank. She says, Ernie, this is great. I think my board would benefit. Could you come and give me a presentation? So I did that.

So I gave her a presentation on that. She had a lot of questions on the dot plot and interest rate, but she invited me to Chinatown. I don't live that far, so I went down there, and I paid for my own lunch, so you know. And this is going back to what Jamie said earlier about, and also Jody, sometimes our customers in our communities are outside the box. They don't fit the normal W-2 where they're

employed. So we went to Hopley. I don't know if anyone knows Chinatown. It's my first time there and the first thing that surprised me when I opened the door, now this is a busy, nice restaurant. The sign on the door said cash only. I was shocked. This is a nice restaurant, because in Seven Times Square, it's only credit card only. I'm like, okay. And anyway, we had lunch, and so she says to me, she says, oh, by the way, we ordered fish, but it comes out with a head. Are you okay with that? I said, no, I'm okay with the fish with the head, soft shell crabs, clams in the half shell. I said, I'm okay with everything, but I'm not okay with one thing. She said, what's that? I said, well, like a fork, unless you're going to watch me suffer and eat my food. So I got my fork, which I had to look for, and we had a very nice lunch, and we talked about the Fed and the economy, but I thought it was interesting. She gave me a tour of the bank.

Second question about customers not fitting the box. They have 9,000 safe deposit boxes. I've never seen so many. She explained to me, in that community, in the Chinese-American community, a lot of times they come here, they might live with other people, they're not going to put money under the mattress, so it's important, or not in the bank, they're going to put it in the safe deposit box. I think in the bank is over 40,000, anyway. So those two things, the two takeaways, cash only, they may not have the documentation alone they normally have. And let me tell you, by looking in the window, they were packed, a bunch of business mortgages and all that. But anyway, and that's important, knowing our community and knowing some of the difference in there, and reaching out to that community to provide credit, which is so important for the community. Looking at the dot plot here, this just came out on the meeting after September 18th. I did want to point out, because I think it's important that we follow, the Fed, Jay Powell is telegraphing his intention. So if you, looking at the top, so GDP, I'm not going to duplicate what David said. The Fed follows four variables. This is what has a bigger impact on monetary decisions. GDP, the unemployment rate, PCE inflation, not CPI, and the federal funds rate. So looking at the top, GDP, we know it's good, as David said. The third read of second quarter comes out on Thursday so assuming that everything is hunky-dory, we're not going to have any issues with that. PCE inflation, that comes out, the Fed's inflation comes out on Friday. Why I think that's important, they just cut rates. As long as that inflation doesn't pick up, I think we're good with that. And I want to point out in the bottom, the federal funds rate, they have 4.4, and it's down from 5.1. That's when you hear the Fed's going to cut 100 basis points. Before the cut, the policy rate was 5.25 to 5.5. 5.375 is the midpoint, or 5.4. That 4.4 is saying that's the 100 basis points so the Fed is telling us right now, we're going to get 100 basis points That means we're going to get two more. And all the way over, I had this conversation at lunch with our economist.

You see this longer run under federal funds rate, 2.9. That's important for future meetings. That's the neutral rate of interest. In other words, interest rate that doesn't create inflation or doesn't stall economic growth. There's a debate, and after they're done cutting, on where we're going to end up. Jay Powell said in his speech, the era of free money is over, suggesting that we're not going to go back to 2.5. Larry Summers, former Treasury Secretary, thinks that's going to be over 4%. So that's important. Once we cut, where are we going to end up? So I do want to point that out. Next slide, please. Really quickly on the variables here. If I wrote this slide back in April, I would have said a laser focus on inflation. Now jobs are more of a concern. That core PCE, you can see it's coming down slowly. The target is 2% and the unemployment, this is what Jay Powell is concerned about. A lot of people call the 50 basis point cut a preemptive cut, because he started seeing signs of weakening. And if you read his speech or hear it, he quoted a number, 116,000 jobs were added and averaged for the quarter. What Jay looks at, looking on the bottom, jobs creation, 118 for June, 89 in 142. The average is 116. He's looking at that as a measure. You'll see that number 116 in his speech. Now that 118 in June, that came out at 206. Every time we get new numbers, they're revising the old ones down. In July, the number, August, I remember that August 2nd when the jobs report came out, it was 114.

The market tanked that day. That was the SOM rule came out. All the concern the day before, continuing claims went up.

If you remember that Monday, it was the unwind of the young carry trade. The futures were down at 4% before the market opened so there's a lot of jittery about the condition of the U.S. economy, but I think that it is good. And unemployment rate, a lot of people follow the total unemployment rate, but again, it's around 4.2%. Next slide. I will pat myself on the back because I gave you this slide. It's in your pack from April. When I predicted in April, the first rate cut would come in September when everybody said there's going to be seven rate cuts. And the reason, I didn't see inflation coming down enough, but it's in your pack. Now that it's at 100 basis points, I think we're going to get 25 and 25. The only thing that can derail that is if inflation either goes up higher or jobs go down slower. If jobs are slower, he might do another 50 basis points if he feels that's needed. So apart from, there's two, so any of these like sub-indicators I'll mention are important. On September 17th, the advanced retail sales, that came up a little higher than expected. Each Thursday, there's the continuing unemployment claims, that came down so right now we feel good about the economy, but it's a moving target. The next PCE again on Thursday and the first Friday jobs report that will come out in October, that's going to be important. Again, to make sure we have the soft landing. I think that was pretty much it. I got all my, oh, I did write a few things. So right now the Federal Reserve is more dovish than they have been. The four new members that are voting this year, we have Mary Daly, Raphael Bostic in Atlanta, Barkin in Richmond, and we have Hammond in Cleveland. They're considered more dovish and what was surprising to me on the 50 basis points cut, only one, Michelle Bowman, won at 25. So it was unanimous and that's important because, you know, it's what they're saying on the committee. So let me read some things here.

