FEDERAL RESERVE SYSTEM

COMMUNITY BANKING
CONNECTIONS®

A SUPERVISION AND REGULATION PUBLICATION

2022 Year-End Message from Governor Bowman

Fourth Issue 2022

by Governor Michelle W. Bowman

Governor Michelle W. Bowman

As we begin 2023, I would like to recognize community bankers across the country and their ongoing efforts to support communities as we continue to confront the challenges that lie ahead. Over the past year, we have enjoyed a return to pre-pandemic life and a resumption of business as usual, at least as it exists today. I have found it energizing and informative to finally resume in-person speaking engagements and meetings with bankers throughout the nation. These interactions have enabled us to facilitate an open and active dialogue about the issues and emerging risks affecting community banks, the financial services industry, and the broader economy. This New Year's message provides a view of the current economic conditions and the Federal Reserve's supervisory posture in light of these conditions.

As of year-end 2022, the financial condition of banks generally remains sound, with improvement in net interest margin and low delinquencies in most loan categories. However, current economic conditions, particularly inflation and rising interest rates, could pose challenges to some aspects of these conditions.

First, as we know, inflation affects both businesses and consumers. High inflation disproportionately affects lower- and middle-income households whose wages are eroded by the higher costs of everyday goods and services. High inflation also makes it difficult for businesses to plan and to conduct their core activities as the costs of inputs rise. As a member of the Federal Open Market Committee (FOMC), I am committed to bringing down the unacceptably high inflation American households and businesses have been experiencing. Throughout 2022, I supported the FOMC's actions to increase the federal funds rate in our effort to bring down inflation. Since the beginning of last year, we increased the target range for the federal funds rate by 4¼ percentage points and began the process of decreasing the size of our balance sheet through the runoff of our securities holdings.

My views on the appropriate size and pace of future rate increases and on the ultimate level of the federal funds rate will continue to be guided by the incoming data and the outlook on inflation and economic activity. I will be looking for signs that inflation has peaked and appears to be on a consistently downward path in determining both the appropriate size of future rate increases and the level at which the federal funds rate is sufficiently restrictive to bring down inflation. I expect that the federal funds rate will need to remain at a sufficiently restrictive level for some time in order to restore price stability, which will in turn help to create conditions for a sustainably strong labor market. Maintaining a steadfast commitment to restoring price stability is the best way to support a sustainably strong labor market for all Americans.

The increases in the federal funds rate have significantly changed the interest rate environment for community banks. Generally, community banks continue to be in stable financial condition and serve as a source of strength to their communities. While we don't yet know how the future interest rate environment and economic conditions may evolve, many banks have been actively preparing for a range of possible future conditions. Many small banks are positioned to benefit from the rising rate environment. At that same time, some banks are reporting unrealized losses on the fair value of their available-for-sale securities, resulting in a lower or negative tangible common equity.

Over the past two years, many banks purchased securities with extended maturities to enhance earnings. This strategy supported net interest income while interest rates and loan demand remained low. As interest rates have risen, the book value of these investment securities has declined. In a small but growing number of banks, these losses are eroding tangible common equity, even though for most banks the losses do not directly impact regulatory capital levels.

Nevertheless, banks with unrealized securities losses need to carefully consider the potential impact of holding securities with below-market interest rates, including, among other things, the impact on their liquidity, capital, and earnings. Unrealized losses can strain banks' liquidity, as the lower market value of their securities may require banks to pledge a greater number of securities as collateral, which in the aggregate can reduce their borrowing capacity. Likewise, banks' sale of securities with unrealized losses to meet funding needs would result in the realization of those losses and would negatively impact their regulatory capital. In addition, these depreciated securities could result in lower

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earnings due to yields below current market rates on some longer-dated securities. This environment presents potential challenges including how to best manage the unrealized losses and the associated risks to liquidity, earnings, and capital.

This brings me to the Federal Reserve's supervisory posture in light of current economic conditions. Bankers should expect an open dialogue with our examiners as they monitor and assess this impact on member banks. I want to emphasize that there is nothing substantively different in our supervisory approach. There is no new guidance or rulemaking on interest rate risk management. That said, it is important for bankers to consider current economic conditions in their liquidity and capital planning process and proactively address the full spectrum of risks. For instance, banks should be closely monitoring deposit behavior and update assumptions in their interest rate risk and liquidity measurement tools to ensure that they have sufficient contingent funding sources.

We do expect that most banks should be able to manage unrealized losses in the normal course of business. For these banks, the value of their securities will return to par value as the underlying securities approach maturity. Therefore, bankers need to have a sound understanding of the risks associated with large unrealized losses and, where applicable, negative tangible common equity. Supervisors expect management to take proactive measures to mitigate potential risk exposures.

I want to emphasize that Federal Reserve examiners will not criticize a bank based solely on unrealized losses in available-for-sale securities and the corresponding reduction in the tangible common equity ratio. Our examiners are expected to assign supervisory ratings that reflect a bank's current condition and the impact of unrealized losses on securities on the bank's liquidity, sensitivity to market risk, earnings, and capital. Further, examiners will consider whether risk management practices are adequate to address the elevated risks from unrealized losses in the securities portfolio. For example, a bank with a liability duration structure similar to its assets may not present a supervisory concern.

“Bankers need to have a sound understanding of the risks associated with large unrealized losses and, where applicable, negative tangible common equity.

