Record of Meeting

Community Depository Institutions Advisory Council
and the Board of Governors
April 9, 2026

1. Economic Discussion:

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

Council members generally characterized economic conditions as stable but uneven, with relative strength in geographic areas experiencing population inflows, infrastructure investment, or technology-related development. In contrast, many rural communities and lower-income areas face greater strain, reflecting limited job flexibility and persistent cost pressures. Council members also noted that prices remain elevated, with rising costs of housing, insurance, healthcare, energy, and food continuing to weigh on households and small businesses. Housing affordability was cited as a central challenge across Districts, as high prices, limited supply, and elevated interest rates constrain mobility and purchasing power, especially for entry-level buyers.

Labor market conditions remain mixed, with strong demand for skilled trades and certain service-sector roles, though labor supply is still insufficient and some positions are difficult to fill. White-collar and entry-level workers face weaker hiring conditions and greater uncertainty. Consumer confidence has weakened, with households becoming more cautious; lower-income households are relying on multiple income sources and exhibiting heightened sensitivity to economic or geopolitical shocks. Overall, Council members described an economy that remains steady but is marked by strained confidence and thinner financial buffers for households across regions and income groups.

b. ***Particular Indicators:***

i. Inflation: *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*?

Inflation and cost pressures continue to be driven by tariffs and global uncertainty, which are increasing input costs and contributing to higher energy prices and housing expenses.

The recent conflict in the Middle East has contributed to higher energy and fuel costs, with most Districts reporting increased price pressures. The Second and Tenth Districts noted that some recent fuel cost increases may reflect opportunistic pricing rather than being purely cost-driven, as some retailers appeared to use recent conditions as an opportunity to raise prices even where input costs had not yet materially increased. In addition, some price increases were attributed to state and local policy factors, rather than underlying economic fundamentals. As an example, the Twelfth District noted that higher fuel prices in California are partly policy driven.

Agricultural input costs are rising sharply, particularly for fertilizer. Council members emphasized that global conflicts and oil market dynamics are major contributors. The Tenth

District reported that row crop farmers are experiencing significant increases in fertilizer prices. Because these farmers face a narrow purchasing window for inputs—or risk compromising crop quality and yields if they delay—they may be forced to purchase at elevated prices, putting pressure on margins. The Ninth District noted that some larger farms were able to anticipate disruptions and mitigate impacts through bulk or preemptive purchases. Separately, several Districts reported a surge in competition for farmland, as land is increasingly sold or leased for data center development, renewable power installations, housing, and other uses.

Technology-related costs continue to be a key driver of inflation in some regions. The Fourth District reported ongoing price pressures related to technology and cybersecurity investments, including computers, phones, and headphones.

Housing affordability remains a persistent challenge across multiple Districts. The Fourth and Tenth Districts reported housing as a major concern, with entry-level homes in short supply and prices continuing to rise. In the Cleveland market, the lack of affordable for-sale housing is also putting upward pressure on rents, and many potential buyers are pushed back into the rental market.

Among small businesses and franchise operators, pricing pressures appear uneven. In the Ninth District, input costs for many small businesses were reported to be stabilizing, including on items such as paper goods.

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? What is your biggest concern for the future – the prospect of rising interest rates or declining interest rates and higher housing prices?*

Council members reported that home prices have largely stabilized but remain elevated, with purchase activity constrained by affordability, limited inventory, and high construction costs. In the Eleventh District, housing markets in the Dallas–Fort Worth area have cooled from the heightened activity of recent years, with prices stabilizing and bidding pressures easing. However, existing home sales have stagnated, as many homeowners are unwilling to sell and give up mortgages locked in at near historic lows. Similar lock-in effects were reported across Districts, contributing to reduced transaction volumes despite underlying demand.

A divergence across markets was observed by price tier and location. The Seventh District reported mixed conditions in Michigan, where renting and buying are roughly cost-equivalent in some cases, while in urban areas renting remains the more affordable option. In the Eighth District, lower-priced housing remains particularly constrained, including in the more affordable housing market in St. Louis. Across the country, entry-level homes are not being built in sufficient volume, continuing to place pressure on first-time buyers.