What Jay said, he's going to continue making, again, I'm following Jay Powell on what he's telling us. And from his speech, I'm going to read a couple of things I wrote down this year. We're going to continue to make decisions meeting by meeting. Don't assume this is the new pace. In other words, we may not get 50. And he's just telling us, don't expect this going forward. The economy is in good shape. I don't see anything now, but I am watching the jobs closely. So again, that's telling us from the dual mandate of inflation and maximized employment, inflation has taken a backseat, not no seat, to the jobs and he wants to ensure that soft landing. So again, going forward, meeting by meeting right now. Again, the good news for banking is that this should take pressure off of the deposit rates right now. We are in good shape. So next slide, please. I actually, I am a little over. If anyone has any questions at all, but like I said, I'm trying to, what's important to me is tailoring this presentation, not to the banking industry, to the MDI. So what I'm sharing with you today is how we're doing here. And again, I would say your report card is pretty good. Keep doing what you're doing and let's hope those deposits, looking at that quarterly rate, it looks like they're coming in. I'm sure we have a lot of people in this room, Beverly and Jonathan, a lot of folks that are going to help you get those numbers up and that, and hopefully they'll come down in price and we start seeing these margins do a little bit better. Any questions? Going once. Going twice. Well, thank you for having me and next time we're going to just redo the presentation to what's important in banking at that time. Thank you."

DFO King states, "Thank you, Ernie. As always, and as Ernie always says, he's available and can build custom reports tailored to your institution. So please reach out and leverage Ernie as needed. Next up on our agenda, we do have a break before our next presentation. I would say we can come back like at 1.05? 2.05. I'm sorry."

DFO states, "All right. It is 2.05 to get the time right this time. And up next, we have our final presentation of the day. I don't want to mispronounce your last name. So I'm going to allow Chris to introduce himself and provide his liquidity presentation. Thank you."

C. Sadej starts, “Good afternoon, everyone. So my name is Christopher Sadej. I work in our Treasury and Market Risk Policy Group here in D.C. We're the policy group that covers liquidity, interest rate risk, investments, bank loan life insurance, trading products. It's all in our area. So happy to be invited this afternoon to talk a little bit about liquidity. I heard it was a topic of interest this morning. Feel free to chime in with any questions. Happy to answer whatever I can. Can we go to the next slide to give you an idea of what I'm going to talk about this afternoon? I'll start off a little bit talking about the OCC Supervisory Strategy and Key Risk, really just emphasizing some of the public documents that we have out there. If you're ever interested in what are the examiners focusing on, what are they interested in, just kind of reiterating those items. I'm going to try to spend the majority of the time talking about contingency funding plans. We don't have a lot of new guidance that we've developed over the last decade and a half almost on liquidity, but we've had a lot of lessons learned from the bank failures, from other things that's happened. I'm hoping to talk about some of those things, talk about how we can incorporate that into-or how it integrates with our existing guidance and things that the banks can do to try to take those lessons learned and strengthen their own risk management. And then finally, I'll just reiterate some of the resources that we do have out there. And again, I have some time for Q&A at the end. This isn't a very long presentation, so if anything pops up, just please go ahead and interrupt me. It's a relatively small group, happy to take it in any direction you'd like to.

All right, next slide. I'm going to talk about two of the OCC documents we put out there. So one is our supervisory strategy, and then the second is the semiannual risk perspective, which we put out twice a year. First I'll talk about the last supervisory strategy that we put out, which at this point is a year old. I think that the next one for fiscal year 2025, starting on October 1st, should be out in the next week or two. I'm going to talk a little bit about what was in the previous one, and I'll talk a little bit to what to expect in the 2025 as well. So can we go to the next slide? All right, so here's where we're talking about trying to pull out some of those points on liquidity, the things that we've told our examiners to look at over the last year. And again, this was for the fiscal year 2024 supervisory cycle, which is coming to an end, but you should see something very similar for 2025. One of the main differences is when we put this out last year, asset liability management practices were at the top of the list of the supervisory strategy, as kind of emphasized that that was a key point of concern. I think it might get bumped down a little bit, given some of the other credit concerns and things like that, but you'll definitely still see it on there, and you'll see a lot of the same topics that you see on here right now. So first one, we talked about banks making sure that their risk appetite policy limits are consistent with projected risk. And so here, we're not looking for all banks to reconsider or reassess all the risks. I think it's a prudent thing to do at this point, given we've had both a huge declining rate cycle with COVID, and then a big increasing rate cycle, which we haven't had in the past 40 years or so. There's a lot of lessons learned as to-we didn't have that practical experience to look back to, and how it impacted the banking industry, and how it may have impacted your own institution so it's prudent, I think, to take a look at what happened. And when it comes around risk limits, banks should constantly be looking at their risk limits at least once a year, trying to determine if those are appropriate or not. But I think it's worthwhile to look at, okay, what happened to your bank over the past year or two?

Was there anything that was unexpected or undesirable? Say, for example, a big increase in unrealized losses in your investment portfolio. And then looking at those things that happened that you prefer not to happen again. Then also looking at your suite of limits and thinking, okay, do I need to potentially change, augment, add to that suite of limits to prevent that same risk from materializing in the future? The second bullet we have out there talks about the timing and amount of deposit outflow assumptions. I'm going to be talking about this quite a bit later when we-in the contingency funding plan section.

