Transcript of Community Bank Conference:
Tailoring Capital and Liquidity Standards for Community Banks
October 9, 2025

JOHN EGGEMEYER. Thank you very much. My name is John Eggemeyer. I am with Castle Creek Capital, and I will be moderating today's conversation. The comments we've heard earlier today cover so many of the capital issues that relate to the industry. What our goal is today is to try to put some specificity to things that can happen within the regulatory framework as well as the legislative framework. Let me begin with a few comments. And the story begins with interest rates, but I promise we're -- not the interest rates you think we might want to talk about. We want to look -- We want to look backwards over the last five years to what's happened. Because the industry has been impacted severely by COVID. By the stimulus that was put in place. And the various loan programs to stimulate the economy during COVID. Followed by a flood of liquidity. And then a spike in interest rates. What that has done is to take us to where we are today at the tail end of an inverted yield curve that's been in place for 564 days, the longest in 48 years. And devastating in an industry that relies on spread income. It's hard to borrow at higher rates at which you're lending. So investors are not ill-informed. We've seen a response to that, which has been serious as it relates to the availability of capital for community banks. And just to frame the universe here, since 2017 we've had a 45 percent decline in the number of banks in this country. Over that same time period, we've had a 35 percent increase in the number of banks, 500 million to 15 billion. Which is, in fact, sort of the prime area of community banking. When we look at capital flows as an outgrowth of this time period, there's been negligible growth in capital flows into bank-focused ETFs, while the ETFs of the general market have almost doubled. You look at the IPO market, we've dropped from seven to eight IPOs averaging $800 million each in the time period preceding the last five years. Now we're averaging below two a year. And the dollars being raised are only about a hundred million. And as an anecdote, I would say there was one good year in the last five for raising capital, which was 2021. In which time there was $6.2 billion of new equity raised, but 80 percent of that went to but -- to just four banks. Silicon Valley Bank. Signature Bank. First Republic. And last but not least, Silvergate. As you all know, none of them are with us any longer today. So I'm not sure that's a model that we want to replicate here. What we'd like to do now is to dig into, if you will, the nuts and bolts of where capital can be created for community banks as we bridge to this period when public investors will, again, return to our sector. But we just don't know when that might be. So we're going to begin with the community bank leverage ratio. And I've asked Cathy Owen to lead us off. She is the CEO of Eagle Bank. I'll let her say a word about her bank. And she is a participant in that program. And give us your thoughts. Why was it attractive to you? And why is it not attractive to others?

CATHY OWEN. Absolutely. Thank you. Yes, I'm the $490 million Eagle Bank & Trust out of Little Rock, Arkansas. Not the massive one you see up here. And we are a privately held bank. And, as was mentioned, we do participate in the CBLR ratio. And I've been asked a number of times as to why so many community banks have not chosen it. And I think we have to start with the very beginning, the timing of it. If you think about it, that simplified CBLR was published September 17th, 2019. What's the busiest quarter for banks? It's the final quarter of the year. It was effective 1/1 of 2020. What did the first quarter of 2020 bring us? COVID. Everybody was drinking out of a fire hose for an extended period of time. I feel certain for a number of community banks, it got shoved aside. It was optional. It wasn't important. I was really excited to hear earlier today about the building of the framework of education because so many of our smallest community banks are lacking in resources. And they need that education and could greatly benefit from the time savings of utilizing the CBLR. And it's not only the time savings, but the burdensome, cumbersome, a lot of adjectives there on calculating the accurate risk weighting that is necessary to really do it properly if you choose not to go with the CBLR. There's also community banks that haven't chosen it because their capital, or their Tier 1 capital may be close to 9 percent. They're afraid they're going to drop down below it. Maybe get out of the grace time frame, the period that's there. So they want to continue using the risk weighting calculations because they don't want to have to reinvent the wheel. And then I've also had bankers tell me that their regulators have asked for the risk weighting calculations, even though they've chosen the CBLR. Which the -- If they've chosen the CBLR and they qualify, it should be acceptable. And there shouldn't be another question as to that. But I really think that one of the most important things for the smallest community banks that can benefit the most is the lack of resources and the need for education on how beneficial the CBLR would be to them.

JOHN EGGEMEYER. Thank you. Turn to my other panelists. Anybody else want to weigh in on this subject? Go on then, Tom. Yeah, go ahead.

THOMAS FRASER. Yeah, hi. I'm Tom Fraser. I'm CEO of a $3.4 billion mutual holding company that has five mutual banks in Ohio, Kentucky, West Virginia, and Virginia. And we were initially elected to use CBLR, but we floated too close to that 9 percent ratio. And the consequence of going in and out and back and forth turned us away from the CBLR ratio ultimately. You know, some things too, especially with COVID with it hitting in '20. We had an influx of liquidity and deposits. That put a lot of pressure on that 9 percent. So a quick fix, a quick idea would be to maybe exclude deposits that are held at the Federal Reserve, or other low risk, or hardly any risk weighted ones. And that -- If that's excluded from the CBLR calculation, I think in our case it would have been about 60 or 70 basis points to capital. I know other institutions I've talked to, it's more. So that's a way to create a buffer even beyond what that 9 percent is.

