April 16, 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 April 16, 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; Carlos Naudon, President and Chief Executive Officer, Ponce Bank, Bronx, NY; Joe Quiroga, President, Texas National Bank, Mercedes, TX; Kelly Skalicky, President and Chief Executive Officer, Stearns Bank, NA, St. Cloud, MN; Sushil Tuli, Chief Executive Officer and Chairman of the Board, Leader Bank, NA, Arlington, MA

External Speaker Present:
Saurabh Narain, President and CEO, National Community Investment Fund, Chicago, IL

Management and Staff from the OCC Present:
Charlotte Bahin, Senior Advisor for Thrift Supervision, Washington, DC; Julie Blake, Director, Banking Relations, Washington, DC; Emily Boyes, Counsel, Bank Advisory, Washington, DC; Chanis Brown, Community Relations and Minority Affairs Specialist, Washington, DC; Michael Chun, Market Risk 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; Generra Boozer, Field Examiner, South/Southeast District, Dallas, TX; Daniel Grantham, Senior Financial Economist, Economic and Banking Condition, Washington, DC; Jasmine Talton Holmes, Special Counsel, South and Southeast Regions, Dallas, TX; Mairelis Jessup, Analyst to the Deputy Comptroller, West/Midwest Regions, Dallas, TX; Jason Joy, Acting Associate Deputy Comptroller, Denver, CO; André King, Assistant Deputy Comptroller, Chicago, IL; Ernie Knott, National Bank Examiner (Financial Analysis), East and Northeast Regions, New York, NY; Christopher McBride, Director, Treasury and Market Risk, Washington, DC; Carlo Martinez, Assistant Deputy Comptroller, Miami, FL; 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; Ancris Ramdhanie, Special Counsel, New York, NY; Liz Ratliff, Director, Enforcement, Washington, DC; Troy Thornton, Deputy Comptroller, South/Southeast Regions; Tracy Velez, Associate Deputy Comptroller, East/Northeast Regions, New York, NY; Barry Wides, Deputy Comptroller for Community Affairs, Washington, DC

Public Observers:
Patrick Brennan, Carver Federal Savings Bank, New York, NY; Ralph DeLeon, NContracts, Washington, DC; Aye Diallo, Alliance for Innovative Regulation, Washington, DC; Sonja Ellis, FDIC, Office of Minority

and Community Development Banking, Washington, DC; Ken Farley, First Mutual Holdings, Cleveland, OH; Lisa Gold Schier, Rippleshot, Guillermo Gonzalez, ECIP, Department of Treasury, Washington, DC; Susie Han, Department of Treasury, Washington, DC; Mariama Jalloh-Heyward, Alliance for Innovative Regulation, Washington, DC; Kianga Lee, Independent Community Bankers of America, Washington, DC; Charles Lowery, National Housing Conference, Washington, DC; Martice Mills, Community Savings, Caldwell, OH; Misty Mobley, Office of Minority and Community Development Banking, FDIC, Washington, DC; Curt Nelson, Independent Bankers Association of Texas, Austin, TX; Jena Roscoe, Operation HOPE, Washington, DC; Betty Rudolph, Director, Office of Minority and Community Development Banking, FDIC, Washington, DC; Phillip Sangokoya, US Bank, Atlanta, GA; Sharon Zimmerman, Vice President, Woodforest National Bank

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 WebEx 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 stated, "Thank you, Candice. Good morning and welcome to the April 2024 MDIAC meeting, the one of two meetings for 2024. Thank you all for joining us today here. Those are that are in the room, and thank you to those that are joining us online. As you can see, we have a pretty packed agenda today. However, I want to take some time out to do some formal introductions. If you all were aware or unaware at the last MDIAC meeting, Michael Pugh vacated his position as he found another position outside of financial industry. From that time, we had worked diligently, primarily Charlotte, as she led the charge in identifying a potential replacement, and fortunately, Mr. Tuli raised his hand and was gracious to go through the vetting process in such short order to be here as an official member today. And as part of that, I want to make sure that we all welcome him to the committee by doing formal introductions, and then we'll get to the actual agenda and I'll start. Mr. Tuli, my name is Andre King. I'm an Assistant Deputy Comptroller out of the Downers Grove office, a suburb of Chicago, Illinois. I'm also the designated federal officer appointed January of 2023. So, I been around the OCC over 20 plus years and I'm so happy that you're here. For the bankers, when you give the introduction, can you just give a brief intro, your name, title, your location, and the size of the institute so we can just have a general perspective of who's all part of this committee. So welcome and nice to have you."

A committee member states, "Thank you so much. Um, really it's an honor to be on this committee. My name is Sashil Tuli. In 2002, I started a bank, Leader bank in the Boston area with $7 million in assets and seven employees. The bank has grown to $4 billion and about 350 employees. We love to serve low to moderate income home buyers. We are a residential lender. I was telling Andre, I used to serve on Fannie Mae Advisory Council, so I have not come to DC for last 10 years. And, I'm so happy to be here. <laugh>. I also served on the Federal Reserve Bank of Boston board. That's a three year appointment. My term is coming up at the end of December, but I'm so happy to be part of this council and learn and to contribute. Thank you so much.

A committee member states, "I'm Barry Hurley. I'm at Southeast First National Bank in northwest Georgia. We're about a 60 to $70 million bank. We're started in 1968, and located in a very rural and

poor area. About 20% of our population lives below the poverty level. So we're, we're an MDI and CDFI. This group, the MDI group, is how I found out about the CDFI certification. And, it's been very useful for our institution.

A committee member states, "I'm Kelly Skalicky with Sterns Bank. We're $2.5 billion bank headquartered out of Minnesota. We do national lending, SBA, commercial real estate construction, and equipment finance nationwide. We have branches in Arizona and Florida, and nice to see everybody.

J. Blake states, "Good morning. My name is Julie Blake. I'm with the OCC and I'm the Director for banking relations. Nice to see everyone."

C. Dully states, "Good morning. My name is Crystal Dully. I'm with the OCC and I'm a community relations specialist in the Office of External Outreach and Minority Affairs. It's great to be with you all."

A committee member states, "Good morning. I'm Beverly Meek and CRA director for Flagstar Bank. We're over a hundred billion dollar bank. We're headquartered in New York and are in 13 states."

A. Moss states, "Good morning. I'm Andrew Moss, Director for External Outreach and Minority Affairs here at the OCC. Good to see everyone today."

A committee member states, "Good morning. My name is Jamie Aller. I am from the National Bank of Malvern, which is based in Malvern, Pennsylvania outside of Philadelphia. We are around $200 million female owned bank, founded in 1884."

J. Joy states, "Good morning. My name is Jason Joy. I am the acting Associate Deputy Comptroller for our West region that covers kind of the West coast across the north. It's a pleasure to be here this morning."

A committee member states, "My name is John Hou with the Asian Pacific National Bank in San Gabriel, California. We are in the Los Angeles area, and we are small MDI, which is about 60 million. Basically, we focus on commercial real estate and support business."

M. Jessup states, "Hi everyone. I'm my Mairelis Jessup. I'm with the OCC, and I'm the Analyst for the Deputy Comptroller that oversees the West and Midwest region. Happy to be here."

A committee member states, "Good morning. I'm Jody Lee from Houston, Texas. I'm the chairwoman of Southwestern National Bank and we're about 1.1 billion in asset size. We do commercial lending, real estate lending, and SBA lending."

T. Thornton states, "Hi, my name's Troy Thornton. I'm the Deputy Comptroller for the South and Southeast regions of the OCC. And, this is my 39th year with the OCC."

A committee member states, "Good morning. Joe Quiroga, President of Texas National Bank. We're in south most Texas, right on the US-Mexico border. About $900 million Hispanic owned institution."

E. Knott states, "My name is Ernie Knott. I'm an OCC Financial Analyst, and also been on 39 years. I've been working with this committee since 2020, thanks to Beverly bringing me on board. Every time I look at the data, I always try to find something new and I think we got a few new things today as well."

C. Bahin states, "Good morning, everyone. I'm Charlotte Bahin, and I support Andre in his role as the DFO."

P. Maloney states, “Good morning. I'm Paul Maloney. I'm an economist here in Washington in our Economic and Policy Analysis division. Great to be here.”

D. Grantham states, “Hi, my name's Daniel Grantham. I'm also in the Economics department, and I was not told I would be sitting next to Barry <laugh>.”

B. Wides states, “Good morning everyone. I'm Barry Wides, Deputy Comptroller for Community Affairs here at the OCC. Good to see everyone.”

A committee member states, “I'm Carlos Naudon President and CEO of Ponce Bank. A 3 billion publicly traded bank in the Bronx and we're an MDI.”

SDC Cole states, “Good morning everybody. I'm Beverly Cole. I'm the Senior Deputy Comptroller for mid-size community bank supervision, and I'm very pleased to be here today. Thank you.”

A committee member states, “Morning everyone. I’m Jonathan Jacob and I lead MDI strategy and impact investing with Wells Fargo. Thank you.”

DFO King states, “And for Mr. Tuli's knowledge, this is a public meeting so we take minutes and it's recorded. Everything you say goes into the public domain and also when you do speak, just ensure that your microphone is on so everyone can hear and be present to the conversation. It's counterintuitive, but when the red light is on, it's on. If the red light is not on, it's off. All right. With that being said, we'll pass it over to the economist for their presentation.”

The presenter states, “Thank you. A pleasure to be here this morning. Um, I think this is the first time I've met with this group. I don't know, have you ever met with them, Paul? Nope. No. So it's a pleasure to be here. We'd like to spend the next couple of minutes talking about the economy. I hope this isn't just a presentation. I'd love to get your all feedback questions particularly as it relates to regional issues. If you see something that isn't quite right or your experience is a little bit different, please speak up. We get a lot of great data, but we obviously will not know your areas as well as you all will, nor will we get the information as quickly. So with that, if we turn to the second slide, and really at a high level, the economy is going quite well. We've had stellar recent GDP growth. If you'll look at 2023, the growth has been outstanding. Now, the expectation for 2024 is that it will moderate closer to that 2% level that we really experienced the last 20 years. The labor market, while still incredibly strong, is started to show some signs of cooling. So we'll talk about that, particularly as it relates to job openings as well as wages. And then really, I mean, kind of the, the 900 pound gorilla in the room has been stubbornly persistent inflation. And the surprising reads that we've gotten over the last couple months as it relates to what the market is predicting both economists and the financial markets, has really reduced the probability and the number of fed rate cuts that are expected this year. So, we'll talk about that specifically as we get to the latter half of the presentation. We gave a presentation similar to this, to a group of mutuals last month. And I mean, there's been a tremendous amount of change, both as the Fed has been viewing it as well as the financial markets.”

The presenter continues, “So, turning to the slide three, one of the real takeaways that we've experienced this cycle has been just how fast GDP is recovered. So, if we look at real GDP, which is the total amount of goods and services produced in the economy, it's our broadest measure of economic activity. Really, the takeaway here, if we look at the past three recessions, 2001, 2007 and eight, the US recovering economy never really recovered to that pre-recession trend. So those lighter lines, it's a little

harder to see on the chart, but hopefully in front of you it's a little bit clearer. This time we saw real GDP growth really come roaring back and has returned to that pre-recession level. So what we're seeing there in the, the right half of the chart, this has really been the story. I think as the economy's recovered so strongly this cycle, we've had much more stimulus than we've had previously. And really, if you were to look at the chart, that little blue lines squiggling above that pre-recession trend is that strong 2023 numbers. Now, it's not just that the economy's growing, it's the individual components of the economy where we're seeing growth. So if we turn to slide four, and at a headline level, you know the gangbusters 2023 GDP is expected to return to more normalized levels. But if we were to look over the last four quarters or the four quarters of 2023, the individual components of where we're seeing growth in the economy can really be just as important an indicator of where we're going as the overall growth level. So, traditionally speaking, the, the green and blue areas, which would represent consumption and investments are the areas traditionally associated with a strong growing economy that we can see going into the future."

"So from what we're seeing over the last four quarters, tremendously strong consumer growth, the consumers really led this recovery. Uh, we're not seeing any sort of slowdown. In fact, yesterday's numbers for retail sales came in much hotter than expected. The prior month's numbers were revised upwards. The consumer continues to spend and we're seeing real incomes grow. We're seeing the amount of wealth that consumers have access to continue to be at very high level. Now, that said, going forward, this blue chip consensus, which is simply 50 professional business economists, it's stair forecast over the next eight quarters show more mild growth which you could say is more sustainable. And the variation between kind of the most pessimistic and the most optimistic is not that large. No one is projecting the US will enter a recession. I will say, if we, I was here a year ago, all the economists were saying, 2023, a hundred percent chance of recession. You know, take that for what it's worth. Forecasts aren't so much indicative of what we think will actually happen, but more indicative of what the market is expecting. So right now, the market is expecting a little bit cooler growth around 2% more sustainable. But that said, the high retail sales numbers yesterday, the Atlanta Fed has a real GDP forecast and it's garnered a lot of attention. It's possible first and second quarter come in hotter than expected again, but for us, for what we're seeing, the growth and consumption and investment are two areas that are more sustainable and suggest a strong underlying economy. Now that being said, there is a lot of regional variability where a large, diverse country growth is symmetric across it. So, if we were to turn to slide five, this is looking at state GDP growth in the fourth quarter on the map."

The speaker continues, "Real GDP grew across all 50 states and dc but as I just mentioned, it did not grow evenly. So I apologize. I had an error in the handouts on there for the first bullet. But what we saw was the range of GDP growing from about 20 basis points in Nebraska, the slowest to the most accelerated growth we had in Nevada at 6.7%. But those states in darker blue are where we saw more accelerated or faster than average real GDP growth compared to the overall nation. So, Texas, Alabama, Florida, Arizona, Nevada, a lot of areas where we've seen faster population growth. I guess I would pause there for a second and see if, I mean, we have a lot of people in this area that cover a lot of different areas of the country. Is anyone surprised by their state's numbers? Does it seem about right? I see a lot of head nodding early on. Okay. This does highlight that we do have asymmetric growth. There are different areas of the country and when we look at the headline numbers, a lot of the underlying stories for regional issues can get kind of lost in the fold. So I think this is a good reminder there are areas of the country where we're not seeing quite as fast growth. It's still growing, but growing a little slower."

“Now, as it relates to this cycle, the labor market, if we turn to the sixth slide, has been probably the number two story behind inflation. And, you know, the labor market is still incredibly strong. What we're looking at here is total non-farm employees in millions. So, you know, thankfully it continues to have an upward trajectory. What we're comparing here over the last cycles is both the duration for how long it took for the economy to get back to its pre-recession level and months. So for the 2008-9 recession, it took about 78 months for employment to recover fully. If you compare that to 2020 or 2021, a much more mild recession was about 45 months. This cycle, it took less than three years or 29 months. And really, the real story over the last three years is how accelerated the employment growth has been. So we've added about 6.1 million employees over the last three years, and this is pretty remarkable. Some other slides that I didn't include here, but if we were to stop and take stock of US demographics, we're an older society than we were 20 years ago. The increase in labor participation we've seen, particularly among women, is at an all-time high. We've attracted a lot more people into the labor force than we otherwise have over the last 20 to 30 years. Now, immigration has played a part in this and that's an area where we're still trying to get a handle on the overall magnitude of the impact. A lot of the different government numbers are so wildly disparate that it's hard to really kind of put your hands on it. But as a takeaway, the labor market has come roaring back, and it's still gaining jobs at a level much faster than the consensus forecast or Wall Street has been expecting.”

The speaker continues, “As I said, if we turn to the seventh slide, we are starting to see some cooling now and where we've seen the cooling is in job opening. Traditionally speaking, when we have a cooling labor market, it's more related to an increase in unemployment. This time we're seeing a decline in job openings. Job openings peaked at about 12 million 3 years ago. They're down to 8.8 million or almost 9 million. So still a tremendous amount of job openings. Now, as an economist, there's nothing more than we like in taking these numbers and making them relative to something. So what the chart here is doing is looking at and comparing the number of job openings relative to the number of unemployed people. So anything above one here would suggest we have more jobs out there that are available than unemployed people and that would be indicative of a very strong labor market.”

“While we've seen cooling, so at the peak, we had two jobs for every unemployed person. But if we were look at the entire series of the chart, 1.4 is still higher than we've had at any point on record pre recession. So a cooling labor market, yes, but still incredibly tight. And when we had the mutuals here last month, we definitely see regional variability. Is anyone starting to see a softening in the labor market in their area, either as it relates to what their customers are telling us, telling you, or your ability to hire or retain talent? I’m going to pick on the new member.”

A committee member states, “They are marketing in different sectors. We are big in medical sectors so the hospitals, the home care and in the hospitality. So in those two sectors, we are definitely seeing increase. We are also big in education, and we are seeing decrease in that because more and more students are opting to take online courses. So we are not seeing increase in various universities there. And how about attracting and retaining talent? It has become expensive and very competitive. First of all the employees are looking to work remotely. If you require them to come to office every day, they will not take the job. Employers are learning how to just have them come one or two days. And even for those one and two days, you have to give them lot of perks for that. And, retaining it's very expensive. They're looking for higher bonuses there and those 30% annual increases doesn't work anymore. You have to compensate them more.”

A committee member speaks, “When you look at the banking industry, we're in Texas, there's definitely been a shift over the last, say, 12 to 18 months in terms of us being able to retain talent. It’s gotten a little bit easier, or I should say a lot easier. And we were looking at increases at, you know, six to 10%. And at the lower wages even greater than that. We took all of our tellers almost a hundred percent increase in their pay just because we were at such a low number; seven, $8 an hour, you have to pay 15, 16 bucks an hour just to retain somebody. The other side though is the trades in our area. You know, just being in Texas and just all the growth is really hard on the trade side, there's just so much construction, so much growth that if you've got any sort of, you know, welding skills, plumbing skills, electrical skills, anything of that sort, you know, you're mid $20 an hour starting. Just to start somebody so you're starting to see a real, real shift”

A committee member states, “I think on the labor side. We're in Houston, so I would say it's a little easier to retain talent. That's done at, what we call, not just merit increases, but we have developed a new column where it is market. You know, we have a name for it, but basically market adjustments and the market adjustments are like 25%, 30%. If you have a neighboring bank making an offer of the same amount, you got to adjust it or you're going to lose the employee. So yeah, it's been, it's been really tough the last year, I would say probably the last six months. It's up just a little bit, but still it's very expensive. Is anyone seeing substantial slowing?”

A committee member speaks, “You know, one of the things you mentioned was the population shift that we are seeing there. Employees want to work remotely, but not from where they live now. They want to move, they want to move either to warmer state from Boston or wherever their parents are living or families living. They say, we can stay at home. We don't have to rent a place, and we can work remotely there.”

The presenter states, “Now, taking the same sort of metric of the ratio of job openings to unemployed people, we can also look at more of a regional basis. So if we turn to slide eight, we can actually see some softening regionally. The state data comes out with a one month greater lag. Unfortunately, this is only through January, but comparing 2023 to 2024 today, we do have five states where there are more unemployed people than job openings. So that would be those areas in orange on the right side. So California, Nevada, Arizona, Washington. Now, you know, the ratios aren't alarmingly high, but it is showing a shift to where we're seeing more labor market softness. There are still some areas, I mean, South Carolina jumps out, some of the center of the country where we still have that dark blue where we have more than two job openings for every unemployed person. So, you know, naturally speaking, there is a difference across the US. But, I think with anyone in California, I know Wells Fargo has a large presence, but in the introduction, I don't think I heard anyone else?

A committee member states, “Our Community bank and our area is… I think it's quite difficult to recruit for the new hire. The situation is still…”

The presenter asks, “Has it gotten any easier over the last year?”

A committee member responds, “No”

The speaker continues, “As I mentioned earlier, we focus more on the relative. So the absolute number is less important than the relative change that we're seeing here. Like you're saying, each of these different state employment bases is different, the different jobs, whether you're in technology or manufacturing,

we look for a different number. If we were to go back to slide seven, those where you see below 50 basis points is where it's more a recessionary level. That's where I would have more of heartache. But again, like you're saying, the composition of the labor force and the types of jobs in the different states matters tremendously. So, there is a difference there. One of the other areas that's received a lot of attention. If we turn to slide nine, a lot's been made of an increase in part-time workers. If you were to just pick up the Wall Street Journal or some of the other financial press, you see a lot of headlines relating to the large increase in part-time workers, potentially a sign of labor market softening. And it's true in terms of relative or percentage terms, we have seen a large increase in the number of part-time workers. So if we were to look at the chart on the left comparing where we were in January 2020, kind of pre covid, we've seen growth in part-time of a little over 6% compared to full-time growth of 3.5%. Now, one of the things to keep in mind here is that the part-time workers are much smaller part of the labor force."

The speaker continues, "The relative percentage increase there is much less meaningful than for the overall labor force. So, for instance, if we were to look at the chart on the right, the change in employment in millions, we've seen 4.4 million more full-time workers today than January 2020. Part-time, it's only 1.7 million. But really the important part when you're looking at part-time is the reasons or rationale that people are working part-time. So, turning to slide 10, what we like to look at is the share of people that are working part-time involuntarily, so no economic reasons. They would like to work full-time, but they're unable to find that gainful employment. Nothing makes an economist more excited than a long time series. So going back to 1956, I just couldn't resist myself. The data went back that far and if you were to trace a line going from the most recent observation, we have the people that are working part-time involuntarily at near record lows. So if you see those spikes when we're in or exiting a recession where we have a lot of people that would like to be working full-time, but are unable to find that, we're not seeing that today. So this is more indicative of people that we can craft a story. It's hard to delve into the data to get definitive answers, but people are electing to work part-time for their own reasons that are outside of economic reasons. We have an aging population, perhaps people are less reluctant to fully retire. They're choosing to do part-time but the general increase that we're seeing in part-time employment doesn't give me any consternation, especially when we look at the reasons for why people are doing it. That's just more of kind of a headline driven topic that we see a lot of and wanted to address in the presentation."

A committee member states, "I have a question. So the definition of part-time, I mean, we see that more and more people having several, I mean by choice, several part-time jobs by choice. I mean, so with that, is there any data those, I'm assuming just because they add up to full-time, it's still part-time. So is there any data on how many are actually really fully employed by two or three part-time jobs?"