Based on the results of off-site monitoring, examiners may reach out to bankers to better understand their risk management strategies. From a supervisory perspective, we expect that a bank's risk management practices are consistent with safe-and-sound risk management principles and evolve as conditions warrant.

In keeping with my commitment to transparency regarding our supervisory expectations, we recently held an Ask the Fed session to discuss our supervisory expectations for banks with falling bond portfolio values and declining or negative tangible common equity. If you missed this Ask the Fed session, a recording of it is available at www.askthefed.org. I also encourage you to reach out to your Reserve Bank point of contact who would be in the best position to address specific questions about your bank.

In closing, I look forward to seeing many of you at industry events throughout 2023. As always, I encourage you to contact me or our Federal Reserve staff to answer questions or to share your feedback and ideas. ■

View from the District

Second District Perspective — New York

Community Banking Innovation and Risk Management in the Second District

by Dianne Dobbeck, Head of Supervision, Supervision & Regulation, Federal Reserve Bank of New York

Dianne Dobbeck

The community bank landscape in the Federal Reserve's Second District reflects many of the thematic financial services issues we see across the United States, including increased competition, not only from traditional peer banks, credit unions, and large banks but also from financial technology ("fintech") companies and big technology firms providing banking services. Innovation, which is a key trend in banking, will be an ongoing area of focus among community banks as they work to remain competitive by introducing new products and services and adopting new technologies to make their data analyses and operating frameworks more efficient.

In this article, I reflect on notable developments in the banking industry, the impact on community banks, and the need for firms to maintain proper risk management to protect consumers and ensure the safety and soundness of the financial system. Banks innovate responsibly by understanding the ongoing changes to the way they do business and by establishing proper risk management frameworks and practices to keep up with emerging risks from new product offerings.

A New World — The Changing Banking Environment

How we bank is constantly evolving. Today, that evolution appears to be consumer focused, as firms make banking services more accessible and efficient through digitization. Consumers today are asking for faster banking services and more efficient products, all within a seamless omnichannel experience. Customers' desire to merge banking needs into their existing online ecosystems has piqued the interest of fintech and big tech companies, whose competitive advantage has been building out these very same digital ecosystems over the past few decades. Recently, fintech and big tech companies have more firmly moved into the banking arena, offering banking services such as credit cards, loans, and faster payments through the digital integration of virtual wallets and real-time transfers.

The increasing competitive pressure from tech companies entering the industry has pushed banks to improve their integrated digital offerings at an accelerated rate. Banks of all sizes recognize the need to innovate to retain customers and stay competitive. Community banks, in particular, have expressed concerns about their survival in the industry as they face increasing competitive pressure from nonbanks. Specifically, community banks may have relatively limited resources to invest in new technologies and innovation compared with their larger competitors who benefit from economies of scale and potentially a less structured regulatory framework. Many community banks also have noted difficulties in hiring and retaining expert talent, as they often cannot compete with their larger counterparts on salary, training, and location.

Community Banks Respond — Shifting Business Strategies

Today, community banks must respond to the changing environment by adapting, as they have in the past. In the last few years, community banks across the Second District have updated their strategic plans to emphasize investments in technology. In the Second District, we have observed community banks enhancing and modernizing their online banking platforms with services offered digitally, including corporate offerings, loan applications, and expanded real-time payment offerings. Community banks are also increasingly partnering with third-party vendors and fintech firms to boost operational efficiency and meet customer demand through technological innovation.

There are a few other notable developments among community banks in the Second District:

- First, community banks are upgrading their payments systems to support faster and more varied services for customers. They remain interested in providing real-time payment capabilities to their customers,[1] and this interest has only increased given rising customer demand for digital payment options.[2] To this end, our community banks view the launch of the FedNow Service[3] as a way to compete with the big banks and fintech firms entering the marketplace.
- Additionally, there is an emerging impetus for banks to explore crypto-asset services and products. For example, one bank in our District announced its partnership with digital-assets provider NYDIG to offer cryptocurrency products and services to its customers.[4]
- Finally, several banks and holding companies have established virtual banking platforms. A few of our District's community banks are partnering with nontraditional fintech companies to offer or expand banking-as-a-service (BaaS) operations. These are partnerships in which banks provide the back-office functions that support the financial products and services offered by fintech companies to the public.

Emerging Risks and Risk Management

As banks embrace and invest in digital products and services, they must also invest in proper risk management. Community banks need to understand how their shifting business strategies affect the safety and soundness of their operations and consumer protection. Specifically, banks should consider the following:

- As community banks embark on new partnerships with third-party service providers and fintech firms, they need to keep their risk management capabilities up to date. Prior to onboarding new partners, they may need to enhance their vendor due diligence frameworks to better understand their risk exposure and mitigate emerging risks from these new kinds of partnerships. They also should enhance continuous monitoring, accordingly. For instance, banks partnering with crypto providers should understand their exposure to the crypto market. Partnering with a crypto provider seemed to be promising and highly profitable a year ago but seems less so since cryptocurrencies have become more volatile as they experienced large swings in value (e.g., bitcoin) or crashed (e.g., terra). One community bank in the Second District was partnered with Voyager, the

[1] Tom Groenfeldt, "Community Banks Want the Federal Reserve to Create Real-Time Payments System — Fast," *Forbes*, January 29, 2019, available at www.forbes.com/sites/tomgroenfeldt/2019/01/29/community-banks-want-the-federal-reserve-to-create-real-time-payments-system-fast/?sh=5efe5c6e41a9.

