Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
April 4, 2023

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a virtual meeting at 8:15 a.m. on April 4, 2023.

In accordance with the provisions of the Federal Advisory Committee Act (Public Law 92-463), the meeting was open to the public from 8:15 a.m. to 2:30 p.m.

Advisory Committee Members Present

Peter Abt, David Barksdale, Paul Gilbody, George Hermann, Thomas Newbern, David Reynolds, Thomas Rudzewick, Steven Sloup, Brian Smith and Samuel Wilkinson

OCC Staff Attending

Acting Comptroller of the Currency Michael Hsu, Charlotte Bahin, Julie Blake, Karen Boehler, Michael Brickman, Beverly Cole, Christopher Crawford, John Harootunian, Cristina Im, Anne Kerttula, André King, Ernie Knott, Crystal Maddox, Paul Moloney, Christopher McBride, YooJin Na, Erica Onsager, Benjamin Rudolph, Gjergji Shuku, Demetria Springs, Troy Thornton

Public Meeting
Introduction and General Remarks

Michael Brickman, the OCC's Deputy Comptroller for Specialty Supervision and the Advisory Committee's Designated Federal Officer opened the April 4, 2023, meeting of the 2023-2024 Mutual Savings Association Advisory Committee and welcomed the members. He noted that four members returned from the last two-year term, and six new members joined the Advisory Committee. He summarized the agenda for the day and described the logistics for the meeting, including reminding the Advisory Committee members that the meeting is a public meeting. He noted that the members should not talk about anything that they would not want in a public record. The meeting is streamed live, and the public is invited to attend. The minutes and materials are available on OCC.gov.

Mr. Brickman introduced the OCC staff participating in the meeting. He introduced himself and provided a brief description of his background. He also described his role as the Deputy Comptroller for Specialty Supervision. Specialty Supervision includes four divisions, including Thrift Supervision, which is the division that was created at integration in 2011 when the OTS and the OCC merged.

He said that Thrift Supervision is responsible for representing the thrift industry in decisions and matters requiring policy or regulation, or changes that are proposed for the thrift industry. One of the duties in his role in Thrift Supervision is to serve as the Designated Federal Officer for the Mutual Savings Association Advisory Committee or MSAAC. He described the other three areas for which he is responsible: special supervision, which the problem bank unit that helps resolve or rehabilitate banks that are in bad condition; technology service provider supervision, which is the regional technology service provider portfolios; and novel bank supervision. He explained that he had started his career at the OTS as an examiner in the late nineties and has been at OTS and the OCC for about 25 years.

Mr. Brickman introduced the OCC staff who would participate in the meeting, including speakers who would make presentations later in the meeting and André King, the Designated Federal Officer of the OCC's Minority Depository Institution Advisory Committee. Mr. Brickman explained that the last group of members of the MSAAC had suggested that the two advisory committees consider collaborative efforts or propose a way for mutuals and minority depository institutions to collaborate.

He introduced the OCC staff attending the meeting, including the community bank Deputy Comptrollers who were participating in the meeting remotely. He described that OCC staff from different lines of business, subject matter experts are attending to address any technical questions or make notes of issues raised.

He said that at each meeting the members would have an opportunity to speak directly to the Acting Comptroller to share with him what is going well, what is of concern or what the members are hearing from other mutual community banks. He let the members know that the agenda and what the Advisory Committee considers over the two-year term is largely driven by the interests and concerns of the members. He noted that the agenda includes an hour at the end of the meeting to talk about some of the priority issues that the members want to address as a committee. He also reminded the members that if they have not reviewed the publicly available information about the past meetings or the Advisory Committee that they are able to see the materials on OCC.gov.

Mr. Brickman also noted that the OCC staff wants the discussion at the meetings to be candid and while staff from the Regions and Supervisory Offices attend, the meetings are a "safe space." He said that the OCC staff want to hear both the good and the bad of their experience with the agency.

Member Roundtable

Mr. Brickman introduced Acting Comptroller Michael Hsu. He reminded the Acting Comptroller that four of the members had returned for a second term and that there are six new members. Each of the Advisory Committee members introduced themselves and gave some background about their bank and their market area.

The Acting Comptroller welcomed the members and said that the Advisory Committee is valuable for the OCC and that it is valuable for the members as well to exchange ideas and to do so in a way that helps to shine a light on a part of the banking system that often is overlooked. He said that within the bank regulatory community, mutuals sometimes are an afterthought. The point of the Advisory Committee is to use the meeting as an opportunity to talk about what the

members are seeing and experiencing as wins or challenges, and anything that is top of mind so that the OCC hears that perspective, as a bank regulator.
He noted that the past quarter had been eventful, and he said that he had a few questions for the members. He said that each member could pick whatever they wanted to respond to. He asked about the situation that occurred in March with bank failures and the aftermath. He said that he was curious to hear how the members' institutions fared, what questions customers were asking, and whether there was much concern. He noted that reading the press accounts gives a different impression than what is happening on Main Street. He said that he prefers to talk to bankers and customers to hear their experiences.

An Advisory Committee member thanked the Acting Comptroller for attending the meeting and expressed some of the concerns that a lot of bankers are voicing. He said that the quarter had been unbelievable. He said that he walks on the banking floor everyday reassuring customers that their deposits are safe. He noted that uninsured deposits in a mutual institution are typically very low. He estimated that at his bank they were about 10 percent of the deposits. He said that it has been helpful to have customers come in to talk about the amount of money that they are holding in their deposit accounts and ask how they can get more insurance coverage from the FDIC. They also ask about beneficiaries, look at restructuring accounts, and look at the calculator that is available.

The conversations are very positive with depositors. Borrowers are anxious because they are worried about their funding. They want to know if they are going to be able to close loans that are in process. The Advisory Committee member said that the bank normally has a strong pipeline of loans. The new applications that are coming in are probably at the highest level as it has been over the last 18 months. There have been more concerns about funding over the last quarter. He said that he thinks conversations are positive. He said his job is to calm people down, remind them not to listen to everything the media says and to come to the bank to ask the experts.

The Acting Comptroller asked whether the member was able to engage customers before they did anything. The Advisory Committee member said that it depended. Some customers came into the bank and were upset, others had conversations when they saw the bank's management or staff at church, in the supermarket, or at a social event and when they come into the bank, they are calmer. Because of the proximity to Signature Bank, a lot of business customers come to the bank to inquire about loans but bank does not have commercial business so it cannot do a commercial line of credit, but staff refers inquiries to other banks, usually other mutuals in the neighborhood.

Another Advisory Committee member said that they believe that most of the community banks appear to have benefited from the events of March, although the first couple days were tough. He noted that his bank had several clients come in and want to talk about deposit insurance limits and the health of the bank. He reminds customers that the bank has been there 120 years and has been through a number of cycles. The bank's uninsured deposits are about 15 percent of total deposits. He said the bank could liquidate the entire, investment portfolio and still be well-capitalized. He said that the average deposit is $37,000, compared to Silicon Valley Bank's average deposit at $1.2 million.

Another Advisory Committee member said he is concerned about the unintended consequences of what is being discussed at the regulatory agencies and in Congress. He said that community banks benefited because customers know them and come in to talk. The member mentioned that it was a Twitter-led run on a bank that happened in 24 hours and that their bank does not get on Twitter a lot. Customers can come in and they know their local banker. They can talk to the bankers about how to get more than $250,000 of deposit insurance coverage.

The Advisory Committee member said that they have seen the movement of money each week and look to see who is benefiting and it looks like banking is seeing an outflow of deposits. Community banks that know their client base and have been around 120 years or more, have customers who see them as a safe haven. The Advisory Committee member said that his bank benefited. He said that the strength of community banks and mutuals in particular is the ability to connect with the customer. They are able to provide personal assurances and they put messages on social media about the bank's strength, the capital base, and the longevity. He said that they had called customers with larger accounts and gotten feedback from them and gave them assurances. He said that it is early, but he thinks community banks could benefit from the flight to quality. There are some reasons larger companies and individuals might want to go to the largest banks, but he thinks there are reasons to go to a community bank where customers can pick up the phone and know the person who answers.