Although housing demand persists, overall activity remains constrained by supply limitations and cost pressures. Construction costs continue to rise, driven by shortages of skilled trades workers such as electricians and plumbers. The Eleventh District noted that labor shortages have delayed projects and increased financing costs. The Fifth District commented that data center development in the metropolitan Washington, D.C., market is crowding out residential construction by competing for land and labor, further pushing up home prices.

Despite widespread concern over affordability, regulatory and permitting requirements are discouraging the construction of affordable housing. In the First District, climate-related, regulatory, and compliance costs make it difficult for entry-level homes to be financially viable for developers, resulting in a focus on higher-end construction. The Eighth District reported similar challenges, where changing building codes and financing constraints have delayed or prevented affordable housing projects.

Suburban multifamily markets in growth areas have shown improved absorption, while urban cores continue to struggle. In the Twelfth District, San Francisco continues to face elevated multifamily vacancy rates, and recovery has been slow. Meanwhile, rising insurance costs and changes in municipal codes are increasing operating expenses and project risks for multifamily developments across regions.

Rising insurance premiums and escrow recalibrations continue to contribute to housing affordability pressures, particularly for lower- and middle-income households. These increasing non-mortgage housing costs may create future payment stress across the country, even in markets where home prices have stabilized.

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.*

Labor market conditions are increasingly bifurcated. While overall employment remains stable, Council members described growing structural strains driven by rising benefit costs and uneven effects from technological change. Wage pressures have eased in some sectors, while shortages persist in skilled trades, construction, and healthcare.

Labor demand in the construction industry remains high, particularly in areas experiencing increased investments in data centers and energy facilities. The Eleventh District reported difficulty securing subcontractors, given the persistent shortage of trade workers. The Third District cited strong demand for skilled labor near the construction of a large energy plant. Council members noted that only a small share—roughly 5 percent—of construction workers remain employed once data centers are completed, raising questions about the long-term sustainability of local job growth and potential spillover effects on small businesses.

Artificial intelligence (AI) is increasingly reshaping labor demand, hiring practices, and workforce composition. Council members broadly reported that AI is fueling capital investment and productivity gains, while also contributing to reduced hiring, particularly for entry-level and white-collar roles. Firms are increasingly citing AI adoption as a rationale for reducing workforce expansion. The Fourth and Eighth Districts noted heightened job insecurity, with fewer openings and slower hiring, particularly in financial and professional services. Council members also observed that recent college graduates are facing a more challenging labor market, with some reporting a sharp increase in applicants for a limited number of internships.

Banking labor supply conditions vary significantly depending on geography and industry, with rural and suburban markets continuing to experience acute shortages and community bankers noting that it is difficult to secure talent. Meanwhile, several Districts reported that larger firms are increasingly competing for talent from community banks by offering higher wages, making it difficult for smaller institutions to compete on compensation alone.

Wage growth appears to have moderated overall, but rising benefit costs—particularly for healthcare—are offsetting much of that stabilization. The Sixth and Eighth Districts reported that annual health insurance increases of 10–15 percent, driven largely by prescription drug costs, are negating any wage growth. Council members noted that the cost of healthcare has become a key factor shaping hiring decisions, workforce size, and margin management, particularly for community banks and small businesses.

The First, Sixth, and Tenth Districts also highlighted evolving labor practices aimed at attracting and retaining workers, particularly at the lower end of the income spectrum. Earned wage access programs and daily pay schedules are increasingly being explored to attract workers, especially in the trade sectors. Council members noted that delayed pay cycles, transportation costs, and upfront expenses remain key barriers to employment for lower-income workers.

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

There is broad agreement among Council members that consumer confidence remains subdued, with little improvement since earlier in the year. Households have largely adjusted to higher prices, but ongoing affordability pressures, elevated interest rates, and geopolitical uncertainty continue to weigh on sentiment across Districts. While employment remains supportive of baseline spending, consumers are increasingly cautious and have limited capacity to absorb additional cost increases.