But I'm sure that you've all heard this enough times. It's just after the bank failures in March of 2023, the entire industry has had to completely recalibrate their expectations around the size and magnitude of potential liquidity issues. Now, we're not saying that if those banks that failed had elevated risk profiles, we are not painting the same brush with-we understand what their risk profile is and not painting all banks with the same brush. We can't ignore the fact that when SVB failed, $40 billion of the $200 billion in deposits in the bank went out the door in one day. And if it was open the next day, we would have been over $100 billion. I mean, to have that-looking historically at the types of outflows we had seen, I think big ones were like Wachovia. That's all like $10 billion over the course of 14 days. This was $400-plus billion over the course of two days. Again, that should cause everyone to try to think and at least take a second look at contingency funding plans, how the bank would respond to a liquidity crisis, because that time-even the time that you think you would have to maybe react to a situation just might not be there anymore.

But I'll talk about that a little bit more later when we talk about contingency funding plans and then the last two bullet points in our operating plan last year have to deal with CFPs, but I'm going to be talking about that a little bit later. Again, I can't tell you exactly what's in the 2025 plan, but I can pretty much reassure you it'll have a lot of the same themes. We're going to have a little bit more information in there about assessing banks' liability concentrations, and I'll talk about that a little bit more later as well. Next slide. Complementing the operating plan, we have our semi-annual risk perspective, what we put out twice a year. The most recent one is from spring 2024. We put it out in June. The as-of dates on this tend to lag, so I think the June report looked at information through year-end 2023. We had an entire section in there on firm-wide resilience efforts, and it talked about a couple of different areas, and it highlighted liquidity risk management and capital planning, and the liquidity risk management really pointed to contingency funding plans, and I'll talk about that a little bit later. The theme you're going to hear a lot is understanding the operational implications of accessing your contingent funding sources and taking the lessons learned that we've had over the past couple of years and applying them to your contingency funding plan. Other risks that we noted in there were shift in deposit mix to CDs and increased use of broker deposits.

This happened in response to the increase in rates. As rates went up and alternatives such as money market rates went up, depositors either demanded a higher rate or took their money out of the banks and put them into those other market-based equivalents. And I know this is a liquidity presentation, but one thing I've been trying to push home on the interest rate side of things, and I think what we've been putting in our previous semiannual risk perspectives operating plans in the past year is, you know, this shift in the mix of the funding, in the funding mix of banks, if banks are just sticking to the regulatory minimum for interest rate risk expectations, which are usually you assume the balance sheet remains static and it doesn't change when you're doing your earnings at risk and EVE scenarios, you're not capturing the potential risk that your deposit or your funding mix is going to change, right? So now banks have seen what happened. Not only did deposit rates probably go up more than you expected, but you probably saw a mixed shift from non-maturity deposits to time deposits and then potentially deposits out of the bank, and that had to get replaced with higher-cost wholesale funding. So even just from an interest rate risk perspective, I'd encourage everybody to think about the lessons learned from that, because if you're just sticking to those regulatory minimums, looking at a static balance sheet, you might want to consider other alternative interest rate risk scenarios that consider things like that shift in deposit mix that you probably saw over the past couple years."

DFO King adds, "Thank you, Chris. I know it's a liquidity update. I'm sorry to interrupt you. It was flowing. I think it was a perfect intersection of interest rate risk. And again, just understanding your customer behavior, your modeling, and the inputs, the assumptions that are driving your model,

given the shift in all these variables that drive your model, I just wanted to plug that as well. Just take a closer look at your model and the assumptions that you're utilizing, given the rate environment going up and down and changing customers' behavior, because that's a key risk management tool going forward in this current environment."

C. Sadej continues, "You lead it right into the quote that I have up on the slide. In quotes, it said, we put this in the semi-annual risk perspective, that given the uncharted deposit behavior and rate sensitivity, its prudent risk management would be for both interest rates and liquidity stress testing to assume higher-than-expected deposit competition, resulting in higher-than-expected deposit pricing, regardless of rate movement. When this was last published, it was still kind of in a, okay, if we probably hit the peak of our cycle, maybe it'll decline, maybe not so it was a little bit more neutral there. Obviously, now we're potentially heading into a declining rate environment, but I think that that lesson still applies. And then kind of the final point we had on there was investment portfolio depreciation. I mean, since long-term rates have come down, that probably is reduced in most institutions. But we have seen an increase in banks, especially when those long-term rates come down, maybe take that opportunity to sell off some of those lower-yielding assets, maybe offset that with some gains from high-yielding assets. We've seen a couple of banks even think about reclassifying some of their investments, maybe from AFS, HTM, or the other way around. The one thing we've been encouraging everybody to do is to make sure you talk with your accountant, understand the implications of that, make sure especially if you're talking about reclassification, to understand how the mechanics of that work and that it's being done accurately so that you inadvertently don't do something. And then when it comes to doing things like rebalancing the balance sheet to try to get rid of some of those lower-yielding assets, also to think about the public implications of that, the reputation risk. Once you do that, I mean, that is one of the things that led to SVB having issues. Those things are not an SVB situation but once you have that public, okay, we sold off, realized the loss, we're taking a hit now so that in the long run, we can position ourselves for a better bank. Make sure that your shareholders, depositors, everybody understands the implications of that.

