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President Esther George Reflects on Her 40-Year Career at the Fed and the Importance of Community Banks

President Esther L. George

Esther L. George, president and chief executive officer of the Federal Reserve Bank of Kansas City, represents the 10th District on the Federal Open Market Committee (FOMC), which has authority over U.S. monetary policy. President George started her career at the Kansas City Fed in 1982 as a bank examiner and spent much of her career in the Reserve Bank's Division of Supervision and Risk Management. Prior to becoming president, she served as the officer-in-charge of supervision for the 10th District, overseeing the supervision of state member banks and financial holding companies.[1] Given her mandatory retirement in January 2023, staff at the Federal Reserve Bank of Kansas City interviewed President George to learn about her 40-year career at the Federal Reserve and to hear about her views on the outlook for community banks.

Career Retrospective

How did you end up coming to the Federal Reserve in 1982?

I was working for Dun & Bradstreet as a business analyst when I applied for a position at the Kansas City Fed. After interviewing, I received an offer for a bank examiner trainee position with an annual salary of $9,600. That position led to a series of assignments that shaped my perspective in important ways.

As a former examiner, you must have a treasure-trove of stories from onsite examinations. Are there any particular examiner experiences that have had a profound effect on the way you view your work?

As a bank examiner, your job is to identify risks and to explain them clearly to a banker and to your boss. Being curious and asking the right questions are more important than having all the answers. Sometimes the banker disagrees with your judgments and is unhappy with the outcomes of the exam. That's not easy when you're 24 years old and sitting across the desk from

1 The 10th District supervises state member banks and holding companies in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, western Missouri, and northern New Mexico.

someone with three decades or more of experience. So, you learn to do your homework, to think hard about the consequences, and to listen carefully to make sure you understand. You have to rely on other members of the exam team — each contributes to some part of the exam with different expertise and experience. Sometimes you work all day to analyze an issue and are sure you have it nailed down, only to get some new piece of information the next morning that makes you rethink your conclusions. Generally speaking, critical thinking, and the process of really understanding deeply an individual institution's business operations and strategy, taught me a tremendous amount about risks and incentives in banking. Those early experiences as an examiner continue to shape my thinking as a leader and as a policymaker.

How have opportunities for women in banking changed since the 1980s?

When I came to work for the Kansas City Fed, I found it to be a welcoming environment with supportive team dynamics and career opportunities. I benefited enormously from that culture. Now, as the Bank's president and CEO, I think about how important that culture is to the success of the entire organization. The Bank's performance demands that we attract the best available talent from the broadest pool of applicants and ensure that the organization is a great place to work, so we can retain that talent. Finally, to be credible as an organization that serves the public, we want our employee demographics to reflect the demographics of the region we serve.

An inclusive culture begins with me as the CEO. I am accountable for actions within my sphere of influence and for the results in my organization, including its culture, its hiring philosophy, and its public engagement. Inclusivity is embedded in our values, but my role is to clearly communicate this expectation and lead by example. As with any objective, progress requires continuous advocacy and monitoring. Importantly, the value of inclusivity is everyone's job, it's how we do business, and it has made the Bank successful.

Community Banking

Could you discuss your thoughts on the importance of community banks to the overall economy?

Community banks are essential to the U.S. economy through their provision of credit and leadership in the areas they serve. Community banks provide approximately 40 percent of small business loans and 90 percent of small farm loans, a significantly outsized level relative to their share of U.S. bank deposits. During the 2020 pandemic, community banks extended $335 billion in government-backed loans to thousands of small businesses.

As relationship lenders, payment providers, and deposit safekeepers, community banks are integral parts of the thousands of cities, towns, and neighborhoods they serve across the country. They also fill key leadership roles in their communities, providing the basis for the relationships that generate new business for the bank and open up credit to the community.

What are the biggest challenges for community banks?

The banking industry broadly faces challenges from a rapidly evolving financial services sector. In particular, technology-enabled platforms designed by nonbanking firms are disaggregating traditional banking functions. Nonbank firms have established internet-based lending services, while other nonbank firms have developed online applications to facilitate person-to-person payments. These platforms have developed outside the existing legal and regulatory framework for banks, though banks are rapidly adopting these capabilities.

In this landscape, the benefits of improved delivery speeds and convenience are facilitated by scale. While the nation's largest banks with half of all deposit accounts and a nationwide/global reach can achieve scale benefits, community banks and the customers they serve cannot. As a result, in 2019, the Federal Reserve Board determined that the Reserve Banks should offer an instant settlement service for retail payments to ensure broad and efficient access across secure rails for the nearly 10,000 financial institutions connected to our network. This new payment rail, known as the FedNow Service, is scheduled to be implemented next year.

Can you provide some perspective on the lack of bank formations and general contraction of the number of community banks?

When I joined the Kansas City Fed in 1982, there were over 14,000 banks, and the small, midsize, and large banks held relatively similar market shares. Today, there are fewer than 5,000 banks, and the five largest banks have 40 percent of the nation's deposit market share. Unsurprisingly, few new bank formations have occurred over the past decade.

How can community banks remain relevant and competitive in the future?

Community bankers have long understood that to stay relevant in a dynamic economy, they must adapt to a changing financial services landscape. Even as consumer and business preferences evolve, community banks are well positioned to exploit a business model that emphasizes relationship lending and strong local connections. To do so, community banks are looking at strategies that make them relevant and competitive in today's environment. For example, many are pursuing avenues for deploying new technology that has become central to how people use financial services. Strategies for attracting, developing, and retaining the talent needed to deliver their services to customers and provide for succession will also be important.

What can policymakers and federal regulators do to support the community banking business model?

Bank supervisors play an important role in assuring the public has access to fair credit and a trusted banking system. Effectively calibrating supervisory approaches that achieve this goal in today's financial services industry remains challenging. For example, supervisors for some time have embraced a risk-based approach to evaluating the safety and soundness of banks, but it will likely take more work in today's highly concentrated industry, where the failure of one of the largest banks has far more significant consequences to the public than the failure of a community bank. Getting the balance right will certainly matter to the viability of community banks. I think there are a couple of areas where regulators can better serve the public's interest in a competitive financial services landscape that includes community banks.

First, regulators must continue to tailor the work examiners are asked to do in evaluating compliance and risk at a bank. Our regulatory framework can unintentionally favor the largest banks, where complexity can be managed with extensive resources. For example, these advantages can be seen in the differences in regulatory capital between G-SIBs (global systemically important banks) and community banks. Staff at the Kansas City Fed regularly analyze these differences in a semiannual Bank Capital Analysis,[2] which shows that the community bank leverage ratio is nearly 300 basis points higher than that of the nation's largest banks.

Second, in a quickly changing world, regulators' clarity of message is essential to defining regulatory expectations for community banks. This is particularly important in today's evolving financial services landscape. Community banks are looking at strategies that allow them to innovate and compete, and clear communication from bank supervisors can allow such decisions to be made prudently as they deploy capital, either internally or through third-party relationships. Addressing these issues would help to level the playing field between community banks and their larger peers, as well as nonbank competitors.

Serving on the FOMC

You have the unique experience of being a bank examiner and a member of the FOMC. How has your experience as a supervisor prepared you for your work in setting monetary policy?

My work as a bank examiner introduced me to the plumbing of the financial system and its key role in the economy. Understanding the end-to-end process of a bank's operations — from deposit taking to

[2] See www.kansascityfed.org/research/bank-capital-analysis/.

lending — helped me connect the intermediation process to macroeconomic outcomes. That experience has served me well at the FOMC, where monetary policy and financial stability affect our ability to achieve mandated objectives for the U.S. economy. We saw firsthand during the Global Financial Crisis how financial vulnerabilities and inadequate bank capital can devastate the broader economy. The lessons from that episode and others are reminders that monetary policy depends on a stable and sound financial system to achieve its desired outcomes. Examiners play a key role in assessing risks at banks — not just through complex models and data analytics, but also through applying supervisory judgments about incentives and management practices.

The Future of the Economy and Banking

What are your views on the future of the U.S. economy and the banking industry?