[2] Eric Dotson, "Community Banks and the Adoption of Real-Time Payments," BankDirector.com, August 12, 2021, available at www.bankdirector.com/issues/technology/community-banks-and-the-adoption-of-real-time-payments.

[3] For more information, see www.federalreserve.gov/paymentsystems/fednow_about.htm.

[4] See "Five Star Bank and NYDIG Announce Partnership to Bring Safe and Secure Integrated Bitcoin Investment Services to Existing and Future Checking Account Holders," Five Star Bank, January 25, 2022, available at www.five-starbank.com/five-star-bank-and-nydig-announce-partnership-to-bring-safe-and-secure-integrated-bitcoin-.

> **Community banks are also increasingly partnering with third-party vendors and fintech firms to boost operational efficiency and meet customer demand through technological innovation.**

first crypto lender to file for bankruptcy. Voyager made false and misleading statements regarding its Federal Deposit Insurance Corporation (FDIC) deposit insurance status that led its customers to believe that it had FDIC protections.[5] This resulted in many customer complaints and created reputational risk to the bank. The lesson learned is that a bank should thoroughly understand and properly monitor for new market, operational, reputational, and financial risks arising from new partnerships. This is critical and remains a cornerstone of proper due diligence and risk management.[6]

- Additionally, as banks engage in new digital services and product offerings, they need to maintain the necessary technical expertise. In the Second District, community banks have reported difficulties in hiring experts knowledgeable in specialized fields and operations (e.g., crypto assets and cybersecurity operations). Community banks face a challenge in hiring and retaining qualified personnel because they often cannot compete on salary, training, and location. In turn, community banks are partnering with vendors to fill hiring gaps and provide the necessary expertise. This does not relieve bank management and the bank's board of the responsibility to thoroughly understand their products and the emerging risks to their banks and customers.

- Finally, relationship banking has historically been a strength among community banks. It allows smaller banks to thrive with fewer resources than those of their larger competitors. Technological innovation and digitization have the potential to alter the traditional approach to relationship banking as customers move beyond the traditional geographic footprint of the bank to a predominantly online presence. Community banks need to take the time to understand how customers' banking preferences will affect the community bank business model and how a bank's future operations and financial performance might be impacted. Moreover, in addressing these questions, a community bank will be in a better position to plan for its future and to assess the possible financial implications.

Regulators' Actions

The New York Fed is working to better understand the risk implications for supervised institutions adopting new products and innovative services. We are participating in Federal Reserve System-wide efforts and policy forums with other banking regulators to help inform the development of policies and regulatory frameworks to address the proliferation of technology innovation at banks and support appropriate risk management.

The Federal Reserve and other regulatory agencies have issued new guidance and resources to keep track of innovations and assist banks with these changes. Specifically, in 2022, the Federal Reserve issued Supervision and Regulation (SR) letter 22-6/Consumer Affairs (CA) letter 22-6, "Engagement in Crypto-Asset-Related Activities by Federal Reserve–Supervised Banking Organizations,"[7] which requests a bank to notify its lead

5 See the joint press release from the Federal Reserve Board and the FDIC at www.federalreserve.gov/newsevents/pressreleases/bcreg20220728a.htm.

6 See the Board press releases at www.federalreserve.gov/newsevents/pressreleases/bcreg20210827a.htm and www.federalreserve.gov/publications/community-bank-access-to-innovation-through-partnerships.htm.

7 SR letter 22-6/CA letter 22-6 is available at www.federalreserve.gov/supervisionreg/srletters/SR2206.htm.

Fed examiner about its activities related to crypto assets or plans to engage in such activities. The Federal Reserve also published a paper in 2021 describing the landscape of partnerships between community banks and fintech companies and best practices.[8]

New York Fed examiners continue to work with supervised institutions to ensure they are implementing safe risk management practices as their products, services, and operations evolve.

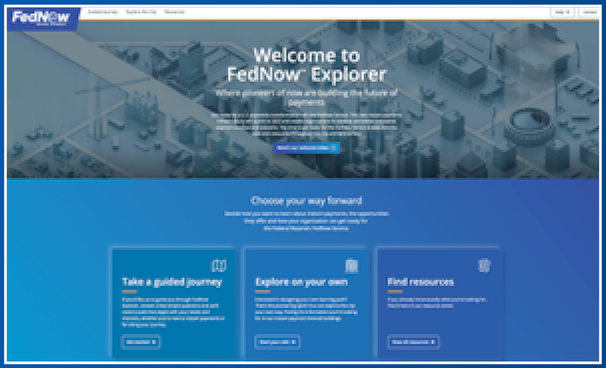
Conclusion

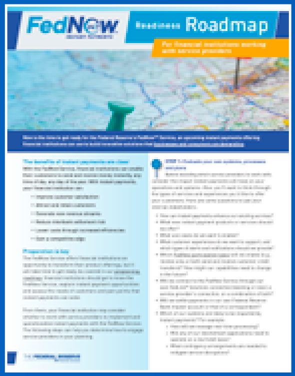
With more of their customers online today and new entrants in the banking industry, many community banks are exploring additional technological developments to remain competitive. In this evolving industry, it is essential that banks innovate responsibly, enhance their risk management frameworks to include new emerging risks, and work to understand the impact of their shifting corporate strategies on key elements of their business models.