The speaker responds, "So the BLS has a statistic for the number of people that hold multiple jobs, and that has risen over the last couple of years, but it's still below where it was in 2020. So, you know, the original story of, we've got a lot of people that are electing to work part-time out of necessity, and they're cobbling together. I guess I see less evidence in the data of that; the relative number that are working multiple jobs. So it has risen, but from a very low base. Now one of the reasons that we focus so intently on labor, and I've been asking about wages, is how important it is and how relative and how much influence it has on the rate of inflation. So if we turn to slide 11 and compare the fed's preferred measure for inflation, so that would be core PCE, it gets confusing there. There's two main measures for, or surveys that measure inflation. The Fed's preferred measure strips out energy and food costs from the PCE and it's denoted here in the darker blue line, but what we're comparing it to is unit labor costs. So

that is just specifically looking at how much it costs for businesses to pay for each additional unit of output. It's kind of a real measure for labor costs, and you can see the lines generally track each other fairly closely in terms of the relative movements. So where we're looking today, we've seen some cooling in unit labor costs. As relative costs have come down, the core PCE has kind of generally followed it, but still where we're seeing unit labor costs today of 3% or a little bit higher is generally not thought of as being conducive to the fed's target of 2%. They would like to see a little bit more movement here, or cooling as it relates to unit labor costs. Now, I will say this doesn't directly translate into wages particularly as we've seen over the last couple quarters. We can have a situation where people become much more productive. We're starting to see productivity rise; if productivity rises, wages can rise and not cause any further increase in inflation. They're being compensated for being more productive, and they're more goods and services in the economy."

The speaker continues, "Productivity is kind of the silver bullet right now for the US economy if it continues to grow, either because of AI, remote telework, we could solve a lot of the general problems that we have kind of under the surface in terms of the debt to GDP ratio just through productivity. But as it relates right now to the labor costs, the Fed would like to see this cool over the next couple of quarters and bring down that core PCE. Now, the most recent inflation data that we had actually came from a different survey, which probably receives more attention. So turning to slide 12, the consumer price index still is remaining stubbornly above the fed's preferred target of 2%; this is looking at the contribution to inflation by the different components. The area of concern here would be that, I don't even know what you would call it, the offensive neon blue or turquoise color there, which denotes services excluding shelter. The largest component here would be labor costs and still having this contribute and contribute meaningfully has been a headache for the Federal Reserve. We're still seeing a very large increase from shelter cost. I think probably for the last six to 12 months we've been saying market rents aren't rising as quickly as they had been. We'd expect the CPI measure for shelter to kind of catch up and start to ameliorate. We're not seeing that yet. Every quarter or month we come out and say we expect to see some cooling, and we don't see it. Going forward it's hard to keep telling that story. There's a little mystification of how those numbers are derived by the Bureau of Labor Statistics. Housing is still incredibly expensive, especially relative to where it was in January, 2020 but the real takeaway here is what we had expected to see for inflation. The market was much more down to that 2% level, staying at the three to 4% and it's likely to change the fed's actions for what they do with interest rates going forward. I think that the general consensus for most economists getting from 9% inflation to four is relatively easier than getting from 4% back to 2%. The most recent data that we have, I think was from last week surprise much more on the upside here and you see that uptick in March. And the last observation on this chart, you know, not taking too much into each monthly observation, there's a lot of variability for this general trend over the last six to nine months of flat lining at three to 4%, I think has changed a lot of the thinking around market expectations for where interest rates are headed. One of the things that we like to look at is what the futures market indicates for what the FOMC does with the Fed funds rate.

The speaker continues, "If we turn to slide 13. Energy prices generally rose after we saw the reopening of the economy and the Russian invasion of Ukraine so the volatility there, a lot of it is in oil. The rising gas prices contributed to increasing inflation so this here is headline inflation, and it includes food and energy. Now, the softening in oil prices that we saw a little bit in the early part in mid 2023 actually contributed to lower prices. Still higher than they were in 2020, but this is looking at the year over year

growth. Does that make sense? One other thing I kind of want to add to that, as far as the lag in production during the pandemic is that its being taken into account as far as any forecasting with how the manufacturing and production like curve will impact that as far as bringing down some of the inflation. So if you look at, you know, microchips that are produced in Taiwan and China, that they closed their factories, the cascading effect of them impacting car makers. We had much fewer cars that were produced for two or three years that will reverberate for another four to five. I mean, the used car market, there will be a lack of supply for the next three to four years, which will weigh on used car prices, which then has a direct impact on the CPI. We certainly take it into account as do others, as they forecast going forward, even though we have caught up and in some respects actually outpaced where we were. There will be residual effects that kind of still ripple through the economy, particularly as it relates to the cars."

A committee member asks, "Housing also?"

The speaker responds, "Housing we've seen a little bit more amelioration. I mean, the challenge in housing from what we can see, the largest cost to building a house is land acquisition. That still remains incredibly expensive. And depending on the regions you're in, the land use restrictions around housing are particularly challenging as it relates to adding more supply on. I mean, when we had the mutuals and some of the other banker groups, we're still hearing a lot of getting skilled labor in is incredibly difficult. Materials are expensive and acquiring the land itself is challenging. So as it relates to housing, it's hard to see a dramatic supply coming online over the next couple of years. Just relative to the challenges we're facing. Ironically, we're not hearing a lot of interest rates being a deterrent for builders. It's more the labor, getting the land and some of the construction materials which have come down in price, but still relative to where they were pre covid. I don't know if folks are seeing a different experience in the room as it relates to housing and construction ?"

A committee member states, "Is a bigger problem because there's a stock of housing available for them to buy, but with the higher interest rates, they cannot afford to buy it. In my area we are seeing is builders are offering buy downs to them, so to encourage the home buyers to buy the properties. And that, I mean, that's been a huge change over the last 20 years. I mean, the types of homes that are being built today tend to be much larger and the margins for building a quote unquote starter home really aren't there to make sense. So there is that lack of supply for kind entry level housing. I don't know if anyone's seeing any success in their regions for builders being able to offer, provide, you know, smaller entry level housing. We see anecdotal stories, but I don't know if anyone has seen anything different?"

A committee member states, "What's happening is most of the construction costs that we're embedded in because of the pandemic, the builders still offering in my area, for example, a starter home is now a $275,000 home that used to be $150,000 home. They have had huge margins, and they're not passing those margins on as savings. They're passing them down as buy-in incentives to get in. But the actual per square foot of the home is actually going down. So even though it looks like it's a bigger home, it's not really a bigger home. The lots are smaller, the homes are smaller, everything about the home is smaller. But the builders making more money too, right? And they used to make, you know, in my area at least, it was a 35, $40,000 margin for your starter home. They're making 65, 75,000, giving back 10 on a buy down and still making more than they were making before the pandemic. You know, the other we are seeing is, I don't know if it's national zoning, bylaw changes, more cities and towns are allowing to build residential housing over commercial space. Mostly those are affordable housing and not that big. That's

another change we are seeing in the Boston. We do a lot of construction across the country, a lot of affordable housing. There's a lot more workforce housing being built, a lot of demand for that. So, I mean, that's a little bit of lower price points where there's a lot of activity and we're not seeing any slowdown in that. In fact, there's a lot of really interesting players coming into the affordable market. Amazon's a huge and they've got a huge housing program now, we've done several deals with them. Then we've got on the smaller side, Arizona, in the southwest, smaller builders doing the sort of fixed and flips at the smaller price point. But, you know like Joe said, the smaller price point today is in the twos and threes. We see more in the affordable mix or straight low-income housing tax credit deals, or now the workforce housing. So we're doing a lot of that across the country."

A committee member states, "If anybody's doing a study on what I'm calling a relative real price of a home now, because these incentives are, you know, it makes the price point stay high on the surface, but after incentives, it really is a lower price point. The builder has come down a bit but they're just disguising it in another way. I don't know that we really know what a price of a home is today in Texas. I'll speak for Texas. There's so many of these incentives going on. Two, one buy downs are almost, that's almost the only way to sell a home right now, right? Uh, because of the buydown."

The speaker states, "One of the areas we've started to see more housing come back online or a greater inventory is in Florida. I'm just curious, is anyone starting to see more existing stock come online? And kind of a second question to that, we're kind of tying it to Florida where we've seen dramatically increased homeowners insurance. Is anyone starting to see their customers become more stressed with a dramatic increase in homeowners insurance? I mean, one of the things that we've looked at this cycle, majority of the products originated are all fixed rate. You don't expect to see a payment shock, but some of the increases we're seeing in homeowners insurance are presenting an actual meaningful increase in a monthly cost to consumers."

A committee member responds, "Well, I'll comment again for builders on the construction side. In Florida and California, one of the insurance companies just aren't insuring. So the cost for the builders, there's been several projects that they can't even get insurance. It's a major problem for even getting, you know, inventory on the market. I'm less familiar with the residential side, the actual consumer buyer, but I know for building costs, that's one of the largest increases from 25% in some projects, just the insurance. Does the project not go forward or is it changed? Yeah, right now, I mean, there's that's the first thing. In fact, talking to a lot of the housing authorities are having the same issue in those states. So, yeah, it's a major issue and mostly just those two states. So I think, you know, in Texas, every homeowner is expecting a 30 to 40% increase in insurance cost going up year over year. On top of that, you have a tax increase as well, because that home is now valued a lot more. We recently just put a cap on how much a homestead could go up. But if you own other real estate, it's going up dramatically. So with those two components, thank God you had a two or 3% interest rate because otherwise you'd have huge issues in the housing market. But the insurance piece is, I don't think we've seen the worst of it, quite frankly. It's just now starting to happen, obviously Florida and Texas have been hit hard by natural disasters, and a lot of people are just struggling. State Farm got out of Houston and they're getting out of markets that have traditionally been pretty, pretty safe."

A committee member asks, "Are we speaking about property insurance or flood insurance or both?"

The speaker responds, "I guess both. As we look at it in our data, we can look at escrow payments. We can't delineate between homeowners, flood insurance or an HOA, but we're seeing a relatively sharp rise

in certain areas. That could be kind of an interesting distinction especially as it relates to some of the homestead. I know for Florida, there is a relative cap on how much it can move for a current homeowner relative to someone who buys so it's hard to compare. And it's always interesting to hear from your all's perspective for what you're seeing for your customers and your own book."

A committee member responds, "I would say that we don't have a big issue on insurance. The property with real issue is getting multi-family, encouraging landlords of those buildings."

The speaker continues, "I am very surprised by the food component on this slide. There's been a lot of discussion of how this is tabulated and put together. My colleagues and I, when we look at this, I would like to take these food prices that I'm showing here. I would take it and run as individual experiences certainly do vary. The PCEI will say, which is the Fed's preferred measure would show it a little lower. They allow for more substitution so if apples are more expensive, perhaps a consumer substitutes for oranges and it shows a lower level. But, you know, kind of to what you're saying, my personal experience is that the food prices has a larger increase than what's being displayed here. And there is a lot of talk about how this is tabulated and put together. So, you know, as we show an inflation rate of 4%, depending on where you live and the types of goods and services you're consuming, your personal experience can be wildly different. To not leave you all on kind of a negative note here, if we turn to slide 13, things are rosy, right? And if I was here in January, I'd be saying, you know, the financial markets are expecting, you know, six to seven interest rate cuts this year. Things are going to be great, right? We've had a lot of hot numbers come in, particularly relating to inflation. What we're showing here is the futures market for the Fed funds rate over the next year and each of the line represents a different point in time. So that green line would be from January where we had the most optimistic number of cuts being priced in. Now the Fed puts together their famous dot plot and if you've seen it, you'll know exactly what I'm talking about. But if not, it doesn't matter. What they do is show the range of expectations for everyone in the FOMC for what they expect the Fed funds rate to be over the next year. Their projections for their last meeting for March show about three rate cuts this year. Now, they didn't have access to the full amount of information that we do sitting here today in the middle of April. The financial markets after the very strong CPI inflation report from last week are now only pricing in two rate cuts this year. There are some economists that are out there, Larry Summers is probably the front runner suggesting that it's even possible that the next movement could be an increase in rates. That's not the mainstream by any means, but it definitely has changed from where we were three months ago thinking that the Fed would begin to dramatically start loosening policy."

The speaker continues, "That's no longer the expectation. The expectation, at least as it relates to financial markets, would be two rate cuts this year. Last month we were here with the mutual and we had a slightly different story as it was a little more optimistic. They were on the ball. They said they were thinking about two rate cuts this year, and I was telling them the financial markets were saying three. I was just curious to take a straw poll. How many people think there'll be two or more rate cuts this year from the Fed?"

A committee member responds, "That one rate cut this year or no? Being on the board of Federal Reserve Bank, I cannot say anything; see public comment <laugh>."

The speaker continues, "It'll be interesting to see where we land out. I mean, I think two is possible. I'm a little bit more hawkish on inflation. I think it might be more stubbornly in that three to 4% area, which would suggest higher rates for longer. I mean, it's incredibly challenging to have an inverted yield curve.

When we look at slide 14, having an inversion of six quarters, that this magnitude is certainly stressful on a business model where you borrow short and lend long. We've seen the 10 year rates increase over the last couple of weeks further stressing this yield curve. Where short rates go over the next year will have a big determination as does growth. I'm not in the camp that a yield curve inversion definitely will signal an incoming recession, but it definitely is stressful on your banks and your business model. And there doesn't seem to be any help coming in the near future. With the cuts, we're getting it down one or zero and what's interesting too is after we get done with the rate cuts, whenever that is, the debate is, well, what will the neutral rate be? Larry the Fed thinks it's going to be 2.5 or I think 2.6, he's thinking it's more like four. There's an interesting debate about fiscal spending and now where we're going to end up, you know, next year or the year after, which would be interesting. I didn't include it in this presentation. One of the other challenges in this cycle is the large budget deficits as a share of GDP. Traditionally speaking, we have automatic stabilizers. When the economy's in a recession, the government spends more to stimulate the economy spending at a five to 6 percent of GDP for the government in a growing economy historically is inflationary. If we look at the CBOs projections, which is a nonpartisan government agency, the expectations is the budget deficit will be fairly large for the next two to five years, which is inflationary. One of the challenges I think the Fed is also kind of fighting, which maybe isn't in the forefront of the financial markets, but is certainly playing a role. Just to kind of have some concluding remarks here on the final slide 15. So it's not all negative, right? We had very strong GDP growth last year. The expectation is for cooling, but still in line with where we've been over the last 20 years, around 2% GDP growth. The labor market, while incredibly tight, is starting to show some signs of cooling, which can help cool inflation, but the levels that we've seen over the last couple months, this persistent level of inflation is really raising the odds that we will see interest rates higher for longer, which definitely was not the story we would've told even three months ago. So, you know, the Fed likes to say they're data dependent. As new data comes out, particularly the PCE numbers at the end of this month, I think will be important for what happens. I'll stop there and see if anyone has any comments or, or questions, complaints. No? Well, I appreciate it. Thank you all for having me and we'll be around if you do have a question or comment."

DFO King states, "Great. Thanks Dan. As you can see on the agenda, we have a break coming up and so I will ask that we all return at 9 45. And what we have next, after we return from break is the presentation about new market tax credits. One of the things I try to do my best is reach out to the committee members is to get their thoughts in regards to the topics to discuss and this was the overwhelming response when it comes to new market tax credits. Part of this committee is we like to provide information. We definitely are here to hear from you all and we want to play our part as well and provide you with some information. So we'll return at 9 45."

DFO King states, "Welcome back everyone to the MDIAC meeting. There's plenty of networking discussions taking place so for those that are joining virtually, you may want to look forward to joining us in person because there's a lot of good conversations taking place that you all are missing out on. Up next we have Mr. Saurabh Narain from the National Community Investment Fund to talk about new market tax credits so pass it to you. Thank you for joining us."

Mr. Narain states, "Thank you, Andre. Thank you Barry for the invitation and thank you to OCC for inviting me to talk to this group of bankers. As a few words of introduction, my name is Saurabh and I'm

the President and CEO of National Community Investment Fund. We are based in Chicago. We are a national, nonprofit CDFI about 28 years old. We are the largest investor in CDFI Minority banks outside the federal government. Many of the major institutions like Wells Fargo has put a lot of money to work in CDFI minority banks over the last several years and it's fascinating. It's great to see the work of CDFI, minority banks grow in this sector and in low income communities. Among the things that we do are equity investing in these institutions but also new market staff rates. We've received over the years $400 million of new market tax credit and supported about $1.5 billion worth of projects. We also do lending and impact measurements. So when Barry invited me to come and talk about new markets tax credits he and I sort of brainstormed as to what approach shall we take today in this discussion. I'm really hoping that this discussion would be more of a consultative, more of a discussion rather than having a lot of sort of one way dialogue. My remarks are sort of focused on discussion on trying to solve problems. At the end of the day, if we can walk back and say, you know, we know enough to ask a lot of questions, we know enough and say how do we get involved? We have enough pointers on new market tax credits because at the outset, I would say it's one of the most fascinating flexible programs that the government has to help smaller institutions and larger institutions, you know, support the communities. So that's my goal and I hope that's the goal for the group here as well. So please ask me questions as we go along. Stop me and say this doesn't make sense or this makes sense, can you elaborate more on some of these questions? Let me, me start by asking one open question. How many people have heard of new markets tax credits now?"

Mr. Narain continues, "Quite a few. How many people have lost business to people who have new market tax credits and say, you know, how do we get involved? Why did we lose business to another institution? How many people are confused and say it's just too difficult? I don't know how to handle it what do we need to do? How do I get involved? How do I demystify it? How many people are confused, Andre? Okay. It's very important to say to ourselves that this is a program that allows us to offer a 20 to 30% subsidy to a project. If we can find a way of facilitating that 20, 30% subsidy to a customer, that's the highlight as a headline. If we can offer a 20, 30% subsidy to the customer, we will win business. So let me just say this again. If it's a $10 million project, a borrower brings a $10 million project to you, and you go back and say you can actually do the project for $8 million, would they complain a lot? No, because they love to get that subsidy, and that's what this program offers. And I mean, to me the brain damage associated with understanding the program is worth winning business. So let's just come back to that. Go to slide three. Oh, well, slide two. What I want to do is to give a high level overview of the history and the background of the program. Follow it up with a very simplified transaction structure. It's simplified as it is complicated and it's complicated for a reason because attorneys and other attorneys and accountants and bankers, we all like to make them complex."

Mr. Narain continues, "Why? The more complex it looks and feels, the more fees are taken out of the system, which is a problem for me. And as a nonprofit CDFI I'm just annoyed every day when I look at the amount of fees that are taken out nonetheless. We have to understand it before we can solve that issue. The third section is how can minority depository institutions participate in the program? There are various ways of growing business, building new business, generating impact, and then receiving CRA consideration. I want to get into a little bit into the nitty gritty of the lender concentrations. As a banker, particularly the regulated institutions, you know from the bank's perspective and how we interact with the safety and soundness folks, it's very important for us to have the dialogue and think about the transaction structure. I'd say a couple of words about being a new market tax investor. A couple of

institutions, Blackstar, which has new market tax credit and has actually bought a lot of new market tax credits as an equity investor as I understand. The few words about NCIF slide three, this program has been in existence since 2000, 24 years and the goal of the US Treasury has been to use the program to incentivize private investors to come into the sector to low income communities. Everything here is about low income, highly distressed communities, and leverage their subsidy to increase the amount of capital to these communities. It increases the access to capital by businesses and developers and generates impact in low income communities there. I'll talk a little bit about impact, because at the end of the day, the government gives subsidy, not because they love the project. They give subsidy because they want the project to create jobs, to create beneficiaries who are low income people and so on. So it's all about impact in underserved communities so it's very key to understand that it's a two part thing, you know, to increase the flow of capital in low income communities, but not in and of itself. It's about creating impact. Very critical, because if he came to me and he said, you know, I want to create condominiums for the rich, and I wanted to use new market tax rates, the answer would be, that's great, but you can't use new market tax rates for that. Very important to keep that thing in mind. It's a highly competitive program. The application that we write every year is about 90 pages long. It's about month and a half, it's almost a treadmill but it's worth to be a part of the treadmill over a period of time. That's again the other message I want to give. If you want to enter into the program, it is an important thing to give a commitment for the medium term. I say I'm going to be here a year, a few years in a row, because it's not for the pain target. It requires compliance, it requires operations and requires consistency. The more consistency we have, the more the regulators would be comfortable that we can handle those programs, in the medium term. It's a competitive program, but you have to commit for the medium term. The first allocation round was announced in 2000. It'd be 19 rounds, about $72 billion of allocations that have generated projects that supported projects of about $135 billion."

Mr. Narain states, "A lot of impact has been created, 8,500 projects to go to the next slide. 8,500 projects, 80% or more of them in are in low income areas. They have to be by design. People like us and other participants in the new market space are insisting that the quality of projects from an impact perspective is very high. I say 80% but many are areas where the median income is less than 60%, in some cases less than 40%. That's very important to keep the bar high as 30% of the funding has gone to rural areas. One of our efforts is to actually increase the amount of funding going to rural areas because it's easier to do stuff in urban areas because the volume and the density of population in those cities. We are trying to increase the flow of capital in rural areas as well. Two thousand manufacturing businesses have been supported by new market tax credits. Another message that I want you to carry home is it's such a flexible program that it goes across the board of businesses whether it's manufacturing, community facilities, hospitals and so on, so forth to grocery stores and so on. So it's across the board, but 2000 manufacturing businesses creating 1.2 million jobs at a time where we are trying to and the unemployment rate is actually quite low just now. We just talked about inflation associated with jobs. Although I was surprised that job inflation was not part of the larger picture there much more on the services sector. If we create more jobs and also onboarding of jobs, which is in alignment with the political agenda, this is such an important part of the program that can be used by all of us in our individual communities to help be aligned with the political agenda. Lemme pause there first before you know, is there any questions on the overview?"

A committee member states, "This is going to the nitty gritty of key participants. In our individual community, if we're contacting you about doing a specific project, what are the types of projects? I

mean, is there a sweet spot from, from your perspective, is it a $5 million deal? Is it a $10 million deal? What is that number? I know manufacturing in our rural area, we've looked at a couple of new market tax credit deals, and the owners thus far have not pulled the trigger on doing a new market tax credit deal. But other than manufacturing, what are some of the types of transactions that you guys have done in your community, that we, if somebody's doing a project, we'd say, you know, this may fit a new market tax credit. So how do we know what to look for from that perspective?"