At the lower end of the income spectrum, several Districts reported heightened financial strain, with individuals working multiple jobs and relying on supplemental income to manage expenses. The First, Sixth, and Eighth Districts emphasized that fuel prices and other highly visible costs have an outsized psychological impact on consumers. Spending patterns generally reflect caution rather than optimism. Meanwhile, higher-income households have remained more resilient, supported in part by labor market conditions and earlier gains in financial markets. Across Districts, Council members characterized consumer sentiment as negative and increasingly reactive to market developments.

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.*

   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 prevailing economic uncertainty is slowing economic activity in this sector?*

Small business lending has remained generally stable, though there are signs of moderation as demand softens in some regions amid rising costs and heightened uncertainty. Loan demand remains elevated in some markets, and Council members reported that loan requests are also rising in dollar volume.

Small Business Administration (SBA) lending activity has been influenced by both policy and operational factors. The Eighth District reported stable demand for SBA loans overall, but noted that the prolonged government shutdown disrupted SBA programs, with some loan limits temporarily reduced. Council members also noted that regulatory and procedural complexities in SBA underwriting have intensified, making it more difficult for smaller banks to effectively originate these loans—potentially constraining loan growth.

Lending standards have remained largely unchanged, though competition for high-quality borrowers is intensifying. The Tenth District noted increased competition for strong projects, with lenders willing to accept lower-starting equity contributions and reduced debt-to-equity ratios to secure deals. Across Districts, Council members remain cautious with respect to loan terms, particularly given uncertainty around interest rates and cash flow sustainability. The Eighth District reported rising demand for unsecured or gap funding as businesses contend with accounts receivable delays and tightening liquidity.

Economic conditions for small businesses remain mixed. The Seventh District reported that many small businesses continue to perform well, with year-over-year sales gains and increased investment in tools and technology. AI-enabled systems are improving staffing efficiency, pricing, and inventory management, particularly in the restaurant and hospitality industries. The Second District noted that restaurants and hospitality businesses in coastal areas experienced a difficult winter season, and the Fourth and Ninth Districts reported ongoing closures among small restaurants driven primarily by labor shortages rather than material costs.

Credit quality is showing early signs of strain in some markets. The Fourth and Eighth Districts reported an uptick in SBA loan delinquencies and losses, particularly among smaller borrowers.

Private credit continues to play a significant role in shaping small business financing. The Sixth District reported that bank lenders are concerned that private credit and private equity financing are placing pressure on small businesses, leading to higher demand for working capital lines as firms seek to pay down more expensive private loans.

Council members noted that fraud concerns remain elevated, as scammers are using publicly available Paycheck Protection Program data to defraud small businesses.

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 2025? How are commercial real estate loans performing compared to the Council's expectations? Is the gap between CRE at book and fair values growing? In which direction?*

i. As CRE loans originated or extended during the low-rate environment come up for renewal, what is your assessment of the risk level? Specifically, what are the concerns around:

- *Borrower financial condition,*
- *Cash flow adequacy, and*
- *Repayment likelihood at higher interest rates.*

Council members reported cautious optimism in commercial real estate (CRE) lending, as loan performance has generally remained stronger than expected despite sustained higher interest rates. Several Districts noted that CRE loans originated or extended during the low-rate environment continue to perform as anticipated, supported by conservative underwriting, strong equity positions, and active sponsor support.

The Second, Third, and Tenth Districts reported that modest rent growth in some markets has helped offset higher debt service costs, allowing cash flow to remain sufficient in many cases. At the same time, Districts observed downward pressure on CRE valuations, with the Eighth and Twelfth Districts noting a widening gap between book values and fair values—particularly for office and select multifamily assets—as higher interest rates are reflected in appraisals. While this gap has complicated refinancing and underwriting decisions, Council members generally indicated that it has not yet resulted in widespread losses, though some credits are migrating toward closer monitoring.

