Record of Meeting

Federal Advisory Council and Board of Governors

Thursday, November 20, 2025

Item #1: Economic Activity

How would Council members characterize their clients' and contacts' assessments of their near-term economic prospects? How are businesses' assessments affecting their production, investment, and inventory management strategies? Are consumers' assessments causing them to alter the level or composition of their spending or saving? What is the Council's outlook for the pace of business and consumer spending through the first half of 2026?

How would Council members characterize their clients' and contacts' assessments of their near-term economic prospects?

Looking at the latest government, private-sector, and internal data, Council members noted that the U.S. economy continues to demonstrate resilience, despite signs of labor-market softening and ongoing uncertainty surrounding trade policy. Overall, businesses appear cautiously optimistic about their near-term prospects, despite lingering concerns over potential tariff impacts and labor constraints. In contrast, consumer sentiment is more downbeat, particularly regarding the job market, as inflation expectations remain elevated.

Are consumers' assessments causing them to alter the level or composition of their spending or saving?

Despite declining sentiment, consumer spending has remained resilient, supported by high employment levels, solid cash reserves, and a surging equity market. Council members reported that spending in the third quarter was solid and, in many cases, better than expected. The K-shaped economy continues to be a popular narrative, and while some Council members and companies have observed evidence of trading down, overall spending and saving patterns do not appear materially different from historical norms across broad income groups. As always, there are pockets of more stressed consumers who may be adjusting their spending, but the share of these customers does not appear significantly elevated to date.

How are businesses' assessments affecting their production, investment, and inventory management strategies?

Businesses are generally managing macroeconomic headwinds effectively, but many industries continue to face challenges and uncertainty stemming from current tariffs and ongoing trade negotiations. Council members reported that companies are responding to rising tariff-related costs by scaling back hiring, reducing non-AI capital expenditures, reconfiguring supply chains, drawing down existing inventories, passing through some costs to customers, and absorbing margin compression. Additionally, several Council members highlighted that the recent government shutdown has adversely affected business operations.

Overall, businesses are approaching production increases cautiously. Although firms are limiting investment in areas outside of AI, they remain committed to significant investments in AI technologies and data centers. Furthermore, recent tax changes and optimism about lower interest rates have provided an additional boost to business sentiment and investment. Inventory management strategies vary widely and continue to evolve in response to shifting trade policies. Some companies have successfully sourced new suppliers to mitigate tariff impact, though many have encountered challenges during these transitions.

What is the Council's outlook for the pace of business and consumer spending through the first half of 2026?

Looking ahead, Council members anticipate consumer spending growth to soften early next year as labor market conditions weaken, with the potential for a pickup in the second half of 2026—especially if the Federal Reserve's rate cuts and other policy measures take hold. Similarly, Council members generally expect business investment to be subdued, though there is cautious optimism about later in 2026 amid lower rates, loosening financial conditions, and greater clarity around fiscal policies. The primary headwinds to this outlook include a softening labor market and the potential for higher inflation in tariff-impacted sectors.

Item #2: Labor Markets

How strong is businesses' demand for labor at this point? How well is supply tracking that demand? Are there significant geographical or occupational areas of stress or slack in the market? How does the Council see the levels of employment and compensation evolving through the first half of 2026?

Most Council members reported a weaker labor market compared with the Federal Advisory Council's previous meeting, though not yet one of oversupply. Job growth has slowed, and while the unemployment rate has edged up, it remains relatively low by historical standards. Layoffs also remain limited, reflecting a "low hire, low fire" environment. Many Council members noted that their clients are reluctant to reduce their workforce, given the uncertainty about replacing staff if conditions improve.

Council members observed labor supply stress in certain highly skilled occupations, such as healthcare, construction trades, finance, and select IT segments. Rural markets were also noted to face labor shortages due to aging workforces, limited immigration, and out-migration of younger workers. In addition, some Council members reported constraints in the supply of lower-skilled labor for sectors such as restaurants, hotels, and construction.

Looking ahead to the first half of 2026, Council members expect the rate of hiring to remain muted but steady, with companies moderating hiring rather than cutting jobs. Their outlook anticipates a slowdown in nominal wage growth through early 2026, though persistent tightness in skilled trades may continue to support wage gains in those areas.

