<u>Record of Meeting</u>

Community Depository Institutions Advisory Council
and the Board of Governors
April 7, 2022

1. **Economic Discussion:**

   a. ***Overall Economic Conditions:*** *How do Council members assess overall economic conditions in their regions?*

Council members reported a more pessimistic outlook on economic conditions primarily due to the continuing rise in inflation and ongoing supply chain challenges, which have persisted in both urban and rural areas. Skyrocketing inputs, equipment, and labor costs across all industries have also contributed to the weakened conditions. Council members observed that the less well-off are suffering the most in the higher-inflation environment, particularly due to the rising costs of food, energy, shelter, and transportation. The labor shortage has been exacerbated by the vast number of car-dependent workers who are unable to get to work because they cannot afford to purchase a car or make necessary repairs to a car they own.

The tourism sector was touted as strong, and Council members reported full summer bookings on the Carolina coast and in northern New England. Council members expect that the labor shortage will be a headwind for the hospitality sector, though pent-up demand for travel is still robust despite increased lodging costs and rising gas and rental car prices, the

Supply chain disruptions are hammering inventories and have caused businesses to hoard inputs as uncertainty takes hold. One Council member described just-in-time inventory management as "dead." In the Eighth District, an anecdote was shared about a farm estate sale that led to a fierce auction over used farm equipment, highlighting that orders for new equipment are often backed up for more than a year.

All Council members described the tight labor market as a serious problem in their Districts and in their own institutions. Competition for talent coupled with significant inflation overall has led to rapidly rising wages, resulting in current employees demanding to be made whole. Some Council members commented that they were skeptical as to whether institutions would be able to provide 100% cost-of-living adjustments to their employees, while other members remarked that the institutions may not have a choice if inflation continues on its current course. Council members reported that businesses have been adjusting to the lack of labor by limiting hours and cutting services, with one Council member suggesting that such adjustments may be necessary at their own bank.

Council members across all districts noted that economic conditions have not impacted only low- and moderate-income individuals, but also individuals categorized as "asset limited and income constrained," with the latter "getting squeezed."

b. Particular Indicators:

i. <u>Inflation</u>: Are the prices of products and services rising (or declining) more or less quickly than in the recent past? Are the prices for the products and services Council members purchase rising more or less quickly?

Council members reported significant inflation and overall pessimism about future inflationary expectations in their Districts. Labor shortages and supply chain issues remain and have worsened in recent weeks. Districts in the Midwest have reported major increases in the price of inputs for farming operations, including fertilizer and fuel for equipment and heating. Farmers operate on thin margins, and the price increases are expected to ripple over time. The lower use of fertilizer by farmers, and resultant depleted soil, could lead to a lower yield this season and next. Council members from a few Districts described that in response to supply constraints, farmers were having to change their crop selections—for example, shifting from corn to soybeans because soybeans require less fertilizer.

Price inflation of durable goods, from housing and automobiles to farm equipment, was observed by every Council member. Supply shortages of new units have driven up the cost of used units. For example, low inventories of new vehicles have increased the demand for used vehicles—which are often selling above the list price in some regions. Council members have also observed the effects of secondary inflation. For example, in the oil sector, businesses are experiencing a shortage of drilling components, which has made drilling for oil far more difficult.

The Council reported that businesses have been stocking up on input supplies to rebuild their inventories. Council members also reported changes being made in contracts, such as homebuilders not being able to lock in construction rates until they can be certain of material prices.

ii. <u>Housing</u>: How have home prices changed in recent months? Have there been any changes in overall housing activity in Council members' Districts?

Council members generally reported that housing prices continued to rise. In the Second District, for example, average housing costs have increased by 20% in the last two years. Inventory of homes remains low, while the competition for home purchases remains high. Homebuyers are also feeling more pressure to purchase homes now before mortgage rates rise further. Meanwhile, housing rental prices are increasing as rising home prices shifts demand toward the rental market.