Mr. Narain responds, "Please hold that question. It's coming later in the presentation. It's across the board and it covers everything from housing to manufacturing to community facilities, to hospitals, to schools and so on. But I want to go into detail on that because I think that's important. Question as to what you just raised. Is how do we actually engage with the borrower? See, the point is, is to engage with people like us who got allocation, but the bigger question is, how do you get your lenders and on the ground staff to actually engage with the borrower? Does this work? And in more cases than not, it does work. But let me come back to that on the size question. So there are two kinds of transactions. One is a transaction, which is much more of a project finance kind, like a special purpose entity and so on. Typically we wouldn't encourage a transaction less than $5 million because the cost, as I said, you know the cost, the fixed cost associated with the transaction is so high that it's just not worth it, the effort. Typically, I've seen transactions go in the range of seven to $15 million. That's what we encourage because that's where the, it's like an optimal point where the cost of delivery of the project is, you know, sort of stabilizes at the top. And that's kind of optimal in my mind. I mean, I've seen transactions going up to $50 million but between five and 15 is the sweet spot. And then there is a second group of people, not too many who are doing what are called loan funds, small dollar loan funds, which are subsidized funds are more difficult. It's probably more appropriate for the small business and again, there's some risks associated with that in terms of reinvestment and recapture. We can talk about that. But that can be really small, and you have to have turnover. We've done a transaction, a small dollar loan fund with a bank in Alabama, which has tremendous success in sourcing $500,000 loan sale, $750,000 loans and churning it around. I'll come back a little bit more on that second question. So if you go to the key participant slide number five, this is just a level set here. We make sure that we understand, because again, the CDFI industry, the new markets industry loves to complicate life. Um, what's it called? Alphabet soup but let's not get too hung up on that. I mean at the end of the day, is once you cut through the alphabet soup, you can get to the 20 to 30% subsidy. That's our, target to get access that money for our businesses. So, of course, the government is the largest sort of participant. The CDFI fund administers the program and gives about $5 billion every year to the allocators. We are trying to get the program to become permanent. Just now it's renewed up, I think up to 2025. Then one more round is expected, but it'll become permanent because we've got a lot of bipartisan support."

Mr. Narain continues, "Obviously, the IRS gives the tax incentives and then the four or five key sets of participants are the investor, the new market tax investor. These are typically the largest banks, you know, so Wells Fargo, US Bank, as I mentioned, Flagstar, JP Morgan Chase, all of the largest banks that are regulated by the OCC are the biggest investors in this space. They invest capital to essentially reduce the tax liability, it's actually a pretty neat deal. I have a slide here late in the presentation because the tax return for the investor is actually quite attractive. The risks are different. Risks are in a compliance risk, and so on. But if you can manage those risks, and it's actually pretty good off tax yield of six to 8% in some cases, actually quite good. The next big participant here is a lender. This is where we, you have a competitive advantage. You are providers of debt. Debt is the most difficult part of a new market

structure. Nobody wants to do that. And CIF is actually building a participation platform because if you can move in the process of giving debt, that would be your competitive advantage in the program. If there is a project, which is a housing project or mixed use housing project that is in your neighborhood, and they need to use new market tax credits, well they need debt. So that's where MDIs can be a big, big supporter. The community development entity are the organizations that actually obtain the allocations. So I said as a competitive application process we apply for new market tax credit and then we sort of sub allocate different projects. As I said, we've received $400 million over the years."

Mr. Narain continues, "Then there's a term of hardcore quality B and again, alphabet soup. But it's a business, it's an active business. You cannot do an inactive passive business. The main thing here is a qualified, active, low income community business. An active business means, you know, you cannot invest in another bank. You cannot invest in a REIT, but you can invest in a mixed use housing. So it's got to be an active, not a passive business. It's got to be a business focused on low income communities. And people, CDEs have what is called an advisory board of low income communities. That's a key part of it has to be in the spirit of the law, which is that we have to make sure that all our work is compliant not only to the letter, but to the spirit of the law, which is helping the poor, creating jobs and beneficiaries. We have a group of people who advise us on why a particular transaction makes sense in that area, why it is eligible to get federal custody. So here's the simplified structure on slide six. Let's start from the bottom. That's the borrower. That's the project. You know, we talked about manufacturing, let's say it's a hospital. A borrower that wants to build a new facility in your township. The second key part of this thing is the sponsor of the borrower. So the borrowers are generally speaking, is this like a project like special purpose entity? Will the cash flow through the project get financed by the sponsor as it may be a larger hospital system in that example. Say I want to build a new hospital in that area. Or let's say it's a, you know, grocery store and the operator wants to set up a new grocery store in another town because there's the holding company. So the sponsor typically makes a loan. Well, let me talk a little bit more about the leverage. Now this is where I said minority banks, CDFI banks, all lenders have a competitive advantage. This is, you have the source of money, you have deposits, which can be deployed, which is desperately needed by the CDFI, by the new markets industry. So the box in the top left, the leverage lender is the most important box, now that box that money goes into what is called an investment fund, which is in the center, which sort of commingles money that receives the loan from the bank, and then it receives the tax credit equity from a Wells Fargo or US Bank or other tax credit investors, and puts that money into the investment fund. Now, it gets commingled as equity, and it is invested down into the community development entity, which has received the new market allocation term."

Mr. Nahrain states, "The entity, the community development entity, now makes the qualified loan. I'm assuming everybody's confused. If you're not, then, you know, great <laugh>. What we are trying to achieve here is the ability to leverage the new markets allocation with debt and equity. And therefore, finance, remember, the borrower in this case is borrowing $10 million. The lender is, the leveraged lender is going to provide, let's call it $8 million. The new market tax rate investor is going to provide tax rate equity of $2 million so that adds up to $10 million at the investment fund level. And that $10 million goes down to the community development entity, and then further down into the borrower's $10 million of loans oversimplified structure. But that's what it is, you know, where we have a competitive advantage is the fact that we are a lender, and I'll talk a little bit more about that. One can also become a tax rate equity in this structure.

A committee member asks, <inaudible question>

Mr. Nahrain responds, "… or they cannot be investor and a lender. It can be but it'll come from another part of the organization. So the bank can do the lending, right? And if the holding company has a tax liability, it can come out of the holding company. It has to be a separate entity, but it can be co-mingled. Many people do both lending and task credit equity investing. Now, if I'm not sure if you S corporation or C corporation… s corporations it does really help because it all gets sort of consolidated up. If corporations don't generally buy tax credit equity, it's normally C corporations that can offset their tax liability. C corporation with holding company or any c corporation actually so a lot of the historical tax rate investors have been large banks for the bank holding companies. US Bank, for example, syndicates it out to other entities. So for example, oil companies have been buying credits and anybody who has a tax liability coming in from other sources can offset the tax liability using new markets tax credits."

A committee member asks, "For the leverage lender, is it just one lender or could it be split up between multiple lenders?"

Mr. Nahrain responds, "The latter. It is very easy to syndicate out the flow because at the end of the day, and one of the things that we are trying to push hard for the syndication platform because with standardized documentation, it's particularly for the larger loans, it's very important that we be able to syndicate it out to many institutions and that's not uncommon. We are working on a transaction, which is a $15 million transaction in the Carolinas we will split it up into three banks."

A committee member asks, "So we've done a couple of new market tax credits a quite long ago. And low income housing tax credits, historic tax credits as both the equity and debt. We also participate out with sometimes local community banks who want to be involved in the project. But it is quite a complex structure; herding cats a little bit with legal costs. I mean, there are quite substantial investments and understanding, but if anybody wants to talk to some of our loan officers and people involved in those transactions, we're happy to always share our experience anyway. I just offer that up."

Mr. Nahrain comments, "That's great. And Kelly, you from which bank?"

A committee member responds, "Stearns Bank. But, you know, we're relatively small. We're two and a half billion, but because we've been involved in housing and things across the country, we have that experience in, and we have managed our tax liability when we converted to a C Corp. When the historic program went from immediate taking the tax credit to the seven year, we've done some solar tax projects as well, but not as many new market. My question would be, is there, I didn't see when we studied this ahead of this meeting, any advantage for an MDI versus another bank to be the lender?"

Mr. Nahrain responds, "It's just a matter of being the lending bank. Being a lending bank and being able to participate, I think would be important to spread the risk on the debt side anyway. So firstly, I want to sort of thank you for offering up your ability to discuss with the people because I think that practical on the ground experience, good and bad, you know, it's a lot of consternation associated with actually doing the transaction to begin with. Once you get used to it, then it's like a well oiled machine. We found that getting people with experience in the room is most important thing. On the other side, clearly the act of participating is complex. I've been in banking for 40 years, I've been in with NCIF for 20 years, I'm a great fan of subsidies but I'm not a great fan of costs being taken out of the system. One of the things that we are working towards is to see if we can sort of simplify our document. 90%, my assertion, nobody's contradicted me on that. My assertion is 90% of the documents are standard just like a, you know, laser

pro document. Why is it that we have the big closing binder, which takes three months to make and charges a lot of cost, but yeah, that's for future data."

A committee member asks, "I have a question. It sounds like being a lender is sort of a helpful starting point for us to get involved. My question is is it something where we as a bank would typically sort of find an entity that wants to have one of these loans? Or, is it something where we could kind of give you our information and then if you have someone that you're looking to borrow in our footprint, then we could be one of the banks that's maybe a participant in that, or if there's a syndicate or we're in an area where there isn't a lot of low income areas."

Mr. Nahrain responds, "I was just on my phone looking up using your map, and like a lot of the places where we went aren't part of this, but maybe there's some a little bit further away that if you came to us and said, Hey, we have this deal, we'd love for you to be a participant, whereas it typically driven by the bank and like a customer that comes through the door to speak to them about it so it can kind of go either way? Where are you based outside of Philadelphia?"

A committee member responds, "It's called Chester County and we have institutions, partners in both Philadelphia and Lancaster. If Lancaster could be helpful, but it goes back to your question also whether it's a minority bank issue or a bank issue?"

Mr. Nahrain responds, "Yeah. I didn't respond to that question. I think it's a bank issue thing. It's a competitive advantage of any lending institution and now the thing to do here, remember my opening comment, there's a business that is doing a business for $10 million, and if it can do the same business for eight, they're not really going to complain, right? Because they're getting that cash subsidy so the question that we always tell our partners is, or the comment we make, is how do we train our lenders to seek those opportunities? And, you know, and then at that point in time, we bring in the people who are the experience or the new markets people to help you help the customer. The second point is the new markets industry is constantly looking for institutions that can provide the leverage data, and hence knowledge of that you are available to lend in those markets is very powerful. It's very important there. And therefore, when we have a deal in that region, we can bring you in and say, would you want to participate in that loan or not? And that is something that we've done transactions in Texas. We've done a bunch of transactions in New York so it's very important to know that you are ready to work on a new market project and that requires a little bit of understanding of the structure. This so-called simplified structure because the risks have to be understood. I think it's important for on the ground staff, the regulators to be involved in the thinking around this is the new market structure. And the regulators have really been extremely supportive given there's a complexity here that I'll talk about a little bit later, in supporting the new markets. Well, the fact that I'm sitting here, <laugh>, you know, is support."

A committee member states, "I will speak for myself, but this may kind of be applicable to some of the other smaller MDI and female banks in the room. Just to kind of give you a picture of where we're like, we don't have lenders. We don't have anyone out on the street looking for customers. Our whole loan department is four people. They're doing commercial loans, they're doing helocs, they're doing purchase money mortgages, they're doing it all so it's hard for us, like, we do have two SBA loans, but we partnered with sort of an outside packager to help get those because it's too much for our employees who are already juggling 80 other things. So it would be the kind of situation where we'd love to get involved, but we wouldn't have anyone really in house that would be maybe, you know, we would know

a little bit, but we need a lot of help in the process. And would that be like the role that your organization plays?"

Mr. Nahrain responds, "We can help. Part of this thing is educational, and part of this thing is incoming calls or outgoing calls. I mean, so if you have a question, does this work? The answer is yes or no, not that complicated. And yes, I would say that there are many other local organizations in and around your institutions, which I can make references to, which would also be good partners."

A committee member asks, "I've got a question. So if we have a transaction in our market that, let's just say it's a $10 million transaction, and the borrower comes in, says, I'm doing this $10 million transaction and I'm going to put my 20% down, which is a typical kind of scenario, and we propose something like this, how much does that $10 million transaction grow incrementally due to fees, attorneys, all that? I mean, just how much of that equity give? Just to understand like, Hey, there's still a 15% savings or just to get a big picture."

Mr. Nahrain responds, "So the big picture is 20% of $10 million is the money that will be available to the borrower, right? The actual, so if you go to the next slide, that's instructed them. This slide shows how the cash subsidies are generated and so a $10 million deal has future value of tax rates of 39%, which is a tax rate over seven years and add an 8% IRR, gives you a present value of $2.8 million. Right? Now, that's 28% of $10 million, right? And then you heard me say 20 to 22% so that four or 5% goes out in the form of fees, new markets allocation fees, accountant fees, legal fees, and reserves and so on. That's why I say on a $10 million deal can generate $2.8 million of allocations, of cash investments. But after fees and costs is 20, 22% so 10 will be done in eight. That's the big picture. This is how the fees are generated. You know, the tax grade investor will get this flow, tax credits are 5% for the first three years, 5% per annum for the first three years, and 6% per annum for the next four years, 39% total over seven years. The present value of that 39% is $2.8 million. So that's the amount of money, that's free money. Let's go back to the previous slide, please. The new market equity, imagine $2.8 million is being invested into the investment fund, and $7.2 million is being lent to the investment fund, adding up to 10. That goes all the way down to the borrower. The 2.8 is not being taken back by the investors end because they're getting the return through the tax credits. Very critical. That's the subsidy so I mean, you know, that's free money, and that's free money being given to the borrower for doing what, creating impact in a low income area. If you understand that the equation the government is giving the allocation, the allocation generates $2.8 million of subsidy after paying fees. $2.2 million is being made available to the borrower to do what? To create impact in low income communities. That's the value chain."

Mr. Nahrain continues, "Not more complicated than that. There is a borrower working in New York City, in Bronx, creating a single family/mixed use development, providing some rental homes for low income communities, that's how the cash subsidy is generated. What happened from a legal deed issue after the, say the 10 years or whatnot? In other words, the equity investor that comes in, and whether it's a Wells Fargo, otherwise, do they just go away? Is there some sort of deeded back purchase for a dollar, that sort of thing, just to, if we have to borrow right? So this whole structure goes away. The new market equity investor goes away as there's something called a call and put option, okay. Would call option mechanism, which is exercised where the community development entity, the investment fund is all bought by the sponsor, essentially. The special purpose entity also collapses so both structure collapses, and the borrower will have the real estate collateral. The lender typically gets refinanced at the end of seven years. So when you do a loan, you have to think about refinance analysis. A borrower has

borrowed $10 million, but has a $2 million subsidy, so it only has to refinance eight. That reduces the refinance risk and at that point in time, whether you refinance it or you don't let it go somewhere else, that's fine, but the whole structure collapses. The borrower walks away with the equity. So, any other questions?

A committee member asks, “I have a question. So the MDIs in this room that are doing deals in many of the eligible census track, there's a lookup tool and presumably that CDFI or somebody has that says, I got a deal. Does that then trigger maybe in their mind to call us or CDFI to see if you have an appetite to do a deal once they have sourced a deal in an eligible census track?”

Mr. Nahrain responds, “Yes. So, that should be the trigger. And in fact, if you have the internet, I can show it to you.” <laugh>

A committee member states, “Who's got the computer?”

DFO King states, “I'm the one that's logged into the WebEx, but I don't know if we can pull up the website right now.”

Mr. Nahrain states, “Well, the links in my slide will take you to that. So the answer is yes. On page 15 is a link, it's hyperlinked. Typically you can log into that link and say, I want to do a transaction in whatever the project is based in. You type in the address, it'll tell you whether the project is eligible or not and eligibility comes in the three high level eligibility criteria. One is area median income has to be 80% or less than the overall MSA area median income. The second is unemployment rate has to be greater than one and a half times the national unemployment rate. And third is the poverty rate has to be greater than 20% or more. If one of those three criteria works, then you are eligible and then you say NCIF or any other new markets partner, you know, does this work for you? Is this interesting enough for you? What we will then ask the question is, what kind of impact is it generating? So it's one thing, the classic case, Barry, one of the classic problems was a Mercedes Benz dealership in a low income area, not interested. The IRS is very important and very insistent on making sure this money goes to support minorities, support low income people, low income communities to create jobs to help with the availability of financial or health services. So if you say mixed income or mixed use property then we are going to ask the question how much of that is kept affordable at the 80% level for the people in that community. That's the round of discussion that will happen.”

A committee member asks, “In kind of echoing what Kelly did. I’m Jonathan Jacobs from Wells Fargo and echoing Kelly's comment, what we've gotten very often with our MDI partners is questioned… so we've gotten a number of questions from MDI partners about how to work with us. We do have teams on both sides of the structure that you laid out so we've gotten involved, plugged in with teams on technical assistance, looking at transactions that would offer that up to the group and as you said, with great relationship with NCIF. So, want to bring kind of the full force of those resources to bear.”

Mr. Nahrain comments, “I think the availability of technical assistance is so important because this is complex. If we can garner in those resources to understand what it takes to make a project work, what kind of compliance systems to put in work, what kind of operation systems to put in work and so on, that here could be really powerful and it should be welcomed by the MDI sector. The question gets asked, if you go back to slide nine, how do we participate in the program and is it a minority bank issue? Is it a bank issue? And I think it's a bank issue. Not an issue but a bank opportunity. Minority banks are

important because they understand the needs of their specific communities and the communities that are often left behind not able to increase access to some of these funds because they have fewer resources. Again, TA would be very helpful there. I put it in basically three categories. One is to grow a business. If you walked up to a manufacturing business or you're going to have a 20% subsidy, they're going to love you. They're going to give you a hug and you're going to win that business. Remember, these are very low risk loans. I have in my 20 years of work in the new market space, we have not seen, and I knock on wood every time I say that, we've never seen a new market loan go into default. There are some that'll go sideways, which is normal. But, I've never seen a default. Why? Because of the pro at the end of the day. At the end of the day, they are waiting for the 20% part of gold at the end of seven years, they're not going to default. They'll find every different way of making sure that they live up to that loan. So single biggest thing is to retain and win customers. If we understand the new markets business, we will win new customers competitively and we'll save customers from going away because the 20, 30% subsidy. We book very high quality loans and we generate interest in fee income but bringing in all kinds of subsidy will always be very helpful in growing existing businesses over a period of time. We worked with many minority banks, and they've actually gone ahead and applied for the allocation themselves. Typically speaking, a recipient of new markets allocation can generate new kinds of fees just for accessing. Remember the 90 page application, if I become successful, I can earn some fees out of that. And if you become successful, than that's additional income for the institution."

A committee member asks, "Sorry, I had a couple questions. You mentioned at one point that it was a competitive process. What kind of approval rate do you see on this? Like, is it like half the applications end up getting approved, or one in three?"

Mr. Nahrain responds, "Only one in three get approved. So competitive is in two parts. Let's say I apply for a hundred billion dollars. We'll get, let's call it 50, you know, so we won't get the full lot. Therefore, we then are careful about how we allocate it out to people because the second level of competition for the end borrower to demonstrate that they're doing good stuff in low income communities, not, let's understand that value chain. Again, if they're doing good stuff, they will win money from you. You will make good quality loans and you will be able to access new markets and become successful. If I become successful, I will have more allocation for us to support your customers. That's the value chain that helps in increasing the flow of capital in low income communities. It's competitive."

A committee member states, "You said you get maybe say, half or a third of the money that you apply for, and then you're sort of allocating that among different applications. And what is sort of the success rate? Is that sort of similar, like maybe half the people you'll approve or probably less than half. And then my other question was how is the rate typically structured?"

Mr. Nahrain responds, "The interest rates are typically fixed. We've seen transactions, fixed interest rates, reduces complexity. I've seen numerous, I've seen floating problems."

A committee member asks, "When you say fixed, sort of, how long would that be fixed for?"

Mr. Nahrain responds, "Seven years. Some people have done an adjustment after five but it's seven years for a compliance period. That chart I showed you, how they get the money, it's a seven year compliance period."

A committee member asks, “Let's suppose a minority bank grows up and now seeks an allocation and let's just say they get a $10 million allocation. Aside from some of the fees that you've talked about, how much of that can be monetized to be income for the bank at some point? If you get a $10 million allocation, that's your fees. I mean, what you earn out of that is your fees, right?”

Mr. Nahrain responds, “So typically three to 5% is earned upfront and then there is asset management fees of typically half percent per amount. That's over and above the fees that you can make on the loan. So that's yours if you are able to win that allocation. But typically minority, there have been a few minority banks, that we've helped and others who gone in who've made a lot of money. I mean, Harbor Bank, Industrial Bank, Liberty Bank out of Louisiana, they've made a lot of money on new markets income. And I think that's an important because that should be your medium term target. Right? Great impact and receive CRA. Tell me if I'm running out time. Thank you. Stop me. I can't go on.” <laugh>.

Mr. Nahrain continues, “I think page 10 and 11 are very important. Let's do 11. It's an easy one. 11 is prohibited businesses, golf courses, massage parlors, racecraft, and so on. They're called thin businesses by the government. They don't want them to be feeding the subsidies. Nothing wrong with those transactions that not eligible for government. I mean, if you have a country club cannot be eligible, you're losing the competitive process. Now, let's look at 10 and 12 almost together. The purpose of slide 10 is to show you the diversity of projects that can be financed, have been financed, and therefore, you know you can take advantage of the new market subsidy to do any or all of the hospitals and federally qualified health clinics, very eligible source of new market subsidies. If you look at slide 12, and the first one is a transaction we did in Alabama where there's no cancer center in a 90 mile radius of that place. We helped in building a cancer center there, the rural area but extremely eligible for government subsidy schools. We've done charter schools, actually one of my first transactions was RU University in Newark. If you think about Newark, New Jersey, you know, literally right across the river from New York, but it's still very highly distressed. So Rodgers on the one side of Main Street and Prudential Insurance on the other side of Main Street are two anchors, which are helping develop Main Street or Broad Street, I think. We have financed that because not only does it bring jobs, brings in students, it brings in faculty, it brings in other affiliated investments. The reason I go in that level of detail is because you could be participating with the Rutgers, or you could be participating in other ancillary businesses that come along. For example, if there's a food business, a healthcare business, school that comes in, you can participate in any of those ancillary businesses that come along, mixed use and affordable housing. There was a discussion of the cost of financing. We did a transaction with Urban Leagues in Newark, where the cost of construction was almost as high as $800,000 or two platforms with the subsidy from new markets, with subsidy from other city and state resources, they were able to sell it to the low income people for as low as $400,000.”