An Advisory Committee member said that the response of the government with the Treasury facility was well done at the right time. He said that his concern was with the commercial customers who have large amounts of working capital that are above the insured deposit limits but are amounts they need to run their business. His bank staff was able to reach out, explain how that limits work and the customers calmed down. They are sophisticated people. The bank's deposits have grown during the period.

He said that his concern is messaging. His bank is having conversations one-on-one because he is afraid that if they put something out, it may be misunderstood, one person may read it one way, somebody else may read it another way. He also said that he hopes the banking agencies find out what really happened and not create solutions for problems that may not exist. He said that is what happens in the community bank and mutual bank space, there many well-intentioned changes for larger banks but they trickle down in a way that has impact on community bank operations that nobody intended.

The Advisory Committee member said that it is important that the investigations that are underway are concluded and that the cause is identified, rather than introducing legislation now. An Advisory Committee member said that in their community they have been in the market long enough to where everybody brings their money to the bank. Ninety percent of the bank's deposits are insured. The makeup of the banks that failed is not the same as a community banks.

An Advisory Committee member said that being a mutual is special. The member said that he has been in community banking for about 42 years and the last seven have been in a mutual. He said that customers realize that mutuals have the staff whose main concern is the customer, the

"owner" of the institution. Every year he thinks about what the mutual will do on income, but when he was at a commercial bank, he thought about what the bank can do to earn fees.
He said that at a mutual, he thinks what the bank can do for the "owners" - give them the best deal and still make a profit and serve the community. He said that he looks in the room and based on the discussion, the members on the Advisory Committee do the same thing. Being a mutual is special.

An Advisory Committee member said that his bank is very small with one branch, and it was easy for them to communicate with their customers about what was happening with the bank. It has been in business for 135 years and customers know that their money is safe. There were a few customers were anxious and they came to ask what was going to happen. The bank's uninsured deposits are about 20 percent of deposits.

He said that one of the issues was the timing of the event. The first failure was on a Thursday. Bank management strategized all weekend how to use the news of the failures as an opportunity because the bank is a small savings and loan that has moved into the commercial lending business over the last five years. They are trying to grow the liability side of the balance sheet because the asset side is where they want it. They viewed the current situation as an opportunity because they have 34 percent capital and a lot of liquidity. They believe that if customers have uninsured deposits, they would feel safer than elsewhere.

He said that the bigger banks cannot compete with the speed and the ability to underwrite a credit, get it done and closed. On the deposit side the bank is not as good as the bigger banks because it does not have all the bells and whistles. He said that by competing on the liability side, the deposit side has to be a relationship. It has to be customer and service focused. He said that as a mutual, they play on those advantages.

An Advisory Committee member said that his bank did not experience any customer anxiety and the bank has had nice deposit growth. He described a program that impacts his market. In Massachusetts, state-chartered banks participate in a private deposit insurance fund. These banks are able to market that every dollar on deposit above the FDIC insurance level is insured. He said that it has very little effect. He said that at his previous bank, which was a state chartered mutual, in times like these, they would market the excess insurance very aggressively and it did not have a meaningful impact on where customers choose to put their deposits.

An Advisory Committee member said that it is important to tell Congress to look for where gaps were and how to fix them, but it needs to be done in an orderly fashion. He added that he is concerned about the unintended consequences. The first of which is that regulatory overreach is going to eventually trickle down to the community banks. The second concern is the cost to the Deposit Insurance Fund. He said that community banks do not want to have to pay for the $23 billion charge that the fund just took. He also that he has a concern about systemic risk. He said that Congress and the agencies have to be careful about which banks get the lifeline. He noted that if all ten Advisory Committee members were combined, it would be a $10.4 billion bank, which is not systemic. He said that he is concerned about long-term who gets the deal and who does not.

The Acting Comptroller said that he wanted to circle back on two things because they have come up now a couple times, the first is concerns on regulatory over reach. An Advisory Committee member said that there is a lot of speculation in the media and there in concern that new requirements will trickle down to community banks. The Acting Comptroller asked what they were most concerned about that the OCC should be aware of.

An Advisory Committee member said that is it an unknown now but there is a vague sense of more. Community banks are still worried about some requirements of Dodd Frank, for example, the CFPB has just issued the rule on small business reporting. He said there are other unknowns for example, what level of stress test does a billion-dollar bank need to go through and how much more liquidity will be required. He noted that most mutuals are well-capitalized and have good liquidity but may have some sensitivity issues because they do not sell mortgages.

An Advisory Committee member said that he was recently at a meeting of mutual bankers. One of the bankers said that his CFO received a call from the FDIC and wanted to know what was the bank's amount of uninsured deposits and how the bank would liquidate them. The member said that was within days of the bank failures. He said that they do not know really where that next bullet is going to come from or how they are going to be able to react to it.

An Advisory Committee member said that he is worried about the future of community banking. As large banks close branches, consumers follow the large bank. The member said that he does not think that the large banks will sponsor little league, help the church put on a new roof or help the schools that are in the community. Large banks are not there for the community. Community bankers run the small Kiwanis clubs or rotary clubs and ask branch managers at the large banks to join but they do not stay for long in the community.

An Advisory Committee member said that there are so many things going on in financial services now. He said that they have get a handle on what it means to be a mutual bank and what it means to the community because the community needs the mutual banks. The Acting Comptroller said that he hears a number of interesting short-term consequences from the events of March. He said that he thinks that thematically consumers are reaching out and asking a lot of questions. He said that is not necessarily a bad thing for consumers to be reminded of what a bank is and what it does and what the mutual bank relationship is, especially if it can be explained to them when they walk into a branch or make a call. He said that unfortunately there is a lot of misinformation that bankers and the agencies have to figure out how to combat. He also noted how quickly the information spreads now and how quickly markets react.

The Acting Comptroller said that another question is how to define a diverse banking system. He said the usual way is through size differences. He said that the more he talks to bankers, it is more complicated, for example, mutuals are different because they have a different business model in terms of ownership structure and interaction with the community. That is part of the diversity that should be preserved if not expanded. Also, community banks are very heterogeneous. There are lots of different kinds of community banks serving different areas. He said it is necessary to start to measure the industry in a serious way because of how changes affect banks not just in regulation but also in the rate environment and in how people interact with the financial system.

The Acting Comptroller said that it is important to have a better sense of what we are trying to preserve, what we need to preserve, where, why, and how, and not just at a high level. He said that he looks forward to working with the Advisory Committee members over time to really flesh some of these points. He said that he thinks that consumers have an intuitive sense of why a community bank is important and is relevant to them. But at a policy level, there needs to be more work especially here in DC and more broadly.

The Acting Comptroller asked what the Advisory Committee members are seeing and hearing about the economy and what is happening. An Advisory Committee member said that he would like to see rates come down. He said that loan demand is strong, and his community is in a growth mode. He said that all banks would have a hard time with a run on the bank and the challenges of easy communication using social media. Mutuals work hard at having a strong capital base. It is hard to see some large banks that have to be bailed out and ultimately community banks fund some of that.

An Advisory Committee member said that his bank's commercial pipeline continues to be okay. The mortgage pipeline diminished because of construction. The focus on construction is on affordability and the higher interest rates are keeping some buyers out of the market. He said that he is concerned about rising deposit costs.

An Advisory Committee member said that his bank's mortgage business is strong now. He said that in his opinion the bank should have started bumping interest rates up a year before it did. Inflation is still here and there is a supply chain issue in this country. As long as that is the case and the consumer seems to spend and spend, the Fed is going to have to continue to fight inflation.

An Advisory Committee member said that in his market, consumers are moving in from South Florida as well as New York, Chicago, and New Jersey. The construction business is doing well.

An Advisory Committee said that his bank is near Midtown Manhattan, and he sees vacant office building floors and that worries him. Those leases are five- and 10- year leases and are starting to come due. As that moves through the market, the unintended consequence is that small businesses that were hurt through the pandemic, will be hurt again. There is weakness in the commercial market that is going to trickle down. He said that commercial customers will take a little bit lower balance as long as they come into an institution that they know will be around. They know the rate is going to be pretty good. Because as a community bank, as a mutual, the rates are normally more competitive.