While there is strong demand for new homes, labor and supply shortages are leading homebuilders to take on fewer projects. In a town in the First District, the housing shortage is so acute that it is causing staffing problems at the local hospital. Other Council members mentioned that the housing shortage (1) has made it more challenging to retain staff at their banks and (2) is driving up wage costs. In the First District, in northern Vermont, northern New Hampshire, and Maine, workers that fled the cities and moved to the country affected the housing market in those areas, as housing prices in those small towns rose. But as employers call workers back to the office, those workers are now beginning to filter back, which raises the risk of a small town housing bubble. While the great recession of 2007-08 saw bubbles in big urban areas, this time around the risk exists in more rural parts of the country, many of which might not have seen any material price changes in the decades prior to the pandemic. Meanwhile, some areas in the Tenth District are facing construction halts due to new construction exceeding the capacity of municipal infrastructure.

iii. <u>*Labor Markets*</u>*: How have the labor markets in which Council members operate changed in recent months? In particular, please assess the degree of job loss or gain (and, in which industries). Please comment on the changes to wages that Council members have observed over the past year.*

All Council members reported serious labor shortages and fierce competition for talent in their Districts. While some Council members hoped that the end of government support programs would result in an uptick in labor availability, others reported continued labor issues occurring in states that had withdrawn from government unemployment support earlier in 2021. There is broad consensus on the Council that labor supply constraints remain in the child and eldercare sector in particular. In the Tenth District, childcare availability has decreased 10% since 2019, making it more difficult for some parents to join—or rejoin—the workforce. In the Second District, the reopening of schools full time helped to relieve childcare labor constraints, but the market remains tight. In the Ninth District, where only 75% of jobs lost due to the pandemic have recovered, labor shortages remain acute.

Council members noted that businesses in the hospitality sector are struggling to find workers to staff their hotels and restaurants, even as the summer travel season is ramping up with full bookings. This is particularly a concern for regions, such as the First and Fifth Districts, that rely on tourism. Tighter immigration policy has been a key factor in reducing supply in the labor market, and while some changes are being instituted, the gap is not close to being filled.

All Council members reported struggles to retain talent in their own institutions, particularly in roles with specialized skillsets, such as compliance. Even at the teller level, Council members reported serious competition for talent, with one Council member mentioning that in just two years, they had raised the teller wage from $15 per hour to more than $20 per hour—yet they still struggle to find talent. Council members do not expect they will be able offer wages that fully keep up with inflation this year, and as a result, institutions are looking to other benefits or value propositions to retain talent. For example, allowing workers to work remotely reduces their transportation costs but does not increase direct costs for the employer.

The First District reported challenges not only with rising wages, but also with the rising cost of healthcare benefits for employees. Early retirements are also affecting institutional staffing, though one Council member reported that some early retirees were postponing retirement because they are uncertain of the stability of their retirement portfolios. Council members agreed that automation will be vital in bridging the gap, as there appears to be no end in sight to the labor shortage.

iv. <u>Consumer Confidence</u>: *Are Council members seeing any signs of improved (or declining) consumer confidence? What is the outlook for consumer credit losses?*

Council members reported that consumers are still spending, but inflation is affecting who is and who is not doing the spending. Consumers that are still flush with savings after the pandemic are driving the spending, while those that have been deeply impacted by the pandemic continue to struggle under the weight of inflation. Several Council members noted the gap has gotten worse, as inflation is eating up more of low- and moderate-income individuals' incomes just for necessities.

Consumer confidence is lower due to uncertainty in the marketplace. Consumers are unsure about a) what will be available to buy and b) the price at which it will be sold. Consumer credit quality has generally remained strong with little or no change in delinquencies, but the risks consumers face is not homogeneous. For instance, a data point was shared that households in the bottom 10-20% spend more than 40% of their income on food and energy, compared to households in the top 10%, which spend less than 10% of their income on food and energy.

2. **Current Banking Conditions:** *What is the Council's view of the current condition of, and the outlook for, loan markets and financial markets in general? Please describe any significant changes in the creditworthiness of applicants for loans, loan demand, underwriting, and lending standards in general.*

Overall, the condition of, and outlook for, loan and financial markets is mostly stable, but there are concerns over the long term given current economic conditions. General lending standards have been neutral for banks and consumers.

a. ***Small Business Lending:*** *Has credit availability for, and demand for credit from, small businesses changed significantly? Have lending standards for these borrowers changed? Do Council members see evidence that the pandemic is slowing economic activity in this sector?*

Business lending demand has improved across most Districts but it has varied by sector. Several Council members reported that there has been an increase in business lending despite the end of PPP loan programs. Banks have remained competitive for loans by altering terms and accepting reduced spreads. Although some businesses are struggling with labor shortages, inflation, and pandemic-related stresses, new businesses are continuing to open as entrepreneurs leverage their excess liquidity.