[8] The paper, "Community Bank Access to Innovation Through Partnerships," is available at www.federalreserve.gov/publications/files/community-bank-access-to-innovation-through-partnerships-202109.pdf.

FedNow[SM] 24/7 INSTANT PAYMENTS

The FedNow Service is being developed by the Federal Reserve to enable financial institutions of every size, and in every community across America, to provide safe and efficient instant payment services around the clock, every day of the year. The FedNow Service will launch in mid-2023. Visit https://explore.fednow.org for information and resources.





Limited Liability Provisions in Audit Engagement Letters

by Robert Canova, Lead Financial Specialist, Supervision, Regulation, and Credit, Federal Reserve Bank of Atlanta, and Jennifer Grier, Senior Examiner, Supervision, Regulation, and Credit, Federal Reserve Bank of Atlanta

Community banks routinely engage external auditors for both audit and non-audit services, such as audits of pension plans, outsourced internal audits, or management consulting. Accounting specialists at the Federal Reserve and other regulatory agencies have noted an uptick in the use of limited liability provisions in external audit contracts (commonly referred to as "engagement letters") that raise safety and soundness concerns. Certain clauses intended to limit the external auditor's liability can also weaken the auditor's impartiality, objectivity, and performance, thereby reducing the ability of banking regulators and other agencies to leverage audit work when completing bank examinations.

Supervisory Guidance and Regulations

Recently, Federal Reserve community bank examiners have noticed an increase in usage of limited liability language in engagement letters. The long-standing safety and soundness concerns with this practice were raised in a joint advisory issued by the Federal Reserve and the other financial institutions regulatory agencies[1] in 2006. The advisory alert outlined in Supervision and Regulation (SR) letter 06-4, "Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters,"[2] does not cover all engagement letters with outside auditors. Rather, the advisory applies only to engagement letters for audits of financial statements, audits of internal control over financial reporting, and attestations on management's assessment of internal control over financial reporting.

The advisory alerts client financial institutions that it is unsafe and unsound[3] to enter into engagement letters with provisions that: (1) indemnify the external auditor against all claims made by third parties, (2) hold harmless or release the external auditor from liability for claims or potential claims that might be asserted by the client financial institution (other than claims for punitive damages), or (3) limit the remedies available to the client financial institution (other than punitive damages).

Additionally, Part 363 of the FDIC's regulations (12 CFR 363.5) states that financial institutions' audit committees have a duty to ensure that audit engagement letters, and any agreements with the independent public accountant, do not contain any "limitation of liability provisions" that indemnifies or holds harmless the accountant or limits remedies available to the financial institution.[4]

Accounting Guidance

Limited liability provisions are also addressed by the American Institute of Certified Public Accountants (AICPA), which sets ethical standards for the accounting profession and U.S. auditing standards for private companies, nonprofit organizations, and federal, state, and local governments. Under the "Interpretations Under the Acts Discreditable Rule" section of its Code of Professional Conduct, the AICPA states that the existence of indemnification and limitation of liability provisions in engagement letters with a regulated

[1] The advisory was issued by the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration, the Office of the Comptroller of the Currency, and the former Office of Thrift Supervision.

[2] SR letter 06-4 is available at www.federalreserve.gov/boarddocs/srletters/2006/SR0604a1.pdf.

[3] See 12 CFR Part 208, Appendix D-1.

[4] "The audit committee shall ensure that engagement letters and any related agreements with the IPA [independent public accountants] for services to be performed under this part do not contain any limitation of liability provisions that: (i) Indemnify the IPA against claims made by third parties; (ii) Hold harmless or release the IPA from liability for claims or potential claims that might be asserted by the client insured depository institution, other than claims for punitive damages; or, (iii) Limit the remedies available to the client insured depository institution."

financial institution disqualifies an AICPA member from rendering audits to that financial institution.[5]

Due Diligence and Audit Committee Oversight

As outlined in SR letter 06-4, the financial institution's board of directors, management, and audit committee should not enter into any agreement that incorporates limited liability provisions. Accordingly, a financial institution's audit committee should review applicable supervisory guidance and regulations prior to agreeing to the terms of an audit engagement. Further, a financial institution should be able to explain to Federal Reserve supervisory staff the rationale for agreeing to any other provisions that limit the legal rights of the institution.

5 See American Institute of Certified Public Accountants Code of Professional Conduct > Part 1 – Members in Public Practice > 1.400 Acts Discreditable > Interpretations Under the Acts Discreditable Rule > 1.400.060 Indemnification and Limitation of Liability Provisions; available at https://bit.ly/3XmBPgX.

NEW TECHNOLOGY PLATFORM FOR THE FEDERAL RESERVE'S BANK APPLICATION FILERS

FEDEZFILE™

The Federal Reserve recently replaced its E-Apps bank application filing system with a new, upgraded system, FedEZFile. As of October 17, 2022, users were able to register for FedEZFile and access the associated information resource site, FedEZFile Fluent. With FedEZFile now live, users can no longer access E-Apps. All pending applications filed prior to October 17, 2022, have been transferred to FedEZFile for continued processing.