An Advisory Committee member said that when he sees big real estate holding companies hand back keys to a bank, it is scary. He said what is happening is a lot of underwriters are bumping up some of their guidelines, for example debt to income, the loan to values are changing. There are more stringent lending policies, which is going to really affect the consumer because they will not be able to get the line of credit that they need. He said that in his market there are a lot of commercial vacancies in office buildings.

An Advisory Committee member said that because of the size of his bank, they have been able to do things, the loan to values are reasonable, the debt service coverage is reasonable. He said that when these loans reset, they are resetting two percentage or three percentage points higher than they were five years ago. The other concern is that, particularly in their market, there has been a population exodus. Consumers are moving south into less expensive markets to do business. There are a number of reasons, taxes, transportation, and cost of living

An Advisory Committee member said that all cycles come to an end, and he thinks the economy is headed into recession. There are mixed signals, and it is just a question of timing. He said that it is the speed that it could possibly occur is more worrisome to him than the event that is inevitable.

The Acting Comptroller said that it argues for some caution, a lot of attention on concentrations, and a degree of conservatism and prudence so that banks can weather the change. The range of possible outcomes is varied, and banks and the agency have to be prepared for it. In the lead up to the last recession where it felt a little bit like this was in 2006. People talked about credit saying the fundamentals do not seem great, but spreads are tight.

He said that is it good to remind ourselves that there are some worrisome signs out there. It is good to pay heed to those, but not to overreact. Talk to each other. An Advisory Committee member said that staff at his bank are looking closely at commercial real estate and the office market. They have been having conversations early with tenants. They have constructive conversations with the guarantors and the key is having good guarantors and that they have a stake in the building and good equity.

An Advisory Committee raised CFPB's small business data collection rule and said that bankers complain because of the extra compliance, he said that for commercial small business customers, it is difficult to get appropriate financial information from them now and to ask them for 31 fields about who they are, what they are, what you know, where things are. They are going to be reluctant to provide that information. The question becomes how it is going to be used. He gave an example of two funeral homes in the market. Each funeral home can figure out from the data that the other funeral home was, was borrowing and things of that nature.

The Advisory Committee member said that the data collection is very intrusive on the business side. He said he knows it is well-intentioned legislation, but he does not think that it has been looked at from all sides.

The Acting Comptroller said that he had one more topic to ask about. He asked about fraud. He has heard that fraud has increased, and he asked the Advisory Committee members for their experience.

An Advisory Committee member responded that fraud is the most rampant that he has seen in decades. He thinks that people are desperate. Pandemic government checks stopped coming and the perpetrators are looking for another source of money. He said that in his market there is a lot of fraud involving the mail. Either the fraudsters have figured out a way to steal checks out of the mail or have other schemes involving mailboxes. Customers who mail checks to pay for routine expenses have lost thousands of dollars. They pay their utility bills, their credit cards, their phone bills, by check. He said that his customer's checking balances are much higher than a lot of other institutions. He said that elder abuse piece is also concerning. He said that they have spent hours on the phone successfully resolving cases in which an elderly person has fallen for a fraud. There is not always a good result, and the bank cannot always take any action.

He said that another scam is a romance scam. Because customers have relationships at the banks the bank staff can help customers if they tell staff what is going on. The Advisory Committee member said that when a community bank tried to stop payment in a situation the bank staff believe is a fraud, and a larger bank is involved, the community bank frequently has a problem getting cooperation from that other bank. They are reluctant to help, the larger bank has already taken the deposit and the money has been transferred. The larger banks are not willing to help or cannot find a way to help. Several Advisory Committee members also said that they are concerned about cyber security.

An Advisory Committee member said that he had a question about the Federal Home Loan Banks. He said that many mutuals rely heavily on the Federal Home Loan Bank System and he said that he is interested in the study of the System that the FHFA is doing. He said that he had listened to the calls the FHFA has had to inform the study. He said that whatever comes out of the study needs to keep community banks in mind.

An Advisory Committee member said that he would like to see what some of those proposals are going to be. He knows that Federal Home Loan Banks have gotten themselves into trouble with some of the failures that have occurred. They are the lifeblood of community banks and the member said that borrowing from the Federal Home Loan Banks gives community banks the sense of keeping money in their community because they know they can borrow against the loans.

The Acting Comptroller thanked the member for the question and said he would talk about it with the FHFA. He thanked the members for the discussion and said that if the members have particular topics for him to let him know.

Economic Update

Mr. Brickman welcomed Paul Moloney, Lead Economic Expert, Economic and Banking Condition in the OCC's Supervision Risk and Analysis business unit.

Mr. Moloney introduced himself and asked that the discussion be as interactive as possible. He said that because there is so much information available, it is hard to see what is going on. He noted that many of the key data sets have not reflected the March crisis because it happened so quickly. Much of the economic data lags, but he tried to incorporate some of the market views and the best data available to capture what is going on. Inflation might have peaked, but it's still far above the Federal Reserve's target. The markets are not necessarily on the same page as the Fed, which has been evident for the last several years. The presentation is posted on the MSAAC page on OCC.gov.

Mr. Moloney started his presentation on slide 4 with a discussion of the recent history of GDP growth. He noted that real GDP is an annual rate and last year there were two quarters of negative GDP. The end of 2022 showed pretty strong GDP growth. The amount of volatility in GDP last year was in items like inventories and net exports that are volatile and do not connect to the overall real economy. The outlook shows a fair amount of uncertainty. Mr. Moloney explained that the blue chip forecast is the 50 leading economists who have their monthly view of what is going on over the next eight quarters. And he noted that the yellow and orange lines on the slide are fairly far apart in the beginning of 2023. It converges towards the end of that horizon in 2024. There are a couple quarters of very mild downturns, about 60 percent of the economists think there will be a recession in 2023. That is in the most recent blue chip report. He said that the right side of the slide shows the quarterly average unemployment rate, and that the historically low unemployment has not changed that much despite what the Fed has been doing over the last year.

Slide five focused on the labor market and shows a very robust job growth in early 2023. In January the numbers were surprising as many expectations were not for growth that high, over 500,000 jobs created in 2023, but over the last year there has generally been a notching down from very high levels of job growth in 2021. Many economists think the numbers need to be closer to a hundred or 150,000 jobs for the Fed to be comfortable with the way the job market is.

The quits rate and wage growth together are correlated. When there is confidence and people are quitting, they are going on and getting new jobs that are paying more. That phenomenon is very strong and elevated and starting to come down. The question is, how quick this process will be, but overall it is a very resilient labor market.

Slide six shows inflation and shows the “Super Core.” The super core, is the core CPI but it excludes housing. Because of the natural lag in housing there is a focus on the new measure called Super Core. Super core has been hovering around, four percent. On the left of the slide that is still well above the core inflation goal. It is not as high as the headline number, but the concern is that there is a persistent, more protracted inflation that is occurring in the services area. The Fed policy stance is that there will be higher inflation for longer because it has not been stamped out to a level that would be consistent with the Fed’s goal.

An Advisory Committee member asked whether the recent rise of oil prices would add to core CPI and super core CPI or would it be deflationary. Mr. Moloney responded that the day before the price of oil had had a pretty noticeable jump and that as much as different measures of inflation are isolated, it is hard not to have some seeping in when there is a spillover from energy or food. It likely is going to make the Fed's job harder if there are higher oil prices. There is a school of thought that says though that because the consumer's going to have to be spending more at the gas pump, they are going to slow their other core spending,

He noted that there are regional variations on the amount the cost of oil that impacts consumer spending. He said that in certain areas where driving is much more a part of everyday life that affects is greater. Certain states like Arizona and Georgia have different inflation rates than states in the Northeast.