In the current environment, small businesses such as warehousing have thrived, and lending in other related industries has been strong. Warehouse demand has increased significantly because manufacturers are stocking up in anticipation of rising prices and inventory constraints. The First District reported that several businesses are requesting loans for machinery and automation to address labor shortages.

Council members expressed concerns about the impact of inflation on the small business sector. Several Council members reported more caution in underwriting and have started stress testing for economic events. The Third District reported that some institutions are using 2019 financials for underwriting because some industries have been doing unusually well due to the pandemic, and it is unclear whether the growth will continue in the long term

b. ***Commercial Real Estate Lending:*** *Have there been any changes in the Council's view of challenges in the commercial real estate market since the Council's last meeting in November 2021? How are commercial real estate loans performing compared to the Council's expectations?*

Council members reported a mostly solid commercial real estate (CRE) market. So far, the Council has not seen any indication of a downturn in the CRE market due to the shift toward remote work, even among some of the larger cities such as New York. The anticipated impact to CRE because of remote work policies has not yet transpired. However, some pockets of the country—such as urban areas in the Ninth District—are seeing higher vacancy rates. In the Second District, some CRE is being converted into residential real estate.

Several Districts reported that competitive pressures are rising. While those pressures have not led to material changes in lending standards, some Districts reported a greater number of loan modifications—such as longer interest-only and fixed-rate periods—have been made at the request of borrowers.

One Council member expressed concern about competition from the SBA's COVID-19 Economic Injury Disaster Loan (EIDL) program, which offers loans for a 30-year term at a 3.75% fixed rate that has subsidized pay off of bank loans at terms which banks could not prudently match.

c. ***Construction Lending:*** *What are Council members' perspectives on the availability of credit for construction and development projects? Have Council members seen any changes in the demand for construction loans since the Council's November 2021 meeting?*

Many Districts reported that construction lending has slowed. While Council members expressed a desire to lend, supply chain issues, prolonged project timelines, and the inability to project budgets up-front have all created challenges for construction lending.

The Seventh District reported that construction rates cannot be locked in until there is a signed and sealed contract, but contractors are unwilling to sign because of the volatility in material costs. One Council member noted that more experienced borrowers are navigating these challenges well, but less experienced borrowers could face issues in the future.

Many Council members expressed concern that community banks are expected to be willing to accept lower spreads on loans given the excess liquidity in the banking system and the need for banks to stay competitive. Lowering underwriting standards in the current economic environment seems unwise.

d. ***Home Mortgage Lending:*** *What changes have Council members seen in the mortgage market? How, if at all, is regulation impacting the participation of community depository institutions in this market?*

Mortgage lending has slowed across most Districts as high rates have curtailed the refinance business and purchase mortgage volume has declined. The Tenth District noted that home purchasing levels are back to 2019 levels. However, Council members reported that rising interest rates are not dampening demand—instead, low inventory and rising prices are squeezing out buyers and tightening the market. One Council member noted that to keep up with demand in their region, 10,000 new houses need to be built by 2030—yet only about 2,500 had been built over the prior decade. Council members expect that despite rising interest rates, potential buyers will continue to apply for loans, and in response banks will need to manage underwriting carefully.

e. No Districts reported a change in the impact regulation is having on their participation in the housing market. ***Consumer Lending:*** *What changes have Council members seen in consumer lending? Please comment specifically on credit card and auto lending.*

Consumer loan demand is improving across Districts, but it has varied by product type. Most Districts reported an increase in credit card usage, although consumers are still curbing their spending habits due to economic uncertainty. The Sixth District noted an increase in dollar volumes but not in the number of transactions The Second District noted an increase in unsecured and short-term loans akin to 2019 levels.

Auto lending remains strong. The Tenth District reported that credit unions are swamped with auto loans, while the Second District mentioned that the increase in the dollar amount of used car loans was driven by high prices due to low inventory and was not a result of the volume of loans.

One Council member noted an increase in HELOC loans. The members also noted a concern over appraisal values potentially reflecting inflated values.

f. ***Agricultural Lending:*** *Have there been any changes in agricultural lending?*

Council members reported a higher demand for land and rising land values, but there is less farmland loan activity. Multiple Districts noted that farmers were less reliant on traditional financial institutions in 2021 and instead turned to Farm Credit, insurance companies, and other investors.

By contrast, agricultural production loan demand remained strong, driven in part by rising input costs. A Council member from the Ninth District noted that there is strong demand to take out equipment lines but, due to equipment shortages, use of the lines has not been strong.