Next slide. This is a chart that comes right out of the semiannual risk perspective, just emphasizing the increase in rates. What this does is show the overall increase in deposit funding, so not just non-maturity deposits, since the beginning of an increasing rate cycle and it shows this for the last four increasing rate cycles going back to 1993. What happened in 2022, which is the orange bar, shows that increase the fastest and to the highest level that it has in the last 20 years. So just kind of reiterating things that you already know, deposit funding costs had gone up probably more than most banks expected. But again, within that, it's not just what Andre mentioned, thinking about your own repricing assumptions. Within that is also that shift in the liability mix to those higher-costing deposits. So even if you got your money market accounts and your now account repricing rates exactly right, if you only did that interest rate risk modeling based on a static balance sheet, you would have missed the fact that overall interest expense would have gone up because you had higher levels of time deposits and higher levels of wholesale funding. All right, can we go to the next slide, please? I'll pause there for a second and just see if anybody has any questions before I move into contingency funding plans. Like I said, the next bank supervision operating plan should be out in probably the next week or two for fiscal year 2025. The next semiannual risk perspective will come out in December. I think it's being drafted right now. All right, so I'll spend the rest of the presentation talking about contingency funding plan expectations, kind of using the guidance that we have outstanding, and then just talking about some of the things that happened over the past couple of years to just give you some maybe some ideas about what we've been looking at and how to take the lessons learned and incorporate that into your own risk management. This slide is just a reiteration of the guidance that's out there. So fundamental liquidity guidance still goes back to OCC bold in 2010-13, which is interagency guidance created after the great financial crisis. That's the core

of expectations for contingency funding plans. You get more information in our liquidity comptroller handbook, which is relatively recently updated. It came out last May 2023.

When it comes to liquidity guidance, the most recent thing that we issued was in July of 2023, an addendum to that interagency guidance talking about funding and liquidity risk, and that really emphasized a couple things. One is the importance of contingency funding planning, but there was also a lot of discussion in there about the discount window and its use or its function as a contingent funding source, and I'm going to talk about that more in future slides. Go to the next slide, please. All right. So I'm going to talk about kind of the different components of the contingency funding plan, and again, I'm not going to reiterate everything that's in the guidance, try to do a little value add here. This first slide, we're going to talk about the stress event, so those stress scenarios that your bank creates when they're thinking about how liquidity can be impacted in those different scenarios. The six bullets that are indented there are straight out of the guidance, talk about different things that should be considered when developing stress scenarios. Some of the things, the ones that are not in italicized, things that most banks I think do, talking about the inability to renew deposits, unexpected deposit outflows, things like that, those are things that we see in most contingency funding plans. I'm going to focus on some of those other kind of like lesser, other types of scenarios that maybe aren't as common. So top one there that's underlined, italicized, talks about the inability to fund asset growth. I mean, we've had a pretty good economy over the past couple of years. Some of your institutions might have growth plans, right? I can tell you, so outside of this presentation, I do a lot of training within the OCC, pretty much every single class that we have on anything related to market risk or say overall bank issues, there's always a case study related to excessive growth that wasn't well planned, well controlled, right? So this was put into the interagency guidance to get banks to think about that. If your institution is in that high growth mode to not just think about, well, what happens if deposits go out the door, but to also think about, well, what happens if my loan growth exceeds what I can fund with deposits?

What if I start going beyond my expected funding plan? Can you potentially put some circuit breakers on that growth to try to maintain the asset liability risk profile that you expected before you engaged in this growth plan? Because we are, I mean, hopefully we're not going into potential recessions or anything. So far, the economy is doing pretty well. But to think about that growth scenario as a potential alternative stress scenario and then the other one that I have italicized talks about the market value price validity of various asset classes. Here we're trying to think about especially the decline in the value of asset liquidity so everybody knows there's high levels of unrealized losses in the banking system due to the big increase in rates. And when you think back, like even just from my own examination history, this isn't really captured in most banks' contingency funding plans because most contingency funding plans start off with like a, you know, here's what I expect to happen, here's if things get bad, here's if things get worse. And usually when things get bad or worse, the economy is not doing too great and that usually comes with a decline in interest rates. So if that's kind of the standard three scenarios that you're running your contingency funding plans, it wasn't considering the potential that rates go up a lot and the value of my asset liquidity declines a lot. We've seen banks, you know, start to reconsider, okay, what type of alternative scenarios can I think of, such as like an inflation scenario, to think about, okay, what happens if my asset liquidity does decline in value and how does that affect my bank's overall funding profile? So again, trying to think about what we learned over the past couple years and practically applying that to banks. Going down to the next bullet, talking about the potential, when it comes to like even just developing these stress scenarios that are relevant to the bank, we encourage banks to think about their own funding profile and to use that to develop scenarios that are appropriate for them.n this case, identifying the risk in your funding profile can mean looking at your liability holders and, you know, not just your depositors, but any wholesale funding providers, broker deposit providers, you know, you have depositors that have uninsured deposits and thinking about what are the things that

are going to cause those people heartburn that could potentially cause liquidity issues for my bank, either from a qualitative perspective or for things like broker deposits or even things like CDARS from a contractual perspective. Even the Federal Home Loan Bank, you know, has a credit policy where they will, you know, curtail or start to kind of cut off funding or, you know, give you adverse maturities or higher rates if the bank's condition deteriorates. So trying to start off with a good understanding of what is the bank's liquidity profile and what are those triggers that your liability holders are thinking about when it comes to your institution.

First trying to identify those and then trying to develop scenarios that would start to stress those, right? It's definitely not a one-size-fits-all where the stress scenarios should apply to all institutions. It really should be linked to the bank's own risk profile. All right, can we go to the next page? In the guidance, the topics that I have here are kind of two separate things. It's assessing the levels of severity and timing, so what do I expect to go out and when will it go out? Then the second part is assessing the funding sources and needs, how am I going to cover those potential outflows? So I kind of put those together to think about it. This impacts the scenario design and thinking about the projections, right? Because once you identify those stress scenarios and if you have an understanding of your bank's risk profile, that's what's going to help determine, okay, what do I expect to leave the bank and when, and how am I going to potentially fund that? And again, when it comes to assessing those potential outflow rates, really just got to think about what we learned from 2023, the bank failures there. So emphasize again the unprecedented level and speed of potential outflows and thinking about how we can apply that to other institutions, community banks too. Think about things like uninsured deposit holders. Even in your CFP, I mean, we've seen banks reconsider, okay, uninsured depositors, most part of their deposit is insured, right? So they're insured up to $250,000 and then there's an uninsured portion. I've seen institutions that assume, okay, well, the uninsured portion is the potentially volatile one, the insured portion is pretty good. But in practice, that's really not what we've seen. Like usually if you have an account that has an uninsured portion, you can think if you're a small business holder or something, are they really just going to withdraw funding down to the insurance limit and then play it safe there? Or are they just going to take all of their funds and move it to another bank, right? We've seen banks think about how are they actually, number one, are you really assessing your level of insured deposits, uninsured deposits? And then how are you actually treating that in your quantitative calculations? And even when you think about CDARS or these reciprocal deposit programs that are specifically designed to try to retain your large depositors that have uninsured portions, you have to think about the provider of that risk, so the promontories or whoever that's out there. I mean, they have limits where they're not going to be working with each bank forever, right? They have to think about their own reputation risk, right?