Mr. Nahrain continues, “Now, this is important because you're creating wealth in low income communities, and as minority institutions as CDFIs that's what we care for. If we can route that capital into those areas, into those people, that is, you know, creating financial inclusion. Mixed use and affordable housing is very typical in a transaction made in New York typically with affordable housing at the top rental housing, and they had a dollar store at the bottom. So you've got to make sure in that situation that 20 or 30% of the cash flows of that project are commercial. And the balance can be rental. Commercial real estate is a very common use of new markets. You know, real estate doesn't run away. Trucks run away, can fly, you know, drive away. Most important part of new markets from a risk perspective is compliance risk. You got to make sure that the person is going to be in compliance for the

next seven years. Real estate projects are typical strip malls, you know, health centers. We've also done some student housing. A closed facility is very cool transaction in Madison, Wisconsin, where they had an old building mill, which has been converted into a nonprofit space, into an office space that will have restaurants, it'll have yoga studios and diversity of tenants is very key in Brooklyn, New York. We did an armory, which has been converted into a community center and has nonprofit space on the site. You know, and again, it's a big sort of anchor in that area. Sports facilities. One of my favorites, I'm a tennis player, one of my favorites is a tennis academy that we did in south side of Chicago. It was a world's loss facility in a highly distressed neighborhood in Chicago and this guy actually does things to support kids to be a tennis player, supports kids in becoming competitively good in that area in the sport such that they can get tennis scholarships. It's a transformative thing in the lives of underserved people. You know, another transaction we did was a big community center also in Chicago as it turns out, which is being a cool city with a lot of winters. How do you have indoor facilities? They have indoor baseball, basketball in the middle of Pullman so doing some fantastic work. We've done a transaction in Massachusetts, they are doing grocery stores of organic foods and had one on East Hampton and the one in North Hampton, and they were expanding grocery stores is another important source of subsidy for low income communities from the city out of our fund called Healthy Food Financing. At the end of the day, these examples help you in making sure that you're filling the capital stack. If you can fill the capital stack, the 20% comes from new markets, you can get under the 10% from healthy foods. One of the things that we should be very mindful of and be very thoughtful about is the new source of subsidy that's coming in called the Greenhouse Gas Reduction Fund."

Mr. Nahrain continues, "There's something that you want to take home is any project, any developer that comes to you and says, you know, I'm going to do this federally qualified health center, or I'm going to do this mixed university. Then the first question I have is what's the incremental cost of making it net zero? Net zero means the amount of electricity you use is less than the amount of electricity that you generate. Could be through geothermal, it could be through solar, it could be through other sources. And if you are able to make it net zero or whatever the incremental greenhouse gas reduction facilities that you can put on that project, that can be financed from cheap money from the federal government under the Inflation Reduction Act, the greenhouse gas reduction funds. All of this thing is to say it increases your competitiveness to put money to work in low income communities that we care for."

A committee member asks, "I had a question. What is sort of like hearing everything you're describing, and even the example sounds like it's like fairly large projects in general. Is there sort of a minimum transaction size that you've kind of, I mean, maybe unofficially that it's like, you know, is this worth doing for a $500,000 project?"

Mr. Nahrain responds, "As I said earlier, the two kinds of projects, a standalone special purpose entity, kind of a project finance transaction is typically no less than $5 million. There are a few people who are doing small dollar loan funds, which can be $500,000 also, but that's more complicated. Not too many people are doing that. But if your business is to lend to small businesses, 5$00, $600,000 kind of lots and in low income areas, and if you can demonstrate to the provider of the small fund that you will have constant churn of those loans, it's theoretically possible more difficult. So minimum size of $5 million is what I typically say. So slide 13 and 14 should be read together. Slide 13 shows a minority depository institution can make three kinds of loans. Take it slide 13. Notice I've shaded out, you know, the things that are sort of there, but not important. They're important from a transaction structuring perspective but this is how the minority bank can get involved. You can make a loan to the sponsor and when you

make a loan to the sponsor some of the restrictions go away. You know, in terms of amortization, one of the problems that people face is the program says that you have to have that money deployed in a low income area for seven years, which means no amortization, banks don't do non-amortizing loans. There's that contradiction, there's a problem. So how do you solve the problem? The industry has helped solve the problem by making what is called a source loan. The source loan is a loan to the sponsor, which is outside the system, outside the transaction structure. The sponsor then makes a loan to the investment fund through an affiliated lender and this source loan can be amortized in. It can be amortized, can have a sinking fund, it can have all the above. If the minority depository institution does leverage loans to the investment fund, this pristine form of loans can be more difficult but it helps in reducing cost of delivery to the lender and to the borrower. And third is what is called a direct loan to the special purpose entity borrower. If we are looking at a transaction where the property by itself, by the sponsor by itself, may or may not be able to cash flow. The property comes in and helps cash flow problems. The sponsor direct loan helps garner all the cash flows from the property, make sure it doesn't get commingled. You have the first right of that cash flow and what we've seen in our experience is a combination of source debt and direct loan. On slide 14, we talked a little bit about some of the things that have been are important. You know, as I said the loan is to the sponsor and the direct loan is to the special purpose entity. The terms for construction is typical, nothing new, 12, 18 months but where people have a problem is that's something that you have to work with the regulator when you do a loan as a source loan or a leveraged loan and you don't have direct collateral of the real estate."

A committee member states, "We as small community banks typically don't do unsecured, particularly not for seven years."

Mr. Nahrain responds, "Well, this is not unsecured. It looks unsecured. It's not unsecured. And that has been our journey for the industry to help bridge that. It's not an unsecured loan, but it looks unsecured. I'll just finish this thought. It is collateralized by what is called membership interest in the investment fund and the community development entity actually owns the real estate. So if we can walk through that transaction structure with the local safety and soundness regulators, then they feel comfortable. And like I said, my experience in the last 20 years is not one loan has defaulted, not one loan has defaulted. That's powerful. Right and knock on wood, every time I say that. Yeah so that is something that we have to converse with the safety and soundness people."

A committee member asks, "So would that be a loan or would that be an investment?"

Mr. Nahrain responds, "It'll be a loan. It'll be a loan. Yeah. It is typically set up as a loan. I mean, if you want to call it investment as a fixed income instrument, that's fine too. That's an internal accounting thing. But typically it's loans set up as a loan."

A committee member responds, "To me, it sounds like it would be an investment because there's no collateral. We are not putting any loan loss reserve so for me, it would be an investment here, not a loan."

Mr. Nahrain responds, "Yeah. You would put a loan reserve and there'll be a fixed payout. There's no sort of accretion, there's nothing on the tax credit side and you'll have tax credit equity accretion on the lending side so you'll just get paid money paid back. So it's generally classified as a loan and your collateral ends up being the interest in the investment anyway. That is your collateral. It's just one step removed from it. At the end of the day, the community development entity actually does touch the real

estate and sometimes some people have done both the sponsored loan or source loan and the direct loan. I touch the collateral on the one hand have control over what happens to the insurance policies and appraisal and so on. Slide 15 has impact metrics. There's a lot here in this low risk and loan structuring that I'd be happy to be engaged over a period of time. Yeah. There's something called targeted populations that are more difficult, but I should mention it because let's say if you're in a sort of in an area which does not qualify on demographic criteria of poverty, income, and unemployment. The classic example is we were looking at a federally qualified health clinic in downtown San Francisco does not qualify, but it is catering to Medicaid patients. We were looking at a single residency occupied also in San Francisco for the low income people who are basically living outside of downtown San Francisco but they're supporting the services sector in downtown and that's eligible, assuming that you can cross the commercial real estate test. That targeted population can be more difficult but can be done. When you think about bringing in the transaction to us, you got to think about different kinds of impact that has on jobs. Are there high quality jobs with benefits? Are you providing commercial goods and services, community facilities, closing grocery stores, housing, and so on? Next slide. So there's the comp and we talked about the benefits here. That customer is benefiting from subsidy. The customer has to be held responsible for doing a few things. You've got to have some frontend compliance and ongoing compliance. Gotta make sure that the spirit and the letter of the law, the program is met so you got to have some compliance. You got to make sure we, the minority bank and NCIF and others, have to make sure that they are actually reasonably something called a reasonable expectations test. They're reasonably likely to deliver on the promises. We don't want to have a situation where they say, we are going to create 50 jobs, and they create only one that's a problem. If we got to create 50 jobs and we only create 49 or 40, that's okay, but life happens."

Mr. Nahrain continues, "That's some front end of compliance underwriting that we do. And there's something called a community benefits agreement. The CBA sort of captures what they're expecting to deliver and it comes in through the CBA. On an ongoing basis, there is something called a community benefits report. How many jobs you creating, you know, how many minority jobs, how many low income jobs have you catered to Medicaid patients? Have you created a manufacturing facility that has generated catalytic impact? So that's the kind of reporting we do. We have to make sure that, when you do equipment, finance equipment doesn't walk away, you know, give the example of trucks so the trucks can be driven off. So it's more difficult to finance trucks. Also, the useful life of a truck is less than seven years but on the other hand, if it's equipment finance, you know, if a hospital is buying a very highend robotic surgery equipment to support the low income people, that's acceptable; the useful life of that is within reason. That kind of analysis is to be done. That 85% of the money is continuously deployed in these areas. There's something called an operating income test. We send the money up the structure only to the extent it is earned by community development entity. It's not difficult, it just requires diligence and it requires controls to make sure that we are able to meet the spirit, the law, the principles and the desires of the CDFI. Last slide I had before I end is the question of the return to the investor. You know, remember I said that the two main components here, the three main component, one, is to grow your business. Two is to become an allocating, bring new business or become a new markets investor. So this is an example of a transaction where this new market investor getting a 5.2% after tax return on a fairly safe investment. It's benefiting underserved communities receiving CRA consideration but 5.2% or 6.8% in a pre-tax basis is a pretty good investment. I'm going to stop here as the next two slides are about NCIF, but I'm going to stop here and take any questions."

A committee member states, “Maybe you could give us your contact information, hearing this just as a small $200 million bank and it just seems like there's a lot involved. It's projects that would basically exceed our legal lending limit and so I think our best hope of getting involved would probably be through some sort of syndicate, which you had mentioned. So maybe you could just give us your contact information. We could reach out regarding kind of local players with whom we might partner with.”

Mr. Nahrain responds, “I can give it to you, Andre and Barry can be circulate it. Thank you for your time”

SDC Cole states, “I have to do the OCC disclaimer, which is, we do not endorse any particular company, but you all had an interest in having new markets tax credits presented with some detail. So as a result, we have someone who actually is in the business, but there are tons of other companies out there, and there are also institution banks that do this. So, you know, it's a free market.”

DFO King states, “Thank you for that point, Beverly, and thank you Mr. Narain. So we need a five minute break or do we want to open up to round table with lunch shortly following? Alright, well, let's just keep the conversation going and then we'll have a robust lunch once we get done with this discussion. But during this part of the agenda, which is primarily the most important part, is we get an opportunity to hear from you all what's on your mind, some of the things that you have been thinking about since the last time we have opportunity to meet? In the interim, we've had discussions with several of you all, and several conversations with Jonathan Jacobson. You discussed some deposit program that Wells Fargo's working on. Jody reached out and had a question that Andrew did address, but wouldn't mind if you share that as well and Mr. Naudon had a question in regards to MDI and the diversity of the particular owners. So round table as well as Project REACh will give a brief update. I guess I could just pass it over to you, Jonathan, if you want to take the mic.”

A committee member states, “Thanks, Andre. I've gotten to talk to a number of folks in this room, but in addition to our other MDI partners, Crystal and Andre connected me with the recent project REACh meeting to talk about the deposit program. I think it's been widely discussed that coming out of ECIP Award and looking at the current market environment, the need for deposits has never been higher. We spent a lot of our time over the last few years focused on introducing loan participations, earning assets. Joe made a comment yesterday that there's more loan demand just in organic sense then most MDIs can handle the deposits are the constraint. So we've stood up a deposit program, our peers, not exactly the same as Beverly's comment, but not advocating for but there are sharp elbows. We've been talking to corporate clients, talking to peer institutions and other organizations that want to think through not why, but how and I think that was the focus of the project REACh call. Not, why did Wells Fargo look to do deposits? But how did you talk to your risk capital treasury team? How to do it and what's the most efficient way? So similar to the comment about new market tax credits, I’m happy to speak to anyone about what we're doing from a deposit program, whether it's outreach or potentially having a deposit placed. Happy to have launched that program and have started a couple of weeks of allocations and we'll continue to be doing so in the coming weeks.”

A committee member states, “I'd just like to add to that from an MDI and want to publicly thank Wells Fargo and Jonathan in particular as well as the OCC for kind of bringing this to light and bringing us together to see some of the larger institutions sort of hear this out and actually effectuate a program that is both, substantial in nature in terms of the deposit level, but also the spread, which is equally as important, right? To not just have an investment or a deposit, but to actually have the margin on it is extremely beneficial to us as MDI. So I think, you know, when I look back and Beverly, you'll appreciate

this from the inaugural MDI meeting to say, how do we get to this point? Well, we've sort of gotten to this point on a capital level and then now also on a deposit level. But to Jonathan's point, I think there are many, many more Fortune 500 companies that want to continue to do it. And so we need to continue to raise the awareness that not for all of us, but for some of us, the need for deposits in order to leverage that growth is never more important than today. So, for those of y'all that aren't participating, you know, it's great to have Jonathan in the room and representing his institution. So thank you, Jonathan, publicly."

A committee member states, "Thanks for those comments, Joe"

A committee member states, "Throughout these discussions, it wasn't, Jonathan didn't approach it as, here's Wells Fargo on this and this is what we have. He always discussed the other players in this space, right? And he just given his access to this particular committee, he can serve as the mouthpiece. But as you mentioned, several companies, several larger institutions are in this space as well, and they just trying to find their best to bridge the gap when it comes to deposit placement."

A committee member states, "Yeah, I like it. Joe's sentiments too. I mean, it does make a difference. We are recipients of various of those things and of course keep more coming, but it really is making a difference. It is allowing us to leverage further our ECIP funds and our capital position and it has significant impact. So thank you."

A committee member states, "I remember in the past we promote that larger bank, they can place CDs with MDIs and also they can earn CRA quick credit. So I think we got several millions from other banks in the past, but I think they all close these CDs. Last year they said they're no longer important to do them <laugh>. So I think, maybe we can do something to encourage them to do it again."

SDC Cole states, "I'm just glad that you all are sharing some of your all's sentiments from your experiences in this particular space."

A committee member states, "I would like to point out though that, as I talk to other banks, maybe regional banks in particular, there's still this sentiment o, well, it's not in my CRA assessment area, therefore I really can't do it. But if you were, we would do a definitive statement from the OCC or for all the regulators to say, look, any investment or deposit in an MDI would be considered just that explicit. There's still a lot of information out there that's, whether it's bad information or maybe in their particular market that particular a CD doesn't count it, I think would be an important step to take as the OCC."

SDC Cole responds, "I won't make any promises." <laugh>

A committee member states, "We've had some people that are right there at the altar and saying, we just found out that our markets don't overlap and I just think that's the wrong sort of message. I understand their stake, they'd rather deploy it there or deploy it there. But affordable housing is ever present everywhere and getting to the underserved is ever present everywhere. So just want to make sure that you guys hear that comment and it seems like the regionals are a little bit more particular about it. I also would comment that I, for one and many other MDIs, keep pressing treasury to restart the MDI deposit program and we are not getting anywhere fast. The sad part about it is that the latest legislation is there, it was done before it was ended during the Obama administration. There's really no reason why they can't restart it."

A committee member states, “Well, I think we're on that same list and we've never gotten a deposit from it. Is that the one that they put online and you have to sort of recertify annually?”

A committee member responds, “ Yes. And that's where a lot of the energy department was very active on that years ago. I would hope Fortune 500 companies would go on the list and say, Hey, well some have and, of course that's outside of the OCC sort of mandate.”

A committee member states, “I think that's what I'm saying, just continue to raise the awareness. One of the things that some of the trade groups, specifically the MDI and CDFI trade groups are doing is now that this is now a couple, three years in creating some sort of a report card to the institutions in particular to say, Hey, look, this is what you're doing really well, but these are areas that other institutions are outperforming you as to create a little bit of an awareness. Some institutions feel like we're doing everything and then you compare them to the institution next door and they're saying, look how much more these guys have been doing. I think that from an OCC perspective, if y'all continue to share the message of there's still a need at the MDI level and they're changing, right? Because we were talking capital 3, 4, 5 years ago, now we're talking deposits, and tomorrow we'll be talking, we may be talking loans. It's just by the time some of these larger institutions get online, the market may have moved. And I think sometimes, in today's environment, and I speak for myself only, we have so much loan demand that I would love to participate larger transactions. Two years ago, I was touting that story. Now, just from a yield perspective and from a demand perspective of my market, I'd rather do loans in my market than go outside my market for the need for deposits and lower cost deposits. So, this is just changing and I think that's an important thing to keep in mind.”

A committee member states, “I think we're in an environment where, you know, all banks are struggling to find deposits. Even the regionals and the larger banks are, that normally never competed for deposits against us are now competing against us. And they have a lot more resources and they compete better and we're struggling. We see our interest expense triple in one year and we're paying our deposit customers for CDs that are 5% and basically we're competing against on US Treasury, right? On the other hand, we've got loan customers who are here saying, this bank is offering me 6.9%, but I like you guys better. You guys provide better service and we'll do it for seven. We can't do seven. We have a spread that won't cover our overhead so we're struggling and we suspect that this is not an issue that's particular to MDIs. I think it's an issue particular to community banks in general right now.”

A committee member states, “I can elaborate on that. So obviously rates have gone up pretty dramatically and on loans and on the deposit side as well. Our cost of funding is now some much higher but you know, people are going from 2 to 8%. And so because we're a small community bank, they get on the phone and we have people that answer. It's not sort of, I mean, the value we add is to sort of like, talk to our customers and try to work with them. It's tricky because we want to sort of help them a little bit, but then it's sort of like, well, we're the ones being strangled here ourselves. But again, it's not a problem that bigger banks really suffer from. I mean, bigger banks, it's hard to even get anyone on the phone to talk to you about why your rate went up versus with us.”

A committee member states, “It's really a challenging environment and I agree with that. And I think part of it is that as a community bank, we are trying to work with our customers and be flexible. So then we're sort of trying to drop our loan rates as much as we can to help them while still trying to be competitive on the deposit side. I mean, we find our rates are generally higher than a lot of the bigger

banks, just because we don't have sort of the extensive ATM network and so forth and so on. So we're just kind of getting pinched on both ends and it's difficult."

A committee member states, "I think to that end, you know, one of the comments that I wrote was around source stigmas, right? Um, I think there was, there's always been a stigma against brokered deposits. I understand stigmas against borrowing from the Federal Home Loan Bank and borrowing from the Federal Reserve and all those things in today's environment have been normalized to some degree. We're in a new and a different environment, maybe not new because of the cycles that we're in. I don't, I think, all things being equal, we would prefer not to take on a broker deposit or not to borrow from the federal home loan bank but prefer to do all those things. The case is right now, you kind of have to, you know, take all available resources. And in some cases, some of those resources are actually pretty darn attractive, right? And to the extent that you don't overuse them and all those things. But, you know, if a bank takes on, I don't know, 2, 3, 4, 5% of their deposit base in brokered, is that really changing the risk profile of that bank versus a bank that's taking it on at 40, 50%. I mean, there's certainly some more discussion around that because it is a different environment that we're in right now. And something that I think just from an overall perspective, I think we just need to be talking about that from a regulatory standpoint."

A committee member states, "You know to echo that as the additional thrift, we have always used an normal bank to finance housing loans. And we do find that the OCC does not necessarily have the same traditional look at federal home loan bank advances to be equated with any other borrowing. And it may be wrong from our perspective. We try to isolate the loans that have been financed through the federal home loan bank advances, which in fact, are properly matched to the loan. It's a safer, less volatile funding source than a traditional deposit, and certainly a lot less than internet deposit. I think that that view has to continue to evolve."

A committee member states, "What we are finding is that the agencies in this particular case, doesn't seem to have a uniform activity. I think in areas where there are more threats, the view's different than in areas that there aren't any threats against national banks."

DFO King responds, "This topic has come up in previous discussions as well as some of the outreach events that I've attended in regards to what's the regulatory perspective on looking at funding and the various strategies being deployed given the cost associated with the organic deposit growth, and that there's some sort of negative connotation with utilizing other liquidity sources, which albeit may be cheaper to continue to operate the bank in a safe and sound manner. So thank you all for bringing it up. Because it has been a common conversation that's come up outside of just these four walls so we'll definitely take that down and make note of it, especially knowing it's not something we can solve in this room."

A committee member states, "But it's worth mentioning, you know, once again, you saw a larger institution run into problems, get bailed out, the depositor got bailed out. Had that been any one of us in the room, that wouldn't have happened. I mean, let's call it what it is and that's a concern to the depositor. I'm going to use that word stigma again. That stigma is sort of there. And now the real risk of losing on a deposit is there. So we have to compete, we have to pay the rate in today's market. It's no longer the benefit analysis that we had during PPP of, oh, you know, this great feel good story about community banks are here for us to help us. The deposit is now saying, Hey, I need my protection on, you know, for payroll funds, you know. <laugh>. That's just the way it is. Sorry, I love you guys, but you

know, I like you, but I don't love you guys. It's kind of the message we're hearing. It's a cycle of things and I think it'll wane off after a while, but for the time being, it continues to be a concern. And you got somebody walking in with three, four, $5 million saying, I know you guys are safe and sound. I show them my leverage ratios, which are light years ahead of anybody else. And they're saying, but I still want FDIC insurance. Thank you. You know, so it's just a sign of the times and imagine when you have a failed institution and a stressed institution next door to you? <laugh> Not easy."