Over the past 40 years, we've witnessed tremendous changes in the U.S. economy and the banking industry. Global connections have grown, and technology has allowed for innovation to touch nearly every aspect of our lives. No one at the Kansas City Fed used the internet when I started; today it has become an essential foundation for our daily lives and how we conduct business. Technology has also fundamentally shifted the ways in which banks conduct their business and interact with customers. Nowhere has that been more dramatic than in our payment system. In 1989, the Fed processed more than 4 billion checks each quarter. Today, we process less than a quarter of that. Digital payments and the emerging technologies associated with digital assets will continue to shape banking and the broader economy, too. Policymakers will need to consider how financial services changes comport with existing legal and regulatory frameworks and financial stability. For community banks, the opportunity to leverage the enduring advantages of attracting low-cost, stable deposits and providing local access to financial services will continue to benefit the country's economic health. ■

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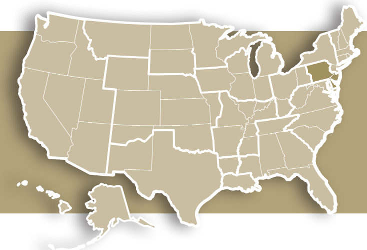
View from the District

A Third District Perspective — Philadelphia



Preparation and Flexibility Brought Banks Through the Storm

*by Bill Spaniel, Senior Vice President & Lending Officer, Supervision, Regulation & Credit, Federal Reserve Bank of Philadelphia**

Bill Spaniel

Preparation is key in the face of any challenge. When I first came to the Federal Reserve Bank of Philadelphia, I authored "View From the District: Preparing Now to Weather Conditions Ahead"[1] in 2016. At the time, I was impressed with the city of Philadelphia's efforts and ability to provide services to residents during a winter storm. Similarly, it has been important for the banking industry to be attentive and prepare for any financial storms or adverse events and apply the lessons learned from the Great Recession.

Over the past two years, we have all been challenged in ways that we could not have imagined. As we move forward, we continue to evaluate and mitigate the effects of the pandemic. Fortunately, it appears so far that community banks have weathered this unprecedented and ongoing "storm" well and have been vital in providing much-needed support to their customers and communities.

Early in the pandemic, the Federal Reserve took necessary and unprecedented actions to maintain stability during difficult times while promoting the safety and soundness of supervised financial institutions. The Federal Reserve acted decisively to pause examination work, expand communication channels, and issue guidance to support financial institutions and the continuation of the flow of credit and services. In the Third District, we worked closely with our state member banks to maintain and strengthen existing relationships and provide supervisory guidance in a timely manner. Further, we were able to enhance collaboration throughout the Third District to connect community bankers with Federal Reserve programs focused on the needs of their communities. We worked closely with outreach and community development areas to ensure that bankers and their customers understood the Federal Reserve's expectations and programs. For example, with the implementation of the Paycheck Protection Program and Paycheck Protection Program Liquidity Facility (PPPLF), the Philadelphia Fed's Supervision, Regulation & Credit and Community Development and Regional Outreach departments coordinated meetings with financial institutions to communicate program objectives and requirements as well as address specific questions. The collaboration of the various departments at the Philadelphia Fed allowed us to reach broader audiences in the Third District through speaking at trade associations' virtual events and jointly attending meetings to discuss programs and concerns.

As we look ahead, it is important to reflect on and learn from the Federal Reserve's initial supervisory response to the pandemic. In the Third District, I look forward to maintaining the valuable connections that we have with bankers and continue our conversations to address the future needs of their communities.

Examination Pause

From March 2020 to June 2020, the Federal Reserve paused examinations for most community banks, which provided

* The author would like to thank Erin Connelly of the Federal Reserve Bank of Philadelphia for her contribution to this article.

[1] See Bill Spaniel's article in the Second Issue 2016 of *Community Banking Connections*, pp. 1, 10–11, available at www.cbcfrs.org/articles/2016/i2/view-from-the-district.

financial institutions the opportunity to focus on the health and safety of their staff, as well as the specific needs of their customers during uncertain times. While we could not foresee that the conditions required by the pandemic would remain for an extended time, it was critical for bankers to determine what was best for their staff, institution, customers, businesses, and communities. As supervisors, we listened to their concerns and monitored local conditions offsite. Given our close ties and proximity to financial institutions within each District, Federal Reserve supervisors were already familiar with local conditions prior to the pandemic. We also recognized the importance of supporting bankers' ability to spend time with their customers and provide needed support without additional supervisory or regulatory burdens. By acting quickly to suspend onsite supervisory activities and shift to offsite monitoring, the Federal Reserve encouraged bankers to focus on operations, customers, and communities.

While onsite supervisory activities were temporarily suspended, the Federal Reserve launched several emergency lending facilities to assist financial institutions, municipalities, and businesses during the early days of the pandemic.[2] These lending facilities, such as the PPPLF, the Term Asset-Backed Securities Loan Facility, the Main Street Lending Program, and the Municipal Liquidity Facility sought to maintain the flow of credit.

Prior to the implementation of these lending facilities, the Federal Reserve conducted outreach with financial institutions to better understand their needs and those of their customers and communities. To those bankers who responded, your comments and feedback provided critical insights about credit conditions in your communities, which aided the Federal Reserve in designing these facilities. Once implemented, and as I mentioned earlier, the Federal Reserve was able to respond quickly to questions on these various facilities as a result of ongoing and local outreach efforts with the financial institutions and communities across the country.

Communication Is Key

As the early days of the pandemic unfolded, the Federal Reserve focused on being available to bankers to answer questions and on keeping the lines of communication open — night and day. We knew it was essential that financial institutions could reach us to discuss concerns, remain apprised of policy changes, and facilitate the flow of credit. In the Third District, we increased the number of virtual meetings and check-ins with state member banks. We also focused on sending more frequent communications to bankers as new guidance was released, which allowed us to emphasize and further explain the Federal Reserve's supervisory expectations.

In the Third District, responses from financial institutions have been positive. I have heard that many bankers valued and appreciated hearing from us on a more frequent basis and outside of scheduled supervisory events. As a result, we were able to understand conditions as they unfolded, discuss potential impacts, and consider best practices. These conversations also contributed to the Federal Reserve's ability to respond to the circumstances at hand. As we move forward, we will continue to have frequent touchpoint meetings, which only strengthens the Federal Reserve's understanding of the conditions impacting banking organizations and allows for more timely sharing of guidance and information on regulatory changes and banking conditions.

While virtual communication channels are not always the optimal forum for meetings and events, I recognize

[2] Refer to information on the Federal Reserve Board's website at www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm.

a hybrid communication approach, with both in-person and virtual components, is here to stay. Moreover, a hybrid forum can be more inclusive. For example, earlier this year, the Philadelphia Fed and Cleveland Fed cohosted a virtual event to convene financial institutions between the two Districts. This forum allowed us to reach a broader audience to share national and local perspectives on a variety of supervisory and regulatory matters that are on bankers' minds. We value the more frequent conversations, and the pandemic has demonstrated how we can be effective through increased communications in virtual formats. The emphasis is on supporting open conversations and opportunities to learn from one another.

Preparation for and Response to the Conditions Caused by the Pandemic

While we could not have anticipated the pandemic's circumstances and effects, the overall banking industry was in strong financial condition entering 2020. Since the last financial crisis, many community banks had enhanced their risk management practices, asset quality monitoring, and capital planning. As a result, financial institutions were in strong capital and liquidity positions. A significant amount of work — and preparation — had taken place in the years leading up to the pandemic to bolster the safety and soundness of many financial institutions. Though significant losses have not been part of this crisis to date, financial institutions have been in a position to work with borrowers and, if needed, offset losses that may arise on banks' balance sheets.

Early in the pandemic, it was evident that financial institutions could sustain their overall financial condition. The Federal Reserve encouraged financial institutions to work with their customers (i.e., maintain flexibility during the uncertainty), and the Federal Reserve would not criticize prudent decisions financial institutions made that were supported by sound risk management practices and assessments. Our ongoing conversations with bankers and offsite monitoring of financial institutions enabled the Federal Reserve to continually monitor the flow of credit, emerging trends, and areas of potential concern. The Federal Reserve was also prepared to use the range of its policy tools to meet its goals of maximum employment and price stability. We recognize that this pandemic has caused significant disruptions and losses; however, without the strong financial position of banks, the impacts of the pandemic could have been much worse.

The lessons learned from our experiences with past crises prepared supervisors and bankers for the uncertainty and challenges arising from the pandemic. So far, we have all focused our efforts on the critical areas and maintained effective support of the financial institutions and the communities they serve in a safe and sound manner. Certainly, this will continue to be a primary goal of effective supervision.