There are probably contractual things in the contracts with those companies where you have to be eligible to be a member of their network. It's not a guarantee, right? So even if you have depositors with uninsured balances, and maybe you think that they're relatively safe because they're using some of these reciprocal funding providers, do you have a good understanding of what their pain points and trigger points are? Is that incorporated into your stress testing?”

A committee member states, “Just a quick point, and not a plug on intraday, per se. Barry brought up XXX. But just from our experience, talking to clients and taking our own deposit program through the risk legal compliance review, just thinking about how that was going to work, the folks at IntraFi were incredibly helpful because we were having these conversations real-time as everything was unfolding with the regional banking pressure. And they had materials which were helpful for internal purposes to say, hey, here are the different parties and players. This is what happens as far as a bankruptcy scenario to any individual one of those parties because that was important to know, not saying that that says, okay, now you have a playbook to operate from, but it was making sure, you

know, the lack of imagination didn't catch us flat-footed, that we could say, okay, here's what it looks like, here's what the role of the custodian is, here's the MDI as subcustodian, how that works. So I think the parties, Barry mentioned XXXX, the handful of players in the space, they've evolved and now are ready to answer those questions because it's not a value-add offering as much as this is table stakes. If you want people to be on this platform that they'd be able to answer those questions to their board, their regulators, et cetera."

C. Sadej responds, "Yeah, and I appreciate you sharing that. I mean, I think that just goes to, you know, reiterate, you know, that's the type of thing that we've seen most community banks do. Are they the same as SVB? No. Could they do a fully understand the risks and the pressure points and how that's incorporated into CFPS? And it's good to see that those providers are actually responding and providing that information because I do think that before the assumption was that, you know, or the assumption was there without maybe the support behind it so it all exists there and I appreciate you sharing that with the group. Outside of even say uninsured-insured, other things that we've seen, you know, for banks that have specific business models that maybe have higher inherent risk, especially things like fintechs, you know, those have their own risk profile. I'll talk a little bit later because we had a news release come out fairly recently talking about that. But making sure that the risk inherent in those maybe potentially higher liquidity risk business models is incorporated into the CFP. And then the biggest thing is just really trying to identify concentrations, right? If you think about like SVB, I'm sure even SVB, they knew that they had a large client base that was, you know, venture capital funded, et cetera. Nobody knew that, you know, these 25 clients are on the same WhatsApp group and sharing rumors and stuff and are being told to plan it. Is it really possible or even easy for banks to identify that stuff? No, but it gives us some food for thought to think about how other-what are the different ways I can look at the deposit concentration in my bank? You know, thinking about things like, you know, deposit type, counterparty, industry, geography, you know, common business model, things like that. And then bringing that into your liquidity and interest rate risk model stress testing and thinking about, okay, how does that impact the potential outflow assumptions, right? Thinking about slicing and dicing your own balance sheet in ways that you maybe didn't think about before that are potentially more relevant today.

So outside of identifying those different potentially higher liquidity risk things, it's been the key thing is to identify the appropriate outflow rates. In this case, we just have to use whatever information is out there. You know, your bank might have not experienced the liquidity event directly, so you can use your own experience coupled with, you know, the results from failed bank studies, industry models, consultants, whatever is out there to try to calibrate what those potential outflows look like. I think what we've been encouraging banks is when in doubt, probably better to err on the side of conservatism. If you don't want to overhaul your whole model and impose conservative assumptions and make it look really bad, at least you consider potentially doing an alternative scenario saying, well, if it gets X bad, how does that make our bank look? And at least to prove to the board that, you know, you've potentially identified that risk and don't see it as a potential risk to the bank. And the last thing I have on there just talks about the timing of monetization of liquid assets so I'll talk about this a little bit on the next slide when we talk about potential funding sources. Can we go to the next slide? All right. So identifying the potential funding sources one thing that we, that the banking agencies have been emphasizing over the past year, our acting comptroller has in public statements, is not just to think about the level of asset liquidity that you have, but also how you monetize it. And so, you know, for probably most of the banks in this room, you're not going to be thinking about outright sale or repos. Primarily it's going to be through pledging that collateral to home loan bank or discount window, something like that. And so we'll talk about some of the specifics regarding those. But even in your liquidity modeling, you're thinking about things like an outright sale, it's worthwhile to look at, okay, thinking about are the haircuts that you're applying appropriate. Again, thinking about not just where the bank is at today, but thinking about, okay, in an inflationary

scenario, the value of this investment portfolio could be less. How does that impact my asset liquidity?