The invasion of Ukraine also is going to create volatility in commodity prices. While commodity prices are rising, thus far they are not increasing enough to offset increasing input costs, which are putting pressure on farmers' margins.

g. ***Deposits****: What changes have Council members seen in local deposit markets? Describe these changes by segment (retail, small business, and corporate). What are Council members' expectations with respect to deposit levels?*

All Districts reported continued availability of deposits, and Council members noted that managing excess liquidity continues to be an issue for their institutions. Members have been challenged to deploy these funds effectively. Council members also remarked that elevated deposit levels are not expected to decrease anytime soon.

Council members reported that deposits are coming from existing customers, both consumer and business accounts. Many business customers are still sitting on their cash because of the uncertain economic climate. Some businesses that received a PPP loan are saving the funds in an abundance of caution. Consumer account balances remain high, as many are holding onto cash because of changes in spending behavior after the pandemic, as well as uncertainty about the future of the economy.

h. ***Mergers and Acquisitions Activity****: What trends are Council members observing with respect to mergers and acquisitions among depository institutions and their holding companies?*

The Third and Fifth Districts noted credit union purchases of banks, while the Eleventh District reported more credit union mergers. Increasing regulatory costs, technology costs, and rate pressure are helping drive merger and acquisition activity. The Third District reported that banks in their region are brainstorming creative ways to help each other manage these growing costs in ways that would not otherwise affect their ability to compete.

One Council member noted that the motivations for M&A decisions have changed. Prior to the pandemic, an institution with a healthy deposit base would be considered an attractive target for acquisition. In the current environment, active acquirers are more interested in institutions with unique fee structures, unique business models, and other value propositions.

Some Council members reported that they had closed more branches during the pandemic. In many Districts where community banks might be closing branches, bigger banks have been opening new ones, though there are parts of the country where bigger banks have a limited presence.

3. ***Central Bank Digital Currency***. *On January 20, 2022, the Federal Reserve issued a report assessing the potential benefits and risks of creating a U.S. central bank digital currency (CBDC). Does the Council recommend that the Federal Reserve play a role in providing and overseeing a digital version of the dollar? If so, what role does the Council recommend? From the Council's perspective, what are the most significant opportunities and risks that a domestic CBDC could pose to the effective and efficient functioning of the payment system?*

The Council had a robust discussion on the opportunities and risks that the implementation of a CBDC would have on the communities they serve as well as on the broader U.S. economy. The CDIs stressed the importance of this issue, with one member declaring that this was the single most important issue for the future of community banking. Because it has the potential to fundamentally change our financial system, a CBDC could undermine the important role that community institutions play in driving economic growth in their communities.

Despite the importance of this debate, the Council noted that there is still confusion in the market around what a CBDC is. One Council member mentioned that the more participants from their district learned about the topic, the more concerns they had about CBDC. The group appreciated the Federal Reserve's discussion paper and the open and transparent process that the Federal Reserve has undertaken. Council members also noted that as discussions move forward, it is critical that community institutions have a seat at the table. Given the importance of this debate, the group also felt that before moving forward with issuing a CBDC, it was important that (1) the objectives of a CBDC be clearly articulated, (2) a practical outline be established of how a CBDC might be used, including analysis of a CBDC's impact on existing institutional arrangements, (3) analysis of the costs and benefits that a CBDC might impose, and (3) if it is determined that the benefits outweigh the costs, that a CBDC would yield those benefits more effectively than alternative options.

In general, Council members believed the purported benefits of a CBDC were often overstated and would be hard to realize.

One of the main objectives that proponents of a CBDC cite is the goal of increasing financial inclusion. The Council members shared the importance of increasing inclusion, but generally expressed doubt that a CBDC would help address the issue of households without access to a banking relationship. The Council doubted that a CBDC would address the reasons why some households have remained unbanked. A banking relationship goes well beyond a deposit account. The Council believes that any changes that substituted CBDCs for bank deposits held by the general public would risk undermining access to affordable credit.

The Council agreed that CDIs were better positioned to address the needs of the underbanked. CDIs not only establish relationships with members of their community, they also give back. Community institutions serve a fundamental role, providing local customers with multiple products and services, including invaluable access to financial education programs, community service, elder abuse protection, and countless other programs that banks offer to improve the communities in which they operate.

Another cited objective of CBDC is to maintain the U.S. dollar's role as the global reserve currency. The Council noted that this objective deserved further study.