JAMES VACCARO. Yeah, I think, you know, taking off on Tom's comments. If you exclude that excess liquidity as defined by balances held at the Fed, in my case, my numbers go up by about 115 basis points. Which is a big number. And if you think about CBLR at the 9 percent level or even at the 8 percent level versus a leverage ratio for well-capitalized, which is 5 percent. There's a pretty big disconnect and a big buffer. And so, you know, our thought process is that we need to better align those. Or if not, figure out why, in fact, there's that big difference. Even at 7.5 percent, that's 150 percent of the Tier 1 capital ratio to be considered to be well-capitalized. So I think it's a useful tool. We don't use it. I think something like 41 percent of the banks that are in the country that are eligible to use it, use it. Only 26 percent of banks over a billion dollars utilize the CBLR framework.

MARK SCHIFFERDECKER. Yeah. I'm Mark Schifferdecker. I'm from GN Bank in Kansas, and we're a billion-dollar privately held family-owned bank. And we do also, like Cathy, use the CBLR. And -- But we still go back and just test and see where we are against the risk-based capital. So I went back and looked, and June 30th our CBLR minimum capital rate was $23 million more, or 35 percent more than the total risk-based capital minimum requirement. And I think about that for a bank our size, that's one-fourth of our capital. So that -- It's so punitive. I know Governor Bowman has said that, you know, the CBLR is very underchieved -- underachieved. And I think that's exactly right because it's so punitive. And if I could take that $23 million of capital, leverage that up 12 and a half times and loan out 80 percent of it, that's about $200 million. Not that I would do that, but that's the kind of capacity that's holding back in a bank of our size using the CBLR rules.

JOHN EGGEMEYER. So a question for those who have adopted CBLR, has it reduced the paperwork involved with actually computing capital ratios to any material degree? We did a quick study, and -- I apologize.

JAMES VACCARO. My name is Jim Vaccaro. I'm the CEO of Manasquan Bank. It's a $3.4 billion mutual bank. Born in 1874, so we've been around a while. I went to my accounting department and said, 'How long does it take you on a quarterly basis to calculate the risk-based capital versus CBLR?' It's somewhere between three and five hours a quarter. So it's not punitive in any fashion.

MARK SCHIFFERDECKER. Yeah. I'd echo that, using it. That's one of the reasons why we had a lot of capital, and I estimated originally it was taking five or six hours a quarter, which isn't a lot. But we're always looking for efficiency. But we still calculated, and I would say it's about two hours a quarter in our going through schedule RCR. So it -- You're more efficient than we are. Well, of course, yeah. But it -- we have not achieved the efficiency. I mean, it's great. It's easy to complete that. And I would echo -- I would echo what Thomas said, just some real, you know, real easy tweaks. I mean, number one, the 9 percent bright line is very, very punitive. And I know Governor Bowman and others have talked about low -- you know, per statutory levels, it's between, I think, eight and 10 percent. So you can lower that down, whether 8 percent is the right number or something less. But, also, these low-risk, non-risk assets, investments in treasury securities, cash, cash at the Fed. Those would be quick in even the smallest community bank. I mean, that wouldn't be a full-blown risk-based capital calculation. But you can do that on the back of an envelope pretty quickly, and that would not really substantially add to the complexity of calculating your CBLR.

JOHN EGGEMEYER. Let me move this conversation in a slightly different direction and pass the mic down to Greg to talk about risk weightings, because I know it's a subject you've thought a great deal about.

GREG HAYES. Absolutely.

JOHN EGGEMEYER. And not all risk is created the same.

GREG HAYES. Well, thank you. And I'll just comment quickly on the CBLR. So Greg Hayes, I'm the President and CEO of Kish Bank. We are a $1.8 billion community bank based in central Pennsylvania. I like to say we serve everyone from the Penn State student to the Amish, which is a broad dichotomy. Especially based on some of the technology conversations we've been having today. [Laughter] For us, we are publicly traded, so we are traded on a -- the OTCQX market. Which means we have to look a little differently than our -- my peer panelists here that are either mutuals or privately held. We've got to manage capital very efficiently to be able to produce the kind of return for our shareholders that's effective. There was some talk in the previous panel about earnings and how earnings can help a lot. And maybe earnings should be considered in how you look at capital ratios. For us, it's credit quality. You know, our earnings are pretty strong. But we manage a very high-quality portfolio as a community bank, knowing our customers very well, knowing every deal, looking at every deal. You know, there's only a certain amount of earnings you can get when your credit quality is that strong and your earnings are what -- In a publicly traded bank, I've got to pay, you know, a dividend, at least if I want to keep shareholders happy. And grow capital as well. And so to support the loan demand of our communities, when we look at CBLR, it is restrictive. I think leverage ratios are meant to be a backstop and not necessarily that binding constraint that holds us back from growing. And I think the ability for us to manage capital efficiently through a high-quality loan portfolio is really what drives our capacity to support our communities. And so, for us, we look at the ability to look at risk weightings and risk weight our entire balance sheet in a way that puts every ounce of capital to use in the best way possible. We recently took a portfolio of commercial real estate loans that we have. And we said okay, you know, you look at every nuance of the guidance and the regulation that's out there. And you say these loans that have this debt service coverage ratio and perform at -- or have a loan to value below this amount, they -- we can drop those from 100 percent risk weighting to 50 percent risk weighting. Well, you know, that freed up a million and a half in capital or $15 million in lending capacity. Because we have the ability to look at those risk weightings in a very discrete way. That said, it's extremely complicated. And there are opportunities within risk weightings. When you think about loans to individuals who own their house, it is their primary residence. And you think about the 50 percent risk weighting, maybe there's opportunities to look at that differently. I understand construction, track lending. How do you manage based on risk? As well as commercial real estate where it's owner-occupied. I think there are opportunities for us to look at the risk weightings as well to help institutions who manage a very high-quality loan portfolio put that capital to work in their communities in the form of lending.