When we talk about the discount window, I think here's where we've had, the banking agencies have been, you know, very clear, tried to be very clear about how we view that with regards to liquidity risk management. So the addendum that I mentioned two slides ago that was issued in July, 2023, specifically says from all the banking agencies perspective that the discount window is an important tool that depository institutions can use to manage liquidity risk. And there's a couple of reasons I just wanted to emphasize that. In statements from Vice Chair Barr from the Fed in December of 23, he made two really good points about the discount window that you're not going to get from other contingent funding providers is, one, you know exactly what the borrowing rate is going to be, because it just depends on Fed funds plus whatever, and you know what you get in primary, secondary credit. And two, the Fed can basically create money at will, so you know the money is going to be there. If you have the collateral and if you have the borrowing capacity, the Fed has the ability to lend that to you as long as they have the willingness to lend that to you. I'll contrast that with Federal Home Loan Bank a little bit later, but at least we know these two things from the discount window. They don't have to go out to the market and fund themselves to fund you if you're not going to get crowded out, if J.P. Morgan and Wells Fargo and everybody else is borrowing at the same time, they can get the money to you in a relatively short period of time when needed. And even our acting comptrollers made comments in public statements saying, you know, we're trying to reduce that stigma associated with the discount window. We can take care of it from the regulatory side. We can tell our examiners, you know, here's how we expect the discount window to factor into banks' liquidity risk management. And what we primarily communicate is that it's appropriate, we won't be viewing it negatively if it's used as an appropriate contingent funding source. We still draw the line that we still expect banks to have sufficient levels of asset liquidity and that we still want to see banks have access to liquidity on reasonable terms. We would still apply scrutiny to banks if they're either putting undue reliance on the discount window as their only contingent funding source, or if they're using the discount window on a recurring basis for liquidity needs and they don't have market alternatives, right? So we still have that line where it's not just that the discount window is, you know, the only contingent funding source that's available, but we're at least trying to really emphasize from the regulatory side, telling our examiners, there is a place for the discount window to be, especially as a contingent liquidity source.

What we've been doing over the past year is not just, you know, to emphasize that, but also to just talk about from a process standpoint, you know, lessons learned from, again, banking failures, what banks can do. And what we've really been emphasizing, you would have seen it in the operating plan I mentioned, the semi-annual risk perspective, that addendum to the liquidity risk management, all talks about making sure you understand how to operationalize those funding sources, right? So that you have those borrowing relationships established, you understand how they work, you understand what the needs are for posting collateral, potentially moving collateral from, say, the home loan bank to the discount window or vice versa if you need to, and then even just the mechanics of how you access those funding sources."

A committee member asks, "I have a question. Has the OCC done any analysis on the bank term facility ending? We've done a lot of analysis, even though we have zero on that facility, because we're looking at our ability of our contingency funding sources or other sources to fulfill if there's a squeeze, right? Because whoever, you know, there's still quite a bit in that facility, even though it ended, and that was at par. Now they're going to have to come off, and probably only, you know, there's going to be a gap between even if they pledge those same securities at market somewhere else. So, I mean, we've done a huge analysis, even though we have zero with it, just to see how it might indirectly impact our availability in, you know, with any contingency sources that we'll need.

You know, I mean, there was a time even during liquidity crisis, like brokers were out of money. So, you know, have you guys done that analysis of the cliff that might come off and how the banks that are in that facility are going to fill that gap?"

C. Sadej responds, "It's definitely something that we've seen on a bank-specific thing. I have not. I mean, so we have a quarterly meeting with all of our business lines, large bank, mid-sized community bank. We have what we call lead experts for capital markets areas. So, we meet quarterly, talk about risk. That has not been brought up as an area."

A committee member responds, "Yeah, I mean, we've done a projection of even through first quarter 2025 and the summer, because we don't want to get caught in other people's demand for liquidity and their gaps, and all of a sudden we're stuck in our normal course of business. So, I mean, I would guess it's pretty predictable when they're going to all get off that facility and that where are they going to go and how are they going to fill that gap."

C. Sadej states, "Yeah, and so something I can definitely take- Expect little fries like us, you know, in our daily, you know, in our liquidity planning. No, it's a good point. And like I said, I know this has been brought up, and I know idiosyncratically for those institutions that's definitely being taken into account in their supervisory strategy, their examiners are looking at it from a systemic perspective. Yeah, I'd have to think about it. So, we have not done anything to date, but it's a good point, something I'll take back to my group. So, just getting back to the discount window. So, for anybody who does want to do some additional work and make sure that, you know, your own management team, treasury team understands all the steps needed to borrow from the discount window. So, I have a link in there to an article that was published by the Community Banking Connections with the Federal Reserve System so this comes from the Fed itself and five steps to discount window borrowing. It gets pretty granular about, you know, all the specific legal agreements, requirements, you know, how to access the window. So, if your treasury team, whoever is responsible for liquidity risk management, is interested in making sure that the contingency funding plan is up to scratch and that you fully understand and understand that borrowing relationship and know how to use it, I'd highly encourage you to take a look at that. That just came out of this past August too.

T. Thornton adds, "So, Chris, what I would say is institutions that may need the discount window should go ahead and operationalize. It is not like snapping your fingers, I need it and I'm going to get it tomorrow. There's definitely a process and steps that take place and it takes time to really do that. If you're in a crisis mode, time is not always on your side. So, for institutions, it doesn't hurt to go ahead, even if you don't think you need it, to go ahead and go through the steps with the Fed of setting up your line, operationalizing it, getting collateral over to them, finding out what collateral they will and will not accept, and whether you have to move collateral from another entity to them. And then, in some cases, institutions have found it is not always easy to unwind the collateral from the other entity to get collateral to the Fed. We've had institutions run into that. I've had a couple of institutions that, and I don't know how this happened, but that didn't know which Fed bank they were supposed to be dealing with. And so, that was an eye-opening and I would just encourage institutions that, you know, it doesn't hurt to have it. And if you never use it, that's one thing. But if you need it and you don't have it, that's a completely different thing."