The Council raised concern that a CBDC would sit on the Federal Reserve's balance sheet, even if it were delivered through banks, and would serve as an advantaged competitor to community institution deposits. Another concern raised by Council members is the Federal Reserve's limited ability to lend back into the communities where CDIs serve. Council members are concerned that this would lead to deposit flight, which could increase costs and limit the availability of credit to consumers and small businesses. CDIs may be especially vulnerable to this deposit flight. One member commented that if community institutions lose access to their deposit base, they would be forced to close their doors.

The Council noted that a CBDC's direct access to a government-backed institution, such as the Federal Reserve, would reduce its liability and would also position the CBDC as the ultimate safe-haven asset, increasing the risk of runs in times of stress. Council members also discussed several potential methods for mitigating deposit flight risk, such as not paying interest on CBDC reserves and imposing a cap on account size. However, if the cap was too low, it would limit entry into the global market. The Council did not believe any of these methods would prevent significant outflows of deposits and could undermine any potential use cases of a CBDC.

The Council also discussed several important operational considerations. For example, it is not clear how the implementation of a CBDC would manage the numerous operational risks associated with offering financial services. It is critical that a CBDC extend the consumer protections that apply to consumers in financial services today. It is also critical to maintain the appropriate level of privacy for consumers while ensuring enforcement of the rules under the Bank Secrecy Act. Some Council members noted that all these programs come with a cost, and a CBDC would provide little incentive for depository institutions to participate. This may lead to greater participation of technology companies that may not want to offer financial services, but instead monetize consumer data, which would raise further concerns about privacy.

Given the significant impact on our financial system and the economy, it is important that the Federal Reserve continue to provide an open and a transparent process for public input on a CBDC.

4. ***Examination Practices:*** *What has been the experience of Council members in the most recent examinations? Have you seen examination practices impact the flow of credit? What is the appropriate balance between off-site and on-site examinations generally? Are there particular areas of review that are better accomplished on-site? Are there particular areas of review that are better accomplished off-site? How can supervisors improve their communications (both formal and informal) with supervised institutions?*

Banks overwhelmingly endorse "hybrid" examinations. Many matters, such as loan file reviews, can be handled efficiently off-site. Off-site examinations also present fewer staff interruptions and may enable more agency experts to engage. Conversely, in-person examinations are essential for examiners to understand the bank's culture and engage in useful conversations that, in a remote meeting, would be unlikely to yield the same level of understanding. One Council member reported a delay in a final examination report that may be attributable to examiners working from home and not fully understanding the institution.

Some Council members observed an increase in new examiners. This increase was generally not an issue, though one Council member found that pairing an experienced examiner with one in training helped avoid a situation where the less-experienced examiner focused on relatively minor matters.

Several bankers reported an increase in "gotchas" in compliance examinations, with an inordinate amount of time spent on minor infractions. They also noticed more scrutiny, perhaps reflecting shifts in exam administration.

CDIs expressed satisfaction with examiners' review of the accounting treatment of PPP loans. Council members commented on their efforts to prevent PPP loan fraud. For example, one Council member manually reviewed every loan, regardless of size, based on the expectation that CDIs would be criticized or held responsible for any fraud. One Council member observed that many applicants for small PPP loans, generally non-customers, did not understand why the bank's process was so involved, and they ultimately went to institutions that did not have the same level of regulatory requirements. In addition, PPP applicants with larger loans often had accountants and strong reporting regimes, so those applicants were better prepared and easier to approve.

FDIC examiners recently have been inquiring about NSF fees, especially those related to re-presentment.

Members expressed concern about the CFPB's Dodd-Frank 1071 proposed regulation, which would require banks to collect expanded data on small businesses. Council members noted that this new requirement would add to the existing regulatory burden on CDIs and could reduce small business lending, which would then have the unintended consequence of even fewer small business lending options.

5. **Regulatory and Payments Matters:** *How are recent changes in the regulatory landscape affecting the ability of community depository institutions to continue providing services to their customers? In particular, please comment on how community depository institutions are preparing for upcoming changes in the payments space, including the release of FedNow. Do institutions have access to necessary information including, but not limited to, information related to cybersecurity? Is there more the Federal Reserve can do to help?*

Deposits and Capital

The Council continues to believe that capital requirements can be better matched to transitional and unsustainable deposit growth, which was an artifact of pandemic economic stimulus programs. Unless capital requirements are better calibrated to the duration of these deposits, the ability of CDIs to support their communities will be hindered. Moreover, these deposit bulges generally have not been associated with asset accumulations or activities that alter the risk profiles of CDIs. An unfortunate trend among CDIs may be emerging to address what appears to be a transitional capital cost by selling deposits, in turn weakening the CDIs' essential links to the communities they serve.