While the substantive requirements of the application process remain the same, the new system is designed to provide an intuitive filing experience and minimize paper applications and communications. Through FedEZFile, Federal Reserve System staff are able to electronically deliver official and related correspondence. Users with an authorized account can upload and access relevant documents, view and download Federal Reserve–generated documents, and identify Federal Reserve staff assigned to the filing. FedEZFile is available at http://fedezfile.org/.

To assist FedEZFile users, the Federal Reserve has developed a companion learning resource, FedEZFile Fluent, that provides written and video guidance on how to register for, access, and use the new system. It is available at http://fluent.fedezfile.org/.

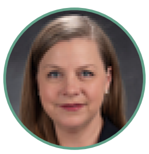
SR letter 22-9/CA letter 22-8, "FedEZFile and FedEZFile Fluent to Be Released for Filing Applications with the Federal Reserve," provides additional information and answers to frequently asked questions and is available at www.federalreserve.gov/supervisionreg/srletters/sr2209.htm.

ask the Fed A Discussion of Unrealized Losses at Community Banks in a Rising Interest Rate Environment

On December 16, 2022, the Federal Reserve held an Ask the Fed session that addressed the Federal Reserve's supervisory posture for community banks with falling bond portfolio values and declining or negative tangible common equity (TCE). There was significant interest in this topic — over 3,000 individuals attended the session.

While many banks are positioned to benefit from the environment of rising interest rates, some banks are reporting sizable unrealized losses on the fair value of their available-for-sale securities, resulting in lower or negative TCE. While unrealized losses generally do not flow through to banks' regulatory capital, banks should be aware of the potential impact of negative TCE. Banks with large unrealized losses could experience liquidity and funding challenges, earnings pressures, and capital concerns.

Governor Michelle W. Bowman kicked off the discussion about the spectrum of risks, encouraging bankers to evaluate their risk management practices as conditions evolve. Senior Vice President Tara Humston and Managing Examiner Brett Leavell, both of the Federal Reserve Bank of Kansas City, discussed the Federal Reserve's supervisory approach for a bank with declining or negative TCE. While supervisory processes are not changing, the presenters reminded bankers with low or negative TCE that they should review and update, as appropriate, liquidity and interest rate risk management practices and their capital planning. Presenters also pointed out that there are differences between GAAP accounting and regulatory capital.



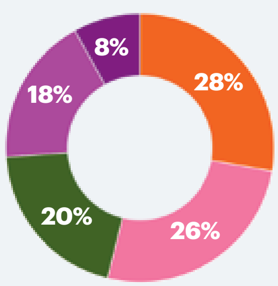
Michelle W. Bowman
Governor
Board of Governors

Tara Humston
Senior Vice President
Federal Reserve Bank of Kansas City

Brett Leavell
Managing Examiner, Supervision and Risk Management
Federal Reserve Bank of Kansas City

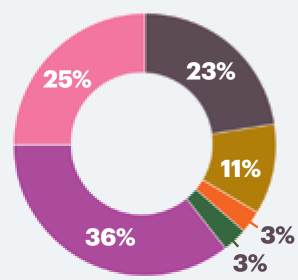
During the session, the audience responded to optional polling questions about their views on the challenges posed by rising rates. *Community Banking Connections* readers may be interested in the responses to the following two polling questions:

What do you consider to be the most significant implication of declining or negative TCE for your institution?



- No issue anticipated
- Challenges in renewing or obtaining funding
- Net interest margin compression
- Having to sell securities at a loss to meet liquidity needs
- N/A or unsure

What is your bank currently doing to address declining or negative TCE?



- Enhancing liquidity and interest rate risk management processes
- Incorporating these risks into the capital planning process
- Having discussions with accountants
- Having discussions with examiners
- All of the above
- N/A or unsure

If you missed the session, a recording of the presentation and a handout are available at www.askthefed.org.

New Governors Assigned to the Board's Subcommittee on Smaller Regional and Community Financial Institutions

In 2011, the Federal Reserve Board established the Subcommittee on Smaller Regional and Community Financial Institutions. The subcommittee provides leadership over the Federal Reserve's policies and supervisory program for community and smaller regional banks. A key role of this subcommittee is to review policy proposals and identify potential regulatory and safety and soundness implications for smaller institutions. Currently, Governor Michelle W. Bowman serves as the subcommittee chair. In September, the Board assigned **Governor Lisa D. Cook** and **Governor Philip N. Jefferson** to serve as subcommittee members. Here's an opportunity for *Community Banking Connections* readers to get to know them better.

Governor Lisa D. Cook

Governor Cook joined the Board on May 23, 2022, filling an unexpired term ending January 31, 2024. Governor Cook was previously a professor of economics and international relations at Michigan State University. Earlier in her career, Governor Cook served as a senior economist on the Council of Economic Advisers under President Barack Obama. Her other past positions include senior adviser on finance and development in the U.S. Department of the Treasury's Office of International Affairs and research associate at the National Bureau of Economic Research.