Repricing risk has become more salient as low-rate loans come up for renewal, and Council members reported that refinancing at materially higher rates often requires renegotiated terms, additional collateral, or sponsor capital injections. Outcomes remain highly dependent on borrower financial condition and sponsor liquidity. Owner-occupied CRE is performing well across Districts, while urban office markets remain challenged, with Council members reporting vacancy rates near or above 25 percent in some areas, weighing on appraisals and new loan activity. Multifamily conditions were described as mixed, with suburban markets showing greater resilience than urban cores. Lower-end hotels were also cited as a notable area of concern in several Districts.

Rising insurance, tax, and operating costs were cited as ongoing pressures on project economics, particularly for multifamily assets. Despite these challenges, Council members reported that lenders remain willing to extend CRE credit on a selective basis, emphasizing strong sponsorship, liquidity, and relationship lending. New CRE demand is concentrated in sectors such as healthcare, data centers, energy-related projects, and storage, while office-related demand remains limited. Overall, Council members characterized CRE conditions as cautious and selective, with risks rising but largely contained to specific property types and markets rather than being systemic across portfolios.

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 2025 meeting?*

Council members reported that construction lending remains active but banks are becoming more selective about which projects they finance, shaped by elevated costs, heightened caution, and wide regional variation. While several Districts have experienced strong demand for commercial construction financing, Council members emphasized tighter underwriting standards, greater scrutiny of sponsor strength, and a heightened focus on liquidity and contingencies.

Labor shortages, rising material costs, and regulatory burdens are extending project timelines and complicating feasibility. The Second and Fourth Districts reported continued commercial construction activity, though lenders are applying more covenants and stricter underwriting standards, particularly around sponsor liquidity and contingent assets. Large regional banks remain predominantly absent from construction lending, leaving community banks to dominate the space. The Sixth District noted that bank lenders are being highly selective, focusing on borrowers with ample cash reserves and strong track records, and exercising caution around ultra-luxury apartment projects where demand has softened and valuations have declined.

Housing market lock-in effects are weighing on residential construction dynamics. Several Districts noted that homeowners with mortgages below 5 percent remain reluctant to move, amplifying the lock-in effect, limiting existing home turnover, and constraining new residential demand. Council members observed that many households lack sufficient equity or are unwilling to absorb higher borrowing costs. At the same time, pockets of strength persist, including strong demand for single-family housing and multifamily construction in parts of Texas, Arkansas, and other high-population growth areas.

Multifamily construction remains mixed. The First District reported being at capacity for apartment construction lending tied to midsized complexes, while the Sixth District cited slowing activity in high-end multifamily projects and softer rent growth. In contrast, the Second District noted ongoing development of low-income and affordable housing, though Council members stressed that permit costs, code requirements, and a lack of comparable properties complicate financing.

Commercial construction demand remains robust in select regions. The Eleventh District reported strong demand, with lenders actively choosing among competing projects and seeing increased applications from non-customer borrowers. In the Seventh District, construction activity continues to shift toward repurposing projects, including the redevelopment of former retail sites and malls into storage, multifamily, or data center-related uses.

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? Also, can you comment on the recent White House housing EO? In your opinion, will it bring exited banks back into the market or increase lending?*

Council members reported that home mortgage activity remained generally subdued across the country, with both purchase and refinancing activity constrained by elevated mortgage rates and persistent borrower lock-in effects. Council members broadly noted that a sustained decline in mortgage rates would be necessary to meaningfully ease lock-in effects and stimulate refinancing activity and home sales.

The Eleventh District reported a modest uptick in refinancing when mortgage rates temporarily declined, though demand fell quickly once rates increased again. Similarly, the Tenth District noted that a large share of borrowers remains locked into sub-4 percent mortgages, limiting housing turnover, refinancing activity, and equity-driven moves such as trade-ups or major renovations. Several Districts observed modest increases in home equity line of credit (HELOC) activity, with most HELOCs primarily being used for home improvement.

Council members observed that the cumulative effect of multiple regulations poses significant challenges for smaller institutions.