Item #3 Inflation

Have Council members noted any significant changes in price levels or pricing strategies since the last meeting?

Businesses are generally maintaining pricing discipline, implementing targeted or staged increases, rather than broad adjustments, in order to preserve customer relationships. In sectors such as retail and consumer goods, some companies are increasingly turning to "shrinkflation"—offering smaller package sizes or quantities at the same price—or substituting inputs to manage rising costs. Despite these strategies, margins remain compressed in industries such as automotive, transportation, and consumer retail, where price sensitivity limits the ability to fully pass through costs.

Recent data indicate that the headline Consumer Price Index is hovering around 3.0 percent, with core inflation ranging from 2.8 to 3.2 percent. Average hourly earnings have grown roughly 3–5 percent annually, contributing to persistent cost pressures. Tariff-exposed categories, such as apparel, furnishings, and footwear, have experienced moderate price increases as import costs rise.

Do Council members see any outsized pressure points on pricing currently or in the near term?

Council members identified tariffs as the primary driver of upward price pressures. They estimate that, to date, businesses have passed through only 30–40 percent of tariff-related costs, with a more significant portion expected to reach consumers by early 2026 as inventories clear and companies test pricing power.

Some industries—particularly automotive manufacturing and import-heavy retail—anticipate staggered price increases rather than one-time adjustments, as they balance cost recovery with consumer tolerance.

Other notable price pressures include insurance and healthcare costs, which have risen 8–12 percent over the past year, and energy and utilities, up 6–8 percent year-to-date, especially in regions affected by data center expansion and infrastructure upgrades. Freight and shipping expenses remain 10–15 percent above pre-pandemic averages, continuing to strain supply chains. While some consumer-facing businesses plan modest price increases of 1–3 percent later this year, they remain cautious, citing competitive dynamics and heightened consumer price sensitivity.

How would Council members characterize the expectations of businesses and households about inflation in the year ahead?

Council members described inflation expectations among both businesses and households as stable but elevated. Households generally anticipate inflation near 3 percent over the next year, though many perceive prices to be rising faster due to cumulative increases in housing, healthcare, and everyday essentials. Businesses are somewhat more optimistic, anticipating a gradual easing of inflation through 2026, while acknowledging that tariffs, insurance, and energy costs may keep near-term inflation above the Federal Reserve's 2 percent target.

Consumer survey data support the view that short-term inflation expectations remain around 3.0–3.2 percent, while long-term expectations are anchored near 2.5 percent. Several Council members reported a slight improvement in consumer sentiment over the past quarter, largely driven by lower gasoline prices. Nevertheless, cost-of-living pressures continue to be the top concern for households.

In summary, Council members believe the U.S. economy is experiencing gradual disinflation, with persistent cost stickiness in key sectors. Firms remain cautious and strategic in their pricing, balancing cost recovery with competitive and consumer pressures. Inflation is expected to moderate only gradually through 2026, likely remaining slightly above the Federal Reserve's 2 percent target as tariffs, insurance, and utility costs continue to exert modest upward pressure on overall prices.

Item #4: Bank Lending

How would the Council characterize the strength of overall loan demand at this point? Are there areas of particular strength or weakness? How do Council members see bank lending to non-bank financial institutions, such as private credit or business development companies, developing over time? What are the main drivers of such developments?

Overall loan demand

There were some inconsistencies in Council members' characterizations of overall loan demand. While a few Council members noted weakness in lending activity, several described loan demand as generally stable, with growing momentum across both consumer and commercial loan portfolios despite economic headwinds, including trade uncertainty, declining consumer sentiment, and a softening labor market. Among consumers, Council members stated that mortgage demand remains subdued overall, though refinance activity is starting to rebound as mortgage rates decline. Home equity lending is growing, due to strong home price appreciation and borrowers who are locked in at lower rates. Home improvement activity remains steady, and credit card balances have grown, with total U.S. credit card debt hitting a record $1.14 trillion.