Looking Ahead

The pandemic presented unique challenges that required unprecedented actions by financial institutions and the Federal Reserve. I am confident the actions taken were appropriate and that the Federal Reserve's approach to supervision and enhanced communications served all stakeholders well. We have built a strong foundation to adapt quickly to changing circumstances and have successfully adapted to a hybrid environment with both virtual and in-person meetings, programs, and supervisory activities. The Federal Reserve staff is here to serve as a resource and remains committed to strengthening relationships with bankers through enhanced communications and collaboration. These efforts will ensure bankers understand the Federal Reserve's supervisory expectations. Further, as a resource, we aim to support bankers as they serve their customers and communities. I recognize that we will have challenges ahead; however, we will continue to learn and be flexible as circumstances change. ■

The Case for the Community Banking Business Model: Lessons Learned from COVID-19

by Jessica Olayvar, Supervisory Analyst, Supervision, Regulation, and Credit, Federal Reserve Bank of Richmond

In March 2020, community bankers across the country began to realize the threat posed by COVID-19 and were forced to quickly make myriad decisions. Management teams carefully considered their options before deciding to close lobbies, deploy remote technology to employees, and hold board meetings virtually. These decisions were only the tip of the iceberg for what was to come. Outside of the operational logistics, community bank leaders began to implement contingency plans and carefully watch liquidity metrics and increased loan loss reserves in anticipation of deterioration in credit conditions. The prompt and conservative response of community banks during this critical time has since been recognized by many. For example, in September 2020, Esther George, president of the Federal Reserve Bank of Kansas City, spoke about the way community banks remained vigilant at the outset of the pandemic by strengthening their balance sheets in preparation for a downturn.[1]

In response to the anticipation of a potential downturn, the Federal Reserve and other regulatory agencies released a joint statement on March 26, 2020, encouraging banks to work with customers adversely affected by the pandemic, through either responsible small-dollar lending or loan modifications and workout strategies.[2] Many community banks took immediate action by accommodating affected borrowers with loan deferrals or modifications. Just a couple weeks later, these same banks would play an instrumental role in implementing the Paycheck Protection Program (PPP), following the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act.

Today, as the economy continues to rebound from two years of fluctuations and unknowns, one thing is certain: Community banks continue to support their customers and advance the strength of their local economies. As competition, mergers and acquisitions, regulatory burden, and margin compression threaten the future of the community banking business model, the need for it has never been clearer. The pandemic posed enormous challenges to community banks, and it was because of — not despite — their business model that they were able to support small businesses.

Financial Resilience

Community banks have long established their ability to weather economic downturns, in many cases more successfully than much larger banks. A 2012 analysis by the Federal Reserve Bank of Dallas indicated that during the Great Recession, community banks in all but six states (Nevada, Arizona, Florida, Georgia, Michigan, and Illinois) had, on average, fewer loan problems than their largest competitors.[3] In addition, in June 2012, community banks held around twice as many business loans as a percentage of total assets as the nation's largest banks (28 to 31 percent for community banks, 12 percent for large banks). Nevertheless, those community banks generally had a smaller percentage of business loans (nonfarm, nonresidential, plus commercial and industrial) that were noncurrent or charged off.

A recent study in *Research in International Business and Finance* found that FDIC–chartered community banks with assets under $1 billion were more financially resilient than their large bank counterparts in various ways during the first three quarters of 2020.[4] The study

[1] The September 25, 2020, speech, "Community Banks: Stability in Crisis and Catalysts for Recovery," given at the virtual Independent Bankers of Colorado Annual Convention, is available at www.kansascityfed.org/documents/7429/2020-george-colorado-09-25.pdf.

[2] The joint statement is available at www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200326a1.pdf.

[3] See Jeffrey W. Gunther and Kelly Klemme, "Financial Stability: Traditional Banks Pave the Way," Federal Reserve Bank of Dallas, 2012, available at www.txcte.org/resource/financial-stability-traditional-banks-pave-way.

[4] See M. Kabir Hassan, M. Sydul Karim, Shari Lawrence, and Tastaftiyan Risfandy, "Weathering the COVID-19 Storm: The Case of Community Banks," *Research in International Business and Finance*, Vol. 60, April 2022, available at www.sciencedirect.com/science/article/pii/S0275531921002294.

used return on assets (ROA), return on equity (ROE), and net interest margin (NIM) as metrics for comparison and found that both the ROA and ROE declined significantly less at community banks with assets under $1 billion. Furthermore, during the affected periods, the study found that community banks' NIM declined less than large institutions' NIM. In both this recent study and the plethora of analyses conducted on community banking performance during a recession, financial resilience is credited largely to one key characteristic: Community banks know their borrowers and the local business environment, and this knowledge is a significant advantage over large institutions during challenging economic periods.

Commitment to Small Businesses

As noted above, many retrospective studies note that high-quality loan portfolios are the foundation of successful community bank performance. Some researchers have ascribed this to the community banks' noncomplex hierarchies and ownership structure, meaning each individual in a business line is closer to the customer, tends to have more at stake, and thus takes fewer risks. This was further illustrated in the aforementioned study in which the researchers found that, at the start of the pandemic, community banks' risk-weighted assets declined more quickly than those of larger banks, suggesting a more conservative risk management approach at community banks.

Furthermore, community bankers most often live in or near the communities they serve, giving them a strong, personal knowledge of both their customers and market conditions. This deep understanding of the local economy and focus on relationship banking, rather than transactional banking, gives community banks unique insights in assessing the potential risks of a given transaction. Additionally, the focus on building a relationship with borrowers is attractive to prospective customers, specifically small businesses. In a September 2020 speech, Governor Michelle W. Bowman noted that, prior to the pandemic, community banks accounted for over 40 percent of all small business lending despite accounting for only 15 percent of total assets in the banking system.[5]

Throughout the pandemic, community banks have shown the importance of relationship banking. In her speech, Governor Bowman noted that in her discussions with community bank CEOs, she heard stories about how bankers conducted extensive customer outreach, including bankers who personally reached out to every one of their bank's business and consumer loan customers to offer deferrals as needed. Later, as the CARES Act was passed, community banks played an important role in implementing the PPP and, to a lesser extent, the Main Street Lending Program. Nationwide participation for these programs totaled $799.8 billion and $17.5 billion, respectively.[6,7] As large banks turned away customers, often due to overwhelmed systems and call centers, community banks stepped in to help small businesses.[8] According to the FDIC, as of June 30, 2020, community banks held 31 percent of PPP loans held by the banking industry; this is a significant share given that community banks held 12 percent of total industry assets and 15 percent of total industry loans.[9] Relationship banking, more so than sophisticated banking systems or unlimited resources, allowed community banks to effectively implement these stimulus programs.

[5] Governor Bowman's September 30, 2020, speech, "Community Banks Rise to the Challenge," at the Community Banking in the 21st Century research and policy conference, is available at www.federalreserve.gov/newsevents/speech/bowman20200930a.htm.

[6] See the Small Business Association's May 31, 2021, *Paycheck Protection Program Report*, available at www.sba.gov/sites/default/files/2021-06/PPP_Report_Public_210531-508.pdf.

[7] See the Board of Governors' April 16, 2021, overview of the uptake of the Main Street Lending Program, available at www.federalreserve.gov/econres/notes/feds-notes/uptake-of-the-main-street-lending-program-20210416.htm.

[8] See Peter Rudegeair, "When Their PPP Loans Didn't Come Through, These Businesses Broke Up with Their Banks," *Wall Street Journal*, July 31, 2020, available at www.wsj.com/articles/when-their-ppp-loans-didnt-come-through-these-businesses-broke-up-with-their-banks-11596205736.

[9] See Margaret Hanrahan and Angela Hinton, "The Importance of Community Banks in Paycheck Protection Program Lending," *FDIC Quarterly*, 2020, available at www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2020-vol14-4/fdic-v14n4-3q2020-earlyrelease.pdf.

For many community banks, administering the multiple rounds of the PPP loans was an "all-hands-on-deck" effort. The responsibility to help neighbors and local businesses was a heavy burden for community bank employees, as many worked around the clock under difficult circumstances to manually process applications. Nevertheless, many community banks were able to process PPP applications for small businesses at a faster pace than larger banks could.[10] With less red tape and shorter queues, community banks exhibited greater PPP processing agility than larger banks.

Contributions to the Financial System

The long-term effects of the CARES Act are still unclear. However, a study by two Federal Reserve economists published in January 2021 estimated that PPP loans saved 13 million jobs.[11] As we have seen, community banks played a big role in processing PPP loans. Beyond their support to the economic recovery from the pandemic, community banks contribute to the health of the economy in other ways.

In 2018, the Federal Reserve Bank of Philadelphia published a paper that considered the impact of mergers and acquisitions of community banks on small businesses' access to credit.[12] The results of the study noted that the overall impact of community bank mergers is dependent upon where the acquirers and target institutions were located prior to the merger. When these institutions became targets of a merger or acquisition by a nonlocal acquirer, the study found, small businesses in the targeted bank's market area experienced lending gaps that were not filled by the remaining banking sector. This suggests the importance of community banks' lending activities and the potentially adverse economic externalities of merger activity.