DFO King asks, "Troy, do you have any comments on prompt?"

DC Thornton, "It's interesting times. You know, I'm generally don't get concerned with the 2 to 5% that you mentioned, but concentrations are dangerous on both sides of the balance sheet. Agree? So, the level of my concern in that area is probably not going to change because we have seen issues around that. So concentrations can still be dangerous on both sides of the balance sheet and I think that's the message."

A committee member responds, "And I a hundred percent agree with you, Troy. I mean, there's levels, right? But there's also levels where there's just, you know, when we come in, we get rated on, you know, there's an increasing risk if we go from zero to $1, right? It's just an increasing risk to just kind of like, take it all within the grand scheme of things to say, okay, relative to your overall funding sources, this is not, you know, a huge item. And that's really the message I kind of want send is, let's leave everything relative. I think as bankers, we don't want to take on, you know, I haven't had a broker deposit in my bank since 2008 just as a matter of policy will not do it but in today's environment it's actually cheaper and probably safer. You know, they can't take that brokered deposit out to some extent. it's worth revisiting and sometimes even as a contingency plan, you know, just because we don't want to get stuck with those issues."

SDC Cole states, "Oh, I'm going to ask Jason and Troy. Tracy, I think is on the phone and I'm sitting next to Andre all on the supervision side of the house. I would say 42 years ago when I came to the OCC, it was actually, you know, borrowings were like, not a good thing. I think we have evolved. One of the things that I think concerns us or concerns me, I'll say is the concentration risk that Troy talked about. But also, many times when we see banks that have brokered deposits, they don't have a plan for when the broker deposits leave, right? They don't have a contingency funding plan that is realistic and viable for when those deposits leak. And they do in many cases so I think given the events of last year, we've been kind of focused on, you know, what are institutions' contingency funding plan, are they well thought out? Are they tested? Because we have banks that say, well, you know, we're going to go to the Fed discount window, but they've not even talked to the Fed, they haven't lined up the collateral. They have no idea what percentage cut the Fed will take on that collateral and so that doesn't seem like from a regulator standpoint to me, a very good plan or very good risk management. Same thing with the FHLB lines. Do you know what's their plan? What's their stickiness? Have you actually talked to them, you know, and what is your understanding of where they are? Is it the same understanding that they have? I think as a regulator, we've seen some things on all sides that are slightly different than what the bankers might be thinking is reality. What we actually see happen might be like night and day, and that's some of the concern."

A committee member states, "I'm sure it's specific to each individual institution, or I don't know that it is actually. I kind of don't. I think we just get their form and I notice a lot of our borrowing lines, if you read it. I'm an attorney and a lot of them are sort of like, this is not a guaranteed, you know, it'll be for a term

of one year and it'll be like at any point we can remove access to this in its entirety, depending on the financial condition of the institution. The language is very, you know, allows them at any point they want to pull it and unfortunately typically at a time in which you probably would need it would be when maybe things weren't optimal for whatever reason. So I completely agree with you that I think banks think, oh, we have this $4 million line and that in reality, I think all of those could evaporate in some capacity depending on the specific lender. We have one through First Horizon, which was First Tennessee. They're a bigger player and FHLB, and yeah, if you kind of get into the language of it, they're basically guaranteeing nothing." <laugh>

A committee member states, "Well, you know, I can tell you that when things failed, the next day we drew on lines and we had half a dozen lines. The only one that gave us significant amounts was the FHLB not the commercial banks. We had lines and one of them said, sorry, I can't give you 5 million, but how about $10,000 <laugh>? And we were testing, that's why we did it."

A committee member states, "Oh, wow. We tested one for a dollar and they wouldn't advance, which is remarkable. But the line is available, it should have been 10. You tried to draw $10 million and they only gave you 10,000. What did they sort of represent? Was your capacity 10 million?"

A committee member responds, "Yeah. And they said, we can let you test for 410,000, but we can't give you 10 million. So what we have done is have the federal home loan bank come and give more collateral. Not that we need the line, but just be available to us in case we need it. One of the other thing, as a result of what happened last year with some of the institutions, we did the deposit concentration limit. So from no one, we do a lot of municipality deposits but we will not take more than $50 million. So if they have $50 million and they want to increase more deposits, we will not take them just for the fear that if they take their deposits away somewhere, all of a sudden we'll have liquidity problem. So making that policy, pledging more loans to Federal Home Loan Bank. We are trying our best. But one of the thing I like to see that you bring in resources and the federal government allocate funds to various agencies in the states. We have no idea how to reach out to those agencies to see data deposits funds at MDI instead of depositing in big banks that they bring those deposits to us. We even don't know who to reach out or how to do it."

A committee member asks, "You're saying for the agencies?"

A committee member responds, "Yeah. There's none but we need all the time. The federal government allocated so many billion dollars in this state for transportation for various departments and those funds get deposited somewhere but not at the MDI. That's where we are seeing if you or the Treasury Department or through your resource, bring in somebody who can talk to us. This is the agency who gets the minority deposit institution. This is how you go and try to pitch for those deposits at your bank. Well, treasury has an agency part of it. It's called the fiscal service, fiscal Agent service. And that's where this minority deposits supposed to be centered on. We joined that. We were the, I think the first MDI bank to join that in four or five years. It's a very inactive program. But you know, you have to push through from within to get that done so the first step I would suggest is join the program. Hey, if you're not in the program, you can't even ask for it."

A committee member asks, "Do you get deposits?"

A committee member responds, "I get some, but very little."

A committee member states, “Yeah. That list has existed for the 17 years I've been in banking and every year they update the list, which is surprising <laugh>, but it doesn't actually translate into anything. So we kind of just stopped calling. You know, I wanted to bring up one other point that I made on my remarks, kind of unrelated to deposit. Is that fair?”

DFO King responds, “Yeah, yeah. Okay. Go ahead.”

A committee member states, “Um, so I talked about this. CECL is now in all of our institutions now sort of mandated, and we've had at least a year of review. Just in the data that's coming out, as I start to compare, institution to institution, because that's always been the reasonableness test to all of this, the one thing that's glaring or sticking out is the difference between the unfunded commitment. The reserve for unfunded commitment is vastly different from one institution to the other even sometimes in the same districts. So I don't know how much of that, I know there's a lot of subjectivity but, um, in particular, unfunded, the way I read it, it's pretty clear cut. You know, you basically have to reserve if you, if you have a commitment to continue to lend, you know into that unfunded portion where before it was sort of the probability of whether you're going to fund within the next quarter or a year, something like that, CECL makes it almost a little bit more explicit. And so I've seen in our institutions we're reserving as if it were funded, essentially. And at some institutions, I'm seeing where they're not reserving at all in some cases. So I don't know how much of the OCC, I just want to level playing field. I don't know how much of OCC has looked at that, because when you start comparing earnings and there's exam ratios that go in and we're comparing each other, there's a clear disconnect, especially for a growing institution if you're continuing to reserve for unfunded commitments.”

A committee member states, “We run into that same issue, Joe. When the OCC, and actually when our external auditors reviewed our CECL calculations, they spent very little time on the unfunded side of the house. Even though we probably have six, $700 million in unfunded construction loans and the number in the reserving for the unfunded part is not to us, not insignificant, but it is less than fully funding a construction loan. The joke is, we have never had a loss in the construction.” <laugh> But you still have to fund some of that.”

A committee member responds, “But I'm seeing some institutions just ignore it all together. It's like there's no reserve for unfunded or relatively nothing. I just don't know if we've gotten data, I don't know if this is something that's been on the radar, so to speak, and, you know, for those guys that aren't reserving a whole lot, they're going to kill me for bringing it up. <laugh> It's just to be sort of fair, because there's a clause in CECL says that if you have a continued commitment, and I would argue any construction loan, I mean, you still have a commitment. So we're actually writing into our loan agreement saying we have at any time, not fund going forward. That way we can, you know, get out of it. But, so anyways, I'm just kind of bringing something that's out there. That's when you get into the weeds. There's some differences there and I'm assuming part of that difference is some institutions are taking the position that they do not, or they're not required legally required to fulfill that commitment. And others like yourself have, I’m assuming you do well when you have a loan that's partially funded and you foreclose on it 99 times out of a hundred, you go finish it out. You know? And that's just the reality of things, right? It is hard to sell a property that's halfway complete but most banks are not reserving for that, even though it's unfunded, because the demand loan, by definition, you can cut it off at any time, right? I don't know if this was just a play on the language or people are just interpreting it differently, but

I'm just seeing, especially state to national, but even within some national banks, there's some differences."

A committee member states, "And most examiners, I'll say this, you know, politically correct, aren't as versed on CECL as they maybe ought to be. We're having to teach them what CECL really says, <laugh>. So that would be a problem that I would completely correct, say <laugh>. And it's new. I get it. But it's also, it's what we live by, right?" It's, it's our new

A committee member states, "Last year there was a presentation by someone with the different treasury services. Has anyone had any success?"

A committee member states, "We joined the fiscal agent service, whatever it is called about a year ago. And we lined up with a large bank in a mentor protege program. There was a request for proposal for security liquidation services, that we kind of are looking at whether or not to bid on that. In the bidding process, you would use the large bank to provide some of the services without looking at the merit of that particular RFP. Joining that program gives you entry into other RFPs that treasury is supposed to issue. But this one was the first one issued in, I don't know, seven, 10 years. But I think it's worth exploring for sure. We began the application phase. Actually, we've turned it in and we are looking to partner up with an institution, but we, you know, we haven't, although I have seen some real success stories from some folks that have done it at really small level, and it's been really instrumental to their organization. So it is real. We're in the initial stages. We've identified a partner and we're having conversations with them now, and we're going to apply shortly. And so I'll keep you posted on that."

A committee member asks, "You would be applying as a mentor?"

A committee member responds, "Yeah Jamie, we've had a few meetings I just met with, I think it was Terrence Smith who presented at one of the recent meetings, but met with him and his team and Yvette Downs, who I think has oversight over a lot of the work they do with MDI, who continue to talk to them about what we are doing with MDIs and finding like the MDI deposit program was one of the items that we talked about last week, but we're going to continue to talk, and I can certainly bring it back to this committee. Just some of the things that we're thinking about doing. A key was that sort of having it bite sized enough for smaller banks, because some of the programs sounded sort of vast and beyond anything that we have any involvement with with sort of in any capacity."

A committee member states, "that's encouraging to hear that you've heard of smaller banks that have managed to make that sort of successfully work. I've seen a couple of them, and they're smaller in nature, and I think the way that I'm hearing from them is there's a sort of a one year, 18 month sort of watch what we do, and then here's how you can sort of play that role sometimes just the way they route monies and whatnot for a fee. And so, there's a learning curve because every program or every contract is different, right? So there's no one easy solution to any one but I think it is happening and it's encouraging. The only bad thing from a MDI standpoint, from what I'm hearing is once you marry that larger institution, you're married to that large and you cannot have multiple sponsors, if you will. So you got to choose who you're going to connect with."

A committee member states, "I have a different topic? So this is an interesting issue for all our MDIs because we qualify with MDIs under different definitions. But the way the definition of OCC and FDIC and the other regulators are not equivalent. They very similar, but not exactly the same. We started out

as a mutual, and so there was no ownership, so we didn't qualify under the typical ownership clause. If you are owned by an African American group, you qualify as an African American MDI, if a Latino group owns it, you qualify as a Latino, et cetera. If you're not owned, either because you're a mutual or you are a public entity, then the different test applies. And the test there applies is that you must be, your board must be controlled by blacks or African Americans, or you know, Latino, et cetera, and important. And the market you serve is composed of all those same individuals. So if you like us, the Latino controlled board, the public institution where the majority of our market is a Latino market, then we qualify as an MDI. To me, that definition grounds counter to what we all need to do, which is diversify our business and diversify authorities. It also runs counter to a typical community. In our case, we have branches that 10 years ago where in a Latino community, and today they're in an Asian community or in a Russian community, et cetera, et cetera. And so the risk there is how can you maintain the MDI label definition, et cetera, when you have an multi-ethnic or multiracial community. We would like to create a multi-ethnic multiracial board, but the risk is, unless the green light is given by the regulators, we may find ourselves not meeting the definition of an MDI. So I think that's an area that really needs to be looked at carefully. I know that FDIC has approved two, they call it rainbow MDIs because they are composed of different ethnicities and race and are addressing markets that are likewise rainbow."

DFO King responds, "So Charlotte, would you like to take that?"

C. Bahin responds, "Sure and thank you for raising that. Carlos, we actually have spent a fair amount of time talking about how mutual MDIs are a little different because of the ownership piece and also about what happens when a mutual, like you converted from mutual to stock and you can't really measure your ownership in any meaningful way anymore because of the widely diverse shareholder base. One of the pieces is that as part of the definition, in the OCC definition and the policy statement, we do have the previously served category, which would be you because you are previously designated because you have been an MDI for many years. So we wouldn't look at your ownership and we would look more at the communities that you do serve. As part of that, we have a working group that Andre is a leader of and other people in this room participate in that and we're looking at trying to sort of be more flexible and more expansive in the way that we look at community service, but also whether it's only one ethnic group that can be in the ownership structure, which is something that the FDIC does have. They have one institution that's owned by multiple different racial groups so it is something that we're looking at. Your example is a great example and we're going to take it back and talk about it. But the important thing is that we acknowledge that the world is changing and we are trying very hard to make sure that the definition and the definitions in the policy statement that really reflect the MDI community as it exists today. What you're talking about is something that we really need to focus on and think about."

A committee member states, "Yeah, I can tell you that we came very close to merging with another MDI that was not a Latino MDI and the uncertainty of being able to maintain the MDI status actually killed the merger. So it's very real issue."

C. Bahin responds, "Yeah, that's too bad. And I'm sorry to hear that. There was a situation like that here in DC as well. And to be perfectly honest, I'm not sure that it was ever really talked about it, but there was always an assumption. So if that ever comes up again, I would urge you to reach out to your supervisory office. You can reach out to Andre or me or Beverly, and we would be more than happy to, to help you work through that if it needs"

A committee member responds, "I think, you know, a more definitive policy would be good." <laugh>

DFO King states, “We are working on it. <laugh>. That's a good point and Charlotte's spot on with the comment in regards to, we have to understand the world has changed, right? And so we are doing our exercise and our review of MDIs and just to make sure that we understand the dynamics of that population and that any guidance set forth going forward ensures they capture those MDIs. Also to speak on the liquidity issue. When we talk about the world is changing, evolution we’re living it in real time, right? We on the cusp of coming out the pandemic, everyone's behaviors is changing, the rate environment is different. And so when you speak to what liquidity looks like and the funding with the cost associated, it's more important that you tie to your strategy. The risk management component, you know, the contingency funding plan but also tying that plan to your overall strategic plan as well. While the quantity and the concerns from the metrics may raise some questions from the examiners who say, oh, your balance sheet dynamic has changed, you more invested in this type of funding source that may or may not be a little bit more volatile. If you have that documentation that shows, okay, we stressed, we looked at all the scenarios, we could still be a viable institution with a sufficient capital, but also we have a strategic plan that supports over the next one to two, three years on why we are doing what we're doing. I think that alleviates or maybe even mitigate some of the questions and concerns when it comes to the risk taken on by utilizing more volatile funding sources outside of just the organic deposit growth. So we are living in the midst of evolution, like real time.”

A committee member states, “And so I think the documentation, the support that you can lay out in regards to why we doing it, the strategies associated with it, ensuring that you have a backstop when it comes to the capital, I think that allows for the conversation to take a little bit more of a positive spin potentially through those discussions with examiners. And so, yeah, the world is changing and we trying to keep pace as well but we all in this together and having these discussions and being robust about those thoughts, but definitely maybe alleviate any kind of concerns from more regulatory stigma, things of that nature when it comes to some of the strategies you all deploy in your individual institutions. I want to come back to the point that Carlos made, and first of all, I support and I echo the comments that Carlos was making because it is changing, but there's also been, I wouldn't say it's a huge change, but there's also been some folks that have changed to become MDIs, realizing that there's now sort of a benefit and sometimes it makes sense. I guess I would encourage OCC to look a little further and maybe they didn't have that designation, but they're certainly meeting the intent of an MDI or in this case an MDI only but there are people that are just changing for the sake of changing. And, you know, something as simple as I no longer own the stock. My wife owns it and she's, you know, she's woman owned, but oh, by the way, she doesn't even serve on the board or much less in the bank. So I just look through it a little bit more because if that easy designation could cause people to become an MDI. And I believe if you're going to gift or give or share stock with your wife, well she ought to serve on the board, right? That way she's at least playing a role with her input.”

DFO King responds, “So just because we're seeing some of that and some folks have sort of caught onto that, and I'm going to say those aren't rubber stamped, we discuss these matters during our weekly meetings every Wednesday. Trust me, because there are varying sentiments in regards to the scenario you just presented and we don't take those lightly. We discuss it, we vet it, and it's a collective decision. SDC Beverly Cole has the final say, but it's a collective decision. We try to look at all angles before we get to a determination whether or not the institution deserves an MDI destination.”

A committee member responds, “Oh, that's good to hear. Andre.”

DFO King continues, “I'd like to add two points to Carlos's point about how difficult to continue to serve to your community because it has changed and moved, but we look at that you're trying to strive to serve that community and succeeded. We understand that. And, to Joe's point here, we actually have many people who are honest, not everybody. We actually had a woman-owned MDIAC where she had passed and left the shares to her husband and they voluntarily contacted the office and let them know they no longer qualify. So I think, there are also some good people out there, but you're right, we need to keep an eye on that and continue to test the story on that. So, we understand there's a lot of benefits of being an MDI and we want to make sure they're an MDI for the right reason.”

A committee member responds, “Right? Thank you. I'd like to hope that we can have more MDI technical assistance like in the past, I remember Beverly use to fly to Los Angeles to conduct workshops for the trainings. And, now it's easy to conduct the workshop virtually. So maybe we can have more of different topics then that would be good.”

A. Moss states, “Yeah. This gives us an opportunity to talk a little bit about Project REACh. We have the ongoing meetings where we're providing MDI technical assistance. I'll let Crystal talk a little bit more about that.” <laugh>

C. Dully states, “Thank you Andre and Andrew <laugh>. Hi John. We have those meetings once a month on the second Thursdays of the month and we really would like to see some more participation from our MDIs. We encourage you to attend. I'm happy to send out information about those meetings and we have over the past couple of months had topics that have ranged from the deposits from larger institutions, cybersecurity, which is a really interesting topic, and other programs as well. And so looking forward, we're having discussions on the special purpose credit programs because a lot of MDIs are interested and seeing if those are programs that they can offer as well as credit tools by different rating agencies. So just some things that are coming along the lines as well as technology, of courseso we absolutely invite and encourage you all to attend. Is there a particular topic you're interested in?”

A committee member responds, “Uh, topics? I think BSA and CECL”

A. Moss states, “And, I help out Crystal in that space and one of the goals she sort of expressed to me was having more involvement of the OCC supervised MDIs in these monthly technical assistance discussions and programs. And so please reach out to us, either me or Crystal, and we'll make sure you all get some information in regards to the technical assistance and items we are discussing on a monthly basis. And we'd also be interested in any additional topics you all would like to discuss. That's one of our goals is to, well, Crystal's goal is to continue to expand the reach of this technical assistance program to really touch the OCC supervised MDI because it's a lot of good work taking place in those discussions.”

J. Blake adds, “And I'd like to add too, just as a reminder about the director workshops, so they're in person as well usually in the beginning of the year we have virtual workshops, but a lot of different topics. I know there's a compliance one, capital markets. We've been talking a lot about liquidity. In a couple weeks we have a workshop in New York City but we have them throughout the country, so they're free to the MDIs. So just keep that in mind too.”

A committee member states, “And for a topic. I think that a lot of us are CDFIs and recipients are struggling with impact reporting and everybody's interpreting it differently and trade associations are

working diligently on it. But I think that some involvement by the OCC I think would be helpful because then at least it gives them a regulatory understanding of how impact is being measured."

A committee member states, "I just wanted to follow up on Carlos's point. You had mentioned the ECIP program and then you mentioned the CDFI financial awards. And is the concern that they have different reporting requirements for each of those individual programs?"

A committee member responds, "Yes. You bring that up in your report. For CDFI, division one is you report on award, you also have to get certified, right? So what qualifies for service? Anything necessarily the same as what qualified for this give you one sample. A real definition of minority under each is different. The of minority under the CDFI population only allow in other group qualify the national minority, whereas least <inaudible>…"

A committee member responds, "Thank you. That's helpful."

A committee member states, "I think that's one of the reasons why you saw such a backlash on 1071 and CRA from the trade associations is there's so much reporting that we're having to do already. That anymore is just, you know, with ECIP, we have to do it. I mean, it is such a great program, you know, and we're going to prioritize that but the amount of fields that are out there, and then if you add on the 1071 piece, the amount of subjectivity that goes into those fields, we're going to get beaten up. And so I think any new reporting requirement that comes out of the regulatory budget, you're going to see the trade associations, come back on it. Now, whether we're successful or not, I don't know but it's going to happen. I think we've reached our maximum as an industry of how much reporting we have to do. But the sad part about it is that all banks would, should want to report on the impact that they have in their communities. You know, so 1071 may not be helpful, but some reporting I think is in order."

DFO King states, "Any other topics. I thought Jamie had a comment?"

A committee member states, "I was just going to say it's not really a topic, but I think it's in sort of a backhanded way, a huge testament to Beverly and everyone on this committee that banks are saying, we don't want to merge so that we're no longer an MDI or that the sort of benefit of it is so great that that's something that they're considering."