Overall, the combination of consumer resilience and the potential for continued Federal Reserve rate cuts has left many lenders cautiously optimistic for continued consumer lending growth into 2026. Several Council members observed that commercial activity remains constructive, as evidenced by year-over-year increases in loan pipelines, continued demand for funded assets and ancillary services, and an increase in mergers and acquisitions (M&A) activity compared with earlier in the year. For some Council members, higher demand has been offset by larger paydowns, resulting in smaller net growth. Demand for commercial and industrial loans has strengthened moderately among large and middle-market firms—driven by financing needs for inventory, receivables, and investments—while demand from small firms remains mostly unchanged.

Commercial real estate loan demand remains relatively stable, supported by increased refinancing activity due to lower long-term rates. The rapid expansion of data centers by AI companies has required—and is expected to continue requiring—extensive financing for these projects as well as the electricity sources to power them. A widely cited J.P. Morgan report estimates the scale of required financing at $5 trillion or higher, through a combination of investment-grade bonds, leveraged loans, private credit, securitizations, and other segments of the debt market. Council members also noted that the transportation sector remains cautious, with freight conditions delaying capital deployment, and they added that stress is emerging in sectors reliant on government funding as well as among smaller firms with concentrated supply chains.

Bank lending to non-bank financial institutions, developments over time and main drivers

Council members noted that developments in non-bank financial institutions (NDFIs) largely began after the 2008 global financial crisis, when banks migrated away from higher-risk, less-liquid corporate lending. More recently, private credit growth has been driven by significant investor inflows, particularly from institutional investors such as pension funds, endowments, and insurance companies, as well as retail investors. As assets under management in private credit grow, demand for fund finance facilities provided by banks is growing in tandem. While lending to NDFIs has been modest in the community and midsize bank space, it has been an area of growth overall, particularly for larger banks. According to Federal Reserve H.8 data, loans outstanding to NDFIs now account for 13 percent of total loans, up from 6 percent in August 2020.

It is important to note that the designation "NDFI" is very broad, covering a wide range of asset types, including—but not limited to—real estate investment trusts, securitizations, leasing companies, mortgage warehouse lenders, business development companies, and private credit. Many of these asset classes exhibit investment-grade-like risk ratings and structural protections, resulting in lower expected losses in the event of a default. Recent bankruptcies, however, have highlighted potential idiosyncratic credit risks, some of which are related to exposures classified as NDFIs. Banks are currently deepening their review of NDFI exposures and risk management practices. Overall, given large investor inflows fueling private credit growth, the broad definition of NDFIs, and the capital-efficiency of bank lending to NDFIs—which often carries lower risk weights and delivers strong risk-adjusted returns—Council members expect continued growth in this space.

Item #5: Federal Reserve Policy

What are the Council's views on the stance of monetary policy, including portfolio activities?

Policy rate

Council members supported the recent policy rate reduction and generally support a further cut in December. They cited a softening labor market, ongoing economic uncertainty, and moderating inflation as factors supporting another rate reduction. Job growth has slowed, and the unemployment rate has increased to the upper end of its range for this cycle. Persistent economic uncertainty may further entrench cautious behavior among consumers and businesses, potentially stalling overall economic growth. Thus far, inflation has moderated, and prices remain resilient despite tariff pressures.

Council members continue to agree that, if the policy rate is reduced, the Federal Open Market Committee (FOMC) should consider moderate cuts rather than commit to a predetermined path of larger reductions.

They emphasized that the FOMC should remain data dependent, with any future adjustments guided by evolving economic and financial conditions.

Portfolio activities

Council members supported the FOMC's announcement to conclude quantitative tightening on December 1. Markets indicate that reserves are no longer abundant and are trending toward ample, providing the Federal Reserve greater flexibility going into 2026 should it need to expand the balance sheet. Council members emphasized that the Federal Reserve should continue to monitor funding markets for signs of stress and act promptly to address any weakening of liquidity conditions.

Item #6: Bank Mergers and Acquisitions

In the Council's view, what is the current appetite of bankers for mergers and acquisitions (M&A)? What factors are driving their interest? Are there elements of the regulators' M&A application processes that could be streamlined or clarified? If these changes were made, would banks be more likely to move forward with M&A plans? Would credit unions and foreign banks be more likely to move forward as well?

In the Council's view, what is the current appetite of bankers for mergers and acquisitions (M&A)?