CATHY OWEN. Well, that really goes back to tailoring and indexing. That if we could get to the point of tailoring and indexing, then we would know where our capital ratios needed to be.

JAMES VACCARO. You know, and -- And I think, intuitively, we know where they should be. And so you don't manage necessarily to do that capital ratio. You manage to the market demands that you have for both your depositors and your borrowers. And then you look at your capital to make sure it's adequate and well capitalized in every single respect. But the drivers really should be the business opportunity and making sure that we have enough. And we talk a little bit about diversification, and concentrations and the like. A lot of which came out of the 2008 banking crisis when the world ended. And are those kinds of guidance and concentrations still applicable? Or did underwriting change dramatically from collateral-based to cash flow-based? And I think those changes have not yet been reflected in the capital regulatory guidance.

JOHN EGGEMEYER. I think it's interesting. I've been in banking since 1968. I won't calculate how many years that is, but it's a couple. So I've seen pretty much every crisis that has occurred since that time. I don't believe that there has been a credit crisis over that time period that has ever repeated. So fixing what happened last cycle is no guarantee that we are prepared for the next cycle. And I think that's one of the challenges that we have as an industry. It's one of the challenges that the regulators have. And I think it is one of those question marks. As much as I am excited about the idea of tailoring regulation to understanding the nature of the business, the challenge will be there still has to be some quantitative standard against which you're still trying to equate the risk of the business with the amount of oversight, and capital, and liquidity that's required by institution. And I think the challenge I see sitting on four bank boards myself, that there is a great deal of difference between how one -- examiners in one district look at something versus examiners in another district. And we were talking earlier that that's true even within different exam teams, Greg.

GREG HAYES. I would just add to the complexity of it, but also to Cathy's comment about indexing. You know, when we think about where a -- what a $500 million bank was 10 years ago versus what it is today, or us as a $1.8 billion bank 10 years ago versus where we are today, it's a different set. And indexing, getting to the right starting point today and then moving forward. Inflation probably isn't the best way to index. And I know -- I appreciate Secretary Bessent's comments, but GDP growth really is, when you think about the economy, how banks and the value of what we're providing to our communities expands. And our growth in GDP is, we think, an excellent way to consider indexing as we go forward.

MARK SCHIFFERDECKER. Yeah. Some of the last panel, I think they were asked if you could -- if there was one thing you could change. And I think for our bank, as a community bank, indexing is -- would be very high on the list because it's held us back and it's just micromanaged the risks that we can take and the expansion we can have. And so if there's one single thing -- And I know Governor Bowman and others have proposals for indexing, I think the ABA has been working on that as well. But I think that'd be a game changer for community banks.

GREG HAYES. Just a comment on how thinking has changed. The legislation for the GENIUS Act, and I know we're talking about capital, had a financial requirement level for the reporting of financial -- reporting financials. It was set at $50 billion. I crossed a billion dollars and I had to comply with FDICIA compliance. Mm. But yet a stablecoin issuer is looking at a $50 billion threshold. So that's the threshold mindset in new legislation today. We've got to -- There's got to be better parity.

JOHN EGGEMEYER. I agree with that, Greg. I see it at the 10 billion threshold as banks queue up to go over that 10 billion threshold. And as a public company, about the only way you could successfully do that is to make an acquisition that carries you several billion dollars over that. Because the expense -- the expenses involved are extraordinary. And to do that without being able to absorb a lot of that expense through merger accounting is pretty difficult. So you have built in something to the structure of how we operate that requires consolidation of the industry, which is not exactly what our objective is so.