- **The "Regulatory Thicket":** Council members commented that for a community bank, the primary challenge is not a single rule, but the compendium of regulations (for example, Dodd-Frank Act-related requirements, TILA-RESPA Integrated Disclosures, and HMDA reporting). Unlike large national banks, community banks often lack the economies of scale to support specialized compliance departments, meaning a higher percentage of their revenue is diverted to fixed legal costs.
- **Thin Profit Margins vs. Risk:** Council members are aware that mortgage lending inherently yields smaller margins compared to other commercial products. When high compliance costs are added to the potential for penalties for technical errors, many community banks conclude that the product is no longer economically viable.
- **Market Attrition and Consolidation:** Council members believe that regulatory pressure has contributed to a documented "exodus" of small banks from mortgage lending. This has shifted market share toward large independent—and less regulated—nonbank mortgage brokerage companies. Council members explained that these nonbank lenders do not offer the same relationship-based lending or cross-selling functions that community banks use to support local economies.

While Council members generally view recent Executive Order directives aimed at easing regulatory burdens as steps in the right direction, there is a prevailing consensus that these reforms may be insufficient to incentivize a broad return to mortgage lending. Over the past decade, community banks have largely exited the mortgage sector, driven away by the disproportionate risks and costs associated with post-Dodd-Frank regulations and fair lending requirements. Council members noted that mortgage lending has the most onerous compliance requirements of any type of lending, and when constrained by limited liquidity and expensive risk capital, bankers opt to pursue more profitable lending with lower compliance burdens.

Note: Although Council members expressed skepticism that the Executive Order would drive a market-wide transformation, they believe it could halt further attrition among banks in the mortgage space and encourage active lenders to scale up production.

Council members noted that the industry landscape has shifted fundamentally since this exodus. Mortgage lending has become increasingly commoditized and operates on razor-thin profit margins. Even if legal and compliance costs were significantly reduced, several council members indicated that smaller institutions would likely continue to prioritize higher-yield products and services over mortgage production.

For community banks that remain in the market, mortgage lending is often maintained as a relationship-building tool to facilitate the cross-selling of other financial services. Council members frequently cited the competitive disadvantage they face relative to large nonbank mortgage companies and emphasized the urgent need for a more level playing field through more equitable regulatory oversight.

e. ***Consumer Lending:*** *What changes have Council members seen in consumer lending? Please comment specifically on credit card and auto.*

Across Districts, there is broad agreement that consumer credit quality continues to deteriorate, particularly in credit cards. The Sixth District noted rising charge-off rates, and Council members expressed growing concern around buy now, pay later (BNPL) usage and its implications for delinquency trends.

BNPL usage has expanded rapidly in some regions. The Twelfth District reported that institutions hold roughly $21 billion in BNPL balances, highlighting the sharp increase in adoption. And the Seventh District noted that BNPL loans are not reported to credit bureaus, potentially masking delinquencies and underlying credit quality.

Auto lending remains constrained by affordability pressures. The First District reported that credit unions are originating loans with maturities of up to 90 months to keep monthly payments affordable. In addition, the Tenth District cited widespread manufacturer-sponsored promotions, including 0 percent financing for up to five years. Several Council members cautioned that these incentives may compress margins and increase longer-term credit risk if economic conditions weaken.

Delinquency trends remain mixed. The Sixth District indicated that overall delinquency rates have returned to pre-pandemic levels and are not yet considered a red flag. However, while auto loan performance remains relatively stable, most charge-offs appear to be concentrated in credit cards.

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

Agricultural lending remains under significant strain across the country, with the most acute stress concentrated among row-crop producers. Several Council members noted that farmers are facing consecutive years of negative revenue due to weak commodity pricing and elevated input costs. The Ninth District reported that many producers broke even only with the help of government subsidies in the prior year—and contacts emphasized that continued reliance on subsidies is not sustainable.

Input costs remain a central concern. The Tenth District reported that fertilizer and fuel prices have risen sharply, creating narrow purchasing windows and increasing uncertainty around crop profitability. The Sixth District similarly highlighted fuel and fertilizer costs as dominant issues. Weather-related pressures added to the strain in some areas, with the Twelfth District reporting significant drought conditions, rising water costs, and long-term challenges related to groundwater depletion.