Appetite for M&A among banks is currently strong and growing, driven by several structural and strategic factors. Since changes were made to the interstate banking laws in the 1980s, the industry has experienced steady consolidation. After several years of suppressed activity, interest in bank M&A has rebounded in 2025, driven by clearer regulatory approval processes, improved economic conditions, and stronger bank stock valuations. Additionally, banks with assets exceeding $200 billion now have clear regulatory support to pursue M&A and are becoming more active after years of relative inactivity.

What factors are driving their interest?

Several factors are driving bankers' interest in M&A, both as buyers and sellers. Overall, conditions in the banking industry are highly favorable for such activity, with excellent credit portfolio performance, strong capital levels, and improving profitability. Buyers know they are taking less risk by pursuing M&A in a strong banking environment, and sellers can achieve more favorable economics. Importantly, bank stock valuations have improved along with industry profitability, providing an attractive currency for transactions, resulting in favorable economics for buyers and attractive incentives for sellers.

The goal of achieving greater scale remains a key motivator for M&A in the banking industry, as larger banks tend to be more profitable, which correlates with stronger stock valuations. Banks often find it easier to grow through M&A than organically. In addition, well-executed M&A can provide strategic growth opportunities in both new and existing geographies, while expanding products and service offerings. Further, the increasing investment needed to remain competitive in technology and new products can be more easily absorbed by larger banks. Sellers sometimes cite the need for such investments as a reason to sell, particularly if their revenue is insufficient to support the investment necessary to remain competitive.

For many banks, interest in mergers is driven in part by succession planning, as boards assess the expense and difficulty of replacing key members of bank management teams. In some cases, shareholders—including traditional community bank financial investors—desire liquidity, and selling to a publicly traded bank provides the most effective solution. Additionally, some mid-sized and large regional institutions explore M&A to remain competitive against the largest banks and emerging financial technology companies.

Importantly, a more positive shift in tone and practices from key regulators and policymakers since early 2025 has also encouraged bank M&A. Regulators are now processing applications for transactions of all sizes much faster. Recently announced large transactions are expected to close within six months or less, when similar transactions would have taken at least twice as long just a year ago. These changes lower the risk of M&A for both buyers and sellers by significantly improving predictability and confidence that transactions can be completed in a timely manner.

Are there elements of the regulators' M&A application processes that could be streamlined or clarified?

There is broad consensus that the bank M&A application process remains overly complex, duplicative, and time consuming, and that further streamlining would benefit all parties involved.

For more complex organizations, a unified application portal and joint review protocols could streamline the process, reduce conflicting guidance across agencies, and likely speed up approvals. Greater certainty would also result if regulators published standard timelines for acting on an application once it is deemed substantially complete.

Delegating merger approvals to regional authorities when appropriate, and maintaining processes that allow for faster regulatory responses, would also be beneficial. Regional offices generally have a deeper understanding of the banks involved in proposed transactions and are therefore better positioned to make informed decisions about transaction risks.

The approach to evaluating acceptable market share—particularly in less populated markets—should be reviewed and made consistent across regulators and the Department of Justice. Given the growth of credit unions, it is unclear why they are not formally considered in the analysis for market share limits in the regulatory approval process. It would also be helpful to clarify how large non-bank institutions are assessed within this framework.

A more fact-based, materiality-driven approach to CRA challenges—which have increased the cost and complexity of some mergers—would help reduce unnecessary delays in application approvals. While public input is an important component of the "convenience and needs" factor, banking agencies must ensure that merger reviews remain grounded in statutory criteria—not conditioned on negotiations with third parties.

If these changes were made, would banks be more likely to move forward with M&A plans?

Enhanced and streamlined M&A processes—combined with better transparency—would certainly increase the likelihood that banks would pursue M&A opportunities more aggressively.

Would credit unions and foreign banks be more likely to move forward as well?

Credit unions and foreign banks would also be likely to pursue M&A opportunities, as a tailored, fair, and modern efficient regulatory framework would increase confidence in bringing transactions to closing. Notably, credit union acquisitions of community banks are accelerating, with last year marking a record high.

<u>Item #7: Cyber Risks</u>

High profiles outages, such as those at CrowdStrike in July 2024 and at FIS and Trading Technologies in April 2025, highlight the vulnerability of the banking system to cyberattacks on third-party service providers. How do Council members measure, manage and mitigate cyber risks stemming from third-party providers? What steps can the Federal Reserve and other regulators take to facilitate effective risk management of third-party cyber risks?