JAMES VACCARO. There's another dynamic, and that is the consolidated capital requirements at 3 billion and greater, which disadvantage the holding company level when you get to that number. And again, you know, we're talking about thresholds and what are the appropriate applicable thresholds in today's environment? I think that needs to be re-looked at. Tom has been a champion of the mutual banking industry and working very diligently, with a lot of legislative effort also, on the mutual capital certificate so. Yeah. If you –

TOM FRASER. I'd be glad to talk about that briefly. And thinking about the small bank policy statement. Something in excess of $3 billion for holding companies whether they're mutual or not mutual, very important. So, Jim, I'm glad you brought that up. Just briefly on mutuals, we're a subset of the banking industry. We talked about the diverse and varied banking system we have. Mutuals play a big role in it. We're about 10 percent of the charters. About 430 charters that remain. And we complement and fill in the gaps where other banks don't all the time. Conservatively managed, generally. And owned by the community. So we don't have outside shareholders. Traditionally, our only access to capital has been either retained earnings, and for those of us that are holding companies, subordinated debt. And subordinated debt can count as Tier 1 capital, but it's transient, fleeting, and not a sturdy foundation for long-term growth. So we have the same capital needs that all banks do for growth, for innovation, de novo formation. Very excited that three years ago we had the first de novo capital -- I'm sorry, de novo mutual form in the country in New Hampshire. Needed for capital planning, acquisition, and accounting, offsetting, taking the edge off of a fair value mark, and for general risk management purposes. But for 50 years, mutual banks got disconnected from the capital markets. It's legal, it's permissible, and it's not the blame of anyone. It's just the trends in different capital schemes as they formed and evolved. But I'm excited that in the last couple of years, we've dusted off provisions. It's legal -- Like I mentioned, it's legally permissible. And we've had three capital raises. So one of our five banks is a minority depository institution. It successfully completed a $5 million capital raise. But there was a consequence in doing it. And it took -- The entity in New Hampshire that formed, it took one of our subsidiaries and another one somewhere between 12 and 24 months to get approval to do it for something that's legal and permissible. And no complaining about it. It's -- We're in unchartered territory or territory that hadn't been visited in half a century. But there's a real opportunity here. And we appreciate some of the dialogue we've had with the Federal Reserve and other regulators for the three regulators to standardize and clarify what the pre-approval criteria are so that we can be pre-approved. That we can go to the market in two weeks, a month without having to go through spending a half a million dollars on legal fees to raise 5 million in capital, and to generally have predictable outcomes. And I think in any capital solution we come up with today, or liquidity solution, standardization, clarity, pre-approval for low-risk actions, and predictable outcomes is an important outcome. And then finally, for the mutuals in the room and there are several of us here today, to have that being part of our capital plan and accepted by regulators. Mm-hmm. I think if we can achieve those objectives of standardization, pre-approval, predictable outcomes, and it being regulatorily acceptable in a coordinated way among all agencies, that's a win so.

JOHN EGGEMEYER. I want to now take a step back and look at how I think about capital adequacy. I think the numerical number of capital that a bank has, measured however it's measured, is certainly one indicator of stability in the bank and its ability to be safe and sound. But a comment was made earlier, which I agree completely on, which is the profitability of the bank and the source of that profitability is perhaps more important than the level of the capital. If you're earning 150 basis points on assets, you can replace a lot of capital that is lost through the deterioration in asset quality. And then I think the third leg to this stool is liquidity. And I'd like to now pivot to that discussion. The events of two and a half years ago, to me, were absolutely frightening. Like I said, I've been in the business for 57 years. I do not recall ever having seen a deposit run. And you can ask yourself why. You know, why did this occur? I mean, if Silicon Valley actually raised a billion dollars of equity the year before, was it really an equity issue? The -- Having been very close to that with one of my banks that I'm involved with, social media played a huge role in that. And so as we think about liquidity and how should we be managing liquidity on a go-forward basis. I'll throw that out as an important regulatory issue, which is the ability of the bank to monitor social media. I realize the run that we had were isolated to large banks on the east and west coast, and not the middle part of the country. But that does not mean that it cannot occur in the middle part of the country. So to my colleagues who are here from the middle part of the country generally -- Central Pennsylvania is considered Midwest, I believe.

GREG HAYES. Yeah, you could consider, you know, as we get towards Pittsburgh, we get a -- You're close. -- change in colloquialisms that call you Midwest.

JOHN EGGEMEYER. So did the events of two and a half years ago change how you thought about liquidity? Greg?

GREG HAYES. Well, yeah. I'll start off. For us, we've been growing at a significant pace. And the competitiveness for deposits in the traditional community bank model has created the need for us to manage liquidity differently, and manage our balance sheet differently, and hedge interest rate risk with more complex balance sheet management. But liquidity, for us, it's the access to off-balance sheet liquidity that really is the tool we have. And it is a diverse set of products that are available to us that are very complementary. We and our friends from the Philadelphia Fed are here, use the Fed window every day. And we use it quite a bit. But we use it as part of our -- managing our duration risk. We will borrow from our FHLB friends. We will use brokered, both CDs and more liquid brokered deposits. We manage our Fed borrowings, other sources of borrowings. And it allows us to manage growth. It allows us to manage our liquidity. But we pledge all of our assets for immediate availability. It's not next day. If we had to sell a security, we'd have to wait a day or two to get that liquidity. This is immediate access to liquidity that is more than 50 percent of our total assets. And access to that kind of immediate liquidity allows us to manage the balance sheet. And when you think about the Fed window and the FHLB, they're very complementary. Especially for us. And we're in and out of different positions because it allows us to manage interest rate risk. And if you look at our margin over the last six years, we have maintained a margin between 320 basis points and 340 basis points steady for six years, in one of the most rapidly increasing rate environments we've ever seen. As well as now, what we're seeing is a normalizing of that yield curve and rates -- short-term rates coming down. And so we've got a great finance team. They do amazing work. We've got a great leadership team and board. We're involved, we're engaged, we're having conversations every day. We're settling, sometimes, twice a day because we know that liquidity is what creates the issues for banks. The answer to the question is always more capital, but it's really about liquidity. And the sophistication of how we manage that is critical.