Livestock markets have provided a partial offset to crop-related weakness. The Tenth District reported that elevated cattle prices are supporting ranchers, though Council members cautioned that high feed costs are squeezing margins and limiting herd replacement. The Ninth District noted that herd counts remain historically low, contributing to higher prices while signaling constraints on future supply growth. Poultry was cited as a bright spot, with the Third and Sixth Districts reporting continued expansion in poultry operations and strong performance in the sector.

Structural pressures were also evident. The Seventh and Ninth Districts highlighted growing mental health stress among farmers, citing financial strain, uncertainty, and generational challenges in sustaining family operations. Younger farmers face significant barriers to entry due to high land values, elevated equipment costs, and limited operating margins, contributing to consolidation and the exit of smaller producers.

Across multiple Districts, bankers reported increasing conversion of agricultural land to alternative uses, including solar farms, wind projects, data centers, ranching, and recreation. The Eighth, Tenth, Eleventh, and Twelfth Districts noted that while such conversions support land values and provide liquidity or exit options for some farmers, they raise longer-term questions about agricultural production capacity and the stability and economic viability of rural communities.

Despite the rising stress, Council members emphasized that community banks remain highly committed to agricultural lending. The Eighth and Ninth Districts reported that rather than exiting the sector, banks are working closely with farmers through restructurings, alternative collateral arrangements, and enhanced monitoring. For these community banks, agricultural lending remains core to their institutions' missions and local economies.

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?*

Deposit conditions remain competitive across Districts, with rate sensitivity continuing to shape customer behavior, particularly among commercial, municipal, and large depositors. Council members generally reported stabilization or modest growth in deposits, but competition for core funding remains a challenge for community banks.

Several Council members highlighted strong competition from higher-yield alternatives. The Eleventh District noted intense competition in Texas, where large banks are offering teaser rates that have prompted customers to move sizable balances. The Tenth District reported deposit losses as school districts and municipalities shifted funds into nontraditional investment accounts offering higher returns, limiting community banks' ability to compete. The Fifth District was an exception, reporting generally stable or growing deposits and noting that deposit stability exceeded expectations.

Retail and small business customers were also described as increasingly rate-sensitive. The First District reported continued demand for short-term certificates of deposits (CDs), while the Eighth District noted that although CD rates have declined somewhat, pricing remains elevated and banks remain cautious about rate positioning.

Structural and regulatory factors were also cited as affecting deposits. Several Council members noted that recent changes in local laws regarding permissible recipients of municipal deposits have resulted, in some cases, in these deposits flowing to institutions with a national presence rather than local community banks, denying community banks traditionally stable funding and directing capital outside local communities rather than supporting local lending.

Overall, Council members characterized deposit markets as competitive but manageable, with ongoing rate sensitivity and structural challenges continuing to weigh on community banks' ability to retain core funding. Council members did, however, raise serious concerns about payment stablecoins, which are discussed in the sections below.

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

Council members reported that merger and acquisition (M&A) activity remains elevated across several Districts, reflecting strong momentum driven by deposits, succession planning, and strategic repositioning. The Third and Sixth Districts described M&A activity as "brisk," with buyers seeking scale, technology capabilities, regulatory efficiency, and stable deposit bases.

The Eleventh District reported that, although Texas has the highest number of community banks in the country, the number of charters has declined by roughly a quarter over the past decade. M&A activity in the state remains brisk, with more than 21 deals completed in 2025—the highest number nationally. Consolidation, including recent acquisitions involving regional banks, is reshaping the competitive landscape. The Eleventh District reported that community banking organizations in Texas account for a disproportionately large number of bank branches relative to their level of deposits, underscoring their disproportionate role in providing access to banking services.

Succession planning remains a key driver of deals. Multiple Council members noted aging ownership structures and fragmented shareholder bases, with inherited equity stakes increasingly driving differing views on strategy and exit timing.

Buyers have shifted their strategic focus toward deposit acquisition rather than pure earnings growth. The Tenth District reported that acquirers are actively targeting banks primarily for their deposits, marking a shift from prior periods when profitability was the primary driver.

Regulatory barriers to new charters remain significant, with capital requirements limiting de novo formation and reinforcing consolidation trends.