While outsourcing to third parties can enhance efficiency and drive innovation, it also introduces operational and cybersecurity risks that must be actively managed. Recent high-profile outages and cyber incidents—such as CrowdStrike in July 2024, FIS in January 2025, Salesforce throughout 2025, AWS in October 2025, and F5 in October 2025—underscore these vulnerabilities. The challenge becomes even more complex when considering the risks posed when third-party providers rely on subcontractors.

Many financial institutions have robust supply chain and third-party risk management programs; however, the nature of today's technological environment makes it difficult for financial institutions to gain insight into the security practices of their third parties and subcontractors.

How do Council members measure, manage, and mitigate cyber risks stemming from third-party providers?

Council members highlighted the following as key focus areas for appropriate third-party risk management:

- **Risk-based vendor classification and due diligence:** Many financial institutions classify third-party vendors based on the criticality of the services they provide and the sensitivity of the data they access. Council members noted that they conduct thorough supplier assessments during onboarding to validate inherent risk, clarify the scope of services, and evaluate key controls—such as vulnerability management, multi-factor authentication, and employee training. High-risk vendors are subject to enhanced oversight, which may include requesting SOC 2 Type II reports, reviewing penetration-testing results, and confirming timely remediation of identified vulnerabilities.
- **Continuous monitoring and resilience testing:** Council members emphasized the importance of ongoing monitoring, including real-time threat-intelligence sharing, periodic reassessments of vendor controls, participation in joint incident-response simulations, and the integration of vendor systems into internal resilience testing. Additionally, financial institutions are establishing robust contingency plans and conducting exercises designed to mitigate financial and reputational damage stemming from third-party vendor outages.
- **Preventative measures to avoid concentration risk:** Many firms are adopting expensive architectural safeguards for critical services to mitigate the risk of outages and cyberattacks. These measures include deploying critical services across multiple regions with failover routing, cross-region replication of data, multi-cloud or multi-hosting distribution, and having both a regular service provider and backup service provider in the event of an outage or cyber attack.

What steps can the Federal Reserve and other regulators take to facilitate effective risk management of third-party cyber risks?

Through interagency guidance, the prudential regulators have highlighted the importance for banks to "identify, assess, monitor, and control risks related to third party relationships."[1] Additional regulatory oversight alone is unlikely to improve the management of third-party cyber risks. Instead, the Federal Reserve and other regulators could take the following steps:

- **Dedicate appropriate resources to cybersecurity risk management:** The cybersecurity incidents at the Office of the Comptroller of the Currency and the Department of Treasury, disclosed in December 2024, demonstrate that government agencies are increasingly the target of sophisticated nation-state attacks capable of disrupting financial markets. Regulatory agencies should implement the same cybersecurity and incident-response practices that they expect financial institutions to maintain.
- **Designate critical third parties and conduct direct oversight:** Regulators could consider designating certain third-party providers as "systemically important" and subjecting them to direct oversight. The Federal Reserve and other prudential regulators should also leverage their authority under the Bank Service Company Act to oversee significant service providers and encourage them to improve the security and resilience of the services they provide. Such measures would help strengthen resilience across the financial system.

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[1] Interagency Guidance on Third-Party Relationships: Risk Management (June 7, 2023), available at SR 23-4 attachment: Interagency Guidance on Third-Party Relationships: Risk Management.