Slide seven provides the leading economic indicators index, and the 10 different components that are included. The data on the slide go back to the late seventies and recessions are reviewed. There are three ways to categorize them or to evaluate them. They are depth, duration and dispersion, and depth and dispersion are covered on the slide. The critical value is when this index falls by more than a five percent, and this is on a six-month horizon annualized. Those are the examples of the times that a recession is imminent.

Slide eight highlights the yield curves over time. The 10- year, three-month is the first one. The other is the favorite of the Federal Reserve in recent times, and it is the near term spread or the three-month bill today, and then it is compared to what that is 18 months forward. But that has switched over the last four or five months. Mr. Moloney asked the Advisory Committee members about their expectations.

An Advisory Committee member said that the challenge is still wages and noted that it is good to see the quits are slowing, but they do not seem to be slowing on the entry level type of positions. It seems to have stabilized in the skill positions in his bank, so they are not having issues with that. But, on the entry level, the competition is Amazon and a lot of similar companies. Younger employees are trying to find themselves and what they want to do with the rest of their lives. So, there is still a lot of transition going on, whether they want to make a career of banking or not. But the rest of the quits on the other side definitely slowed down and stabilized except for commercial and credit analysts. These applicants can work anywhere at this point.

Mr. Moloney said that he would return to the labor information that is specific to the banking industry. To conclude on the macro and the financial markets discussion, he pointed out that the current environment is a battle between the market and the Fed. The market implied rate is at or near peak and expected to come down throughout 2023. That contrasts with the quarterly Fed Funds rate in 2023.

He noted that there is a lot of good reason to be cautious. For a year the Fed was saying not to worry about inflation, and now it says it is expected higher for longer. The question is whether the Fed will have that resolved if the economy starts showing even more cracks throughout the summer into the fall. Mr. Maloney asked about the velocity of change that occurred in previous rate increase environments.

He pointed out that at the end of 2004 through mid 2006, rates went up quickly and then dropped precipitously as they got into 2008 and 2009. Then rates were stable until about 2016. He said that the projections going forward look to seeing some stability in the first quarter of 2024. The market is baking in rate cuts by the end of the year where the Fed’s dot plot rates would stay elevated throughout the year. In 2024 rates are projected to come down. Mr. Moloney asked the Advisory Committee members how they are looking at rates for the next year, are they expecting rate cuts.

He moved to slide 11 and a discussion of real estate. The discussion will include residential real estate and housing, as well as some discussion of commercial real estate. The slide looks at the last housing cycle. The slide shows the peak approach 2020 versus 2003, in the past 29 months the national home price appreciated 40 percent. That is above the 27 percent from the earlier period. It was a different longer cycle in 2003 in terms of sheer price appreciation, that is what happened in a very short period of time.

On the slide on the right, that is the number of markets, the number of counties and they are bucketed by different price appreciation intervals. It shows 40 to 50 percent as the most concentrated group today. Over a thousand counties over this time period of about three years have seen 40 to 50 percent growth. Inflation is different and some of this is due to the natural price levels, supply chain, other effects.

Slide 12 shows how price appreciation during this period is different than the last time. Last time a lot of what was talked about were the sand colored states the boom/bust markets. For example, the Florida, California, Arizona, Nevada markets were in the news back in the mid 2002's. The states in blue on the left are the less populated counties. Some of them were beneficiaries of the pandemic. The places in the Pacific Northwest and in the mountain west, and the Florida Counties still showing up as well as places like Tennessee and in Mid-Atlantic. It is a different market today than it was back then.

On slide 13 the map shows the markets in more recent times. If June 2022 is the peak of this cycle, and fast forward to the most recent month January, 2023, those markets that have had the most appreciation are now giving back some of that. But it is more of a moderation than it is an absolute collapse or major decline. Mr. Moloney said that he looked at some of the actual metro areas that are picked up here. Eight to ten percent is kind of at the very far end of that distribution. But many markets are still seeing appreciation.

He asked the Advisory Committee members whether in the past few months they had seen any normalization that has not been picked up here. An Advisory Committee said that in his market, there are a lot of cash buyers, which seem to be sustaining the house values in the particular market just because of the lack of supply. Normally where people would be priced out of the market because the rates have gone up and they can not afford as much house, they are still coming in and there is still a fair number of cash buyers. Mr. Moloney said that he does not know if that is skewing some of the results from what has happened historically
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Looking at slide 14, Mr. Moloney asked what is driving the forecast and models. A low inventory, especially of existing homes and a lack of distressed properties on the market will put a floor on what are the expectations. The most pessimistic forecaster would return to March of 2022 levels. That is improved a little bit from November based on some of the baseline forecasts. It is those three things. The demographics and the products are different. In terms of a very small supply of existing homes, that is the view of current housing or residential real estate.

Slide 15 looks at commercial real estate using data from the OCC's main vendor CoStar. CoStar picks up the major CRE markets and this slide has some of the key fundamentals: vacancy rates, NOI and prices. First, about vacancy rates. It is important to look at this at the property type level. There are really two property types that are lagging, the office market and then more recently the multi-family or the apartment space. With the office market, the forecast is for continual rise in the vacancy rate peaking out in late 2024 or early 2025.

Mr. Moloney mentioned that CoStar underlying forecast is for an economy that is in a mild recession in 2023. The vacancy rate projection here continues to go up throughout the next couple years. This is in contrast to the forecast for retail and an industrial space. There are other data sets for prices of CRE that do not look quite as benign as what is on this chart. There are some that have office prices going down fairly significantly. This is not the methodology that CoStar has. There are some very different numbers when it comes to CRE prices. An Advisory Committee asked whether the numbers are national numbers and whether there are breakdowns He said that he was surprised by the vacancy in the apartments.

Mr. Moloney said that Slide 16 has more detail for this cycle. First, office space is shown in a couple different ways. There is the urban business district office vacancy and that contrasts with the suburban office vacancy rates. That is what is driving the overall national information for office vacancy numbers is coming from the urban business district where suburban is supposed to go up at a more modest increase compared to those urban business districts.

An Advisory Committee member noted that this also would vary significantly if they looked at multifamily vacancy rates for different metro areas. The information shows the prime urban market is a lower vacancy rate for multi-family than the low-density areas. It is somewhat of a different theme when it comes to breaking these markets down for multi-family. For retail markets, there is not a very significant difference. Over the next few years, the urban business district retail would have had slightly higher vacancies than the suburban but the saving grace for retail is there was not nearly as much of a buildup in retail over the last five to 10 years.

Slide 17 shows different charts that look at apartments. Mr. Moloney explained that since the OCC has reorganized its districts into regions, that is how the data are presented. The real story here is that typically and is has been the case for a long time in terms of affordability, rent to income, it is the northeast that has the least affordable apartments, but since the pandemic, the southeast markets based on the OCC map goes all the way from Florida into Arkansas and Oklahoma. There is a meaningful increase in the rent to income ratios. The affordability measures have changed pretty dramatically in those southeast markets.

Slide 18 is the response to that showing the amount of multi-family units under construction and how they are distributed, luxury and more affordable units. The largest share built especially after the last crisis, was more top-end luxury multi-family units. And that really continues. By some measures, what is scheduled to come online in 2023 is a generational high. It has been many decades since the number of units has been built that are scheduled to come on in 2023, and in part due to demand that came after the pandemic. A lot of the southeast markets but also some other key markets are represented.

Slide 20 shows the mutual bank conditions. Mr. Moloney explained a little bit about the data. At the charter level, there are three types of banks that the OCC supervises - mutuals, stock federal savings associations and other community banks. The institutions are FDIC insured with less than $5 billion in assets.

Slide 21 shows some of the challenges in the labor market. The chart is based on the call report data for salaries and benefits measured per full-time employee as it is captured on the call report.

Mr. Moloney turned to Slide 23 and said that an important part of the story and the outlook is on funding costs. The slide shows that as funding is measured on the call report there are deposit betas or the change in funding as it relates to the overall change in the Fed funds rate for the three types of institution. For some context, the 2015 to 2019 cycle is shown for comparison.