FedNow

CDIs rely on their core service providers to provide access to products such as FedNow, and the level of preparedness among the cores is mixed. Some cores have reported that it is difficult to create implementation plans because the Federal Reserve has not yet released a detailed testing schedule with key milestone dates. Others have reported that they are FedNow pilot participants and that everything is on schedule for 2023. Some core service providers have conflicting reports within their own organization. FedNow is not at the top of the priority list for some CDIs because of the lack of actionable information available to their core service providers. More detailed information about the rollout, released quickly, would allow the core service providers to make concrete plans to offer FedNow in 2023.

Cybersecurity

The Council requests that the Federal Reserve consider efforts to help raise community institution awareness about federal cybersecurity resources such as CISA's Shields Up campaign and regulatory reporting expectations for cyber incidents.

The Council also recommends efforts to help community institutions streamline the due diligence process for shared vendors. Further, given that many customers' losses are due to social engineering and malware attacks by fraudsters/cyber criminals, the Council recommends further federal outreach programs designed to increase customer awareness of fraud and cybercrime.

In the area of risk mitigation products, Council members would welcome collaborative efforts between the financial services and federal and state levels for solutions regarding the following challenges specific to cyber insurance:

1. Difficulty in increasing the amount of coverage;
2. Difficulty in finding a carrier that covers cyber insurance at a reasonable price or being denied for coverage; and
3. Failure of policies to cover common threat and attack vectors such as ransomware, social engineering, and acts of cyber warfare.

6. **Additional Matters:** *Do Council members wish to present any other matters affecting community depository institutions that have emerged from meetings of the Reserve Banks' advisory councils?*

Climate Regulation

Council members expressed concerns stemming from the lack of clear direction from their regulators on how CDIs' loan portfolios related to climate financial risk would be evaluated.

There is general concern around three specific issues: regulatory transition risk, physical risk, and social governance concerns.

Council members reported that they and other CDIs feel that they already adequately account for climate-related risk. For example, agriculture-focused banks account for climate-related risks as part of their traditional business model. Such transitions in regulatory focus are a major concern for Council members, especially those serving communities with strong economic ties to fossil fuels and other "disfavored" industries. The Council also expressed concern about the scope of "climate related" risks and the degree to which businesses and customers tangential to climate-focused businesses will be directly impacted. The primary concern is that those customers that are tangentially related only will be drawn into the regulatory reporting requirements. Examples of indirect businesses that may be impacted include car washes, convenience stores, and producers of tools or materials that may be used by energy producers or other businesses more directly related to climate. There is a broad concern that the scope of future stress testing for climate-related financial risk will increase and lead to unintended consequences.

In addition, members are concerned that the guidance proposed by the OCC and the FDIC, while currently intended for banks with $100 billion in assets, will have the impact of steering financing of industries toward smaller banks, which would then lead to regulators applying the guidance on smaller institutions.

Overdraft

Council members reported that overdraft is a banking service that customers value. Customers use overdraft because of its convenience or to manage their cash flow. Council members explained that customers who value this service would prefer to incur an overdraft fee rather than have their checks and other payments returned, which could lead to the loss of a rental lease or other critical services.

Council members reported that they have attempted to educate consumers who are frequent users of overdraft. Council members believe that, in general, frequent users understand the choice they are making and prefer to overdraw their account rather than use available alternatives for short-term liquidity. Council members stated that they may offer small-dollar loans as an alternate form of liquidity, but many banks have difficulty—because of compliance costs—establishing programs to meet consumers' short-term credit needs at scale.

Council members advised that additional restrictions on overdraft fees would limit the CDI's ability to recover expenses and to price for risk, which may lead CDIs to limit access to the service or impose monthly fees or minimum balance requirements. Restrictions on overdraft services also may drive customers to obtain short-term liquidity from non-regulated providers.

Council members reported that their banks may offer an “overdraft free” account. These products provide no ability for the customer to overdraw the account and may come with a flat fee. However, these accounts are significantly less popular than traditional accounts that provide access to overdraft. One Council member shared that they provide non-overdraft and low-fee accounts, but only 10% of new customers select either of these products.

Council members reported that as they assess their own overdraft programs, they are focused on how the potential regulatory changes in this space would impact their ability to meet their customers’ needs.