JAMES VACCARO. Yeah, I think it's critically important. I also think the framework is really important to understand what happened pursuant to the 2023 events, or crises or, as we heard this morning from the Secretary of Treasury, debacle. I think everybody in this room are relationship managers and relationship bankers versus transactional bankers. And what we saw in 2023, to a great degree, was a function of large organization built upon certain kinds of transactions that were subject to what I refer to as velocity risk. And community banks don't have that same kind of risk profile. And so do we look at liquidity differently? Yeah, I think there's been a redefinition of what liquidity is. Not because it affected our business model. Because the regulatory framework says we should look at it differently now. There was no such thing three years ago of a term called uninsured deposits. Because nobody cared. Right? And now everybody says well, I need to have either on or off balance sheet liquidity equal to some multiple of my uninsured deposits just in case. And I was reporting to our State Department of Banking twice a day in terms of liquidity. Not a great use of time in the finance area. It didn't really add any strategic value to our organization. But it's something that we need to do. Today, you know, between on and off balance sheet liquidity, and we use Federal Home Loan Bank really as a balance sheet management tool as much as anything else. And we use a federal -- The FRB discount window, we would use that really as a primary liquidity vehicle. But today, between the on and off balance sheet, it's about a third of my balance sheet. Over a billion dollars. And that's fine when you have an inverted yield curve and short-term rates are real high. But what happens when they start moving down and you start having margin compression because of the amount of liquidity, either on or off balance sheet, that you have to maintain? And the stress test, we just talked about how important earnings are. So I think that, again, there's got to be some kind of recalibration of who we are. What the business model is. And the risk profile versus the organizations that got subject to that velocity risk in -- Well -- -- 2023.

JOHN EGGEMEYER. I think to respond to Jim in the nature of the deposits of those banks, those four banks that failed. They were large commercial banks. And so they had customers that had some outsized deposits. And so from a regulatory standpoint, as we're looking at tailoring, it seems to me an important question -- Mm. -- which would speak to, I think, what Jim was saying, is the granularity of the deposits at the bank. Because the runs that occurred were not the consumers, for the most part. But it was the large customers where when the government came out and said by the way, we have banks that are too big to fail, money started to flee to JP Morgan, and Bank of America, and the other banks that are too large to fail. That's a problem. You know? Because it's too easy for a commercial customer to say I can't take the risk. I'm just going to move the deposits to a bank that's too big to fail. And the only thing that began to stabilize that, and I saw it firsthand, was the Fed's term lending facility. It was made very clear that the administration had no interest in stepping in to try to stop the deposit run. But thanks to the Fed and the creation of the term lending facility, it provided enough support to stop the bleeding.

GREG HAYES. And John, I'll just add, and we didn't do it out of -- we didn't have any risk. And we didn't have a lot of deposit outflows during that period. The creation of the term funding program is really what opened the door for us to have a better relationship with the Federal Reserve, to have the window be something that was not only in place and tested. It was something that we began using on a more daily basis. And I know, Cathy, you had talked about how we can get more banks educated on CBLR, but also on the Fed window. Yeah. And how the Fed can help community banks realize it's more than a contingency tool. It can be a daily or even integrated tool to managing your liquidity.

CATHY OWEN. Yeah, I agree 100 percent. Most of the small community banks are well-informed on the Federal Home Loan Bank. But the discount window, they're not. And they need that education and that understanding in how to set it up and to test it on a regular basis.

MARK SCHIFFERDECKER. Yeah. And, unfortunately, there's still a stigma, even though -- There is. -- the Feds tried to do that. But I -- You know, 20 years ago, I was thinking the Fed model was a little different. We all had Fed reps that came out to our banks, community banks, and called on us and helped explain the products and services and things like that. But the model's different now. So I still think there's among -- at least among small community banks, there's still a stigma about the discount window. And we're big believers in FHL Bank. They're game changers for us. But I still think the two windows are complementary to each other, as I think Greg or somebody said. And so if the Fed could do more to try to communicate, educate, and help particularly smaller community banks understand that that's not a stigma anymore. That's -- Mm. And make sure the banking regulators all understand that. I think that would be very helpful to us as community -- Yeah. -- banks. And one of the things that's also –

JAMES VACCARO. Yeah-- We have discrete sort of custodians of our collateral between Federal Reserve Bank and Federal Home Loan Bank. And if there's some way we can combine those and sort of create this toggle so that they can utilize that same collateral pool and communicate with each other operationally, it would -- for community banks, it would just create a lot more efficiencies.