An Advisory Committee member said that he sees advertisements for deposits four and half percent CDs in the newspaper every Sunday. But they have not seen core deposit pricing change as much as the time deposit. An Advisory Committee member said that the Federal Home Loan Banks have increased fees, or the rates are so high that he said he is debating whether to use a Quick Rate CD offering. A mega bank can move their core deposits quickly by offering higher rates, even in branch and he thought a trend that would follow, but it has not happened.

An Advisory Committee member said that he would rather keep the customer in as a customer and the bank is doing more defensive pricing, they are trying to grow the bank and looking to raise rates to get more deposits. The bank is playing defense and sees deposits migrating from what was core into more the time deposits because customers are looking for the higher rates.

An Advisory Committee member said that his bank has been playing catch up by raising rates defensively to match competitors and to keep as many funds as possible. He said that the bank has not been aggressively trying to get new funds and attract hot money, but for the past 10 years consumers are used to an environment where banks were paying nothing. The current environment is where rates went from nothing to the four and a half percent overnight. The bank's customers are not going to move money quickly because that is not the type of customer community bankers have, but they are starting to get there. The longer higher rates remain, customers are more likely to expect higher rates.

If rates stay high, banks will have to pay up and they will see margins compress. An Advisory Committee member said that he thinks that will continue if rates start to come down. He said that the economy is entering a recession. If rates stay higher longer, then the customers will get used to it.

An Advisory Committee member asked Mr. Moloney whether he has looked at any metrics about deposit movements at credit unions. He said that he gets calls from some of the larger credit unions, talking about their deposits going up dramatically in the last few months. When credit unions grow, they can become behemoths. He said that he would hate to see one of them fail because it would be catastrophic for their depositors.

Mr. Moloney said he would look at it. He said that his group has a planned a project to look more deeply at credit unions. Slide 24 shows levels of uninsured deposits. It shows the insured deposits to total liabilities ratio. He said it is not surprising that mutuals have a very high share of insured deposits to total liabilities and over the last few years, the numbers have not changed that much. He noted that for stock thrifts and commercial banks, insured deposit rates are lower and have been declining. Mutual savings associations have 86 percent insured deposits, which is very high. The level speaks for itself in terms of stability.

He turned to Slide 25 which shows the investment portfolio depreciation. The slide shows the same three cohorts. Mr. Moloney said that mutuals have not seen as much depreciation compared to other community institutions, especially the other community banks. When rates normalized at the end of last year, there was mild relief but not a big relief for the other institutions. The mutual line stayed the same. Mr. Moloney asked whether the Advisory Committee members had any insights about whether the duration of the portfolio vis a vis as it is for other community banks.

An Advisory Committee member said that his bank goes short. He explained that they want to have the money available for lending out to the community and did not feel the need to stretch out longer term to try to pick up a couple basis points. He said that it comes down to what the institution is actually using the investment portfolio for. Silicone Valley Bank was a prime example where the bank tried to push the limits completely. He said his bank looks at it temporarily as parking, and ideally, they want to put the money out into the community and have less investments.

Mr. Moloney concluded the economics update with the slide 26 showing the takeaways.

Market Risk Update

Mr. Brickman introduced Christopher McBride, the OCC's Director for Market Risk, in Bank Supervision Policy. He said that a conversation with the Advisory Committee members will be very helpful for OCC staff to get an understanding how mutuals are fairing and how they are reacting to some of the market disruption.

Mr. McBride introduced himself as the Director of Treasury and Market Risk in the OCC's policy division. In that role he serves as the co-chair of the National Market Risk Committee, which is one of the subcommittees of the OCC's National Risk Committee, and the National Market Risk Committee. Michael Chunn, who works on treasury and market risk issues, and supports the National Market Risk Committee, joined Mr. McBride.

Mr. McBride described his background. He started as an examiner at the OTS in 2000 and examined mutual savings associations in several regions and is familiar with concerns of mutual savings associations.

Mr. McBride said that the past month has been very interesting because the events that occurred do not happen very often. He said that in the past 25 years, there have been four such events or time periods. He clarified that he is not implying there is a crisis but that there is an interesting dynamic in the market. He said that he will focus on major things that are the focus of the National Market Risk Committee. From a market risk perspective, the agency is focused on the nuts and bolts of interest rate risk management.

He said that the current environment is similar to the past where the rate increases are hitting at a time when banks have slowed down a little bit on the duration curve. In 2012 to 2018, when there was a low-rate environment he looked at non maturity deposits from the perspective of the Japanese economy. He said that he was interested in what was going to happen from that low-rate environment where there were low interest rates from 2012 to 2018.

Because of the rate environment, the cost of funds was three basis points and banks and companies had to think about how to keep the lights on in that environment. Banks took on more duration and credit risk to get as much as they could because when a 10-year is at one percent, and one hundred basis points are not a lot when the bank needs 200 to 250 basis points to keep the lights on. Banks started to feather in more and more duration risk where the aggregate balance sheet went from 16 percent repricing rate, repricing frequency to over three years to about 27 to 30 percent.

Mr. McBride said that the largest firms waited. The largest firms did not start feathering in duration until about 2017 after the smaller banks with less than a hundred billion in assets had stopped. The larger banks started to go into duration and get further out on the duration curve, trying to buffer the earnings profile.

He said that when those instruments were coming on, they were coming on at lower rate environments, so they were going to have a little bit more interest rate risk. The convexity of the underlying instruments hits, so at the same time as banks were seeing that duration, the agency started watching the banks' interest rate risk profiles much more closely. The agency started doing a data grab of market data every six months. The OCC publishes interest rate risk data statistics, and they show statistics based on the MCBS portfolio in the aggregate. The report breaks it down by cohorts. The data is shown from zero to 100, 100 to 250, then it shows mutuals separately and minority depositories separately as well.

He said that what the OCC saw was that the assumptions were not overly stable. There was more stability than in today's environment because how quickly it can go. But savings and checking accounts were around 25 to 28 percent repricing rate, which is fairly stable. Mutual savings associations are more stable than that on the money market savings account, but that could be the way accounts are bucketed. But the agency really started to see that there were some assumptions that were driving the majority of the models.

There was a lot of asset sensitivity in the results and that was confusing. Because if the whole market is asset sensitive, then that implies a very significant belief that the deposits are not going anywhere. But the deposit assumptions did not move too much. Even today the general situation where the assumptions are that most volatile deposits on the money market savings account are still about 40 to 45 percent.

There is not a lot of volatility, but there is a good amount. Banks believe that 40 to 45 percent will reprice relatively quickly overnight and the remainder stay stable. Mutuals in aggregate for spring of 2022, are at about 32 percent for money market savings account. The mutual assumptions have actually gotten a little bit more stable over the last three or four years from a median of 38 percent down to a median of 32 percent. The report includes outliers, they are at 38 percent to 23 percent.

From a statistical standpoint, everybody is around 32 percent, which is fairly stable in the current environment. Thirty two percent is not the most aggressive assumption because the majority of the aggregate banks are around 40 percent, and the mutual savings associations are sitting closer to 32 percent with an outlier sitting at about 38 percent. That is more stable than expected in the current rate environment. Mutual savings associations have different entanglements with their customers and have different deposit profiles.

Mr. McBride asked whether there are any thoughts on the 32 percent deposit assumption on money market savings accounts or legacy deposits. An Advisory Committee member said that his bank has depositors that have been customers for generations. Certain deposits are very stable. If the bank grows those legacy deposits do not grow. If the bank goes to a different market, the legacy deposits and families will stay in the original location and the new locations will not have a similar type of legacy deposits. That is what provides a certain amount of the underlying stability. But as the bank grows, it cannot clone them or replicate them in a new location. That number as a percentage of the deposits is going to decrease over time.
The Advisory Committee member said that his bank's deposits are about seven years old in the aggregate or an economic cycle. It is higher than non-mutual peers.

An Advisory Committee member said that his bank offers passbook accounts, and they are relatively popular. It is a sticky product with growing balances. As the age demographic tips older, it is challenging to get the next generation to understand that a passbook is a good way to save, and it is a good topic on campuses when bank staff talks about financial literacy and saving. It easy is to put money in, but it is not also too easy to take money out when it is in a passbook account. The passbook holder has to come into the bank with the book. Young people are surprised but it is a good way to force savings. It is more like a longer-term goal opportunity and that seems to be attractive.