In 2012, the Federal Reserve Bank of Dallas published a series of essays written by financial experts highlighting the links between a robust financial system and a strong community banking sector. In the essay series, the authors contend that compared with larger firms, community banks had stronger underwriting practices and asset quality, focused on small businesses, and were supportive of customers during times of financial crises. To quote the end of one essay, "Recent experience suggests that reestablishing a more prominent role for traditional banking, as exemplified by community banks, could help the nation achieve greater financial stability. Policymakers should take note."[13]

Conclusion

The pandemic resulted in an unprecedented shock to the U.S. financial system. In April 2020, more than 20 million jobs were eliminated, and unemployment reached 14.7 percent. By comparison, during the Great Recession job losses in one month peaked at 800,000 in March 2009 and unemployment reached a record high of 10 percent in October 2009.[14] Yet, during the past two years, community banks have continued to demonstrate their financial resilience and commitment to serving small businesses. As the memories of the initial shock from the pandemic fade, we will continue to recognize the importance of community banks in providing banking services and credit to their communities in a safe and sound manner. ■

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[10] See Jessica Menton and Mark Fahey, "Small Banks and Small Businesses Turned Out to Be a Good Combination When It Came to PPP Loans," *USA Today*, June 2, 2020, available at www.usatoday.com/story/money/usaandmain/2020/06/02/ppp-loans-community-banks-more-helpful-small-businesses/5300871002/.

[11] See Cynthia L. Doniger and Benjamin Kay, "Ten Days Late and Billions of Dollars Short: The Employment Effects of Delays in Paycheck Protection Program Financing," Board of Governors of the Federal Reserve System FEDS Working Paper No. 2021-003 (2021), available at www.federalreserve.gov/econres/feds/files/2021003pap.pdf.

[12] See Julapa Jagtiani and Raman Quinn Maingi, "How Important Are Local Community Banks to Small Business Lending? Evidence from Mergers and Acquisitions," Federal Reserve Bank of Philadelphia Working Paper 18-18 (2018), available at www.philadelphiafed.org/-/media/frbp/assets/working-papers/2018/wp18-18.pdf.

[13] See Jeffrey W. Gunther and Kelly Klemme, "Financial Stability: Traditional Banks Pave the Way," Dallas Fed report, 2012, available at www.txcte.org/resource/financial-stability-traditional-banks-pave-way.

[14] See Sarah Hansen, "Here's How the Coronavirus Recession Compares to the Great Recession," *Forbes*, May 8, 2020, available at www.forbes.com/sites/sarahhansen/2020/05/08/heres-how-the-coronavirus-recession-compares-to-the-great-recession/?sh=f043f0057a7f.

Forty Years Later, a Daughter Recalls Her Father's Heroism*

by Nancy Condon, Content & Publishing Director, Public Affairs/Economic and Financial Education, Federal Reserve Bank of Atlanta

Leslie Williams remembers her meeting with Ronald Reagan mostly as a blur. "We were hustled in and out, and I don't remember much about what was said," admitted Leslie, who works at the Federal Reserve Bank of Atlanta. But she distinctly remembers being impressed by President Reagan's height. "He was taller than I anticipated. Really tall," she said.

That was in 1983. Leslie was 17 years old, and she, her grandparents, her 16-year-old brother, and other family members were in the Oval Office to accept the United States Coast Guard's Gold Lifesaving Medal on behalf of her father, Arland Williams Jr., who had perished after helping to rescue the other survivors of the crash of Air Florida Flight 90. He had been on assignment as a bank examiner with the Atlanta Fed.

Forty years have passed since January 13, 1982, when the plane crashed during a snowstorm into the 14th Street Bridge in Washington, D.C., then plunged into the icy waters of the Potomac. Leslie's father was one of only six people who survived the crash. They all clung to the plane's tail section, which had broken off and was the sole part of the plane visible above the surface of the water. Because of injuries and the frigid conditions, the survivors could only hang on and wait for help.

When the U.S. Park Police helicopter arrived, it lowered its line to rescue one survivor at a time. Each time the helicopter lowered its line, Arland, who was trapped in his seat, handed it off to someone else.

This excerpt from the citation read at the June 1983 award ceremony by Vice Admiral Benedict L. Stabile, vice commandant of the Coast Guard, best describes Arland's heroic actions:

Leslie Williams in front of the mural honoring her father, Arland D. Williams Jr., at the Federal Reserve Bank of Atlanta.

> *"By not grabbing the rescue line and occupying valuable time in what would probably have been a futile attempt to pull himself free, other survivors, who might have perished if they had been in the frigid waters much longer, were saved. Mr. Williams sacrificed his own life so that others may live. Mr. Williams' unselfish actions and valiant service reflect the highest credit upon himself and were in keeping with the highest traditions of humanitarian service."* [1]

By the time the helicopter came back for the sixth survivor, the tail section had slipped further into the water, drowning Arland.

* This is a condensed version of an article that originally appeared in the Atlanta Fed's *Economy Matters* (January 20, 2022). The article is available at www.atlantafed.org/economy-matters/inside-the-fed/2022/01/20/faces-of-the-atlanta-fed-leslie-williams-in-public-affairs.

[1] The full citation is available at www.reaganlibrary.gov/archives/speech/remarks-awarding-united-states-coast-guards-gold-lifesaving-medal-posthumously.

Arland D. Williams Jr.

Unknown Hero's Story Broadcast Around the World

Atlanta was snowed in that day, and schools were closed. Leslie and her brother were stuck at home. Like many others around the world, Leslie was glued to the television watching the events in Washington unfold. She, too, watched the man many broadcasters were calling the "unknown hero" as he continued to pass the rescue line to others. It wouldn't be confirmed that the man was her father until a year-and-a-half later, after a lengthy investigation. She and her family didn't even know Arland was on that flight until the day after the accident, when her grandmother called.

"We thought he was in Tampa, where he was supervising a bank," said Leslie. Arland, an Atlanta Fed bank examiner, was on his way back to Tampa after discussing the bank's problems with staff at the Federal Reserve Board of Governors in Washington.

Leslie and her brother were devastated by the news. "I have so many questions to ask him now! At 17, I just didn't know the questions to ask," she said.

Leslie remembers her father as fun loving and adventurous. "We used to go camping in the Smoky Mountains. We'd rent a motor home and drive up," she said. The family rode bikes, hiked, cooked out.

From Cataloguing to Coding

Along with camping in the Smokies, some of Leslie's best memories of her father were of going to the Bank when it was on Marietta Street. "Dad always talked about his work. He loved it. He would take us with him after hours and on weekends, whenever he had to catch up on something," she said.

Leslie's connection to the Atlanta Fed continued long after Arland's death. His colleagues in the Supervision and Regulation Department (now the Supervision, Regulation, and Credit Division, or SRC) kept in touch, occasionally taking her out to lunch. Colleagues would tell Leslie stories about Arland and his sense of humor. "Apparently he was a big practical joker."

Leslie eventually followed her father into a job at the Atlanta Fed. When she graduated in 1989 from the University of Alabama with a master's degree in library service, she took a job working for the Department of the Army's library system at Fort Monroe, VA. She then worked at the National Archives in Washington, D.C., in 1994. When she learned of an opening at the Atlanta Fed, her early positive experiences and the continued connection it gave her to her father led her to jump at the chance.

On January 17, 1995, Leslie began a job as a cataloguer in the Atlanta Fed's library. Not long after, she was assigned

Leslie, age 14, and Arland on one of their camping trips to the Smokies the task of building the Bank's website. "I had no idea what I was doing," she laughed. "I had to buy a bunch of books." Leslie persevered and created a successful website, cementing her reputation for persistence and dedication.

More than a quarter-century later, Leslie continues to work on the Atlanta Fed website as digital strategy lead in the Public Affairs/Economic and Financial Education Department.

President Reagan shakes Leslie's hand after the June 1983 award ceremony for her father in the Oval Office.

Recognizing a Hero

Many people and institutions have commemorated Arland's heroic deeds. Soon after the crash, the Atlanta Fed put up plaques telling the story of the crash and describing Arland's heroism.

In August 2003, an elementary school in Mattoon, IL — Arland's hometown — was dedicated to his memory. Leslie and her brother, Trey, attended as guests of honor. Also attending the ceremony were Joseph Stiley, one of the crash survivors, and Roger Olian, one of two bystanders who had jumped into the Potomac to try to save the survivors. (Roger Olian and Lenny Skutnik, the other bystander, received the Coast Guard's Gold Lifesaving Medal along with Arland.) Arland D. Williams Elementary School just observed the 40th anniversary of the crash and retold Arland's story to the school's 700-plus students and their families.