JOHN EGGEMEYER. Yeah. I need to compliment the Fed going back to the period two and a half years ago. They were incredibly helpful. And they had people working well into the night to log in collateral so that banks could be in a position to borrow under the facility. And it did not go unnoticed by me at all. And I think, you know, we've touched on it here, but I think the idea of having sort of maximum availability at the Fed at all times. Because their charter is to support the safety and soundness of the industry. That is not the charter of the

Federal Home Loan Bank. Federal Home Loan Bank, at a time of crisis, needs to protect its own balance sheet. So what you found two and a half years ago with those banks that were under attack, the Federal Home Loan Bank shut down. And then collateral needed to get moved from there to the Fed. And, again, the Fed was incredibly helpful in doing that. But that is the Fed's mandate. It is not the Home Loan Bank's mandate. Home Loan Bank is there really for interest rate management and sort of normal liquidity management, which all banks use and should use. But let's not confuse, ultimately, at the moment of great crisis, whether they are there as a source of liquidity. And I would say they are not. And it's because not they're bad people, it's just not their charter.

TOM FRASER. Yeah. I think the complementary nature of both is important. Can't be emphasized. I will -- I had a different experience with the Federal Home Loan Bank during the crisis, and I think some of us did too, where actually they were reaching out to say what do you need? Are you good? So they were proactive. And, yes, their mandate's a bit different in terms of housing support -- affordable housing support and liquidity. But it is liquidity, and it's a source of liquidity. So as long as we're prepared going into a crisis, I think that is the big lesson in terms of our liquidity management discount window. Certainly, if we can get that level of participation up among community banks, removing the stigma, that's important. But also testing all those facilities and their availability, and having ample sources of liquidity in a crisis, I think was the important takeaway and the important lesson.

JAMES VACCARO. Yeah, I would echo Tom's comments. Knowing that the Federal Home Loan Bank was there in a time of crisis and they weren't going to back off. It's very similar to the business model that we have, right? And so if you're in a crisis, we're not going to back off. We're this continuity in the marketplace and to have -- I know in the case of Federal

Home Loan Bank in New York, they did the same thing. They did very active outreach and said whatever you need in order to get through this, if there -- if we can do something and if we can help to create a vehicle that may be unique to you, let us know and we're willing to talk about it.

CATHY OWEN. And we've also always found the Federal Home Loan Bank to be there, ready, willing to help us. And I also want to compliment the Fed on helping streamline the Fed discount borrowing process from the old wet signature, and how things have changed and been updated there has also been very helpful.

MARK SCHIFFERDECKER. You know, I'd hate to -- And I don't want to change subjects too much, John, but when we're talking about liquidity, I really wanted to talk about deposit insurance reform just a little bit. There's been a lot said, a lot of things done. Of course, I heard that the Hagerty bill maybe got dropped today, perhaps. And so there's a lot of different things going on. This is a difficult subject, but I feel strongly -- Of course, going back to 2023, I mean, the world has changed with liquidity. And particularly for community banks and regional banks having that deposit insurance reform. I feel so strongly, personally, that I'd like to see -- you know, I'd like to see the cost. I'd really encourage the FDIC and the other regulators, particularly FDIC, show the actuarial numbers of what does universal coverage actually really cost? What is 500 million, you know? Or 500,000. What is, you know, 5 million? Whatever the number is. And I think it's hard to make a stand for deposit insurance reform until you know the cost and the benefits. And so I think that's -- I think that's crucial. I mean, you could make the comment -- you could make the argument that Silicon Valley Bank doesn't fail if there were -- if there was universal deposit insurance. And I know that's way out there, but. So I would really encourage the regulators, particularly the FDIC, to crunch the numbers and -- Because we don't want a reform deposit insurance during the time of a crisis. We want to tackle that during a noncrisis period. So heaven forbid, if there is another crisis, we've got the mechanisms in place for -- to help with liquidity for particularly community banks.

GREG HAYES. I would also say, when we're -- as talking about liquidity, broker deposits. And really appreciate the work of Chairman Hill at the FDIC in kind of eliminating or working to eliminate the outdated legal construct around the perspective of the limits to liquidity management. For a lot of organizations, broker deposits are, you know, exactly how much you can get. You know exactly what it costs. You know exactly how long you're going to have it. And it's not going to run. It's a contract. And so that -- to go out and raise 20 million in my community means I'll probably have to spend a lot on marketing. I don't know exactly how much I'll get. I don't know when I'll get it. And it also -- I'll probably end up repricing a lot of my market rate deposits by doing it. And so there are many tools out there banks have for managing liquidity. And I think we need to make sure that our regulatory agencies are aligned on the perspectives and those tools that are available to us. And not issuing guidance. There's a lot of regulations we have to follow. It comes down to the guidance, sometimes, that really get us caught up in regulatory examination conversations that take us far afield from the risks we have and have -- and are focused more on our process. We heard some of that this morning from Secretary Bessent and I really appreciate it, and from Governor Bowman as well. But when the FHFA guidance that was issued in the past called into question the FHLB, that can be a big issue. And there's got to be stronger alignment and more clear, direct guidance around safety and soundness risk as opposed to process. And I think there's a real opportunity as we look at, whether it's CBLR or liquidity management, there's a lot we do. Stress testing. And model validation. Significant costs. Community banks that are -- Really, the smaller community banks. I know 30 billion might be the new mark for what a community bank is, but that is a big bank compared to all of us. And so we've got to think differently about this idea of tailoring and how it is impacted through guidance that gets issued that really then sends regulators far afield in their process of examining us.