- **Facilitate information sharing and incident reporting**: Facilitating near real-time information sharing between private sector entities and government agencies—while including liability, antitrust, and FOIA protections—would continue to strengthen cybersecurity. The agencies should encourage Congress to reauthorize the Cybersecurity Information Sharing Act of 2015, which expired on September 30, 2025. This framework has been a cornerstone of collective defense against increasingly sophisticated cyber threats, while providing firms with legal protections for sharing critical information.
- **Support public-private collaboration:** The agencies should continue to support the successful public-private partnership of the Financial Services Sector Coordinating Council (FSSCC) and Federal Banking Information Infrastructure Committee. These partnerships, along with other key public-private organizations, enable the government and the financial services industry to collaborate on best practices and information sharing to address cybersecurity concerns. Engagement with regulatory agencies and law enforcement through these partnerships is critical, as both government and private-sector infrastructure face similar threats. Fostering effective partnerships that focus on sharing threat intelligence information, promoting best practices, and active collaboration is vital to defending the nation. Additionally, joint exercises involving banks and key third-party providers, coordinated by regulators, could help identify systemic vulnerabilities and enhance preparedness for large-scale outages.
- **AI considerations:** As third-party vendors implement their own AI systems, continuous oversight is critical to ensure they adhere to the same standards of care and due diligence expected of banks. This challenge is amplified by the rapid evolution of technology and emerging partnership models. Increasingly, suppliers lack clear AI risk management policies, governance frameworks, acceptable-use guidelines, or restrictions on generative AI. These gaps introduce new risks around data privacy, misuse, and lack of transparency. Industry groups, such as the FSSCC, help support the development of industry-wide standards that strengthen risk management, ensure responsible AI implementation, and maximize benefits for customers. Regulators can provide additional help by providing clear guidance on responsible AI use. Establishing baseline requirements for AI risk, similar to cybersecurity standards, would help ensure suppliers manage these technologies safely and consistently.

Item #8: Open Banking

On one hand, open banking gives customers greater control over the disposition of their financial information and facilitates customers' mobility among financial service providers. On the other hand, it exposes customers to risks of inappropriate loss of privacy and misuse of information. What can be done to avail customers of the benefits of open banking while minimizing the associated risks?

Open banking empowers consumers and has the potential to jumpstart new products and services. Progress in this area has been largely market driven, including a shift away from credential-based access methods such as screen scraping—which requires a third party to obtain a consumer's bank account login credentials—toward secure application programming interfaces (APIs). Screen scraping carries significant risks, as it allows a third party to collect a consumer's personal information without adequate protection and, in some cases, could enable unauthorized payments or other actions.

Banks fully support the safe sharing of data as directed by consumers. Council members recommend that regulators allow market participants to continue advancing and refining frameworks that enable open banking while minimizing risks. The existing data-sharing ecosystem is thriving. It is based on various data access agreements that establish terms and conditions for API connections, enforce privacy and security controls, delineate responsibilities, apportion liability, and ensure that consumers and their data are protected. These agreements are negotiated in a competitive marketplace among banks, aggregators, and fintechs. They establish the terms of use, including what data elements are collected, how data is obtained and used, how long it is retained, how it is protected, and who is liable if it is misused. Financial institutions have invested heavily in systems and partnerships with fintechs to safely share data via APIs. The Financial Data Exchange (FDX), a nonprofit formed through a bank-fintech partnership, has developed a secure standard that now underpins more than 114 million data connections.

To further strengthen consumer protection and trust in open banking, regulators can promote the continued development of standardized consent frameworks that make data sharing explicit, revocable, time bound, and transparent. Consumers should have clear and accessible tools to manage which third parties can access their data and for what purposes, reinforcing both understanding and control. In addition, Council members believe that smaller institutions would benefit from phased compliance timelines and implementation support to ensure they can meet new standards without undue burden. Establishing a governing body or collaborative industry forum to maintain interoperability standards—such as those developed by FDX—and oversee conformance testing would further enhance consistency and accountability across the ecosystem. Finally, public education efforts and the harmonization of federal and state regulations would foster a more informed customer base and create a predictable framework for all participants in open banking.

Council members believe that screen scraping should be phased out over time. Further, they believe that customer data should be shared only with third parties that use it to offer financial products or services in the customer's best interest. This approach is consistent with Section 1033 of the Dodd-Frank Act, which requires banks to provide data to consumers and agents, trustees, and representatives acting on their behalf—third parties with a fiduciary relationship to the consumer. Customer information should not be permitted to be used for unrelated commercial purposes. Banks should also have the authority to deny requests for customer data if they have reason to believe the data could be misused.

Finally, it is important that aggregators and fintechs are subject to appropriate regulation and supervision. The growing presence of these firms—many of which access sensitive data and use it to offer bank-like products and services—highlights the need for consistent oversight. Supervision is critical to ensuring that all market participants follow responsible data practices, with the ultimate goal of protecting consumers.