His memory was also honored in other ways. Arland's Mattoon high school friends created a college scholarship in his name that goes to a student who enters the banking or accounting field. In June 1982, Arland was awarded the Algernon Sydney Sullivan Award by The Citadel. The Citadel, where Arland graduated in 1957, has a portrait of Arland on a wall in the Department of Psychology. In addition, Arland's graduating class endowed the Arland D. Williams Professorship in Heroism, a professorship that is awarded every three years to a professor in this department.

When the Atlanta Fed headquarters moved to its current location in Midtown Atlanta, the original plaques got displaced to three locations, including the Atlanta Fed headquarters and the Miami Branch.

The memorials held meaning not only for Arland's colleagues and his daughter but also for some special visitors. Mike Chriszt, vice president in the Atlanta Fed's Public Affairs Department, tells a story of getting a request in the early 2000s from some visiting Japanese economists to view the Arland Williams Jr. memorial. "Those economists stood there for a good 10 minutes. I could just see the emotions play across their faces," Mike said.

As time went on and more of Arland's colleagues retired, the memory of that day in 1982 began to fade. "It used to be that when you'd say 'Air Florida crash in Washington,' people knew what you were talking about. Now they don't know. They weren't alive then," Leslie said. In 2018, SRC created a memorial and named a conference room after him to keep his memory alive. "I've been to that conference room for a meeting. It was odd walking into the meeting and seeing my father's name on it," Leslie said. Outside the conference room are newer plaques telling the story of the crash and describing Arland's heroism.

Continued on page 16

Current Expected Credit Loss (CECL) — 2022 Implementation Resources

*by Ray Bolton, Senior Assistant Community, Regional, and Specialty Bank Examiner, Supervision and Regulation, Regional and Community Supervision, Federal Reserve Bank of Chicago**

In February 2022, the Financial Accounting Standards Board (FASB) reaffirmed that the deadline to implement the current expected credit loss (CECL) accounting standards for community banks is 2023.[1] The Federal Reserve remains committed to providing resources that assist community banks with their implementation of CECL. This article highlights some CECL resources that the Federal Reserve has developed, including the Scaled CECL Allowance for Losses Estimator (SCALE) methodology and tool, the new Expected Loss Estimator tool, two Ask the Regulators sessions focused on CECL implementation in community banks, and a Frequently Asked Questions document (see Resources).

SCALE Methodology and Tool

To assist smaller community banks with determining expected credit losses under CECL, the Federal Reserve created the SCALE methodology and tool. Governor Michelle W. Bowman explained this tool in the Third Issue 2021 of *Community Banking Connections*:[2]

> "The SCALE method is a simple spreadsheet-based approach for CECL compliance developed to assist community banks with less than $1 billion in assets. The SCALE method is one of many acceptable CECL methods used to estimate allowances for credit losses. Just as with the other acceptable CECL methods, bank management must determine whether the SCALE method is appropriate for the bank. Additionally, Federal Reserve staff developed a customizable and semiautomated SCALE tool for community banks with total assets of less than $1 billion. If a bank chooses to use the SCALE method, the bank may access this tool at no cost."

The tool uses publicly available data from Schedule RI-C of the Call Report to derive the initial proxy expected lifetime loss rates. Additional adjustments are required by bank management to address the bank's unique facts and circumstances. These proxy expected lifetime loss rates are meant to be used as a starting point in the calculation of a bank's allowance for credit losses (ACL). Further, qualitative adjustment factors will continue to serve a crucial role in estimating an appropriate, bank-specific ACL.

For more information on the SCALE methodology and tool, view the SCALE tab on the CECL Resource Center (see Resources).

New CECL Tool — Expected Loss Estimator

On June 7, 2022, the Federal Reserve announced a second tool to support community banks in implementing the CECL methodology.[3] This tool is known as the Expected Loss Estimator, or ELE, and is an Excel-based automation of the Weighted Average Remaining Maturity (WARM) methodology. The ELE tool relies on a bank's own loan data to calculate the ACL and has fully viewable code and formulas. This transparency allows bank management to independently understand the tool and provides them with the capability to adjust the tool as necessary. Ultimately, a bank's management is responsible for determining the appropriateness of the WARM methodology for calculating its ACL and the data and assumptions used in the calculation. Therefore, community bank management is encouraged to discuss the suitability of its CECL methodology and the use of the ELE tool with its primary regulator. More information is available on the CECL Resources Center (see Resources).

Ask the Regulators

For community banks in the process of implementing CECL, two Ask the Regulators sessions might be a useful reference — one from February 2018 and another from

* The author thanks David Schwartz of the Federal Reserve Bank of Atlanta and Kevin Chiu of the Board of Governors of the Federal Reserve System for their assistance with this article.

1 See FASB, "Tentative Board Decisions 02/02/22," available at www.fasb.org/Page/PageContent?pageId=/meetings/pastmeetings/02-02-22.html&bcpath=tff.

2 See "A Message from Governor Bowman," Third Issue 2021 *Community Banking Connections*, pp. 1–3, 28, available at www.cbcfrs.org/articles/2021/i3/bowman-message.

3 See the Board's press release at www.federalreserve.gov/newsevents/pressreleases/bcreg20220607a.htm.

April 2019. CECL implementation will be different for community banks than for larger and more complex banks. Therefore, the February 2018 session focused on providing examples on how smaller, less complex community banks could implement CECL. The presentation includes a host of information, including a review of loss rate methods with examples, common challenges, and data needs and sources.

The April 2019 Ask the Regulators session focused on the WARM method, one of the available methods for estimating the ACL, which uses average annual charge-off rates and remaining life as its determinants. The session included multiple examples of the WARM method, described supervisory expectations, and addressed many of the bankers' common questions.

Both sessions are good resources to review during CECL implementation and are readily available to all community banks. Audio recordings and transcripts of these sessions, as well as copies of the presentations, can be found on the CECL Resource Center under the Methodology tab (see Resources).

Resources

FASB

- **Transition Resource Group for Credit Losses**
  www.fasb.org/page/index?pageId=standards/Transition.html
  The Transition Resource Group for Credit Losses solicits, analyzes, and discusses issues arising from the implementation of CECL and is a good forum for submitting questions as well as checking responses to those already reviewed.

Federal Reserve

- **CECL Resource Center**
  www.supervisionoutreach.org/cecl
  This page provides numerous resources related to the adoption of CECL, including Ask the Regulator sessions, the SCALE method and tool, information on the ELE tool, and news and updates.

- **SCALE-Related Resources**
  www.supervisionoutreach.org/cecl/scale
  These resources include the SCALE tool, the Schedule RI-C Call Report data set, and information regarding the tool's use.

- **Ask the Regulators: Practical Examples of How Smaller, Less Complex Community Banks Can Implement CECL**
  https://bsr.stlouisfed.org/askthefed/Home/ArchiveCall/195
  This session includes an introduction of loss rate methods, examples of each method, common challenges, and data needs and sources for appropriate CECL allowances.

- **Ask the Regulators: CECL Webinar: Weighted-Average Remaining Maturity (WARM) Method**
  https://bsr.stlouisfed.org/askthefed/Home/ArchiveCall/214
  This session introduces the WARM method of ACL estimation, provides a review of qualitative adjustments, and discusses supervisory expectations.

- **COVID-19 Supervisory and Regulatory FAQs**
  www.federalreserve.gov/covid-19-supervisory-regulatory-faqs.htm
  This document includes a section dedicated to CECL.

- **SR letter 19-8, "Frequently Asked Questions on the Current Expected Credit Losses Methodology (CECL)"**
  www.federalreserve.gov/supervisionreg/srletters/sr1908.htm
  This document answers some frequently asked questions about CECL and covers topics such as third-party vendors, reasonable and supportable forecasts, and qualitative factors.

- **SR letter 20-12, "Interagency Policy Statement on Allowances for Credit Losses"**
  www.federalreserve.gov/supervisionreg/srletters/SR2012.htm
  This interagency policy statement describes the measurement of expected credit losses under the CECL methodology and the accounting for impairment on available-for-sale debt securities in accordance with FASB ASC Topic 326.

CECL Methodology Frequently Asked Questions

The Federal Reserve, in conjunction with the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency, has developed a set of frequently asked questions (FAQs) to assist banks in their adoption of CECL. This document, which covers a broad range of topics — from qualitative factors to segmentation to off-balance-sheet credit exposures — applies to banks in any phase of implementation and contains multiple helpful examples. The FAQs can be found in the Attachments section of Supervision and Regulation (SR) letter 19-8 on the Board of Governors' public website (see Resources).