CATHY OWEN. I totally agree. There's been a lot of talk about the 10 billion and going over that mark, but we can't forget the 500 million and the 1 billion mark. We're at the verge of the 500 million. And our regulators are already talking to us about when you hit a billion. So you need to start building those elements in in between. So, I mean, there are just a number of things that need to be looked at. But all those levels of indexing and -- needed to be taken to consideration and the tailoring process. And with a one-time adjustment now to get it right, and then the indexing after that, as Greg mentioned, based on GDP.

MARK SCHIFFERDECKER. Yeah. And I want to give a shout out to the FDIC too for introducing changes to the FDICIA model, which I hope -- I think maybe even by the end of this year will take place. That's going to be -- I mean, Cathy's at the 500, I'm at the billion. And I know the others are, you know, at the next level, 3 billion on up. And so, you know, thank you to the FDIC for opening that up. We've been working on that for years, and it's really nice to see that moving.

JOHN EGGEMEYER. I think one of the other issues that I'd like to talk on, which is not under the control of the Fed, but one where they can exercise influence. And that is CECL. I think it is incredibly bad accounting policy. And I think in terms of safety and soundness --

[Applause]

JOHN EGGEMEYER. So somebody agrees with me? I had given testimony on this, but I was not very persuasive on the subject. The thing that bothers me most about it. There are several things that bother me about it. But in terms of the safety and soundness thing, it is procyclical. So as the, you know, economy starts to deteriorate or you see some softening, the required reserves go up. Which means the loans that you're booking today are marginally profitable, if profitable at all. And so you slow down your lending, which exacerbates the cycle that you're in. And you have the opposite effect when times are good. So I think it's bad from that standpoint. I think the second piece to it is it is an attempt to put science into determining what an appropriate level of reserve is. And then there are all these Q factors that get added to it. So at the end of the day, it's completely subjective again. So it's just very expensive to give it the appearance of objectivity. Objectivity that it does not have.

GREG HAYES. So -- John, just –

JOHN EGGEMEYER. -- let me climb down off that horse. Yeah, yeah.

GREG HAYES. Well, just to put a number -- Great horse to be on. Just to put a number to it. And I know -- It is. -- we want to get to some questions. And we've got to watch our time. But just to put a number to that, if unemployment goes up -- the unemployment projections go up, it could result in us -- And not a small amount. I mean, just marginally if they go up, it could result in us putting up to $1 million more into our reserve. That's $10 million of lending we could be doing. That's -- You know, it's not generating capital because it goes into the reserve instead of -- Now, it might be thought of as capital because it's sitting in reserves. But we cannot consider it capital and we cannot lend on it. And so there might be a thought that we look at reserves a little differently with regard to how we treat capital as well. So just -- It's -- -- a comment.

JOHN EGGEMEYER. It's very interesting when you look at the level of the loan loss reserve over time. It ratcheted down a level after the passage of CECL. So we have fewer reserves, which makes no sense at all. So, again, an issue that I wish the regulators would weigh in on, because the accountants are dug in on this position so.

JAMES VACCARO. Well, that's because the unintended consequences of what it costs you now to validate the CECL model is ridiculous.

JOHN EGGEMEYER. Yeah. Exactly. We've got a couple minutes left here. I thought we might throw the floor open. I'm told only to bankers in here, not Fed staff. But I might let Fed staff get a question in. So would anybody like to pose a question to my panelists here?

ATTENDEE: JOE KASSIM. Hey, Joe Kassim with First Capital Bank in Charleston, South Carolina.

JOHN EGGEMEYER. A very good bank, by the way.

JOE KASSIM. Thank you, Mr. Eggemeyer. We are -- We're kind of in a moment where we have a short window to make lots of changes. And I hear -- I think everyone in the room probably has something very near and dear to their heart, but we also know we can't do everything at once. And so I know what one or two things that I really, really want to see go through as we're trying to reshape what this world looks like. But I would like to hear from the panel, you know, if you can pick one or two things that you really want them focused in on. And I've heard it -- I loved the comment, I think that was Mark, about let's just see what it costs to increase the FDIC insurance. It's not like we're not paying today. All of my clients make me push them through ICS. That's anywhere from five to 12 bips. So I am a conservative so this is going to sound weird. But if you need to charge me a little more on my FDIC insurance, this might wash out. So really just, we get a quick shot with our regulators and our industry to make some big changes. What are the one or two you really thinking going to be impactful?

JOHN EGGEMEYER. Great. Thank you.