Mr. McBride asked whether offering passbooks reaps rewards. He asked whether younger customers come into the bank and keep their money there once they establish an account. The Advisory Committee member said that for the younger customers, opening the account has to be online, which can be challenging for the bank. When they understand that the product is going to save them money, they are interested in it. Many times, it is an account that is opened at their birth, their communion or other life event. Money can be deposited electronically or via direct deposit, but to take money out they have to come to a bank.

An Advisory Committee member said that customers will keep accounts to get the perks, for example if the account offers cell phone coverage or roadside protection, they may stay at the bank or new customers may place deposits to get the benefit. He said that it is the middle age group, those customers who are 40 to 60 years old, who actively moves their money. They open accounts online and they will move the money out of those accounts and rate shop.

Mr. McBride asked whether the members got many calls asking whether their money is safe over the last few weeks. Mr. Brickman said that the Acting Comptroller asked that question earlier and most of the members received calls deposit insurance coverage. Mr. McBride followed up with a question about whether the discussions got into rates whether the money is safe or what is going on in the banking industry.

An Advisory Committee member said the bank is not as interest rate sensitive and he thought they would have a lot more calls than they received. There were fewer online questions. He said that the person who calls asking about safety is not the same person calling about the rate on deposits, but they are still calling. The members are getting call on both sides, but there is not a large call volume. Mr. McBride said that he is has been impressed with the ability of mutual savings associations to understand their customer base. An Advisory Committee member said he would lump them into the same demographics. The older group was more concerned about savings.

Mr. McBride asked about the deposit velocity, which is that a portion of deposits will move, but there may not be any deposit velocity. He said that when he started his career, banks were aggregate funded 66 percent by deposits and 30 or 24 percent funded by wholesale money and 10 percent by capital. After 2008 to 2009 there was a flight to quality and banks were now in aggregate funded at about 76 percent of deposits. During the pandemic, banks were funded 86 percent by deposits and now that is coming down.

He said that he did not think he would see the recent numbers. The financial pipelines are money moving through different locations, the money moves from a bank and then it goes back to the bank through the money market funds when they buy Federal Home Loan Bank debt. Then it moves somewhere else, and it gets into the money market. Money is moving around and coming through a different pipe. The interesting thing is the stability of that base. When he started as examiner, he had an understanding the deposit intangible and then that deposit intangible just got more and more valuable over the years to the point where it is at 86 basis points of deposits funding the banking system with 10 percent capital.

He asked whether there is anything from a deposit perspective that people are sensitive to that banks or the agency may not necessarily be measuring or looking at. He said that because of the binary nature of the deposit velocity, a certain amount of money gets moving around. It is the binary nature and once the bank loses the deposit, getting it back probably costs more than the cost of funds. It a matter of the cost of funds. Are there any thoughts on the binary nature of this deposit option to go to a higher cost rate or higher paying rate.

Mr. McBride asked how do the banks look at it from a modeling perspective or are mutual savings associations comfortable with their deposit bases and they do not see a lot of pressure from a depository relationship. An Advisory Committee member said it is relationship driven. The bank will see some money go out, but if it has the key account, that money will come back. If it is a customer who is strictly rate driven, it will come back. He said because of the bank's size, they are very conversational with the customers. They talk to them and know what their needs are.

He said that the bank is more likely to negotiate with somebody with an individual need, something that is possible at a bank up to a certain size but when the bank gets larger that conversation is not possible. He said that the bank empowers the staff to be able to do what they need to do with a customer. If there is something else that is needed, the bank sees where it fits in from a treasury perspective. The bank's deposits cannot be modeled. They are nuanced in a lot of ways.

The investment portfolio analysis is phenomenal because it is almost perfectly accurate. It has not been back tested the way the OCC would expect a bank to back test. But the agency periodically goes through and looks to see what did the investment portfolio do in reality, because there have been a bunch of shocks over the last couple of years that the agency has been doing it. The investment portfolio comes out really accurate which is fun to see because that kind of shows how the value of the entity.

An Advisory Committee member said a few years ago the bank laddered the portfolio. It is a little shorter than it has been and that is good, but he thinks it will also make the bank more disciplined in how the bank laddered and what our mix is. He said as a mutual, they do not have to go for yield as the primary concern. They want to go for soundness and ability to manage the asset liability mix.

An Advisory Committee member said he echoed what the other member said, but he wants to use the discussion as an opportunity to help train examiners. He said that whenever bankers look at the earnings component, there are times they make decisions not to push things because they know that they are here for the long-term. Sometimes a mutual's earnings are not up to the level of other peers. He said that they went through the same exercise and could sell off the whole investment portfolio, shrink the bank and the capital levels would be pretty much exactly the same.

Mr. McBride asked whether anybody's board discussions are having an impact on strategic direction from the investment portfolio perspective or is it still theoretical in board's eyes. An Advisory Committee member said that his board members are involved. The board discussed investment strategies, particularly at executive committee meetings quite frequently. They are some savvy board members, and the bank leans on them as it goes through this cycle. Mr. McBride asked whether they have asked about repositioning portfolios.

Mr. Brickman said that before they move off the topic, one of the things that the agency likes to use the federal advisory committees for, and this is in reaction to something an Advisory Committee member if the members have a about how examiners are going to approach the investment portfolio, how they will examine it or whether they would criticize it because of some embedded losses, let the agency know. He said the reality is that the agency has done a really good job of educating examiners on what it means and what it does not mean.

He said that the key focus would be if the bank had an inordinate concentration with extremely steep losses and it did not have other sources of backup liquidity to the point where the bank would have to sell it, the expectation is that an examiner would criticize or to suggest that the bank should be looking at contingency funding. But if the bank is getting other types of feedback that seem out of line with reality, pass that along either through this committee or through the bank's ADC directly, in the local office, because agency wants to make sure it is getting this right, understanding what the risk is and when it is not a material risk versus when it is.

Mr. Brickman said that both Mr. Moloney and Mr. McBride both referenced materials that their divisions produce and make publicly available on OCC.gov. The different groups with the agency try to tailor some of the materials and reports to include cohorts of mutuals or small community banks so that mutual management can see the nearest peer group comparison for their institution. He explained that part of the role of the Advisory Committee is for the members

to provide feedback on the “products and services” of the OCC that are outside normal supervision. He encouraged the members to look at he economics data that the agency publishes and the market risk information, particularly the interest rate risk report that Mr. McBride referenced to make sure it suits the members needs or to raise awareness and make any recommendations for how it can be improved for the perspective of the mutual industry.
Mr. Brickman said that the Semi-Annual Risk Perspective is used to try to forecast what the OCC will look at as part of the examination work. He noted that much of the information about unrealized losses and investment portfolios was already disclosed and communicated in those semi-annual risk perspectives. He said that the reports have been in line with predicting some of the things that were going to be consequential or concerning in this rising rate environment.

Mr. Brickman said the real question is whether the OCC is doing enough to support the mutual industry, whether the feedback or peer information is what the members and other mutuals need. He noted that during the terms of the Advisory Committee members, OCC experts come to the meetings. He said that at a future meeting financial analyst group will come. That group is within MCBS, and it produces data just for the community bank population. He said that any feedback would help the OCC understand what tools will be beneficial to the members and add value outside of the supervision work.

Mr. Brickman asked Mr. McBride whether he had any other topics within the market risk umbrella that he wanted to bring up or if there is anything that keeps him up at night. Mr. McBride said that he was concerned when depository balances got higher and higher into the aggregate balance sheet. He said that he did not think he would see a situation like Silicon Valley Bank. The bank had grown in size and the largest issues that pop up still pop up around the most basic things, for example which is concentrations. They had a concentration, it might not have been a concentration of how it is usually thought of a concentration but, it is a concentration. The agency may not convey any regulatory concerns, but mutual savings associations may have other concentrations that the OCC is not aware of where if somebody sees it, it could spur in that world and go like wildfire.