3. AI-assisted fraud and the Genius Act:

a. What should the Federal Reserve be doing to help community banks defend themselves against fraud, especially AI-assisted fraud?

Council members noted that fraud is an area they are closely monitoring and actively combatting. According to one Council member, realized losses in 2025 were slightly higher than the prior year. However, potential losses that were successfully prevented rose sharply, signifying an increase in fraud attempts—an increasingly concerning trend.

Council members believe AI tools are being leveraged by fraudsters to "supercharge" their illicit activities. Banks are identifying patterns that suggest concerted criminal efforts. One example cited is forged signatures on fraudulent checks that closely resemble customers' real signatures, indicating that the images were potentially captured digitally from publicly available information. However, it is not always easy to identify which schemes are AI-enabled. Council members are concerned that AI may enable fraudsters to increase the scale of strategies and tactics against banks and their customers.

Council members continue to be concerned about account takeovers, which could become more frequent due to agentic AI activity. Another risk associated with agentic AI is the potential targeting of employees at community banks and inducing them to perform harmful actions.

Council members also discussed the recent Federal Reserve request for information exploring options to reduce or eliminate check usage. While sympathetic to the policy goals, Council members called for feasible options to transition toward more secure and faster payment methods.

Council members suggest the following list of potential actions that the Board could pursue that would help provide relief to bankers related to fraud:

- Create a private database of active scams.
- Establish incentives and penalties to ensure timely responses to customers and faster processing of stop-payment requests across all stakeholders.
- Subsidize fraud prevention tools.
- Collect fraud data, synthesize it, and share it with banks and other regulated financial institutions.
- Use technology and programmatic means, where possible, instead of simply issuing more textual material in the form of guidance and procedural requirements.
- Increase scrutiny of ATMs connected to the cryptocurrency market.
- Facilitate banks' use of AI to fight AI-enabled fraud (for example, by encouraging the development of standardized due diligence procedures and validation testing when onboarding and monitoring technology providers).
- Encourage the formation of public/private partnerships to improve fraud-related information sharing.

b. *What are Council members' views on the GENIUS Act's prohibition on interest or yield on stablecoins? What are Council members' views on bank disintermediation-related issues associated with the payment of interest or yield on stablecoins?*

Council members view the ability of payment stablecoins to accrue interest or yield as an "existential" threat. They note that such an incentive will drive deposit flight, reducing banks' ability to make loans in their communities. Customers actively monitor the environment for rates, and community banks may be unable to match the rates offered by less-regulated entities. Even though customers are not currently clamoring for stablecoins, demand could grow in the future. Community banks are worried that stablecoin issuers will take deposits and then not engage in a meaningful way with the local communities.

Further, Council members note that even if stablecoin reserves can be held in demand deposit accounts, these deposits would have much higher risk characteristics, hence requiring additional capital. In the Council members' assessment, banks would not be able to lend against stablecoin reserves in practice. Council members also expect that network effects will likely lead a few stablecoin issuers to dominate the payment stablecoin market. Those issuers would likely prefer to have their deposit reserves held at one of the larger banks.

Council members were unable to articulate any clear use cases for payment stablecoins among their customers and noted that community banks would benefit from education efforts led by the Board to better understand the ecosystem. While banks serving customers who make frequent remittances overseas recognize the value of faster payments, they are also concerned about the friction caused by all the rules and regulations—as well as the fraud risks associated with processing these transactions.

Council members also discussed what they view as conflicting messaging from the administration, Congress, and relevant regulatory agencies. On the one hand, there are multiple legislative and policy efforts aimed at reducing regulatory burdens to facilitate higher credit provisioning by community banks. On the other hand, they note that the official sector is working hard to facilitate growth of payment stablecoins, which they believe could drive deposit flight from community banks and increase their funding costs. Council members expressed concern that any loophole allowing yield or rewards on stablecoin holdings could cause significant harm to community banks, and thereby cause harm to small businesses and consumers. These concerns are compounded by related issues such as the potential for nonbanks to gain access to Federal Reserve master accounts.