A committee member adds, "I would actually reinforce that. We do that regularly. Just internally, make sure staff is redundant, right, even if somebody's in. And we'll test it sometimes fully at some of our sources, because there are mechanics that you need to actually do that have been really useful for us. I mean, we haven't needed an emergency, but in case we would, we've gone through that very step and we do it regularly, just testing it. Our regulators know, like, we're testing our lines

and it's really been important and impactful for us to have that extra security that we would be prepared in a, you know, like Beverly says, when there's a time crunch, you want that redundancy. Someone's on vacation or something.”

C. Sadej continues, “You know, you just got to know the steps, because there are steps. Yeah. And there's a couple of other factors, too. I have up here at the Federal Home Loan Bank. So, I think most banks, you know, have probably established some type of relationship with their home loan banks and that's usually been the primary contingent funding source that we've seen most institutions put into their, especially community banks, in their contingency funding plans, right? They usually have collateral pre-pledged to that, you know, understand what their borrowing capacity is from those banks and what we've been encouraging is banks to also think about the discount window, doing, you know, pretty much the same thing. Because, again, you don't have some of the limitations that you have with home loan banks with the discount window, things I mentioned with, you know, understanding the borrowing rates. The home loan bank has usually been able to provide capacity but, you know, they are a different entity than the Fed. They have different potential risk factors there and then, you know, we have this report that came out last year from the home loan bank's regulator talking about, you know, what the FHLB should look like. And, you know, there's a quote directly from that that due to operational financing limitations of the market intermediation process, the home loan banks cannot functionally serve as a lender of last resort, particularly of large troubled member banks that can have significant borrowing needs over a short time, right? So, I mean, that's pretty blunt from their regulator about where they potentially see the role of the home loan banks changing, right? I want to emphasize that we have not really seen any material change at the home loan banks yet. I know I've been to conferences over the past years, and the home loan banks are doing, like, a roadshow to say, you know, we're still open, everything is good, keep coming to us, don't worry about it. But that's another reason why we've really been pushing and, you know, emphasizing the need to get those alternative contingent funding providers, primarily the Federal Reserve, through the discount window. And then just where it comes to the home loan banks, again, nobody knows what's going to happen with that. I don't think anything will happen anytime soon if, you know, the regulators will impose any, you know, additional mandates or change-material changes to how they operate. But it's definitely worth thinking about for, you know, banks in the future and what role they have, especially in the contingency funding plan because, again, they really have served as, like, kind of the lender of second-to-last resort, but functionally the place where most community banks have gone to monetize their liquidity in a stress event. Can we go to the next slide, please? All right, so just to round out, last couple comments on contingency funding planning.

So, establishing liquidity event management processes, talking about robust planning. I appreciate- and I'm sorry, I don't see your name down there-talking about all the things that you've done to- Kelly, thank you-for, you know, all the things you've done to introduce redundancies. Again, what we learned from 2023 is this stuff could happen really fast, right? There is no time to develop the plan. I mean, this is-when the agencies put together this liquidity guidance, you know, back in 2010, you know, the intention here was to basically get everybody to think ahead of time. What would I do in this situation so that in that potential crisis, you're not figuring it out for the first time. And this just kind of reiterates the need to try to have a plan in place. You know, do we expect banks to predict the exact liquidity crisis that they're going to experience? No, but if you think about all the components that go into developing a plan to respond to those, thinking about your sources of funding, thinking about who's got to call who, or who's got to talk to the media, or who's going to call the home loan bank, all of those little pieces can be applied into whatever stress scenario hopefully that the bank faces, right? So, it's not about coming up with the exact response to the specific stress, but it's understanding all those underlying mechanics and those pieces, and those pieces can be moved around hopefully to address whatever stress scenario the bank has done.

Again, really trying to reiterate those lessons learned even just from 2023. So, developing those plans ahead of time, making sure that everybody knows their roles, especially if there are backups. I mean, in community banks, you don't have exactly the extensive staffs where there's double, triple people doing things. If there's somebody that's maybe listed as a backup, but they don't get to do that on a regular basis, how do you know that they do their role? You can do things like the tabletop exercises, annual reviews, to make sure that the people in those roles understand what they have to do. I mean, to Beverly's comment about operationalizing discount window home loan bank, I'd seen a presentation from a Fed bank over the past year where the person who worked at the discount window said, you know, community banker called up, said, hey, I'm going to test my line. I want to do what the regulators say, and they're like, great job, Bob, but you're not an authorized borrower. You know, the other guy's got to go call me. So, it comes down to like simple things like that, you know, making sure that you understand all those mechanics. I mean, SVB even got caught up a little bit, which is cutoff times, right, that the Fed has a cutoff time, and they were on the West Coast. It was even earlier than, you know, in the day than have to. So, understanding all of those aspects, and hopefully those things can be incorporated into, you know, not just the actual planning, but then when you're actually testing the plan as well.

All right, next slide, please. And then finally, just talking about the framework for monitoring contingent events. So, this is kind of the early warning indicators, right? How does the bank, what does the bank monitoring to try to make sure that they're doing whatever they can leading up to a liquidity event to try to, you know, prevent any adverse reactions to the bank? So, again, trying to think about lessons learned, if your early warning indicators are still appropriate. We've seen, you know, banks attempt to do something with social media indicators, trying to look at like, you know, public sentiment, what's out there. It's extremely difficult to do, even for the largest institutions. It's hard to get it right but that's some of the things that we've, the newer types of early warning indicators we've seen but we've also just seen banks increase the frequency of their monitoring, right? So, if you're just looking at things once a day, and you potentially have relatively low cash position, maybe you think about looking at your Fed balance more than once a day or something like that to try to identify any potential needs as they're happening in real time. And then I already talked about reassessing limits, thinking about the suite of limits that you have and potentially reassessing them, thinking about funding concentrations along lines that maybe you haven't done before, making sure that you're thinking about the liquidity gaps that you potentially have over different horizons, not just, you know, 30 days or 90 days, but potentially even thinking shorter term than that, given what we've seen and then, you know, thinking about just the suite of limits, this applies more to large banks, but if you have different levels of limits for desk for frontline staff versus, say, board limits, how do those interact? That's pretty much all the comments I have on contingency funding plans. Does anybody have any questions before I just talk about some of the resources and then give you some time for Q&A? All right.