It is concentration risk and however it is defined it still gets back to concentration risk. It is the concentrations that seem to catch the agency. In 2008, the crisis started from the concentration of credit to Bear Stearns and then Lehman. He told the members to ask about whatever information the agency can provide that helps the members. The interest rate information was developed because someone asked for it. It was refined as mutual and MDI groups asked for specific information. He said that he appreciates the comments. Mr. Brickman adjourned the morning session and reminded the Advisory Committee members of the planning session that is on the agenda for the afternoon.

Committee Update and Planning

Mr. Brickman introduced the afternoon session of the Advisory Committee meeting. He said that it would be an open discussion and would be an opportunity for the new members to get a sense of the past priorities of the Advisory Committee with time to discuss new ideas.

He started with the potential to do more collaboration with the OCC's Minority Depository Institution Advisory Committee. It looks like there is synergy between the community focus of mutuals, as well as the community focus of the MDI population and they can share thoughts, resources and ideas. One idea would be to leverage the federal advisory committee structure and have a joint meeting between the Mutual Savings Association Advisory Committee and the Minority Depository Institution Advisory Committee or to establish a subcommittee of the two advisory committees.

An alternative would be to have an independent committee to work through ideas, in advance of structuring that sort of an arrangement or that sort of a meeting. Mr. Brickman provided some context about some of the collaborative work that the MDIAC and the OCC have done. The OCC has several initiatives, including Project REACh and the MDI Collaboration Initiative, which involves mid-size banks and OCC-supervised MDIs. Further, there have been multiple ways in which both the large bank population and the regional bank population have come to the table to provide technical assistance and collaborate on product offerings. Examples include ATM networks, loan participations and other products. All those types of relationships have been worked out on an individual bank to bank relationship. The exact framework will not work in the mutual space as well because on the minority side, the large banks and regional banks may receive CRA credit for some of the work that they do with the MDIs. However, if mutuals were to partner with MDIs, any business relationships that they formed as a result of that collaboration may benefit the CRA activities, if communities are being served.

Mr. Brickman said that he wanted to introduce the ideas and have a discussion. He also said that if the Advisory Committee members would like to have a meeting to start the discussion, the OCC would work out the format and logistics. He asked the Advisory Committee members how they would envision effective collaboration between the MDI population and the mutual bank population. He asked where are the best opportunities and whether the Advisory Committee members are interested in pursuing the idea.

An Advisory Committee member said that he supports the idea. He said that mutuals that have MDIs in their markets may be looking for partnerships, some leadership or some mentorship, mentorship being a key. Another Advisory Committee member agreed that a subcommittee meeting would be a good place to start. The member said that getting information about the current collaborations and the work of the MDIAC would be useful. Mr. Brickman said that there are some differences in the agenda of the MDIAC, but the concepts are the same. He asked some follow up questions about what the Advisory Committee members would like to see on a joint subcommittee meeting agenda.

An Advisory Committee member said that it would be helpful to understand the communities the MDIs serve and what kinds of things they want out of a collaboration initiative. Mr. Brickman noted that both groups served by the OCC's Advisory Committees are unique and both are often underrepresented in terms of the landscape of community banks. He said that as collaborative efforts are structured, they need to be separate from some of the things the members want to achieve as a mutual Advisory Committee. It is important for this Advisory Committee to demonstrate the importance of OCC's focus on mutuality. He asked the Advisory Committee members about the possible logistics of the organization of a first meeting to discuss ideas.

An Advisory Committee member said that mutuals have a purpose of giving more to their communities than stock banks and that having a meeting to share ideas and find creative ways to share ideas with MDIs would be useful. Another Advisory Committee member said that it would be useful to show the MDIAC members a framework of what has been successful for mutuals. Mr. Brickman pointed out that if the MSAAC has a joint meeting with the MDIAC, there will be some direct overlap in terms of competitive marketplaces where the banks may be in the same communities trying to make loans or establish deposit relationships with the same people. He asked whether there are reservations or concerns about that. One of the successes of the Advisory Committee is that the members come and share ideas without feeling like the banker sitting next to them will steal their ideas or out-compete the banks by doing it better. He asked whether the members have any concerns about any potential competition as part of a collaboration with that population.

An Advisory Committee member said that it would probably be helpful to both types of institution. There may be some things that because of the respective average sizes of each type of bank a collaboration may be able to do that separately they cannot. Expertise can be shared. The Advisory committee member said that there is more than enough business to explore a collaboration. The member said that he works with bank competitors all the time with state and national trade associations.

Mr. Brickman raised another initiative that was a critical priority for the Advisory Committee in the past was creating a path or framework for de novo mutuals. He asked whether the Advisory Committee members could see more opportunity for mutual de novo activity. In the past, some of the conversations have been about capital raising options and how to structure a de novo charter. When the idea of collaboration with the MDIAC came up, one of the potential topic areas was a de novo mutual MDI. Two community bank charter types, one based on ownership, one based on demographics, and whether there would be value in coming up with strategies to try and achieve a mutual MDI de novo as a goal. Because the interests of a broad range of individuals would be satisfied, would that be a part of the agenda that the Advisory Committee would want to try and achieve.

He reminded the group that the challenge is that the OCC is not able to respond to abstract questions but needs to see a live application. It is hard to give effective guidance based on a theoretical application. A working group could be structured to look at impediments as well as factors that would work toward getting those types of charters to the point of having an application.

An Advisory Committee member said that is a good focus, especially if OCC staff is able to give more context on what kind of entities some of the national, and regional institutions are looking at making investments. A question is whether this is potentially a way that an investment can be combined with some community investment to establish a new MDI in an underserved area. The Advisory Committee members could provide expertise on how to run a mutual.

Another Advisory Committee member said that it is great idea and way to think about it. The mutuals were all started by local businesspeople or local community leaders that saw a need to

form a local institution and they chose the mutual model. Community leaders in underserved areas are always looking for solutions.
Mr. Brickman asked Beverly Cole, the OCC's Senior Deputy Comptroller for Midsize and Community Bank Supervision for her perspective on the possibilities for collaboration. Until recently, Ms. Cole had been the Designated Federal Officer for the MDIAC. She provided some background on the MDIAC work in collaboration and the MDI Collaboration Initiative. She described that when the OCC started talking about collaboration with the regional and large banks, many of the MDIs and large banks were not involved. She said that the first time the OCC brought them to the table, the MDIs criticized her and said that their competitors were at the same meeting. She said that they quickly realized that no one was there to steal customers or relationships. It truly was about collaboration and that it was about establishing relationships because banks do business with people that they have relationships with, banks do transactions with everybody else. She said that they focused their energies on establishing good relationships.

Ms. Cole said that many of the MDIs are very small, so originally the large banks thought they could offer $5 million loan participations. For a lot of MDIs, that is too much capital to invest in one loan. She said that eventually the size of the participations was reduced to about $1 million so that MDIs could participate. Some large banks institutions decided collectively to get together and deposit $250,000 or less into particular MDIs to provide them a stable funding base. Some ideas have included technical assistance in various areas. She said that the larger institutions suggested areas that as a regulator the OCC is good at but does not have the expertise in. For example, she said the OCC does not know how to bring a product to market, but banks do because they do it all the time.

André King, Assistant Deputy Comptroller and DFO of the MDIAC, said that the opportunity to sit in the same room and have these brainstorming discussions with both groups, including about a de novo mutual, is the beginning of some thoughts of how the groups can work together. He said that if the Advisory Committee members are open to having discussions and share experiences more opportunities and more thoughts and ideas will result.

He said that Ms. Cole gave a good synopsis of a number of the collaborations that have been successful. Even before the collaboration initiative, there were a lot of collaborations between large banks and smaller banks, both MDIs and non-MDIs, that worked on community development projects in their communities or, in a part of the community. He said they may have been based on tax incentives or tax credits or some other kind of program that HUD or another government agency, established that a large bank or a regional bank had the resources to figure out. But the MDI or the smaller bank wasn't able to do it. There are a lot of long-term projects, the collaboration initiative is not new. It seems like it is new because the agency has been talking about it more lately, but there are a lot of examples that are mature.