MARK SCHIFFERDECKER. I'd start with an understanding of what's achievable right now. What's in the authority of our regulators to change that do not require a statutory change. Focus on that. So I talked earlier about mutual capital. Clearly within the control of the three federal regulators about how it would be implemented. And then I think also in terms of tone, right now, is setting the right set of expectations on future issues that might come up. So we talked a little bit about discount window access and Federal Home Loan -- the Federal Home Loan Bank's role. Making sure that one doesn't replace the other over time. And that there's distinctions between the two. The complementary nature of it. And also an understanding by policymakers that it's not just liquidity we're talking about here, it's also interest rate risk. And that that liquidity access is tied to IRR as well. So I would encourage focus on what's in our control right now and what doesn't require statutory change.

JAMES VACCARO. I would agree. I absolutely agree with that. I think that the regulatory framework on capital is really extraordinarily important, and it's going to drive community banking success. The other thing that I hope to see, and it's a little early yet, is that the tone that we've heard through this entire session gets translated to the field. And so what we hear now is, you know, this is the kind of regulatory framework. You know, and I want to make sure that when the safety and soundness examiners come into the individual institutions, their actions are reflective of the kind of tone that we're hearing today.

MARK SCHIFFERDECKER. We've talked a lot about it, but I think the threshold, regulatory thresholds, I think that goes along with -- Some of that's low-hanging fruit. Of course, the Durbin Amendment at 10 billion is -- that's difficult. I understand that that may -- that's going to be hard to do that. But in terms of, you know, CTRs. There's all these bright lines that are not indexed, and we were just talking about how much of a difference that makes. That scope creep that's happened. And, to me, that's pretty low-hanging fruit that we can get done. And then the second thing, we brought it up again, deposit insurance reform. That's a hard one. It's going to be a hard one. But I think that's -- we can make some -- You know, whether it's a tag-like type program or just the Hagerty bill and some things like that, make some dents. I think some of those things are doable in the shorter term.

CATHY OWEN. Well, and I would say the thresholds would be number one for me. And then the positive things that I've heard on building out a framework to help the smallest of community banks with education on -- Whether it's CBLR, other things. And as new regulations, rules, guidelines, things roll out that they're not having to deal with an 800-page guideline. Or however many or pay somebody to have to come in. Or that they even know or realize the effective dates of it. That we've got to hold on to our community banks and we've got to educate them, since not all of them have the resources to be able to attend conferences and get the training that's necessary there.

GREG HAYES. I'm going to be a little provocative in the context of we talk about bank regulators. I think they need to be activity regulators. The existential threat facing community banking is that -- And we saw it with mortgage banking. We used to do 80 percent of the mortgages in the country. We now do 16 percent of the mortgages in the country. Because mortgage bankers did not -- Or mortgage originators did not have the same level of regulation, CRA requirements, et cetera. We're going to see it with stablecoin, right? If the payments system moves outside of banking, because there's no -- there's a lack of regulation. And I know we're not -- we're not -- we're talking about deregulation, not more regulation. But if you're not regulating the activities of everyone that is moving money or issuing debt or -- the same way. If you're just focused on how you regulate banks, I think we're going to miss out on keeping community banks sustainable as a business model. And so same activity, same regulation is where I hope to see the most significant progress. I don't know if we can do that because I think we're focused on how can we help banks through the banking regulation that exists, and that's unfortunate. But legislatively -- And I know we talked about staying within statutory opportunities. But legislatively, I think we've got to think about that bigger picture relative to banking and banking regulation. I agree with Jim. I think it comes down to how we examine banks. Less subjectivity about how we examine process. And are you doing CTRs, and BSA, and AML the right way versus are you managing the risk? And I really -- I was in Washington last week and had the opportunity to meet with Chairman Hill and with folks from the Fed. And the messages sound like they -- they're moving the right direction on really cleaning up the clarity of this is how you examine under these regulations. And if you're not talking to them about safety, and soundness, and true risk, why are you talking to them? So that's within banking, I think, the biggest opportunity. But we've got to think more broadly about the activity that non-banks doing.

JAMES VACCARO. So I agree with that 100 percent. I think that, if you think about it, that what we need -- We just talked about deregulation. What we need to do is lessen the delta between deregulation and unregulation, because that's our biggest risk as an industry.

JOHN EGGEMEYER. Yeah. So let me wrap up our conversation on capital and liquidity with my wish. And it's not that the CAMELS that you're all familiar with don't measure these components. But they don't look into my way of thinking at integrating safety and soundness viewed from the lens of the level of capital, the level of liquidity, and the profitability of the institution. There are subsets to each of those that I recognize and I think are important. But I do think safety and soundness is the ability to keep your doors open during all market conditions. And that requires capital that give people comfort. And, obviously, a loan loss reserve is part of that capital. Having the liquidity to meet flows in and out on your deposits. And a level of profitability that allows you to restore capital in the face of loss. So thank you. Thank my panelists, Cathy, Jim, Mark, Tom -- Greg and Tom. Greg. We've enjoyed it. Hopefully we have given our bankers and, most importantly, our regulators something to think about today. So thank you.

[Applause]