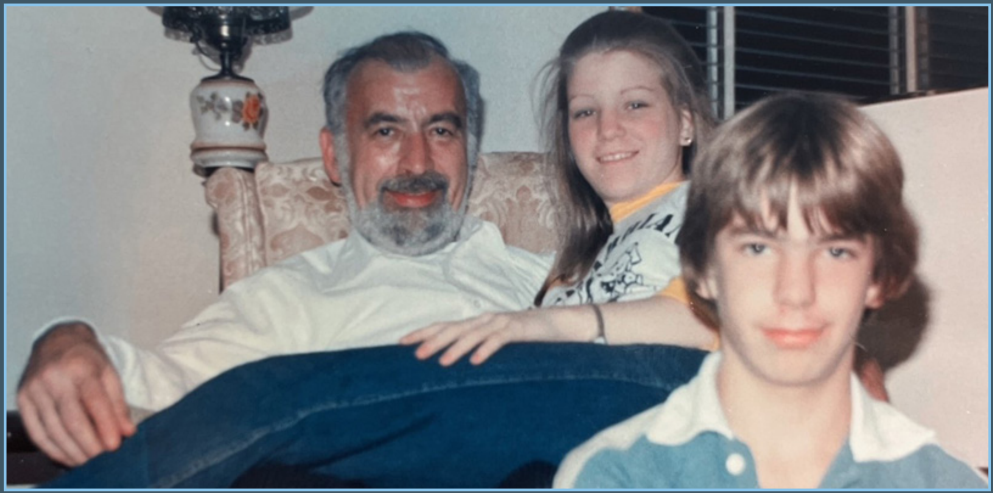
Summary

The Federal Reserve is dedicated to providing information to assist community banks in successfully implementing CECL in the coming year. See the Resources section to access more information on the items described as well as additional supplementary resources provided by the Federal Reserve, other regulatory agencies, and the FASB. If you have any further questions, reach out to your local Reserve Bank contact or email CECL@frb.org. ■

Forty Years Later, a Daughter Recalls Her Father's Heroism

Continued from page 13

Arland's tale of selflessness continues to resonate with Bank employees, including those who never worked with him. "Arland's selfless heroism while on a Bank assignment is truly worthy of lifting up as an example of the ideals we strive for," said Raphael Bostic, Atlanta Fed president. "Though I never met him, his acts that day inspire me, and I trust they will inspire many others in the years to come."



Arland, Leslie (age 16), and her brother Trey (age 14)

It Is Never Too Late to Remember People

As the 40th anniversary approached, a team headed by Atlanta Fed Assistant Vice President Donna Fay began working on a large mural telling Arland's story. "It is never too late to remember people. What better time to re-remember Arland than now?" she said. The resulting mural was installed on a wall visible to employees and guests as they enter and exit the building. The Bank will conduct a ceremony observing the anniversary when all staff return to the office. Leslie will be a guest of honor.

"When I go to the Bank every day, I'll walk down the hall, look at the mural, and smile seeing the image of my dad and know that he is still loved by his coworkers today," Leslie noted. "I like thinking that someone who is too young to remember the event may stop and take a few minutes to read about his actions and think about themselves, 'How can I help someone near me?'" ■

Risk Brief: Auto Sales Volatility and the Impact on Community Banking

*by William Hewitt, Senior Specialist, Risk Analytics & Surveillance, Supervision, Regulation, and Credit, Federal Reserve Bank of Philadelphia**

The U.S. auto market has its share of highs and lows, but the COVID-19 pandemic has heightened volatility in auto sales over the past two years. This higher volatility can represent a risk for community banks, so institutions should keep a close eye on their auto loan portfolios.

The pandemic touched off wide swings in U.S. total vehicle sales (Figure 1). From January 2016 through February 2020, total vehicle sales decreased by 5 percent. At the beginning of the lockdown, in response to COVID-19, from March 2020 through April 2020, sales plummeted 47 percent. Then, as pandemic restrictions eased, sales rapidly accelerated. Sales increased 110 percent from April 2020 through April 2021 to a level 6 percent higher than that before the pandemic.

* The author thanks Tina Bottaro, Ross Cohen, Chris Hahne, Roy Hernandez, and Mike Hopkins of the Federal Reserve Bank of Philadelphia for their insightful comments.

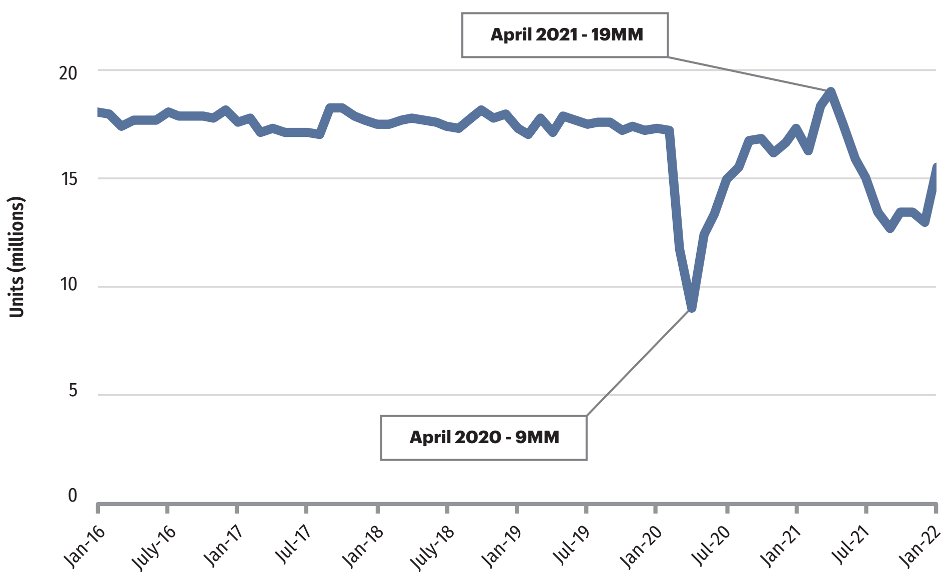
A Story of Supply and Demand

Underpinning this increased volatility was the pandemic's effect on both supply and demand. On the supply side, vehicle production shortages initially resulted from pandemic shutdowns at major car manufacturers. More recently, supply chain disruptions have caused shortages of many parts, including computer chips, tires, and resins. These shortages resulted in smaller dealer inventories and fewer vehicles available for purchase.

From the demand side, as pandemic restrictions eased, more consumers than expected wanted to buy vehicles. The increased demand accelerated the supply-based inventory decline. Vehicle inventories fell 94 percent from April 2021 through December 2021 (Figure 2).

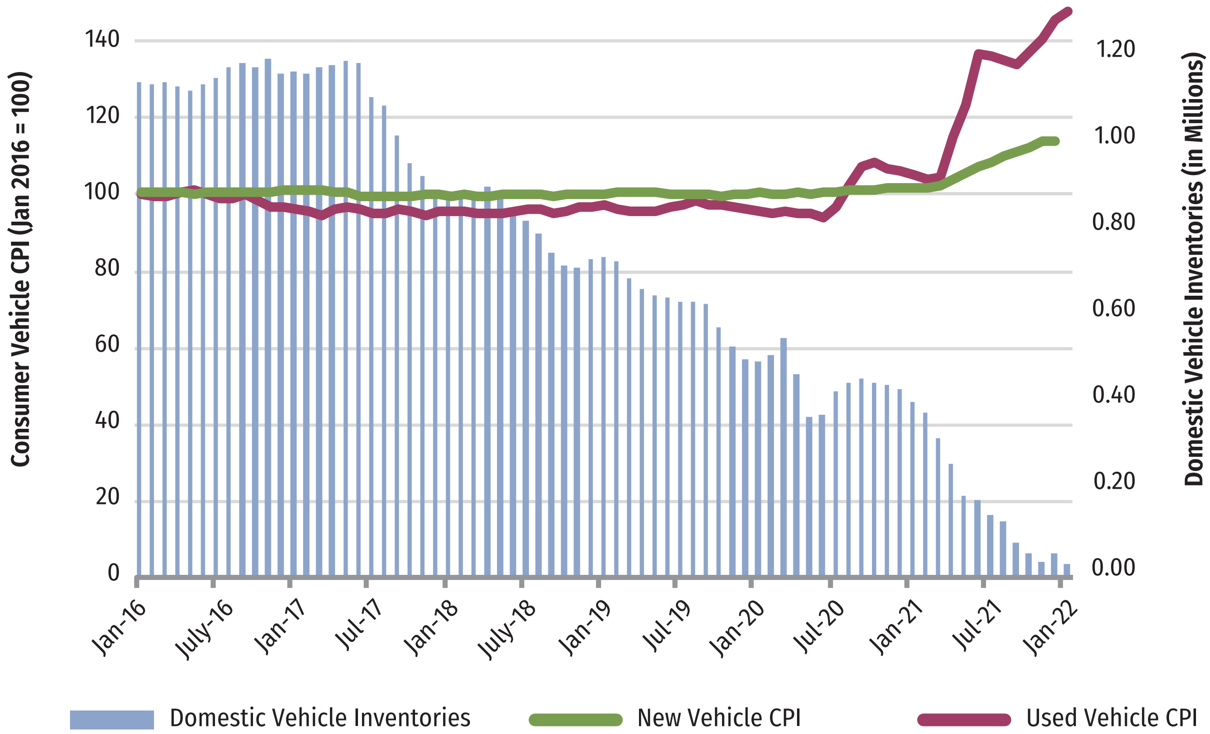
The rapid rise in vehicle demand, along with the limited supply and dwindling inventories, created notable price