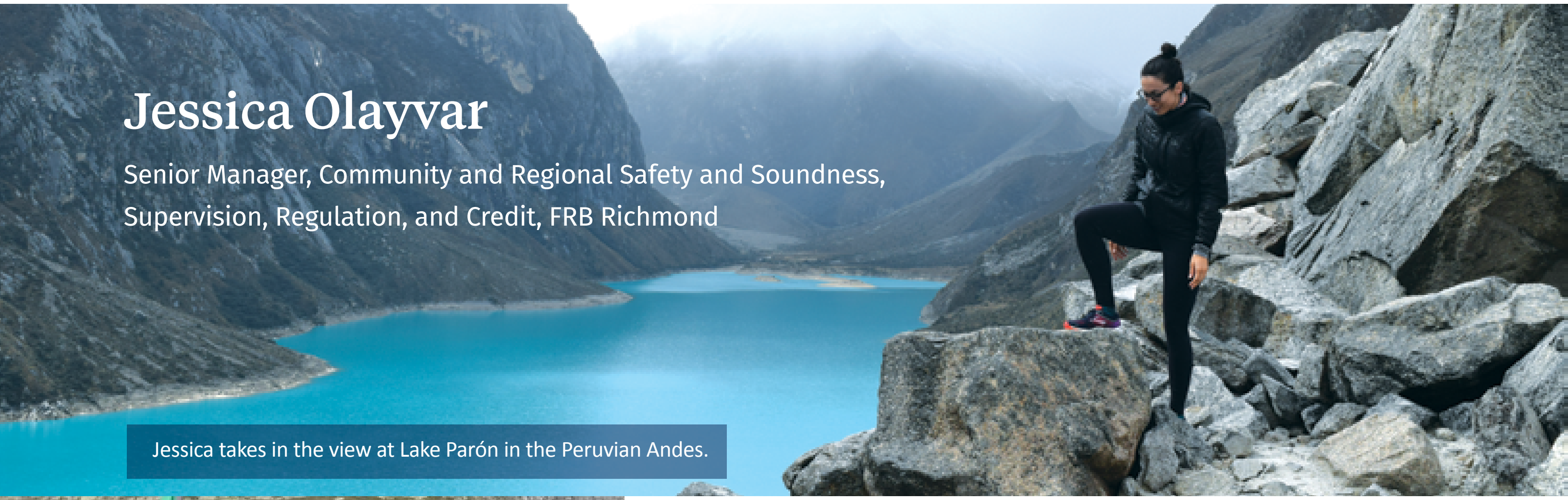
Governor Philip N. Jefferson

Governor Jefferson joined the Board on May 23, 2022, filling an unexpired term ending January 31, 2036. Most recently, Governor Jefferson was vice president for academic affairs and dean of faculty and the Paul B. Freeland Professor of Economics at Davidson College. Before that, Governor Jefferson served as chair of the Department of Economics at Swarthmore College, where he was the Centennial Professor of Economics. Governor Jefferson also was an economist at the Board. His other past roles include president of the National Economic Association, member of the Vassar College Board of Trustees, and member of the Board of Advisors of the Opportunity and Inclusive Growth Institute at the Federal Reserve Bank of Minneapolis.

2022 Writers' Cohort

Meet a Cohort Member

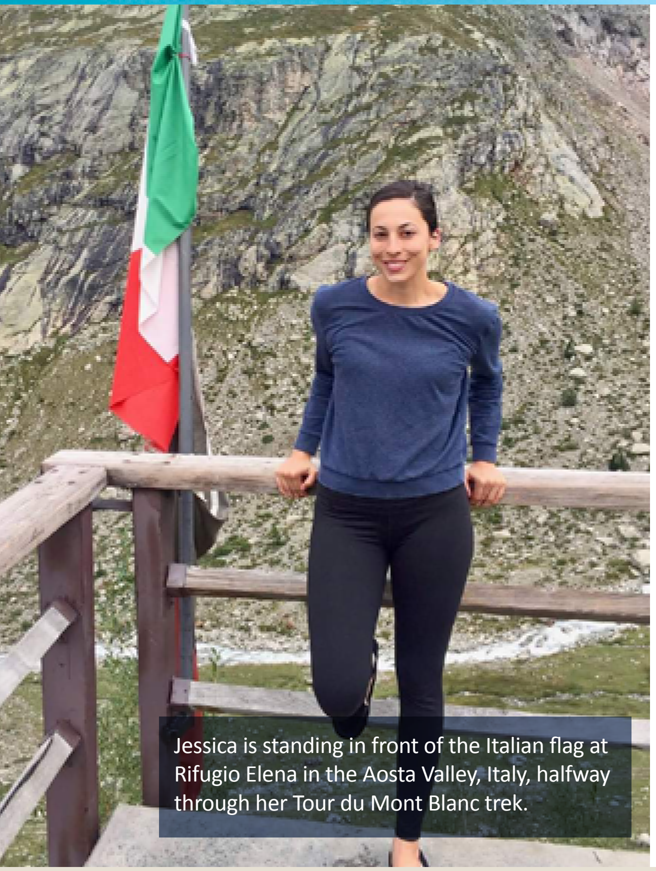
In this issue, Jessica Olayvar discusses how an internship helped guide her career path to the Fed, how researching topics is her favorite part of the writing process, and which mountain she would love to climb and check off her bucket list.



Jessica Olayvar

Senior Manager, Community and Regional Safety and Soundness, Supervision, Regulation, and Credit, FRB Richmond

Jessica takes in the view at Lake Parón in the Peruvian Andes.



Jessica is standing in front of the Italian flag at Rifugio Elena in the Aosta Valley, Italy, halfway through her Tour du Mont Blanc trek.

How did you start your career with the Fed? What brought you here?