SDC Cole states, "I think that was the whole point of this committee was to create sort of a benefit for MDI and so I think it's sort of a huge pat on the back for you guys for creating and helping create such meaningful impact to these institutions. So congratulations and thank you. And what I continue to say is when we started, when we took this committee over as a result of our integration of OTS and revamped it, I was kind of given the responsibility and didn't really know what to do with it, quite frankly. But I will say I've been very pleased with the engagement that I've had from the members as well as the institutions, the larger institutions, whether that be the regional companies or the large banks as far as, partnering and going from transactions to relationships. And that was always my thing because you do business with people that you have a relationship with, you do transactions with everybody else. And I just feel very fortunate to see and hear the success stories that we've had on the amount of transactions that are taking place, and even just the sharing and interaction that we're having in this room so that we can have an impact even beyond this room. And this is something that I think most of you in this room know, it's near and dear to my heart, and I'm just really pleased with all the support that I've gotten

internally from the OCC to, you know, carry this program on and just continue to improve it. So I think you all should also take a bow. Thank you."

DFO King adds, "And it was important reason why the agenda looks the way it is for the round table because Beverly made it a matter of importance to be here, at least for this round table discussion, to hear from you all and give you all a chance to hear from her as well. And so we definitely thank you, but the conversation doesn't stop because we're about to migrate and ship over to lunch. And so that's when the more informal, less public conversation can definitely take place. If we could be back by 1245pm, I just want to make sure everybody makes their flight later on this evening and keep the agenda moving. So thank you all and we'll return from lunch."

DFO King states, "Good afternoon everyone. Welcome back. Hope everyone enjoyed their break, their lunch, had a time to catch up on emails. We are moving to the second half of our meeting today. We have two presentations this afternoon as well as our opportunity for the public to weigh in on the discussion we had today. But without further ado, one of the highlights of this meeting is always Ernie Knott's presentation. And as he mentioned earlier, he has some new information to share with you all today so I'm also looking forward to it. So with that being said, the ball is in your court, Ernie."

E. Knott states, "Thank you, Andre. Thank you very much. I also want to note, my section is going to be 45 minutes today instead of an hour. And I cut back a lot of my commentary, but I did not cut back on any slide, so if you feel I didn't expand enough, please make a comment. So yes, my name is Ernie Knott. I'm an OCC financial analyst. As I mentioned earlier, I've been working with this committee since 2020. For those of you who don't know me, I started my career in Miami, Florida as a field examiner. I moved up to a New York in the early 1990s. After becoming a commission examiner, I'm also cross credentialed. And when I'm not analyzing bank data, I'm out talking to our employees about saving and investing for retirement. I get involved with the investing side and done extensive analysis on the government 401k, which is a thrift savings plan, and share that information with our employees. Now, let's go right to the agenda, next slide. And it's in four parts. Today we're going to start off with portfolio demographics, some statistics, and I'm going to say fun facts on the MDIs. We got supervisory information. This is information we obtain from examinations with supervisory ratings, RAS, and exam cycle. Next is financial performance. This is mainly from call reports and as a bank examiner, I'm going to look at that in the order of the CAELS. We're going to start with capital and go through each of the component areas. And lastly, I have economic challenges. Dan mentioned earlier during the econ presentation, that was his first time presenting because in the past we didn't have a econ presentation. I provided an update on some of the key measures. I'm not going to do that today, but I'm just going to comment on the future direction of interest rates. On slide three, we are starting out with the big picture. The OCC supervises a diverse group of 1,112 charters and those bank charters, as we refer to them, are those first three columns. A national bank stock, FSAs and Mutuals and MDIs represent 52, or 5.5% of the OCC chartered institutions. Looking at that bottom, you can see they represent 4% of the community bank assets there."

E. Knott continues, "Slide four is looking at the trends. I do want to point out that the banking system continues to consolidate through mergers, state charters, national charters, all charters, and also there's a lot less de novo charters. If you look at the last 10 years, there was only 65 total banks chartered. This is the three agencies now and, 9 in 2023. To give you perspective, you go back to 1999, there were 232 banks chartered in that year. So that's another issue that's weighing on the total number of banks. But if

you look at that top chart, it's very clear why MDIs are increasing as a share of charters. The number of MDIs if you look at 2013, it was 54. It only fell by two. In other words, as an MDI merged out, there was one to replace it. However, total charters are down 41%. You had a stable numerator of MDIs at 52 and a much lower denominator. Going back in 13, MDIs represented 3% of the population. It's almost doubled and soon we're going to be hitting 6%. As I mentioned, we're at 5.5%. Now bottom slide is unbundling. That blue part, that MDI number on top, and you can see it broken out in the trend by the different MDI groups. And just looking at the last two columns on the right, women are up by one. I'm looking at the green plus one, we lost one. And Native Americans, we also gained an African American and lost two Asian Americans. Anyway, so that's kind of breaks it down. So let's take that last column to see it a little better on slide five. Next slide. That breaks it out by group. Most MDIs or 37% are Asian or Pacific Islander American. And the new slide I cited, let's put in the total, the big picture of MDIs by all the regulators. That's the total charters in the banking system and you can see their OCC supervised, it's the largest share, or 5.5% of its charters are MDIs in the banking system and there's a total of 166 MDIs. And yes, I crosscheck that list with the FDIC list before I present any information. Let's go to slide number six. We're looking at again, states. MDIs are in 23 states and they're concentrated in California and Texas. Everything's always bigger in Texas and more in Texas. We also have one in Alaska and Hawaii and there's four other states that have multiple MDIs as of December 31st, 2023. Next slide. So this is just slicing and dicing, providing some additional information. The top is looking at instead of geography or size, we're looking at MDIs by their lender peer. Another piece of information, 83% are in either commercial real estate or diverse and on the bottom, we're looking at the MDIs by branch categories. 58% operate from three locations or less. Actually, branches is an area. A lot of the large, especially the large banks are closing branches. We had about 82,000 branches back in 2012. We're under 70,000 now. Might be a good opportunity if you're looking if got two branches, maybe get one in the middle, reduce future operating costs, but there's a lot of branches that are being closed by a large banks that would come already set as a bank. Next slide."

E. Knott continues, "You're going to see me talk about the peer group for MDI so I created this peer group. Since MDI is the smallest is 27 million largest is almost six billion, and they fall into two types. Stock FSAs and national banks. None are large banks, or none are in mid-size so the peer group, the community bank peer group, because size is important, are all community banks underneath are 6 billion. I'm also going to compare OCC supervised MDIs to give you perspective to those supervised by the FDIC and Federal Reserve. Slide nine please. Looking at the top this breaks out the MDIs by charter type. You can see the majority are 83. And the bottom is a new slide. We heard sub-chapter S come up. I thought it was interesting and say Hey, what does a population look like? 23% of MDIs are subchapter s that's more than other MDIs, but less than the community bank population as a whole. So I just want to point out that the main benefit, the s corporations aren't for everybody, and this is not the form to get into a lot of detail, but the big advantage is that the sub s companies do not pay corporate income tax. They split it up and pass it directly to the owners, and you avoid the double taxation that way. Also, an s-corp owner, you can also opt to have both your salary in dividend payments as well. So there are advantages. There's also some disadvantages as well so actually it's a topic of future discussion. If anyone has interest, maybe other MDIs who have tried it, maybe talk about some of the benefits of that. If you're growing, you probably may want to not want to do it. Also, while some of the rules loosened, you know you have your limit to a hundred shareholders so if you want more community involvement, you probably won't want that anyway, just throwing it out there. This to just show what the numbers look like."

E. Knott continues, “Slide number 10. I'm going to go through this very quickly. I've been presenting this for a while. It doesn't change that often. Community bank MDIs are smaller in size than the other typical community bank, and they're also been operating for fewer years. Two stats, 50% of MDIs are less than $250MM, and also 50% are under 50 years old. So I'm a little over 50 myself, but, okay. <laugh> Slide number 11. We're getting now into the supervisory information. The composite ratings are satisfactory and improving. If you can look at the top slide on the right side there the overall number of ones and twos have improved 84%. Then looking on the bottom, the specialty ratings, we're looking at information technology, asset management, consumer, and CRA. The good news on that is no MDI is rated worse than three for any specialty area. Okay, all good news so far. Slide 12. Looking at the top, these are the top three risks for the MDIs as a group strategic, credit, and operational. I'm sure you're all familiar with operational and strategic we've talked about for a while, but I do want to put another angle on the credit piece right now. So the concern right now, of course, not only higher interest rates and prolonged inflation but we now are seeing there's going to be slower economic growth coming now. But I also did, some stats here. What percent, because we're higher for longer, what percent of loans are going to be renewing this year? In other words, we're expecting lower rate as a customer, but it is not going to come down where I thought it would be. 20% of community banks have loans maturing this year. 33% of MDI loans are maturing so chances are there will be some sticker shock coming up if we don't get any rate cuts this year at all. On the bottom, we're looking at supervisory cycle. 40 charters or 77% of MDIs are on the expanded cycle and you need to be 3 billion in less. Also, you need to be either one or two composite and rated management. Also be well capitalized for PCA and not have gone through any change in control over the last 12 months.”

A committee member asks, “Hey, Ernie? Can you speak to the direction the creditors being decreasing because your next thing is followed up with the repricing concerns at a high rate.”

E. Knott responds, “What we saw with the MDIs that they were downgraded earlier than the typical community bank. So this is not too far off from where we are on the credit right now. You're going to see in a few slides, asset quality numbers have held up, losses are low, actually losses are even lower for MDIs. Past dues still remain low, but this might put pressure on the future past dues if we have a large number of loans maturing this year at higher interest rates.”

A committee member states, “Ernie, can I ask you? You say maturing, do you mean maturing or repricing? At maturity and/or repricing coming up?”

E. Knott responds, “Yes, exactly. Thank you for that clarification. In other words, the interest rates they're paying now is going to change and because most loans were probably financed at a lower environment, the rate will most likely be higher. Okay, we're on slide 13. I wanted to look at the rating changes. We're looking at the top chart there. I tracked numbers for both banks, but I do want to point out we are in a net upgrade position. In other words, when we come into your bank and assess ratings, we're upgrading your bank by more than we're downgrading the community bank population as a whole. We're downgrading liquidity at 10 to one right now so this is pretty balanced here for the MDIs and MRA volume, we're down 38%. But to, to Andre's point, most of the RAS changes are in commercial credit right now, and I've anticipated that question of where are they? And Joe, you mentioned CECL, only two in CECL, so not a big area. Credit admin policy exceptions, board and management oversight and concentrations are the largest group of MDI MRAs. I think after the debacle that took place in California, the agency started looking a little bit more closely at banks with significant concentrations and ensuring

their risk management practices were commensurate with the risk they were taking on. Often times also resulted in enhanced risk management practices that the bank needed to implement given increasing risk profile. So I think they know these reports, shows risk as being one of the top RAS risk management. It's broken out by categories. It's reflected in the board and management oversight in the credit area. We also have enterprise governance. That's the second most category for MDIs so we defined it under there as well.”

A committee member states, “Ernie, one thing I'll jump in and say is I feel like especially if you're on one of these longer cycles, a lot of the banks I don't think have necessarily been examined yet as far as CECL. I think that's going to sort of be hitting at some point, but maybe hasn't hit yet.”

E. Knott responds, “So that's a good point, Jamie, because we would probably look at that more on site, but yes, that's correct. If you're on an 18 month cycle, there's certain things we do through our periodic analysis, but we want to make sure we get in your bank before we criticize CECL or make comments on it. Hey, let's move to slide 14, we're going to look at capital and we're going to start looking at the ratings on that bottom left there. You see capital ratings are pretty stable right now. Look at the one rated category as well, but look at the leverage ratio. Look at the level and Joe mentioned this earlier when he was talking to a customer about his leverage ratio. The leverage ratios for MDIs are much higher than other MDIs, but also higher than the community bank of peers right now. So that's an important point to note. They’re up 66 basis points now. The leverage ratios were much lower for all banks in 2021. That was all those funds came in from the pandemic made that denominator larger and now we're seeing that pretty much recover from there. Um, but also I wanted to give credit to the large banks. The slide on the bottom right, you can see the level of capital varies by institution size.”

A committee member states, “I received ECIP at our bank. It was a significant positive impact. That program has done a lot for capital in these institutions.”

E. Knott continues, “Absolutely. I'm going to point out that even these other MDIs that had access to the ECIP and the MDIs supervised by OCC in this room here are much higher. Slide 15. So we're looking at the top and I want to point this out about unrealized losses. So looking at the top, I now like to bring in equity capital ratio. I think it's important and some background here on the capital rules. Banks made beginning in 2015 a one time election to either opt out of the OCI related adjustments. In other words, to report the available for sale depreciation in the capital. All MDIs have opted out so what that means is in leverage ratio, you're not going to see the impact of unrealized losses in that ratio. However, you will see that in this ratio and that's why this measure of capital is very important. Now, what does this mean? Because of the rate hiking cycle and higher rates, you can see that impact on the community banks. Now look at what happened with that orange, the typical community bank. It also fell in 22, not from the bigger denominator, but because of the impact of the depreciation in the portfolios. But, not much impact at all on the MDIs. And you could see that, this is a fun fact I wrote down here as well, believe it or not, we have 11 community banks that have negative levels of equity capital. The bottom line is that when you consider equity capital, MDIs are much better capitalized than community banks. The gap between community banks and the MDIs and leverage MDIs are 282 basis points higher, but they're 313 basis points higher. When you look at this measure, which is a better measure of capital, because why capital acts as a cushion against unexpected losses. So when you do have liquidity, you have to sell the security. This is important ratio. So anyway, give credit to the MDIs there. And on the bottom, looking at PCA categories, 96% of the MDIs are well capitalized. Now, those other two, they meet the levels of well

capitalized, but because they're under a formal action requiring a higher minimum, the ceiling is related to the risk."

E. Knott continues, "Slide 16, we are now at asset quality. Looking at the ratings here, they improved. If you look at the bottom on the left side, 94% up from 90 are rated one and two and the reason is, and going back to the point that Andre made earlier about, look at the past dues, they're edging higher, which this can reflect the loans that are repricing, they're not edging higher a lot. But if you look on the top right in 21, total past due was 0.74. It's up 87 points and it's at 0.92 now. I do want to point out in this three-year trend, non-current loans is about the same. The 30 to 89 or the early stage delinquencies has gone up 0.37, 0.49 and 0.55. So because of the repricing that's coming on board, we're probably going to see this trend continue. Let's talk about CECL. The allowances are higher pre pandemic, and I'm not going to get involved with the unfunded piece, but you're higher because you're reserving more. Looking at your qualitative factors, you're probably factoring in a potential, I'm not going to say recession, but economic slowdown. So those two factors are probably making the allowance for seasonal higher than it was on pre pandemic. Slide 17, I put some more detail in this area. You see the loan growth there, the loan mix on the upper right and this is where the MDIs are an outlier to community banks. 65% of MDI loans are in commercial real estate and on the bottom right, I want to point out this is the regulatory definition of CRE concentration. Now remember, a concentration is 25% of capital. Why this is important, this is not a significant concentration. Those are bank numbers and if you have your bank has a hundred percent or more to capital of C & D loans or second measure is 300% on either multifamily, non-farm, non residential, and C & D loans, and you grew 50%, you're also considered the CRE bank and you can see they're stable. They were high in 21, they came down a little bit and the reason we're only looking at the 50% growth rate in three years, we're looking at banks that have, if you have a seasonal portfolio, we're not looking at you we're looking at maybe the new loans that came on and that's why they added that 50%. Here's the new slide on granularity."

E. Knott continues, "Slide number 18. So let's look at capital on the top. Pretty much the level of CRE concentrations of capital has been stable. What I do want to show the shift on the bottom there has been a shift from other non-farm non-residential into multifamily and into C&D loans. So looking at that repeat started in 19 to 23 minus seven. Then you can see there was a plus two in C&D and a plus five in the red so that would be where your office market would be. Now, MDIs and community banks don't have a lot of urban office, but that category, which is probably perceived as high risk now is coming down into multifamily and C&D loans. Slide 19, I was going to delete this, but I will put it in because it's important on net losses. The top chart on the right is looking at your median bank. Well, if there's not a lot of losses right now, the median is going to be very low. I looked at the weighted average where you add up all the losses for banks divided by the loans and the loss rate on the MDI population merged into one bank is only 0.10. It's up a little bit, but the community banks as a whole are about more than double that going on the bottom. It shows most of the losses, and this is normal, are usually from your consumer area and from your C&I lending. So again, not a concern. They're increasing, but they're not increasing by that much. But we will keep looking at this area. Slide 20. So this slide, we're looking at the ROAA higher the MDIs and what's also important too, earnings are stable. This is an area, if you look at any community bank, the earnings ratings are usually lower than other areas and pretty stable right now. 75% of MDIs are rated one or two. Looking at the breakout of ROA, I just wanted to point that out that you can see that how size is very important for ROA, like many measures. That's why I only include it in the peer banks below a 6 billion because you would have a size advantage if you didn't limit the asset

size group. I figure you might ask this not pictured as the ROE, it's also much higher for MDIs. It went up from 6.1%, up to almost 8% in 23."

E. Knott continues, "Next slide. I added this to give a little detail on the net interest margin right now. So, what we're looking at after four quarters of expansion, the NIMs began to contract in second quarter, and that was due I think, not just at rise, but the sharp rise in funds there. So on the bottom, I'm trying to give a little more flavor to this. This is looking at your numerator. Those blue columns are your net interest income numerator, and the denominator are in the parentheses underneath the time label. What's happening, your net interest income it did fall for a quarter but it's really hasn't kept up with the growth in assets. So that's mathematically creating the net interest margin compression. Just to give you some flavor, I looked at quarter over quarter trends and what happened was the asset yields went up, the asset yields went up all basis points but cost of funds went up 14. It's slowing, it's much slower than it was last quarter but we're still seeing that pressure from deposit pricing. We're on slide 22 again, I looked at the median ROA, the bank in the middle, but this is rolling up merging all your 52 balance sheets into one. And I think it's easier to see some things in this format to do a proper financial analysis. You need to look at the median, but you also need to look at the weighted averages. And if you look at the income statement on the top right, look at the interest expense up 272%. So that's the biggest challenge right there. I put on the bottom, that's just a summary of the components of it, but if you look at the dollar amounts, you can see operating income, net interest income and non-interest income together around 64,000. And Joe, it was negative provision on the whole provision minus 11 so that added to the bottom line. What's also impressive, community banks as a whole, non-interest expense overhead went up about 11%. MDIs, you have that well controlled around 5% and there's a breakout there. Again, that's coming from personnel and that's the component that's putting a lot of pressure on that category as a whole. Okay slide 23. I just left this in there. Again, size is important and efficiency ratio and earnings measures. This shows the difference and what's impressive here is that the MDIs are smaller as a group. So they're holding their own there in this measure, but there are still 11 MDIs that have efficiency ratios over 90%."

E. Knott continues, "Slide 24. Hey, we're getting into liquidity a very important topic right now. Liquidity ratings are satisfactory. You're seeing a big shift in community banks. Less banks rated one, and more banks rated two. You're not seeing that shift here. In the MDIs, 96% are rated one or two, but very important deposits remain solid. They actually decreased for some groups, but not MDIs. The deposits increased over the last quarter, 1.96%. And for the year 2.85. I like that number because if you annualize a recent quarter, things are getting better. But the deposits, so again, some groups lost deposits, MDI did not. Looking at the other side on the right side, I wanted to just show you the breakout of the non-interest bearing deposits. They're 23% now. They're down from where they were in 21 and 22, but they're down back to where they were pre pandemic. However, the broker deposits are up way you look at that, that 95.13 is non brokered, uh, broker deposits are up about 4.87% now. Next slide please. So we're looking at the on-hand liquidity. It plummeted for the community banks as a whole, but look at that upper right slide. It hasn't fallen as much as it has for community banks. MDIs are in much better shape for this metric. They also have limited reliance on wholesale funding. So we have less on-hand liquidity, reliance on wholesale funding goes up. But again, MDIs rely less on wholesale funding and they have more on hand liquidity."

A committee member states, “They have from the feds facilities and we had that fed term funding program, which was great at the time came out last March. I mean, they discontinued it now, but you were able to borrow securities at par.”

E. Knott responds, “So that that will probably move its way at some point into other areas. But, that would be the other, and actually I'll go to the next slide Joe on this. I think Jamie was saying… Jamie, there's your cost deposits on the upper left going through the roof, but you could see there, Joe on this, other borrowings on the slide on the top right, about 5.4%. So that's where some of the funding is coming from and deposits are a little lower at 88.4%. But the slide on the bottom right where what has shifted, so that orange and that gray, they're what we call your non mature deposits. They're usually stable and low cost, but because of the rise in rates, those demand other savings and money market have moved into the green and the blue CDs so CDs have expanded greatly. That makes sense right now because customers are looking for a higher interest rates. And this is the circle and clockwise, I guess it's a square clock. We're on the bottom a left and you can see the biggest increase in deposit pricing is in the DD. This pretty much tells the story of what's happening. We might not have peaked on the cost of interest bearing deposits right now, but I'm hoping we're getting close. Slide 27…”

A committee member asks, “Quick question. What's that blue category… time?”

E. Knott responds, “Yes, the time deposit is over $250. They have all deposits and they just break out the part over $250. And that orange Jamie, it says transactional accounts expense. That's how the UBPR has it labeled. It's the demand, the now they follow the Reg D approach on that. And other savings is the label and the UBPR, but it's technically money market and, other savings. So what I tried to do is if you match up the orange number from the bottom right, the orange is the price of that and the colors and all that, I hopefully I got close on the colors not too far off. Slide 27. So looking at sensitivity is adequately controlled right now, however, ratings are lower. 90% are one and two versus 94% are. And also we already talked about the non-maturity deposits. I'm going to look at the slide on the bottom right because of the rate hiking cycle and actually quantitative tightening, depreciation is an issue, but the MDIs are in better condition in terms of the unrealized losses than community banks as a whole. So we heard the Fed said they're going to begin tapering down on the quantitative tightening right now and we'll talk about interest rates in a second. We're on slide number 28. Now. I'm not going to duplicate anything said today by our econ folks, but this is the one they talked about the dot plot. This is the summary page. You have the 19 members of the FOMC and they weigh in on these are the most important economic metrics, GDP unemployment, PCE and core PCE. And then on the bottom, that's the fed funds path. That's what Dan was talking about earlier. We're getting three rate cuts and they give you where we think rates are going to be at the end of the year. The markets and economists focus on this median of value right now. Fed Powell is very clear he wants to telegraph it, its intentions. He doesn't want to surprise markets at all. So what we're not GDP, we know things are going to slow down, but we're still good with unemployment.”