Mr. Brickman summarized the discussion and said that it sounds like a hundred percent or most people on the committee are in favor of doing a joint meeting with the Minority Depository Institution Advisory Committee, where the groups would start to brainstorm ideas of how collaboration between mutuals and MDIs would work. The initial focus can be on de novos as one topic of discussion. The community focus of both types of charters is a common element and he said that an agenda can be built that suits both types of institutions. He said that a second or not preferred project would be working at that regional large bank collaboration level, at least initially the groups will start with just community bank to community bank collaboration and see what can be accomplished there and then maybe consider if there are other opportunities to bring in other players. He asked whether the Advisory Committee members agreed.

An Advisory Committee member said that he agreed but asked how many MDIs are OCC-supervised and he asked their sizes. Mr. King said that there are 53 OCC-regulated MDI and economics presentation showed there are 103 pure mutuals and a hundred and one hundred and forty mutuals, pure mutuals as well as stock banks in a mutual holding company. If the OCC had a Forum for both groups there would be a possible audience of 190 institutions that would be invited. He said that they would not all attend. If the Advisory Committees met, there are ten members on each committee.

Ms. Cole said that the MDIAC has already agreed that exploring collaboration is a good idea at its last committee meeting. Mr. Brickman said that the timing would have to be worked out. Other projects that this committee has worked on include the initial collaboration white paper that the OCC developed and published, mutual specific guidance into the Comptroller's Handbook, in standalone format and integrated with a range of topics, earnings, capital, the Covered Savings Association implementation.

He said that internal training and development for examiners has been created to help provide education on good understanding of the mutual industry and how it works. He said that the agency is always open to feedback about how actual exams are going and whether there are patterns of issues surfacing I how the examiners are approaching things. An Advisory Committee said that the ABA just did their annual mutual survey and, the responses were that the regulators were, were in step and they understood exactly what mutuals are doing.

He said that a number of years ago there was a bit of a gap but from that initiative, it was evident that, what might have been an issue a while ago does not seem to be an issue across the mutual population. There have been a host of different integration related topics that the agency has brought to this committee and presented them. That is a short list of some of the key accomplishments, some of the topics that staff has teed up, but we have not found solutions for.

He said that one thing that was recommended by the last committee that was recommended towards the end of the term was doing a better job of board of director outreach, to really explain a director's responsibilities, particularly what it means to be a director of a mutual savings association.

Ben Pegg, Deputy Comptroller Analyst in Capital Policy joined the meeting as a representative from the OCC’s capital policy team. In the past several groups have proposed different capital instruments where the capital policy team has reviewed the terms and asked questions. They provided feedback, but the groups have not gotten to a finish line. The agency position has evolved over the 13 or so years since integration. The agency is still actively interested in having those conversations to the extent there are new ideas or even a reason to circulate back and revisit some, some old ideas that did not get across the finish line.

Mr. Brickman said having heard the two lists of things accomplished versus things in process, the he had not mentioned is that OCC staff took a look at the various transactions that are available for mutual mergers, liquidations, conversions, and similar transactions in order to see if the regulatory text, the licensing guidance was sufficient and clear enough for groups or individuals to make decisions and to have the right information to make those decisions. That is still a work in process because there is a lot of legacy things that the OTS used to do that the OCC has done, but they do not appear in reg text and guidance.

An Advisory Committee member said another topic was the use of electronic communications for document signatures and proxy cards. He said that all federal mutuals need to look at it to be able to compete in our markets. Online banking is the only solution that earlier young people are not coming to branch. The banks have to be able to communicate with customers digitally and the communications or the guidance that is available does not really cover some of the new types of technologies. He said that regulatory guidance on some of those pieces is critical.

Mr. Brickman said there is a lot of room for modernization as it comes to how these transactions are structured and the legality of, of signatures and votes and things like that. He said that staff can tee that up. He said that the one question would be how does the OCC focus that to be impactful. Staff needs to figure out what is a pressure point as the bank has tried to get information to its members or to solicit information from the members. Where have you run into impediments or challenges in legal interpretations of how the bank can do that. OCC staff would be interested in that feedback to understand how staff can scope that issue.

He asked whether it would be beneficial for the OCC to have an actual agenda item on capital instruments and have policy folks come and actually present kind of the spectrum of capital tools that are known. The discussion could include some of the pros, cons, limits, and abilities for each instrument and for the tools as they are defined in regulation.

Mr. Pegg said the only thing that he would add is that an instrument has to meet all the eligibility criteria in our capital rules. As an instrument is being considered, whether it is for de novos or for existing mutuals, it does have to meet all the eligibility criteria. He said that Capital Policy is happy to take this idea and present at a future meeting. He said that if the Advisory Committee members had any questions, they can reach out to him.

An Advisory Committee member said that one of his pain points is hat the Bylaws require a specific number of directors. He would like to have a range.

Mr. Brickman asked whether there are other areas of interest, he said that this is not the only time that the conversation will be held. He said that the other topic he wanted to discuss as part of this session is planning for the mutual forum, which will be held in June and will be co hosted with the FDIC. The Advisory Committee members provided feedback on a number of possible topics for the Joint Mutual Forum.

Mr. Brickman asked for the specific committee logistics for the Forum and the remaining meetings. The Joint Forum will be held on June 28, with a MSAAC meeting the afternoon of June 27. Then the final meeting of the year will be on October the third.

Mr. Brickman asked whether the Advisory Committee members wanted to provide feedback on any supervision issue as Ms. Boehler and Mr. Thornton are at the meeting. He asked whether the Advisory Committee members wanted to talk about their relationship with the ADC, portfolio manager, or exam team, with both positive and negative feedback.

An Advisory Committee member said that their recent exam went really efficiently. The exam wrapped up in December and it was a good blend of onsite and virtual where appropriate. And the professionalism was there. He said that some of the things that the reorganization was supposed to address were beginning to take place, but probably not fully implemented. He said that they found expertise in areas that are a little unique to us, he said that the examiners were, net beneficial to us.

An Advisory Committee member said that his bank has had a very good relationship with the ADC. An exam is coming up in the next couple of months. He asked whether in light of everything that has gone on in Silicon Valley and in New York, are there going to be changes to any of the regulatory requirements for small banks.

Mr. Brickman said that one of the priorities in the OCC's strategic plan for the agency to continue to focus on risk-based supervision. To the extent that the agency is able to isolate and determine the causes of those failures and them being fairly remote from what is actually going on in the community bank landscape, Advisory Committee members should not see a material change in terms of expectations at the next exam. But legitimately, examiners will be focused on concentration risk, on the liquidity risk management and interest rate risk management because those are all present current day issues. They all fall within the scope of what the OCC would have done in a standard CAMELS examination anyway.

Ms. Boehler added someone had mentioned the FDIC reaching out and talking an institution. She said that the OCC did that as well, but it was if the OCC saw a little bit higher risk profile through the environment. The OCC had a one-on-one conversation and asked what the bank was seeing, how it was reacting, and anything the agency could do to help in that situation. It might have felt a little different, but it made sense for us.

Mr. Thornton said that it was quicker to talk to a bank and make sure that the bank and the OCC was on the same page. He agreed with Mr. Brickman about the focus on risk-based supervision, but the agency and banks have to learn from the events.

Ms. Cole said she would echo what Mr. Thornton and Ms. Boehler said. She added that in addition to risk-based supervision, the semi-annual risk perspective highlights the risk that the agency is seeing. The agency has been talking about interest rate risk and liquidity risk for probably about five years now.

Public Comments and Adjournment

Mr. Brickman said that the final thing on the agenda is the public comment period. He was monitoring the chat and no public comments have come in. He remined anyone participating virtually that they can use the chat feature of the webinar to input a public comment. There were no public comments.

Mr. Brickman adjourned the meeting at 2:30 p.m.

Certification

/s/

Michael R. Brickman
Designated Federal Officer