Figure 1: U.S. Total Vehicle Sales, Seasonally Adjusted Annual Rate



Source: U.S. Bureau of Economic Analysis, Total Vehicle Sales, retrieved from FRED, Federal Reserve Bank of St. Louis, February 22, 2021; available at https://fred.stlouisfed.org/series/TOTALSA

Figure 2: U.S. Consumer Vehicle CPI Versus Domestic Vehicle Inventories



Source: U.S. Bureau of Economic Analysis, Domestic Auto Inventories (AUINSA), Consumer Price Index for All Urban Consumers: Used Cars and Trucks in U.S. City Average (CUSR0000SETA02), Consumer Price Index for All Urban Consumers: New Vehicles in U.S. City Average (CUSR0000SETA01). All data retrieved from FRED, February 22, 2021; available at https://fred.stlouisfed.org

increases (Table). Also fueling the price increases have been wealth effects for people who have more savings than a year ago and low interest rates that result in buyers spending less of their income on their auto loan payments.[1] The new vehicle consumer price index (CPI) was flat from January 2016 until April 2021. Since that time, the new vehicle CPI rose to 114, marking a 12 percent increase since April 2021.

Higher prices for and the limited supply of vehicles spilled over into the used car market, causing large price increases for used vehicles. The used vehicle CPI was stable and below the new vehicle CPI until August 2020 (Figure 2). Since that time, the used vehicle CPI increased 48 percent and is currently higher than the new vehicle CPI. Combining these factors, a clearer picture of the current auto conditions has emerged: heightened demand, limited supply, and spillover effects in the used auto market as used car prices soar to record levels.

Auto Loans in Community Bank Portfolios

Nationally, there were 4,675 community banks in the fourth quarter of 2021.[2] Auto loans comprised about 1 percent, or $33.1 billion, of total loans. The Districts that the Federal Reserve Banks of Chicago and Kansas City serve accounted for the greatest percentages of the community banks with auto loans, 18 percent and 17 percent, respectively (Table).

Of the community banks with auto loan portfolios, only 144, or about 4 percent, have auto loan concentrations greater than 50 percent. The Chicago Fed and the St. Louis Fed each have 10 community banks with auto loan concentrations between 50 percent and 75 percent of tier 1 capital plus allowance. In addition, the Chicago Fed has

[1] For more about the price boom, see "Car Prices Are Soaring, and They're Not Going to Stop," *CNN*, June 11, 2021, available at www.cnn.com/2021/06/11/business/car-prices-record-high-short-supply/index.html.

[2] Call Report filers for the fourth quarter of 2021; accessed February 23, 2022.

Table: Community Banks with Auto Loans by District

District/Reserve Bank	Community Banks	Community Banks with Auto Loans	Community Bank Auto–Concentration 50%-75%*	Community Bank Auto–Concentration >75%*
Boston	177	138	3	1
New York	162	78	2	9
Philadelphia	125	78	3	2
Cleveland	254	215	5	11
Richmond	225	188	6	9
Atlanta	532	480	5	4
Chicago	803	730	10	12
St. Louis	486	472	10	5
Minneapolis	479	469	7	5
Kansas City	731	709	7	7
Dallas	451	434	6	4
San Francisco	250	129	4	7
Total	4,675	4,120	68	76

*** Concentration defined as Auto Loans/(Tier 1 Capital + Allowance)**

Source: Call Report; accessed February 23, 2022

the largest number of community banks with auto loan concentrations greater than 75 percent of tier 1 capital plus allowance.

Implications for Community Banks

The future values of currently financed vehicles may be a concern to community bankers with recently underwritten auto loan portfolios. Given the higher-than-normal auto prices and the fact that borrowers are obtaining loans for longer terms,[3] borrowers may owe more on loans than the vehicles are worth. Community bank risk management teams should be aware of the residual value of the vehicles in their portfolios and take necessary steps to mitigate that risk.

Portfolio risk is somewhat mitigated for community banks whose auto portfolios represent a relatively small portion of their overall loan portfolio. However, those with higher auto loan concentrations should ensure that the bank's risk management considers these risks and provides for a review and monitoring of auto loan portfolio performance and risk exposure.

Conclusion

The auto market has been distorted by disruptions caused by the COVID-19 pandemic. Vehicle shortages resulting from a scarcity of auto inputs as well as an increase in demand caused the prices of both new and used vehicles to soar. Community bankers should be aware of auto market changes and evaluate their effect on their portfolios. In addition, they should examine the potential risk factors in their portfolios. ■

[3] Experian Q1 2021 State of the Automotive Finance Market, p. 34.

2022 Writers' Cohort

Meet a Cohort Member

The next few issues of *Community Banking Connections* will feature profiles of the writers who were selected last fall to join the publication's Writers' Cohort. In this issue, find out how Stacy Barilla's background in information technology has prepared her to be a bank examiner, how french fries can be used to explain risk, and what's on her three-tier travel wish list.

Stacy Barilla

Examiner, IT Examinations – CBO & Service Providers, Supervision, Regulation, and Credit, FRB Philadelphia

When did you start your career with the Fed?

I'm an information technology (IT) examiner in Philadelphia and have been with the Fed a little over three years now. I have spent nearly all my career working in banking in some way, including retail branch, back-office operations, and internal audit. There were a few diversions over the years, including a very short-lived period during which I was an IT auditor at a casino, but I always came back to banking. In fact, it was after I worked at the casino that I joined the Fed.

When the Fed had an opening for an IT examiner, I knew it was time to explore being on the other side of the exam. Over the years, it was my curiosity and constant search for more efficient ways to perform my job that led me to IT because the solutions I landed on were frequently technology based. Learning how one thing could assist me encouraged me to explore what else could be out there and available. IT is always changing, so there is continual space for my curiosity, and being a bank examiner allows me to see the evolution of technology in banking throughout my District.

Since starting with the Philly Fed, I have had the opportunity to draw on my operations and examiner experience to engage with our state member banks about cyber risk. Most recently, I spoke about the threat ransomware presents to financial institutions at our cyber conference, C3: Cybersecurity Collaboration & Cooperation. Additionally, I participate in the bankers training program, where I speak about cyber risk.

What one word would you use to describe yourself?

I would say the one word that describes me is *curious*. I want to know how things work, why something is done a particular way, and what happens when you push the button. Others might call it persistent, as sometimes it takes me a bit, but I like when things make sense, and often that means understanding the how and why behind the pieces fitting together. I often joke that anyone who knows me should not be surprised that Tetris was the only game I was good at, as it's literally a game about fitting pieces together. I love reading mysteries and thrillers, and I try to put together the trail of clues to figure out "whodunnit" before the author reveals it. It's also my curiosity that motivates me to want to travel and see different places.

If for six months you didn't have to worry about money or personal or professional obligations, how would you spend that time?

I would travel with my family. I am a very curious person by nature, and there are so many interesting places in the world to explore. Six months would not be enough time to cover everything on the family travel wish list but certainly would be sufficient for making progress, perhaps on some of the European countries.

This past year, my family and I took advantage of the opportunities working remotely afforded and went on several long weekend trips. We went to Boston, Tampa, and New Orleans, and this has sparked our interest in visiting more places. On my phone, I keep lists of travel ideas for day, domestic, and international adventures. Currently we're looking to visit more places on the western side of the country, including the Grand Canyon, Zion National Park, and Oregon wine country. With six months, we could go there and still have time for some international trips. We have Prague, London, and Havana on the international list. Now, whenever one of us has an idea of somewhere we'd like to go, I put it on the list.