E. Knott continues, “I want to talk about the core PCE inflation this is very important. This comes out at the end of the month. It comes out on April 26th. The first three reads have been they've come down, the PCE fell under 3%, but it stalled for the last reading. If we come in a little lower, we have a better chance of a rate reduction. Next slide. So, I want to tie in that four sticks that ties, if you look at the midpoint here, 5.25 and 5.5, it's 5.4. So that's six of the three rate cuts. I never contradict the fed. So right now, based on three, I think they're going to be pushed out because inflation is higher. So, based on

what they're telling us, but remember they're going to reset this in June. It comes out every quarter. They're going to redo the dot plot. We were one dot away from them having a median of two rate cuts. So again, the most important number here is going to be the inflation. The PCE number, which runs lower than the CPI. And that's going to be out, like I said at the 26 right now. A couple things, again, I'm going to talk about fed speaker, the Atlanta Fed President. He's been vocal about, he still thinks one great cut is what we're going to get. We also have Waller who's talking about, we're in no rush to cut rates because of the inflation right now. But what's important to note, no matter what the Fed says right now, it depends on the when inflation starts coming down, this is all going to change. So the economist, Dan doesn't know, I don't know the Fed Powell doesn't know if we start getting better numbers on inflation, then we might see rate cuts like this. If not, as he said, Larry Summers said that if inflation goes up, the next change could be a rate hike. Unlikely. But again, the other school of thought right now is going back to there's a long and variable lag next two years before we see the impact of the first rate cut. I mean, the first rate hike two years ago was March 22. So people are saying, Hey, if unemployment starts going up too quickly, the Fed might have to cut rates, but for a different reason. So again, all bets are off. Data's going to come out on the PCE in a couple weeks and that's going to give us a more clear picture. But again, based on what we know now, I think we're going to have higher for longer. If any cuts are going to happen, they're going to happen in a longer timeframe. That's pretty much about it and I cannot believe it even starting three or four minutes late, I've got us in a to where we are."

E. Knott concludes, "Well, you know, it's a good discipline. Sometimes you have stuff that you love and I said, you know, I don't need to say it if I get a question about it, but I hope I pointed out all the important things and deposits. The need that deposits are going up with the need and pricing and competition are issues. And then we'll continue and things are actually not that bad. The MDIs as a whole, from capital to liquidity are doing pretty good right now. So anyway, thank you. Oh, I'm sorry. Is there any questions at all over anything I covered? Again, if y'all have any questions, feel free to email me and I'll be glad to get back to you on that."

A committee member asks, "Ernie, one question. I think you addressed it in our last meeting. I'm looking at page 20. The slide focuses on ROA, you commented on ROE. Can you just remind me, or for the benefit of the committee ECIP funds that are held topside at the holding company level, how would you expect that to be flowing into those ROE numbers? Because I would imagine if you aren't finding ways to profitably deploy that's going to dilute that number. So I didn't know if that's something that's being controlled for?"

E. Knott responds, "Yes, Jonathan, I looked at that last time. What I did was I looked at the capital that was already at the bank level and said if we didn't have the ECIP what it would be. But I also, the second scenario was that if all the capital ECIP at the holding company was downstream, what would that look like? So I looked at it both ways but you know, that is funny. The reason that the ROE is not as high is because of all the capital right now that are in MDIs so it's a double-edged sword. It's good looking at from a safety perspective and a cushion for unexpected losses. But on ROE it doesn't look good at all. But anyway, good, good observation. Okay, thank you very much. It's always a pleasure to present to this group."

DFO King states, "Thank you Ernie. And as Ernie has mentioned in the past, he can do custom reports as well for your institution. So please reach out and leverage Ernie because he loves this space and I'm happy that he's with us so thank you."

Ernie adds, “I could certainly do a custom. In other words, those charts you saw, I add a line for, I take out the other MDIs, but I add a line for your bank, so feel free to ask me. I'll be more than happy to do it. Thank you for that and no problem. I cut that out to get down on time.” <laugh> <laugh>

DFO King states, “With that being said, we'll take another small break before we wrap up with our last presenter. So maybe 10 minutes or so, and then we'll be back around 1:45.

DFO King states, “All righty, welcome back from our break and so we're standing between or he's standing between the door, uh, <laugh> our next presenter, we invited our friends from market risk to provide a casual conversation about things that they're seeing in their world. So if you don't mind, you can introduce yourself.”

C. McBride opens, “Thanks for having us. I know that it's between the door and me but I mean, you guys always say the best for last, right? We know that why we're here so my name's Chris McBride. I'm the Director for Treasury and Market Risk in our policy section. And I chair what's known as our National Market Risk committee. So when you read like our semi-annual risk perspective, anything pertaining to market risk comes from the market risk committee, which Jason Joy was a member of for a period of time. With me is Michael Chun, who's a Market Risk Specialist with treasury and market risk. So we figured we'd take some time when we were offered the opportunity to come, we jumped at it because we always like to talk about, you know, market risk and everything and figured it is been quite a different year than it was last year at this time, right? So I think last year at this time we were still waiting to see how a couple other banks played out and quite a difference. Today of course we have the 10 year back up at like the 4.60 range so we'll see where that goes. But before I start going, I heard that the group's been a pretty lively group with a lot of conversation happening so are there any initial questions you want to ask or anything, or should I just start going through and you guys can interrupt as appropriate?”

C. McBride continues, “Okay, sweet so today, obviously there's been a quite a bunch of stuff in the news lately about liquidity and just in general where things are related to contingent funds, planning scenarios, deposit base and interest rate risks. So we'll hit each one of those four areas, but we'll talk deposit base first, then contingent sources, then CFPs and planning, and then interest rate risk towards the end. I know I've got you for about 58 more minutes, so we'll keep everybody on time. But so obviously what we saw last year was kind of phenomenal, right? I mean, oftentimes when we talk to everybody and when people think about things, they don't really think about the piping and the actual logistics of how we get money around the banking system into the system. And so much has changed over the last, you know, 20 years, let alone in the last five to seven when things have gotten really fast. We kind of take for granted the fact that a lot of those things, you know, the clearing of a check used to take time. And today I could move, if you bank with Capital One, you can move $999,999 in a day, right? Which is a lot of money to just move around every place at the swipe of a finger. So of course my little credit union only allows 10,000, but that's probably feels a little bit safer to allow 10,000 than a million dollars a day. So one of the biggest things we've been looking at lately is really the stability of the deposit base, right? And when we say deposit base, we're talking about deposits. Obviously all funding is, needs to be understood, especially if you get into more complicated wholesale type funding that might be a little bit quicker to leave depending on your credit risk rating or something else that's out of your control. But really the deposit base, which is really where we focus, whether it's uninsured or escrow accounts or public money or something that's really understanding the concentrations you have. And so every bank has concentrations. Maybe not every bank has the SVB concentration where they were exposed to, you

know, a few very large hedge fund and investor bases that all were, you know, in each other's phones and talking back and forth. But there's still concentrations of depositors. If you're a cattle person out in, in Wyoming and your bank typically banks the cattle area, I mean, then you kind of have cattle issues of concentration, right? Not necessarily saying that there's anything wrong with having a concentration, but that concentration is still there. And so it's kind of important to understand what would make a concentration react in unison, right?"

C. McBride continues, "Like what would be a catalyst that would spark something. And so if cattle prices collapse, chances are you're going to have to understand, you know, how is your deposit base going to be affected by cattle prices suddenly collapsing? Seems like every time I talk about cattle so maybe I should talk about like surfboards on the east coast, right? Like if your bank is focused on the surfing community, you need to understand, I'm kidding. But concentrations can be in a variety of factors. And so oftentimes when you talk to people, they're like, well, I don't have any concentration. And it's like, really, like you probably do have a concentration somewhere. It's just whether or not that concentration has a probability of moving together is really kind of the big thing that you want to understand is where are those probabilities that that put additional pressure on things that you don't have in terms of money. So has anybody looked into their concentrations on their banks or seen, like are there any concentrations that you've noticed that might be atypical from Peter Thiel's concentration at CFPB?

A committee member responds, "Yes…"

C. McBride responds, "Sure, sure. Okay and did you see anything of interest? You know, I'm going to ask, and so what kind of concentrations did you notice? Because you say concentrations a source of the bank."

A committee member responds, "Internet or reciprocal deposits, things like that. Maybe you don't use them, tend to not look at but…"

C. McBride inserts, "Oh, so you're on the other side you're not receiving, you're providing…?"

A committee member responds, "Yeah. Yeah, it goes up and down, they sit down with part of finances. We get two good amount of deposits that the concentration rates have gone up, less closings and less deposits. But we do monitor it very well. So there's not a lot of concentration, but there's other areas too that we are getting to look at. So that's kind of one thing that we've been focusing on lately is really, you know, peeling back the layers and realizing that you could also have multiple concentrations. And again, they're not necessarily bad, right? As you identified, you can have it kind of like a matrix environment, right? Like you could have a whole bunch of different concentrations that really are kind of, when I say concentration, you know, I mean the probability of moving in unison, right?"

C. McBride responds, "So that's really the nature. You could have a whole bunch of escrow money going at once or coming in through a different door, right? Because maybe all the settlements have happened and everybody's all in the same community and they all put your money back at your bank, right? So it is really trying to figure out like where that correlated movement might occur. And then obviously one of the biggest issues that we saw was the uninsured deposits, right? And everybody knows on your call report you have that line for uninsured deposits, but just seeing how they had all kind of just operated at once, right? Like they all, immediately, they were over $250 and they moved money around. And so I happened to sell a house recently, which was great for me but you know, that money came in and I'm a

bank examiner and I’m like, as soon as the money came in, I dispersed it, right? I got as much out as I could and move it into other banks just because I didn't want to be in the uninsured account. And I know that we supported all the uninsured depositors a year ago, but still for some reason in my head it's money came in and I immediately moved it around, got a lot of calls from banks, which was nice. But I got a call from the IRS and then obviously you mentioned escrow accounts and then public money, right? So it's really understanding, we've been focusing lately, and you've seen it in our semi-annual risk perspective, that we've been focusing on those areas that could have catalysts, that could suddenly move and could really expose a bank to need for contingent sources. How did everybody, did anybody, not everybody, did anybody review kind of any lessons learned after SVB and looking at kind of how everything worked?

A committee member states, “Chris, Jonathan Jacob from Wells Fargo. I spoke earlier in the meeting about a deposit program where we're placing deposits using reciprocal networks. I'd like to come back to that just to get your perspective, but when we took our program through risk treasury, various committees, a lot of those conversations was on the backdrop of the fallout of First Republic and Silicon Valley. And people want to understand, okay, what are the steps you're taking to mitigate risk? So not necessarily on, there was absolutely reviews going on through Wells Fargo, through our wealth business, things like that, but partner to this committee it was very specific to our deposit program. How are we going to be able to deliver support to MDIs, but not going so far off of our normal course? But if we can just go back to your earlier comment, I think you mentioned policy and the thought about the compensation with reciprocal deposits. I guess, what's your view whether personally or on behalf of the OCC on that kind of solution? Because I know it's going to be helpful as we get a lot of questions from clients that want to think about how to support MDIs. And it's one of the ways that we can show support without being overexposed.”

C. McBride responds, “Oh, that's really interesting. So again, it's a provider, right, into the reciprocal networks. So that's a great segue. I didn't plant it, but that's a great segue related because next thing I wanted, I wanted to bring up was contingent sources, right? And so, again, it's managing the risk of where anything is coming from, right? So reciprocal deposits are fine, right? Congress has told us they're fine. And I don't mean that as a joke. I mean, Congress has told us they're fine. So reciprocal deposits, FHLB, fed discount, window securities, all those kinds of things are entirely appropriate sources for funding, especially when you need it. The interesting thing about the reciprocal aspect that is, is fun for us to noodle on, right? Is, is the nature of that. You've got all these types, right? And you've got these certain entities that kind of sit in the middle and transfer all that money around, right? And then how does an external rating impact that, right? Because just like public money and everybody knows if something goes wrong, you could have a fairly significant knock on where you could have a whole bunch of other funding kind of things fall in line, which isn't necessarily what happened at SVB or First Republic that was at the uninsured issue, but it's more just taking for granted that those things will always be there, right? And oftentimes people are like, you know, we've never and it's like, well, just because you've never up to today doesn't mean you're never going to into the future, right?”

C. McBride continues, “And so for us, it's really the importance of any kind of contingent source is understanding that you have it right and how you can lose it. And then if you do lose it, what happens from there? So on your reciprocal side, if you're looking with, if you're working with IntraFi or whoever, right? Like you're going to have all that money coming through, and it can be, you know, astronomical amounts of money just moving around the system. It is utterly fascinating. And it's really understanding

what happens if something goes wrong there, right? Like, what if Moody's accidentally, not to imply that they would, but, or, or any I should say, but if any independent rating agency suddenly like fat fingers something and puts out unapproved research, right? Like, and then whoever is like, wait a minute, like they just got downgraded to whatever lowest level rating, right? Even though it's unapproved research that accidentally gets out there. It's those kind of things and so that's why when we talk about contingent planning, it's really where are you exposed, right? Like and if there's a covid, there's a covid, right? I mean, we all made it through that, which is phenomenal. But covid is, I don't think maybe an examiner would expect you to see what are you going to do in the next covid situation, but covid is covid, right? Like, but at the same time, if you do have something happen that's esoteric to yourself, and you do have something kind of bizarre happen, how does that bleed into your contingent sources, is really the issue. So reciprocals obviously have a little bit less of a customer touch than a deposit would. I mean I'm not saying anything earth shattering there. That's kind of the one thing that we look at from an examiner standpoint, is how do you have the entanglement, right? And so, you know, Wells Fargo, if you have shared national credit type stuff, you can entangle those customers all over the place, and it's really hard for them to move. But as you get closer and closer to, you know, the retail channels, you lose all the entanglement, right? And then you just have less control over them."

A committee member responds, "So I'm not sure I do because I have 10, 20, $30 million depositors that I put through IntraFi. I certainly haven't entanglement with them, and I know them personally and talk to them all the time. "

C. McBride responds, "That's why whenever we talk about things, it's not always that this is the case. So if you get further and further away from the actual entanglement with the customer, the ability for you to keep that funding is the issue, right? Like, because your $30 million is being replaced by $30 million from other entities through IntraFi, right? So it's all that stuff. That's where the general entanglement with the customer gets weakened over time. I agree that if Joe, for example, has a large customer and I get $250 out of it. I don't have any relationship with that and something happens to that relationship with Joe, my 250 could go out the door, but then it's a reciprocal, so I get it back the other way and that's why I'm just saying, it's just how does it all work together and understanding the risks that you have from being in those entities, because that reciprocal could also cut you out, right? If something goes wrong with your credit quality, overall, whoever could actually come back to you and say, we need to end this relationship. It wouldn't be overnight, it wouldn't be instantaneous, right? But there still is the risk of that, right? And so that's why when we're talking about all about that, it's about the stability of the funding base, right?"

A committee member responds, "No, you, you have an excellent point. I mean, if we got downgraded, then yes, you know, over a period of time, we would have to untangle that, but it wouldn't be at the speed of SVB, you know?"

C. McBride responds, "Yeah and it's a great point, and it's important to remember that one. And we even acknowledge that in like the liquidity coverage ratio, right? Like, not everything goes out over day and operational deposits, you can't just take all your operational deposits and move them. You typically have to download onto a tape and then move the tape over. And so those things take time, but it's really, it's the stability overall, right? A customer with a thousand dollars in a bank account is going to be an entirely different relationship than a $30 million customer you sent through. Right? So as we look at the contingent sources and primary funding can be those reciprocal deposits that's entirely appropriate. It

really is, you know, how do you replace that funding if something goes wrong? So do you go to the FHLB? Do you go to the discount window? Are there other contingent sources? Has everybody seen the FHFA study of the FHLB? Yeah, so the FHFA put out a study on the FHLB and it had a number of different recommendations in there, and a couple of recommendations impacted, and again, they're just recommendations and some of them will take congressional action, but a couple of recommendations were kind of tailored or could have an impact on the banks. And, and one of the recommendations was to kind of do some kind of rating that would identify whether or not the customer, the borrower is the borrower of the FHLB is in line with the FHLB'S mandate. There would be some kind of a mortgage concentration requirement again. But then the other is they were just really focused on not being the lender of last resort so there was some conversation and some things that happened in that FHFA report that caused some concerns, not necessarily concerns, but some discussion at the OCC because it seemed to be a break in the current situation of what the FHLBs are doing. So if you haven't read the report, it's probably a good one to pull up and just peruse through at least. I think like all the recommendations are on the first couple of pages, but they have made it pretty clear that they no longer want to sit in that lender of last resort position, not that they ever were, but they certainly don't want to be that. So that's been one where you've heard, you know, our acting controller talk about the discount window and the need to get to the discount window. And did anybody see the publication from last Friday related to the discount window? The Fed put out some data that showed like 3,900 banks have access to the discount window. 1900 of them have collateral pre pledged and about 900 do not have access to the discount window yet. Obviously the OCC doesn't have all 3,900 banks, so they don't identify which chartering entity that aren't at the discount window. But it's just kind of interesting to see, and I want to say there was something like $2.6 trillion of collateral already pre pledged at the discount window. But again, you know, over the years there has been some stigma about borrowing from the discount window, whether it's accurate or not, doesn't matter. There just has been stigma about it. But the, the Fed is really trying to go down a path now of de-stigmatizing using the discount window."

A committee member states, "Well, I mean, I can tell you that from a thrift traditional thrift perspective, pledging to discount window is counterproductive to me being able to borrow against FHLB <laugh>, and FHLBs, you know, it's cheaper and easier."

C. McBride responds, "Yeah. I don't disagree. It's just when you have these two things happening at once, you have this FHFA report coming out that says, we don't want to be the lender of last resort and I identifying some additional things. And then you have the discount window trying to say, Hey, look, we will fill that gap as a lender of last resort. No, you're absolutely right. It has typically been, people would rather have people go to the FHLBs over time than to the discount window. But what was even more interesting about the data that the Fed put out was that there's like 1800 credit unions that have asset access to the discount window. and a bunch of insurance companies. I didn't they had access to the FHLBs, but I don't mean it for if it should be. Yeah. Okay. Because that's the issue with New York, right? That's one of the biggest things is that not every FHLB is created equally, right? Because like New York, FHLB is like a $400 billion balance sheet. Indianapolis is like an $80 billion balance sheet, right? So you have to understand which FHLB you're going to and how that can impact you over time. But, but yeah, it was interesting to see that the discount window had like 1800 credit unions."

A committee member responds, "I didn't, I had no idea that they could access the discount window. I think one, one thing to, to take note on is the growth that we've seen in America, and particularly community banks, doesn't happen if the FHLB is not there, right? Like it just, they could correlate a

hundred percent. And if you don't have that, there's some other mechanism that has to fill that gap, or we just don't grow. Because if we're not allowed to leverage, I mean the options that they give us to advance on are far better than the Federal Reserve, right? Just in terms of amortization and term and everything. It is just built for leveraging and growth where the Fed truly is one shot, your in and out so I think if we're going to equalize, we have to understand that where it's needed or some other mechanism is needed to leverage or have the Fed have a much better variety of borrowing choices."

C. McBride responds, "Yeah. So that's a great point. And that's one when we, at the OCC, because we don't control the FHLB nor the discount window, right? But going through these different machinations, you can understand why the Fed wants to be there. Right? It makes sense. But to your point, 90 days is far shorter than five years, right? So well, 10 years. That's been one of the most interesting things. We want people to be more and more at a discount window, but that gets you to one more quarter, right? Where the FHLB can sustain you for way longer than one more quarter. So yeah, it's really been a wild year, right? Just understanding how everything is trying to fit together and the stressors that you all have to deal with, right? Because 90 day money is 90 day money, and then at the same time, when you look at some of the discount rates against the discount window, I mean, a six month treasury is 99, so you lose a point for a six month treasury, right? And so then when you think about that, to liquify that collateral for 90 days is going to cost you maybe 10% of your capital, right? Not in total, but it comes at an expense.

A committee member states, "You saw it immediately when the bank term lending fund came out, and it was advantageous. There was lots of borrowing there because it was advantageous otherwise. We, I mean, even as such, federal home loan bank, you know, balance sheet grew tremendously, but you've got a cliff happening here within the next six months to a year. A lot of the banks that borrowed on the bank term lending are having to pay those back. And they're probably going to go borrow at the Federal Home Loan bank to go pay those back. Right? Because I don't see enough liquidity coming into the market to offset what people needed to do to sort of stop the gap, you know?"

C. McBride responds, "The brilliance of the BTFP was par, right? Or, a hundred percent. I mean, that was the absolute brilliance of it, was that they landed with par, which reminded me of the regulatory capital certificates that the OTS put out in the early 1980s, I want to say. It was the same exact idea. It was just a way to capitalize the banking system by the fact that there're not really being a lot of strong collateral at the time. So, whether we call it the same thing, the government seems to step up when it needs to, but yeah, you're right. I mean, the beauty of the BTFP was par and because they have to go back and replace it, right?"

A committee member states, "I mean that depends because then what's going to happen… I mean, well, but if you're pledging instead of pledging securities, you can pledge the Federal Home Loan bank loans and so it just gives you some time."

A committee member adds, "True, true. I have seen some studies that show that a lot of the banks that used the borrowings, they left it at the Fed overnight and made the spread, and now they just closed. You know, we did that, we paid off 150 million, I don't know, last week, but we just had it sitting in cash at the Fed making the spread."

A committee member adds, "Yeah. Between the fourth quarter and the first quarter there was an, I mean, there was an arbitrage to begin with. And, you saw that the borrowings going down dramatically, but there's still some banks that really did need it suffered. And they've got this huge, you know, liquidity

event about to happen, borrowing, they got to pay back, and they're going to have to go get some from somewhere. Well, I hope it's not a huge liquidity event."