During my junior year of college, I took a money and banking class that first introduced me to the Federal Reserve. When I saw an assistant community bank examiner summer internship at the Richmond Fed, I applied right away. I started the summer without really understanding what examining meant and ended my time with a newfound appreciation for community banks and the Fed's mission. I absolutely loved my internship and was fortunate enough to land a full-time role here upon graduation. I've been here for 6.5 years now!

What inspired you to get involved with the Writers' Cohort?

A couple of my colleagues joined the cohort a few years ago and always spoke highly about the team and writing process. I loved the idea of a publication that dug into topics or risks we had been discussing internally and shared them with our bankers. When the cohort started accepting applications in 2021, I jumped at the opportunity. I've really enjoyed my time on the cohort and the opportunity to explore new topics, work with colleagues from across the System, and hone my research and writing skills.

You've been extremely prolific and have written several articles for *Community Banking Connections*. What drew you to certain topics? What do you like about the writing experience?

I think prolific is definitely a generous term. My favorite article thus far was my first, "The Case for the Community Banking Business Model: Lessons Learned from COVID-19" (Second Issue of 2022). This one felt special because, as an examiner, I saw firsthand the challenges and uncertainty our bankers faced in those early months of COVID-19. I loved taking a step back and sharing the success and impact of their actions during that time.

I've loved writing since I was a kid, although the articles I'm writing today are different than the short stories I used to make my parents read. My favorite part of the writing process is the research. I really enjoy reading papers and news articles and talking with subject matter experts to find a common thread worth exploring. Once I've done the research, I'll create a rough outline and make a bulleted list of the main points I want to hit. Then I wait for inspiration to strike!

If you weren't working at the Fed, what would be your next career choice?

I changed my college major a million times but finally settled on mathematics and economics. Before I knew I'd be at the Fed, I was seriously exploring graduate school. It sounds corny — but I had some math professors that changed my life by making me realize that I could do hard things and be held to very high standards. I thought if I became a math professor, I could help change the negative relationship so many students have with the subject and maybe inspire a few in the same way.

Have you ever completed anything on your bucket list? If so, what was it?

Before my daughter was born in 2020, my husband and I took several amazing trips — Vietnam, Peru, and India. Our favorite, though, was completing the Tour du Mont Blanc, a 100-mile hike around Mont Blanc that goes through France, Italy, and Switzerland. It's the only trip that has given me the "post-vacation blues." We are hopeful that my daughter enjoys (or at least tolerates) hiking and travel so that we can do more adventurous things as a family of three. Here in Richmond, we're close enough to the Appalachian Trail to get in some day and overnight hikes. Wales has a path that spans its entire coastline — we'd love to do part of it. My biggest future bucket list item, which may be on hold for a decade or two, is climbing Mount Kilimanjaro.

What fact about your current life would impress your five-year-old self?

Probably that, contrary to what I thought adulthood would be like, I don't eat candy and ice cream for breakfast, and I try to eat my vegetables. Also, my parents were right about (almost) everything.

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Kerri Allen, SRM Manager, Examinations & Inspections, FRB Kansas City

Cohort Advisor:

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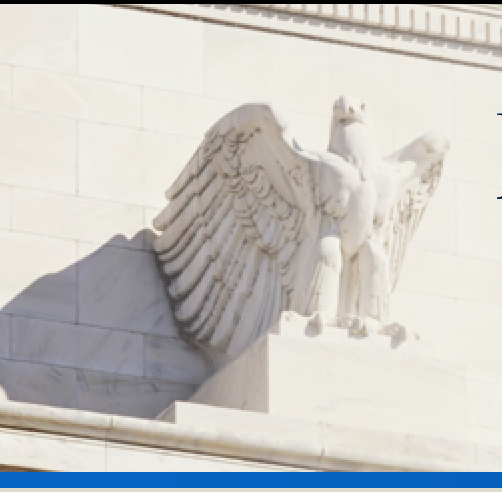

D.C. UPDATES

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. All the Federal Reserve Board's rulemakings, press releases, testimonies, speeches, and policy statements can be found on the Board's website.

Visit www.federalreserve.gov.

ACTIONS

Actions Related to Safety and Soundness and Consumer Policy

On December 15, 2022, the Federal Reserve issued revised Federal Debt Collection Practices Act examination procedures. Refer to Consumer Affairs (CA) letter 22-9, available at www.federalreserve.gov/supervisionreg/caletters/caltr2209.htm.

In conjunction with semiannual testimony before Congress by Vice Chair for Supervision Michael S. Barr, the Federal Reserve released the November 2022 report on banking conditions and the Federal Reserve's supervisory and regulatory activities. The report is available at www.federalreserve.gov/publications/files/202211-supervision-and-regulation-report.pdf.

The Federal Reserve and the Consumer Financial Protection Bureau announced the dollar thresholds used to determine whether certain consumer credit and lease transactions in 2023 are exempt from Regulation Z (Truth in Lending) and Regulation M (Consumer Leasing). The October 13, 2022, press release is available at www.federalreserve.gov newsevents/pressreleases/bcreg20221013b.htm.

Other Board Actions and Releases

On January 3, 2023, the Federal Reserve and the other federal banking agencies issued a statement highlighting key risks for banking organizations associated with crypto assets and the crypto-asset sector and describing the agencies' approaches to supervision in this area. The joint press release is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20230103a.htm.