Can we go to the next slide? All right. So, this just highlights the most recent liquidity guidance that we've put out. The liquidity page on OCC.gov is where you can go to find out everything that's up to date. But what we've done in the past couple of years, so May 23, we revised our liquidity handbook. And one of the things that we put in there that could be useful for identifying potential liquidity risks, this was updated kind of six months or so after, you know, we started to see our first banks that had, like, negative tangible equity because they had such large unrealized losses it was impacting and then it really started to bring to light, okay, how does that impact your liquidity, right? So, there's the home loan banks actually have a regulation saying they can't lend to banks that have negative tangible equity with some exceptions, et cetera, without a specific waiver. So, one of the things we did put together is there's a brand new appendix in that handbook which outlines all of the different sources of funding that we could identify where there was, like, a contractual or legal

or potentially reputational limit based on, say, like, low tangible capital or high level of unrealized losses and you'll be surprised how many. There's probably, like, 20 or so that are in there, you know, going to your bank's eligibility to sell a loan to the GSEs, you know, as an escrow, if they have escrow deposits for the GSEs, you know, if they do wealth management deposits, there's a whole lot of things in there that we added that I think most banks could use to see if that's applicable to them and then make sure that that risk is identified.

Then we have the addendum to the liquidity, to the interagency liquidity statement, which I mentioned. In January of this year, the acting comptroller talked about liquidity risk at length at an event. And then in this past July, the most recent thing is on an interagency basis, we put out this fairly meaty document. It's about 10 pages long, talking specifically about Fintech relationships and the risks associated with that and kind of risk management expectations so if your bank is involved in that, I encourage you to take a look at that. Outside of the, those are the OCC guidance. The other things that are kind of out there, which we'll see what impact they have on liquidity, come from the FDIC. So, on July 30th, the FDIC put out a notice of proposed rulemaking for potentially modifying brokered deposit regulations. So, that's only in the NPR stage, so we'll see what comes of that and then they also put out a request for information on deposits, trying to ask, you know, should we be looking at additional collecting additional information on banks deposit based in regulatory reports, you know, how we can modify things. The call report as it stands right now is kind of limited, like even insured, uninsured deposits, banks would have to report uninsured deposits until they have more than a billion dollars in assets and even then it's an estimate at like a high level. I mean, when we started to see this banking crisis, just from a regulatory perspective, it really became difficult to identify, you know, what uninsured versus insured deposits in our banks. So, I know the FDIC is kind of taking the lead to look at if we should be looking at collecting additional information and looking at it. Our comptroller did issue a statement saying, you know, that we supported both of these documents so nothing else to say on that, just to put it out there if you're not aware of it. With that, we can go to the next slide and happy to answer any other questions in whatever time I have left. And, on OCC.gov, that's where we can have everything that we can put up there. Any questions?”

DFO King states, “Thank you, Chris. Thank you. We are coming to close to the end of our agenda. But as always, we want to provide time for the public to provide any comments or thoughts of our meeting today. So, at this point, we'll open up the chat. We'll open up the phone lines. I don't know if the proctor will communicate to the virtual public how to ask questions, but I do want to open up the line now.”

The host states, “Okay. So, if you would like to provide a comment, you can press the raise hand icon on Zoom. If you are dialed into our phone only line, you can press pound two on your telephone keypad. And then if you would like to submit written comments through the chat panel, please send your written comments to hosts and panelists in the Zoom chat.”

Public commentor states, “
First, I want to thank the OCC for hosting this group and the support that it gives to MDIs. I think as an MDI ourselves, oh, I should have identified myself, Tamer El-Reyes, Grand Bank for Savings. It's very important to know that there's only 54 of us and we can get lost out there. But to know that there's so much resources that the OCC has put into ensuring that we're supported means a lot. And when I was watching Ernie's presentation and how we went from 54 and we dropped and back up to 54, that was very encouraging for me. The other thing that I want to highlight is every time that I'm part of one of these meetings, what I notice is the support that they give each other. We give each other, MDIs. Bill walked over and was asking me about our CDFI application process and giving me insights. You typically don't see that with banks that are competing with each other, competing for market share, competing to have a higher NIM. The amount of support that we all give each other is

also just as important as the OCC supporting us. So I just want to express my own personal, that observation and my gratitude to the OCC and to the MDI community and make sure that we're always reminded to support each other. So thank you."

DFO King states, "Well, Senior Deputy Comptroller Beverly Cole, do you have any words to share?"

SDC Cole states, "It's always my pleasure to meet with this group, hear from you, and I'm just encouraged again, as I said earlier this morning, from where we started to where we are today. And I don't think that would have been possible without, one, the different support that we've gotten within the agency internally from the various Comptrollers and Acting Comptrollers over the years. But also just as important has been the support that we've seen the MDIs give to each other as well as the support that has come from the mid-sized banks and the large banks that have been involved in this effort and people from the industry. I just look forward to what you all will continue to do and achieve in the future. And, you know, started with baby steps and I think we're probably taking toddler steps now. So I'm just excited with all of that."

DFO King concludes, "Thank you, Beverly. Well, it's been a pleasure, quite a day and we look forward to continued conversations in this space. I wish everybody safe travels home. I would like to thank everyone virtually who has participated, listened in and I look forward to additional meetings in the future. Until then, take care and I'll talk soon."