If a movie was being made about your life, what genre would it be, and who would play you?

I love to read mysteries and thrillers, but should a movie ever be made about my life, without a doubt it would be a comedy starring Tina Fey. Although I can be quite serious at times, I do have a lighthearted and quirky side, which my friends and family can attest to. Both my husband and colleagues have told me I have a way of explaining complicated concepts in a fun and approachable manner, which can verge on the comedic, such as using french fries to explain risk. If you don't have mitigating controls and leave your fries unattended, they run the risk of being stolen! Life is too short to not have some fun along the way. ■

Cohort Chair:

Kerri Allen, Examiner, Examinations & Inspections, FRB Kansas City

Cohort Advisor:

J.M. Nemish, Senior Examiner, Supervision, Regulation, and Credit, FRB Richmond

Cohort Members:

Stacy Barilla, Examiner, IT Examinations – CBO & Service Providers, Supervision, Regulation, and Credit, FRB Philadelphia, **Ray Bolton**, Senior Assistant CRSB Examiner, Supervision and Regulation, Regional and Community Supervision, FRB Chicago, **Miles Green**, Community and Regional Safety, Supervision, Regulation, and Credit, FRB Richmond, **Jennifer Grier**, Senior Examiner, Supervision, Regulation, and Credit, FRB Atlanta, **William Mark,** Lead Examiner, Supervision and Regulation, FRB Chicago, **Jessica Olayvar,** Supervisory Analyst, Strategy, Risk, and Innovation, FRB Richmond, **Alex Shelton,** Portfolio Central Point of Contact/Senior Examiner, Supervision, Regulation, and Credit, FRB Richmond, **Carla Thomas,** Examiner, Regional, Community and Foreign Supervision, Supervision + Credit, FRB San Francisco, **Kalyn Yzaguirre,** Senior Examiner/Supervisory Specialist, Examinations & Inspections, FRB Kansas City

D.C. UPDATES

D.C. Updates features highlights of regulatory and policy actions taken by the Federal Reserve since the last issue as well as a listing of speeches and congressional testimonies of the Federal Reserve Board members that may be of interest to community bankers. For all the Federal Reserve Board's rulemakings, press releases, testimonies, speeches, and policy statements, visit the Federal Reserve's website at www.federalreserve.gov/.

ACTIONS

Actions Related to Safety and Soundness Policy

On March 29, 2022, the federal banking agencies issued a joint final rule to establish computer-security incident notification requirements for banking organizations and their bank service providers. Supervision and Regulation (SR) letter 22-4/Community Affairs (CA) letter 22-3 is available at www.federalreserve.gov/supervisionreg/srletters/SR2204.htm.

Actions Related to Consumer Policy

On March 29, 2022, agencies issued the Interagency Statement on Special Purpose Credit Programs Under the Equal Credit Opportunity Act and Regulation B. The agencies were the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, the Department of Housing and Urban Development, the Department of Justice, and the Federal Housing Finance Agency. CA letter 22-2 is available at www.federalreserve.gov/supervisionreg/caletters/caltr2202.htm.

Other Board Actions and Releases

On May 5, 2022, the federal banking agencies issued a joint proposal to strengthen and modernize the Community Reinvestment Act regulations. The press release is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20220505a.htm.

The Federal Reserve Board is accepting applications for its Community Advisory Council (CAC) for terms beginning January 1, 2023. The April 11, 2022, press release is available at www.federalreserve.gov/newsevents/pressreleases/other20220411a.htm.

The Federal Reserve Board invites comment on an interagency proposal to update policies and procedures governing administrative proceedings for supervised financial institutions. The March 22, 2022, press release is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20220322a.htm.

The Federal Reserve Board announced six new members of its CAC. The March 4, 2022, press release is available at www.federalreserve.gov/newsevents/pressreleases/other20220304a.htm.

The Federal Reserve Board announced the members of its Community Depository Institutions Advisory Council and the council's president and vice president for 2022. The January 28, 2022, press release is available at www.federalreserve.gov/newsevents/pressreleases/other20220128a.htm.

SPEECHES

Speeches Related to the U.S. Economy and Monetary Policy

Vice Chair Lael Brainard gave a speech at the Spring 2022 Institute Research Conference, Opportunity and Inclusive Growth Institute, Federal Reserve Bank of Minneapolis (via webcast), on April 5, 2022. Her speech, titled "Variation in the Inflation Experiences of Households," is available at www.federalreserve.gov/newsevents/speech/brainard20220405a.htm.

Governor Christopher J. Waller gave a speech at the Recent Fiscal and Monetary Policy: Implications for U.S. and Israeli Real Estate Markets conference, on March 24, 2022. His speech, titled "The Red Hot Housing Market: The Role of Policy and Implications for Housing Affordability," is available at www.federalreserve.gov/newsevents/speech/waller20220324a.htm.

Chair Jerome H. Powell gave a speech at the Policy Options for Sustainable and Inclusive Growth 38th

Annual Economic Policy Conference National Association for Business Economics, Washington, D.C., on March 21, 2022. His speech, titled "Restoring Price Stability," is available at www.federalreserve.gov/newsevents/speech/powell20220321a.htm.

Governor Christopher J. Waller gave a speech at the Economic Forecast Project, University of California, Santa Barbara, Santa Barbara, CA, on February 24, 2022. His speech, titled "Fighting Inflation with Rate Hikes and Balance Sheet Reduction," is available at www.federalreserve.gov/newsevents/speech/waller20220224a.htm.

Governor Michelle W. Bowman gave a speech at the American Bankers Association Community Banking Conference, Palm Desert, CA, on February 21, 2022. Her speech, titled "High Inflation and the Outlook for Monetary Policy," is available at www.federalreserve.gov/newsevents/speech/bowman20220221a.htm.

Governor Christopher J. Waller provided comments at the 2022 U.S. Monetary Policy Forum, New York, NY, on February 18, 2022. His remarks, titled "Some Benefits and Risks of a Hot Economy," are available at www.federalreserve.gov/newsevents/speech/waller20220218a.htm.

Other Speeches

Governor Michelle W. Bowman gave welcoming remarks at Fed Listens: Helping Youth Thrive — A Discussion with Leaders, Federal Reserve Bank of Cleveland (via livestream), on March 18, 2022. Her remarks are available at www.federalreserve.gov/newsevents/speech/bowman20220318a.htm.

TESTIMONIES

Chair Jerome H. Powell testified on the Semiannual Monetary Policy Report before the Committee on Financial Services, U.S. House of Representatives, Washington, D.C., on March 2, 2022. Chair Powell submitted identical remarks to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, on March 3, 2022. The testimony is available at www.federalreserve.gov/newsevents/testimony/powell20220302a.htm.


FEDERAL RESERVE SYSTEM

COMMUNITY BANKING CONNECTIONS®

A SUPERVISION AND REGULATION PUBLICATION

Second Issue 2022

President Esther George Reflects on Her 40-Year Career at the Fed and the Importance of Community Banks

Esther L. George, president of the Federal Reserve Bank of Kansas City, represents the 10th District on the Federal Open Market Committee (FOMC), which has authority over U.S. monetary policy. President George started her career at the Kansas City Fed in 1982 as a bank examiner and spent much of her career in the Reserve Bank's Division of Supervision and Risk Management. Prior to becoming president, she served as the officer-in-charge of supervision for the 10th District, overseeing the supervision of state member banks and financial holding companies.[1] Given her mandatory retirement in January 2023, staff at the Federal Reserve Bank of Kansas City interviewed President George to learn about her 40-year career at the Federal Reserve and to hear about her views on the outlook for community banks.

President Esther L. George

Career Retrospective

How did you end up coming to the Federal Reserve in 1982?

I was working for Dun & Bradstreet as a business analyst when I applied for a position at the Kansas City Fed. After interviewing, I received an offer for a bank examiner trainee position with an annual salary of $9,600. That position led to a series of assignments that shaped my perspective in important ways.

As a former examiner, you must have a treasure-trove of stories from onsite examinations. Are there any particular examiner experiences that have had a profound effect on the way you view your work?

As a bank examiner, your job is to identify risks and to explain them clearly to a banker and to your boss. Being curious and asking the right questions are more important than having all the answers. Sometimes the banker disagrees with your judgments and is unhappy with the outcomes of the exam. That's not easy when you're 24 years old and sitting across the desk from

[1] The 10th District supervises state member banks and holding companies in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, western Missouri, and northern New Mexico.

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