On October 6, 2022, the Federal Reserve announced the release of FedEZFile and FedEZFile Fluent for financial institutions, their authorized representatives, and other key stakeholders to file applications with the Federal Reserve. Refer to Supervision and Regulation (SR) letter 22-9/CA letter 22-8, available at www.federalreserve.gov/supervisionreg/srletters/sr2209.htm.

TESTIMONY

On November 15, 2022, Vice Chair for Supervision Michael S. Barr testified before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate and, on November 16, 2022, before the Committee on Financial Services, U.S. House of Representatives. His remarks are available at www.federalreserve.gov/newsevents/testimony/barr20221115a.htm.

SPEECHES

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

Governor Christopher J. Waller gave a speech at Digital Currencies and National Security Tradeoffs, a symposium presented by the *Harvard National Security Journal*, Cambridge, MA, on October 14, 2022. His speech, titled "The U.S. Dollar and Central Bank Digital Currencies," is available at www.federalreserve.gov/newsevents/speech/waller20221014a.htm.

Governor Michelle W. Bowman gave a speech at the Money Marketeers of New York University, New York, on October 12, 2022. Her speech, titled "Forward Guidance as a Monetary Policy Tool: Considerations for the Current Economic Environment," is available at www.federalreserve.gov/newsevents/speech/bowman20221012a.htm.

Vice Chair Lael Brainard gave a speech at Shocks and Aftershocks: Finding Balance in an Unstable World 64th National Association for Business Economics Annual Meeting, Chicago, on October 10, 2022. Her speech, titled "Restoring Price Stability in an Uncertain Economic Environment," is available at www.federalreserve.gov/newsevents/speech/brainard20221010a.htm.

Governor Christopher J. Waller gave a speech at the Mark C. Berger Workshop Series, University of Kentucky, Lexington, KY, on October 6, 2022. His speech, titled "The Economic Outlook with a Look at the Housing Market," is available at www.federalreserve.gov/newsevents/speech/waller20221006a.htm.

Governor Philip N. Jefferson gave a speech at Technology-Enabled Disruption: Lessons from the Pandemic and the Path Ahead, a conference organized by the Federal Reserve Banks of Atlanta, Dallas, and Richmond, on October 4, 2022. His speech, titled "Technology's Impact on the Post-Pandemic Economy," is available at www.federalreserve.gov/newsevents/speech/jefferson20221004a.htm.

Vice Chair Lael Brainard gave a speech at Financial Stability Considerations for Monetary Policy, a research conference organized by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York, New York, on September 30, 2022. Her speech, titled "Global Financial Stability Considerations for Monetary Policy in a High-Inflation Environment," is available at www.federalreserve.gov/newsevents/speech/brainard20220930a.htm.

Governor Christopher J. Waller gave a speech at the 17th Annual Vienna Macroeconomics Workshop (2022), Vienna, Austria, on September 9, 2022. His speech, titled "The Economic Outlook: Time to Let the Data Do the Talking," is available at www.federalreserve.gov/newsevents/speech/waller20220909a.htm.

Other Speeches

Governor Michelle W. Bowman gave welcoming remarks at Toward an Inclusive Recovery, a research seminar sponsored by the Board of Governors of the Federal Reserve System (via webcast), on October 20, 2022. Her remarks and video are available at www.federalreserve.gov/newsevents/speech/bowman20221020a.htm.

Vice Chair for Supervision Michael S. Barr gave a speech at D.C. Fintech Week, Washington, D.C., on October 12, 2022. His speech, titled "Managing the Promise and Risk of Financial Innovation," is available at www.federalreserve.gov/newsevents/speech/barr20221012a.htm.

Chair Jerome H. Powell gave welcoming remarks at the 2022 Community Banking Research Conference, sponsored by the Federal Reserve, the Conference of State Bank Supervisors, and the Federal Deposit Insurance Corporation, St. Louis (via pre-recorded video), on September 28, 2022. His remarks and video are available at www.federalreserve.gov/newsevents/speech/powell20220928a.htm.

Governor Michelle W. Bowman gave a speech at the 2022 Community Banking Research Conference, sponsored by the Federal Reserve, the Conference of State Bank Supervisors, and the Federal Deposit Insurance Corporation, St. Louis, on September 28, 2022. Her speech, titled "The New Landscape for Banking Competition," and video are available at www.federalreserve.gov/newsevents/speech/bowman20220928a.htm.

Additional information can be found on the FFIEC's Cybersecurity Awareness web page, which is available at www.ffiec.gov/cybersecurity.htm.

Updated Cybersecurity Resource Guide Is Now Available

The Federal Financial Institutions Examination Council (FFIEC) recently released an update to its Cybersecurity Resource Guide for Financial Institutions, which was first issued in October 2018. The 2022 guide provides resources that financial institutions may wish to consider when developing control objectives and processes to respond to cyber incidents. For instance, the guide includes specific resources for responding to a ransomware threat. The guide is available at https://www.ffiec.gov/press/pdf/FFIECCybersecurityResourceGuide2022ApprovedRev.pdf.

FEDERAL RESERVE SYSTEM

COMMUNITY BANKING CONNECTIONS

A SUPERVISION AND REGULATION PUBLICATION

2022 Year-End Message from Governor Bowman

Fourth Issue 2022

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