C. McBride states, "Right. I've seen some that are huge. I've seen some numbers. Yeah and until March 11th of 25 all the money has to come back. You raised an excellent point. Sorry, my eyes aren't good enough to see your name card, Kelly. Kelly, you raised an excellent point and that's one of the things we've talked about, right? Is the FHLB and the discount window take a fundamentally different view of collateral, right? And so where oftentimes the FHLBs will provide a blanket lien on your loan book, right? The discount window doesn't operate that way. Right? And that was a big issue a year ago, was the FHLB was trying to move collateral over to the discount window, and it was taken Adam Goldstein, you know, 25, 36 hours just to move it over because the Fed wanted the collateral and they wanted to be the lender where the FHLB doesn't want that if you're in trouble. But otherwise, the blanket loan against your book is a great point because, you know, the discount window and it's the regulatory agencies and the executive branch trying to do the right thing, but the discount window lends on fair value, which the discount window sets what the discount window determines, right? And so, to your point, if you've got a treasury security that was 10 years treasury written at one and a quarter, which is where they used to be, saying it out loud is kind of shocking. The amount of money you can get out of that thing is going to wipe out your capital, right? Because you're going to already be discounted from the market, and then you're going to be discounted again at the discount window. So it's problematic but that's the state of the world, right? The importance here is understanding the stability of the deposits of the funding sources, and then the stability of the contingent sources, right? The contingent sources sometimes aren't always there, but I mean, you all raise excellent points, right? Which is kind of the nature of banking, right? Managing risk, right? Not having five years, having 90 days, you know, and still having your reciprocal money, but having to get the collateral that's available for it. It's a situation that is, I mean, from my side, interesting to watch, but I'm sure that it's not always easy for you all in the room, right?"

A committee member responds, "I wouldn't describe it as interesting to watch… <laugh> <laugh> live, maybe."

C. McBride states, "Yeah and then if you could squeeze by the market, right? If all of a sudden the put options back up on you, right? Like, so anyway, all great points. But that is one of the biggest things right now is not trying to get behind you know, we had such a long environment where we had zero rates, right? And now even Japan has finally come off zero rates after 30 years, but having zero rates, you had to keep the lights on, right? I mean, if you have zero rates and you can get 10 basis points at the Fed, you can get 15 basis points on a one year treasury security. I mean, the 15 basis points helps you keep the lights on, and it's going to take time to disentangle that and to move on from that environment. That's why we've been focusing so much on the semi-annual risk perspective on the stability of the deposit base and the contingent sources. And so, like I said, if you're going to the FHLB of New York, you're going to have to be cognizant of the fact that you've also got insurance companies borrowing from the FHLB in New York, and CRE is one of their primary investments. And CRE doesn't sound like it's really where you want to be right now."

A committee member states, "Um, well, I don't know. We are pretty big CRE lender company. I'm in New York. What else do you do in New York? You know, I appreciate it because that's the discussion, right? We do a lot of multi-family, you know, affordable housing. It's all CRE but it's very different from office buildings and very different from warehouses, you know? So how do you prepare your contingent

sources for that dynamic? I think the broader discussion here is SVB, looking at it from the outside in, SVB showed the American depositor that you can and will be saved, right? In terms of having an inferred FDIC insurance on that because you know, if we let market forces be, the depositors get wiped out and it happens. So why shouldn't that discussion continue downstream to the lower depositor in today's world, right? Why should the electrician that banks with me who has $300,000? Why shouldn't he be insured? If that's payroll money, if that's operational money and he's depositing at a bank, he's not taking the credit risk that I'm taking, right? My shareholders should be on the hook, but not the depositor. You know, I just think it's time to kind of take a step back from that. And it would be, it would've been really unfair to have that instead of SVB, be a smaller bank and have all those guys fail and remind everybody again that the FDIC insurance is only up to$250. I mean, just from a broader standpoint, like just theoretical, it doesn't make sense. But we bailed them out because there was large, you know, it was the big companies of the US and that's just doesn't sit well with me, you know? Because if you're going to do it there, then do it all the way across."

A committee member states, "Yeah, that's a great point and that's why when we look at risk and when we look at banks, one of the most important things is, you know, average deposit or size, right? Because an average deposit of $1,500 behaves remarkably different than an average deposit of 1.5 million. And you're right. But if you look at the large banks in America, you have lots of people over the FDIC insurance limit and their money isn't moving. Why? Because there's an inferred guarantee, the detriment to the small banks, because I couldn't keep that same $3 million depositor, but it feels very comfortable at the large institution. So that's where there's a disconnect here. None of us have the silver bullet answer to that, but purely it's not where we're at right now, because of the market forces, a lot of those guys are getting paid one, two basis points right now when the market is paying, you know, 400 and 500 and they're still there in a checking account at the large institutions."

A committee member states, "You know the argument I make is that large banks may be systemically important, but in communities where we often are the only bank, excuse me, we are really systemically critical because if we go under, there's no services, if, you know Signature Bank goes under, lots of people provided services that they recovered very nicely and that's what's often talked about in various economic analysis, right? Especially if you're like a small town bank lender, right? Like the minute the bank goes, the town goes down like the drain elevator moving out town."

A committee member adds, "Yeah. I mean, in our case, in some of the areas in the Bronx, we're the only bank. I mean, it's even in large cities, not just rural communities that this is just… <inaudible>"

A committee member adds, "Yeah. No, excellent points. You raised an excellent point, Joe. I'm not being flippant at all that but that's a conversation best for your representative or senator, right? I realize that we can't control it in the room, but you start to see the dynamics of the last downturn, right? Large banks involved. We felt it this time, large bank involved. We felt it, our lower communities, it's just after a while, it doesn't makes sense and look, we've talked to Congress about it and they're like throwing their hands up saying, well, you know, what is the answer? I know everybody sits on different sides of it, but we got to come to a point where if you have an operational account, it should just be insured, period."

C. McBride states, "I mean, in my opinion, yeah, I've heard that. That person is not taking a risk, right? Now, if you want to get into a CD or maybe a money market or something like that, now you're taking some risk because you want some return. But if you're leaving it at a checking account, I mean, what risk

is that person taking? Right? The average person here probably can't ascertain the risk at larger banks on their balance sheet, much less a depositor can at a bank. They don't have the wherewithal to understand the CRE and funding concentration of where the next risk is coming from. Yeah. So anyway, I know I'm preaching to nobody in particular, but it's just where I think we're beyond that and we got to be insuring, you know, operational accounts."

A committee member states, "Yeah, no that's an excellent point. And that point, at the very least, for a community bank so that there's a little bit of a shift away from the nationals, right?

A committee member states, "Yeah, no that's a concern and focus we've heard before, right? But unfortunately there's not really a solution because I think the community banks are inversely, um, adversely impacted but we don't have the resources to kind of mitigate the impact. I think, you know, when SVB happened, we actually had to call our depositors. I mean, we took our major depositor list and we divided it, and we called them, you know, one-on-one saying, Hey, we're okay. You're okay and, you know, it was an extra step that we had to take because we saw what was happening to the deposits in our neighboring larger banks. The larger banks would have their money overnight go to Chase because Oh, chase is too big to fail. And, my bank, you know, I have more than $250, so I'm going to have to move it. The odd thing was I want my money insured, therefore I'll move it to Chase. I mean, which is not insured <laugh>. But in their mind, and really, you know, practically it was insured. It was right."

A committee member states, "Absolutely was. Yeah. What's that word? They don't have to pay for it. Right? It's insurance they don't have to pay for. Right. Implied insured. So if the deposits weren't back stopped by the government for SVB, I think the situation would be very different right now. There wouldn't be all this, you know, flow of deposits going to, you know, the big five."

A committee member adds, "Yeah, that's an excellent point. And if you remember in like the 08, 09 crisis, the stories about the East West Bank over in Hong Kong where everybody was lining up and they were pulling money out, and East West was like, we don't have a problem, but here's your money. Right? Like, you don't have that anymore, because to your point, you don't have to queue up to get your money. You just go into your phone, download the app, and you move it all over, right? So what's happening is, you know, these regional banks that previously did not compete against us for deposits, they are now. So how do you build that into your contingent funding plan? We look at everything. We, you know, it's a mile long and we test it. I mean, it's a lot of work. It's a lot more work than we used to have. And you know, the list is long. Look, the answer is always, you know the insured deposit under $250,000. That's easier said than done. Look, we can all fail each other's banks on paper twice over, you know, and if this happens, and that happens, and you know, and that's what happened with SVB, right? And I mean, I don't think they imagined $40 billion moving out in 24 hours. It was an unimaginable event. We can create unimaginable events on paper all the time. And the answer is if they're insured, then they're fine. And that's where I go back to if we make that, then there's a calming effect in the market. Hmm. That's essentially what everybody did at that point over the weekend was kind of calm the market and backstop with the more liquidity for the community banks, right?

A committee member adds, "The old definition between brokered and core, there is core, and then there is flight core. This is price sensitive core. These customers, I don't care how long, they just got so many options. We've got a bank across the street, we put it up, they'll put it to higher for those who want high yield deposits. That's a flight risk. As Joe said, you have a broker deposit, they actually can't take it out. So actually some brokered deposits broker deposits are cheaper now and they're more

secure, right? So, I mean, for regulators, it might make your job a little harder, but you can maybe put yourself in our shoes of running a business. And you say, how do you solve the problem? None of us have solved it. We're doing contingency. We test ours every month."

A committee member adds, "By the way, we had the same experience. We went out to all five of our sources when you needed it. Not one responded with why they needed it. We heard every regional from smaller, everyone said no. Well, that was awakening. We started testing it to the max, not a dollar. We test what we might need in that unexpected emergency. But I think that, you know, the on the ground examiners have to look at your entire business and listen to your rationale of why you're doing it. Because the old idea that broker deposits are flight risk not true. When you're, when you look at your, those yields today, it is about everybody, by the way. It's the retired grandpa, grandma and you can't begrudge them then go down to a credit union who doesn't pay any taxes that can pay."

A committee member adds, "I don't know how they're making money, by the way, but five and a half percent, I can't tell they love ya. And, I can't even tell them to give up that yield. So I have a choice to say, you want me examiner, just go rob Peter to pay Paul. Right? You want me to compete locally because I can, I mean, frankly, we have enough yield. I could pay 6% and still make them. But s that the point? I can call on core, I can have a hundred percent core I've just taken from the whole community or the whole state. So I think the understanding of why you do what you do and what you're doing with your bottom line and all your different plans, examiners have to take the time to listen and understand the business. We are business balance sheet, both sides. We are a business after all, we're not the government. So I think that this is a really good discussion because it's reality. We had the answer, boy, we'd all be sleeping better at night, but we are still not done. All of these cliffs that we're talking about, they're all coming. And we didn't make one investment in security. So when that great opt-in came out the bank term loan, we couldn't take advantage of it. We were penalized from doing the right interest rate risk decision, when we were surplus in deposit and then all comes this beautiful government stepped in. But the A students got to sit in the classroom. The D students got recessed and got to go get the facility. We were stuck. So, you know, there's always somebody that's in a gap, right? But this is a challenge. And I don't know if that money's going to come back into the system."

A committee member states, "That's everybody. Yeah. First it went to the big bank, went off the business bank. Now it's an investment. They're not insured at all. They're out in money markets. They're chasing yield. What does that do to our CD rate? I mean, I couldn't write them enough. And then I'm paying more than I would have to do. I'm saving about a percent buying some broker funds. Well, I'm going to run a business, so we'll have to have a regulator discussion about that because when it makes sense they're actually less volatile, that's going to be a decision. You know? So it's a variety, a combination but there's no silver bullet."

A committee member states, "Yeah. For us, the brokered funds are lower contingency than they should be because of the stigma. I hadn't considered brokered deposits since 17 years at the bank, but now if you really look at it and take away, call them something else other than broker, they're actually, like you said, they're much safer deposit. You can't take it out."

A committee member adds, "A regulator should be concerned, avoid having a cost saving bottom line, cost saving one that can't go away but one I can actually depend on, a regulator should be concerned if I'm making a decision the opposite to not protect bottom line then they should be concerned. So it shouldn't be a black or white decision, because then you're not doing well by your business."

A committee member mentions, “But you know the lesson that you speak, and I spoke about it this morning, Kelly, the lesson that we learned from the crisis is that the regulatory push to have alternative sources of funding is really not viable most of the time because all of us try to get money as when SVB and Signature failed, and none of our contingent sources gave us a nickel. The only place we got money from was FHLB. Right? And so what's the point of having lines of credit that you test them when there's a real market crisis, they're going to disappear because they're involved in the same crisis.”

C. McBride states, “I hate to put us on the spot, but any thoughts, Troy or Jason in regards to this conversation, this liquidity conversation it can't escape us. It was here this morning. It's here again this afternoon. The passion is increasing.”

T. Thorton responds, “No, I appreciate thoughts, the comments I do. My thoughts are a lot of banks for a long time had had one rated liquidity, right? And today, if you stick by the old standards, you can still have strong liquidity, but your earnings are going to be horrible, which is your point you got to run a business. So, you know, some dependence or some reasonable dependencies. We believe the concentrations on both sides of the balance sheet can be dangerous, but some reasonable dependence is okay and it might be necessary to keep earnings going so possible. I appreciate your comments about running it. It's necessary to run the business appropriately.”

A committee member adds, “Capital is preserved by earnings and we had to come to a realization that there's core deposits that are loyal core customer deposits. Generally the smaller ones who are not coming, but they are worn out more than ever online, they don't even know the bank. They don't <laugh> and capital doesn't matter. They yield chasing. It's like the market, the market presence matters because they treat, you know, CDs and those kind of things like that. So the rate you have to be at to actually move the needle on your core deposits and keep them, you better watch your CDs, your core CDs, you better be ready to replace those. I'm telling you, if you're not the highest in the market, they will and they'll come back to the highest. But they're just not the core customer they wants deals.”

A committee member states, “Well I just appreciate it, Troy, thank you for just saying that. It's no longer a discussion of if you shouldn't have them, but, you know, within the mix, appropriate level, I mean, those are softer discussions rather than how dare you have taken on a broker deposit because, you know, for years that was sort of the way that it was, and so I think a candid conversation with our regulators should say, it's okay to not be a one, but you know, let's live in the two world and we can all sort of get along and still have a viable business versus not go from a one to a three with a shock. You know, let's stay in the comfortable two category and that's a good discussion.”

A committee member states, “What is a comfortable two category? We talked about the evolution of liquidity and liquidity thoughts. Unencumbered assets used to look really good on the balance sheet, you know, from a liquidity perspective. And over the past year talking about lessons learned, you know, unencumbered assets kind of a wasted asset, a waste of time. Kind of taking a 180 on that position as well. The past year has been wild, right? Just how you have to re-look at things in today's environment, and this will normalize but that's the whole point of this whole exercise in banking, right? We were all here when having mortgages were bad and now they're good. So just let things normalize like, you know, housing prices there for a while. We didn't know what the bottom was now heck, it's the best performing asset on your books. Like this will normalize, but give us time to let this normalize because I don't think anybody in the room would like to go have higher costs or more volatile deposits. None of us do. But right now, that's what we're facing. Everybody's looking for yield, you know?”

C. McBride states, “Yeah. All the comments are fascinating. I mean, and I truly appreciate them and including the stuff that puts us on the spot, right? I mean, Kelly, you bring up a lot of great points, right? And, and you're right. The holistic nature of the balance sheet and how you're managing those risks, right? There's no one right or wrong answer. There are some more right. And more wrong answers, but there's no wrong right or wrong. I mean the examiners need to understand it's a business and you have to do a couple of things, including making sure that you have access for your customer base and that you're recurring capital and that you have enough liquidity and you're doing things you should be doing.”

A committee member states, “Beverly made a good comment earlier and Andre, I think you did too. I mean, we all have always been really reasonable and stuff and understand your businesses and it shows, like this is a why put a lot of thought into this. You said all this analysis, right? That really makes sense today given everything and this is where we're migrating to, but we've always had a really good dialogue. But that's what it takes, right? A discussion. And I think, you know, maybe you said or somebody said it before, you know, just with the why on how you got there and what your plan is, right? Where you're going and what your plan is.”

A committee member states, “You know I find that what was okay, 2, 3, 4, 5 years ago today it's not, and sometimes it doesn't get communicated down the field. Then the field is working with stuff that is two and three years old, you know? And that's the challenge that we have. Has anybody seen any money go to treasury direct? That's interesting. Too easy. In other words, you just get on a brokerage phone and put it into a vanguard, you know, a CD that, in other words, not directly with treasury, but it's one step removed and you're going to lose a couple of bps. But that's how I'm looking at it, you know? That's always been interesting to me is there really isn't a lot of cannibalization from treasury direct, even though you can put all the money you want and have the federal backstop, right?”

A committee member adds, “Yeah. But remember, most of those brokers, including mine, I can buy high, high yielding CDs that’s better than treasury. XX3% money backed by the federal government is pretty good.” <laugh> <laugh>.

A committee member responds, “But you know, point again, a large deposit, you know, a CD from a too big to fail bank is damn good too.”

A committee member states, “Yeah. Not arguing with that. That's a good point. 5.4 in American Express, you know, immediately. I mean, it's just that easy is what I'm trying to say.”

A committee member states, “Yeah. Like you said, I don't think people are looking at it as backstop by the government. It's just I'll move it there and it's giving me that yield and I'll figure out what to do with it. It's everybody's paying over 5% in the money market today.”

A committee member adds, “Right. But that's the reason, if you be proactive, give them a better rate, then what they can get, the deposits will stay there.”

A committee member mentions, “The goal we try to do is, okay, we are paying you a little over 5% on your money market, how can we get from you other accounts. We are not paying you interest rate or paying you very low interest rate. And, if you are successful, we try it, we service large loans like $8 million. Offering those people that you sign up for direct deposit. If you have those it would give you a better interest rate on your money market accounts so creating various ways to bring in non-interest rate billing deposit.”

A committee member states, “Yeah. Well that's where you then get handicapped because as a smaller bank, we’re dependent on the core processors, where technology is not as good as at least perceived, not as good as the Chase of the world. We get that pushback all the time, even though we show them that it's not really that bad of technology but that's the perception so that's where we have issues getting other business from, you know, other customers.”

A committee member states, “So my bank is a little different. What we did was about four, five years ago, we developed a technology. We offered our commercial customers where they use our technology to collect rent. And so the deposits come in, then we started marketing that to condominium association. So the condos payments come to us, so those are all non-interfering deposits. Now we started licensing that technology to other, so it's like banks, MDI or non MDI, we have to be creative. What else we can do to bring into positive, which will stick to us. They're not rate sensitive right?”

C. McBride concludes, “Yeah, no, I was going to tie it up, Andre. Oh, I mean, I think we're <laugh>. I was just going to say like, I think I'm almost at the end. But this has been absolutely fascinating and fabulous. I throw in another F word because it was really a lot of fun. But fantastic, fabulous. Um, I didn't actually mean that to sound that way, so my apologies. Does anybody have any other questions or thoughts to bring up? I do hope that you all understand that everything that was discussed is enlightening for us and helpful and things that we take back try to figure out what we can do. Just in our messaging, anything and I know right now we're working on a couple things about messaging. So this is always amazing and I really appreciate everyone's time. But if you don't have anything else, just a huge thank you. I mean, wonderful. It's absolutely great. So thanks so much everybody. Andre, I yield my free minutes. Thanks”

DFO King states, “I told Chris, I said you might have earned your invite back to the September meeting. We got the whole committee fired up. Thank you, Chris. Now we get to the portion of the meeting where we open it up to the public, but before we open it up to the public, Charlotte, did you want to make a quick announcement?”

C. Bahin states, “So, those of you that have been on the committee for several years probably know about this and what I'm going to talk about. But, we are at the point now where we have to renew the charter for the committee because it's a two year term. The committee itself is a two year term, which means that all of your membership on the committee also is a two year term. The process is that we have to send the charter to treasury and they look at it. It also has to go elsewhere in the government because this is a federal advisory committee under the Federal Advisory Committee Act. So there are a lot of rules and regulations that we have to comply with that have nothing to do with treasury or banking or the OCC or anything else. But we have now started the process of compliance and hopefully we'll hear back soon that we can move forward and the charter will be approved. Once that happens, then we'll start the nomination process for new members. And I know this, you're just having a heart attack now thinking that you have to do it again. <laugh> Those of you that want to be members again on the committee will have to go through the same vetting process that you’ve gone through in the past. We'll let you know when the solicitation period begins. We put a notice in the federal register and also seek input from the trade organizations, from other people, from the field offices and the supervisory offices so that we get a good range of feedback. We'll let you know when that starts so you can let us know whether you want to renominate yourself or have somebody renominate you, whether you nominate somebody else, etc. There is a limit of 10 people on the committee so just bear that in mind. We'll start the background check process again, which we'll take a while. I don't know whether the

election or whether any government closures will complicate the timing this time. Sometimes it does. And then we'll start again. So the committee charter, the current committee charter expires in June and hopefully it'll be renewed until June of 26. Your terms on the committee expire in December of 24 and any new membership would be until December of 26. So all that was probably a little bit of, confusing but the point is we've started the process to renew the charter."

DFO King states, "Thank you, Charlotte and one other item Charlotte sits on the mutual savings advisory committee as well. One of the conversations we've had up to this point for the MDI discussion was finding a means or a way for members or representatives from both committees to sort of brainstorm and see if there's some common concerns, challenges, issues, ideas, strategies to move forward and be successful, but meeting the needs of the communities. There has been some informal discussions from members on the MDI as well as the MSAAC committee so there may be more that comes out of those discussions. But if there's any other members within the MDIAC committee that wants to engage with MSAAC members to see if there's some common ground to explore what the possibilities are, please reach out to Charlotte and I and we'll make sure we link you all up with those individuals."

DFO King continues, "With that being said, now is the time, I guess all our public people in person, there's only one left but any comments are welcome at this time. For those that joined us online, are in virtual setting, there's instructions if you want to submit a question or a comment and or raise your hands to open up the line to make a public comment if you so desire."

The operator states, "There are no hands raised at this time"

DFO King concludes, "Any other comments that the committee members would like to make or anyone participating in this discussion? Perfect. Well, thank you Mr. Tuli. First and foremost, you survived your first MDIAC meeting successfully. And thank you all for your candid conversations and comments. It definitely gave us some homework, some things to consider from a regulatory standpoint and we just look for forward to future discussions. September 24th is our next scheduled MDIAC meeting and, with that being said, the meeting is now adjourned. Thank you."