



www.newmarket.bank

March 6, 2025

James P. Sheesley, Assistant Executive Secretary
Attention: Comments/Legal OES (EGRPRA)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429

RE: Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996

Dear Sir:

New Market Bank (“NMB”) appreciates the opportunity to respond to the Office of the Federal Financial Institutions Examination Council (FFIEC), Office of the Comptroller of Currency (“OCC”), Federal Deposit Insurance Corporation (“FDIC”), and Board of Governors of the Federal Reserve System (Fed) collectively (the “Agencies”) regarding the Economic Growth and Regulatory Paperwork Reduction Act (“EGRPRA”). New Market Bank is an almost 120-year old family-owned community bank serving the southwest Twin Cities Metropolitan area primarily in Dakota and Scott counties of Minnesota with offices located in Elko New Market, Lakeville, and Prior Lake. The communities we serve are on the fringe of the metropolitan area where the city meets country. NMB serves our communities by providing employment opportunities for about 45 team members or 35 FTE’s. We have approximately \$181 million in assets as of 12/31/2024. As a state chartered, Fed non-member bank the FDIC is our prudential regulator.

As a 4th generation community banker, I started my career as a janitor at a young age. Since then, I have had the privilege to work in several areas of the bank including the teller line, bookkeeping, loan operations, compliance, BSA, finance, IT and now I serve the bank as the CEO/President/CFO. This broad range of experiences has allowed me to find an appreciation for all areas of the bank and understand not only how regulation affects us as a community bank but also the affect it has on our customers. I appreciate having the opportunity to share our thoughts through the EGRPRA process.

I understand that regulation is often dictated by statute, but I encourage the regulators to find ways to minimize burden to community banks when there is an ability to interpret or apply the regulation/rule differently. We are committed to serving our communities and customers. Complying with laws is also extremely important to us. However, at times the very laws that we must comply with have unintended consequences as costs both in time and money can become a large burden to a small community bank. These additional costs can cause us to spend less time serving our customers since we have a small staff

that need to both focus on customers and comply with the rules. Both items I would like to comment on (exam cycle and independent audit thresholds), unfortunately have such unintended consequences which change could help to improve.

Safety and Soundness Exam Frequency

I would like to acknowledge that almost 10 years ago the agencies changed the 18-month exam cycle limit to \$1B in assets from \$500MM. This was a great change for those banks under \$1B in asset threshold. I believe, however that for highly-rated, well-capitalized bank an 18-month exam cycle may not be necessary. Banks under \$1B in assets could greatly benefit from a 2-year exam cycle if they maintain their highly rated, well-capitalized status.

For a bank to be considered highly rated, the agencies need to have a sense of confidence that the institution has overall solid risk management and oversight processes. In order to have adequate or more than adequate risk management and oversight, the bank needs to conduct several independent audits throughout a 12- or 18-month period. These audits include BSA, Loan File Review, Internal Audit, Interest Rate Risk Reviews (which include liquidity), IT audits including controls, vulnerability assessments and penetration tests. Due to size, banks under \$1B in assets often don't have the ability to hire independent individuals to do these audits so they hire outside firms that have a high amount of expertise in the various areas. These engagements also usually result in very few findings in highly rated banks but give good best practice recommendations for banks to consider implementing. Since these are also conducted by experts in their field and are done at separate times, the auditors are able to dig into a lot of detail during the engagement - more so than time allows field examiners.

Regarding our bank, the last two safety and soundness exams (one FDIC and one State of MN) have warranted very few recommendations. Only a couple even make it into the report, and were recommendations not at a level of a MRBA or even sometimes a formal finding. Both exams at times had 10+ examiners on site (often times trainees) which I believe is hard on the staffing model for both the examiners but also the bank. Due to staffing limitations, exam notifications have not been as early as in the past and the amount of data to gather and report is voluminous, which puts a large burden on bank staff in a short period of time. Finally, technology became an issue at our recent FDIC Compliance exam as the compliance exam moved platforms for how banks were to upload data. We were told that the plan was to eventually move the Safety and Soundness Exams to the same platform. In our estimation, not being able to upload a large zip file at once with detailed naming conventions for files and having to upload one document at a time per request item probably added 16-20 hours of preparation which again adds a time burden to our team.

Finally, we file our detailed quarterly call reports which are analyzed by the agencies. My understanding is that if there is a change in a ratio or trend that is concerning it is flagged for further investigation. These changes or some sort of external event that cause concern could be a trigger to have a more frequent exam before the 2-year period expires. Typically, banks also have a mid-cycle call with their case manager to go over any changes, concerns, the local economy, etc. which could also indicate a sooner exam may be warranted.

Independent Audit Requirement

The FDIC Part 363 rule requiring banks with assets over \$500MM was implemented over 20 years ago. Since that time, community banks have experienced exponential growth, much of which was related to the pandemic. The \$500MM limit hasn't be indexed for inflation or the changes the industry has experienced. I would request revisiting the asset limit to move it to banks over \$1B in assets.

Although our bank has yet to reach the \$500MM asset size, I have several peers that are reaching it now or surpassed it suddenly during the pandemic. Although we are smaller, we run our banks very similarly and have comparable levels of risk. It appears that a \$500MM bank is more alike a \$200MM bank than a \$1B bank due to the type of transactions conducted and products offered.

The burden on these banks that cross over the \$500MM threshold is large. On average an audit in the MN market costs between \$65,000-\$70,000 per year. This is equivalent to a full-time position at the bank. The audits typically have item requests of over 100 items with related emails over 300 between various people at the bank with the auditors. One bank estimated that their annual audit costs them 140+ hours of their staff's time. The need for independence is also a concern as the bank has to maintain two accounting relationships – one for tax and one for audit. This is an added vendor management burden as due diligence needs to be done annually on two companies rather than one. Overall, the bankers I spoke to that are covered by this rule find very little value as there are often no findings and few recommendations for best practices.

In conclusion, New Market Bank requests the Agencies to carefully consider our comments and address our concerns. As a community bank we pride ourselves on serving the needs of our communities, which includes embracing and following regulatory compliance requirements. Redirecting our resources to meet the over burdensome, duplicative, and contradictory regulatory requirements diverts us from fully meeting the community's needs. We appreciate the opportunity to provide written comments. I would be happy to respond to any questions you may have by contacting me at [REDACTED].

Sincerely,

/s/

Anita Drentlaw
CEO/President/CFO