Council members expressed concerns about the focus of a recent study by the Council of Economic Advisers (CEA). In particular, Council members perceived that the study reflected a potential lack of understanding of the community banking business model. Council members noted that instead of assessing the impact of *no prohibitions on yield or interest* payments on banks' ability to lend, the CEA study focused on the impact of a prohibition on yield or interest on banks' ability to lend. The study estimates that if there was *a prohibition on yield payment* by payment stablecoins, banks would be able to increase their lending by $2.1 billion (given the current size of the payment stablecoin market). Council members believe that the study should instead have focused on the impact of *no prohibition on such yields* on banks' ability to lend – members referenced other studies which estimate a much more significant reduction in community bank lending given projected growth in payment stablecoins.

4. **Examination Practices***:* *What has been the experience of Council members in recent examinations? Have you observed a shift in examination focus to material risks, and are examiners implementing the new standard operating procedures? Have you seen examination practices impact the flow of credit? How can supervisors improve their communications (both formal and informal) with supervised institutions?*

Council members discussed recent examinations, with all Districts noting improvements in the exam process. Council members noted that examiners are increasingly focused on core financial safety and soundness risks—such as liquidity and credit quality—and less on ancillary policy and procedural issues or "gotcha" findings. Several Council members reported that safety and soundness exams are now more organized and focused, reflecting a shift from a "check the box" approach. Overall, Council members agreed that the new approach to safety and soundness exams is a welcome reduction in regulatory burden.

Council members noted that some examination teams appear to be younger and less experienced, although they are generally viewed as bright and well trained. One Council member suggested that the Federal Reserve consider reinstating a pre-Covid program that allowed new examiners to shadow bankers, with the goal of helping examiners gain a deeper understanding of banks and banking.

Council members discussed the CAMELS framework, which many noted is outdated, having remained mostly unchanged since its adoption. Council members emphasized the need for a consistent regulatory focus across political and economic cycles, and the importance of management continuity in risk assessment. Council members noted that banks have a responsibility to operate in a safe and sound manner, which helps insulate them from event-driven supervisory approaches.

5. **Regulatory and Payments Matters:** *How are recent changes in the regulatory and payments landscape affecting the ability of community depository institutions to innovate as well as continue providing services to their customers? For example, are the mandatory disclosure and ability to repay requirements for mortgage loans properly calibrated? Should they be revised? What current requirements impose the greatest cost to lenders with the least benefits to consumers?*

The full, operational impact of regulations on mortgage lending is detailed in the response to Question 2. Broadly, Council members emphasized the operational strain stemming from the "regulatory thicket"—the total volume of rules and regulations—rather than any isolated mandate. They noted that this collective burden is the primary factor driving community banks away from the mortgage market.

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?*

In the context of additional matters, Council members raised broader concerns about the implications of ongoing efforts by the current administration, Congress, and regulatory agencies to facilitate entry into the payments business by non-depository institutions. Council members noted that banking services are delivered as a bundle of individual services and priced accordingly. Payment services are a key component of their product offerings, with associated revenue supporting a range of other services, including check processing, ATM networks, bank branches, fraud prevention, and community development.

Council members referenced discussions from recent years—particularly in the context of the debit interchange fee proposal—wherein Council members noted that reducing these fees would diminish revenue, and, in turn, constrain their ability to serve low-income customers. Council members expressed concern that the ongoing legislative and regulatory efforts to promote the growth of payment stablecoins could further reduce the potential revenue stream for the banking industry. Council members emphasized that such impacts would fall disproportionately on community banks, which rely more heavily on traditional banking services tailored to the needs of their local communities.

Council members also questioned policymakers' rationale for facilitating faster payments. As discussed in prior CDIAC meetings, adoption of FedNow has been low among community banks, in part due to prohibitive implementation costs. Furthermore, Council members raised concerns about the liquidity and fraud risks associated with offering faster payments to customers. They emphasized that if there is a broad policy interest in facilitating faster payments for U.S. households and businesses, the Federal Reserve and other relevant authorities should work collaboratively with banks of all sizes to design, build, and implement effective solutions.