Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
June 29, 2020

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 1:00 p.m. on June 29, 2020. The meeting was conducted via webinar.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 1:00 p.m. to 4:00 p.m.

Advisory Committee Members Present

Ana Babiasz, James Brown, JR Buckner, John Coyne, Tom Fraser, Jim McQuade, Brian North, Dennis Parente, Annette Russell, William White

OCC Staff Attending

Acting Comptroller of the Currency, Brian Brooks, Jason Almonte, Charlotte Bahin, Michael Brickman, Arnie Cohen, Beverly Cole, Ralph DeLeon, Don Dwyer, Danial Grantham, Grovetta Gardineer, Cristina Im, Brian James, Ernie Knott, Kay Kowitt, Christian Malagon, Karen Marcotte, Sydney Menefee, John O'Brien, Blake Paulson, Marta Stewart-Bates, Heidi Thomas, Troy Thornton

Public Meeting

Introduction and General

Michael Brickman, Deputy Comptroller for Thrift Supervision welcomed the Committee members and provided an overview of the agenda for the meeting. He introduced the OCC staff who joined the meeting. He introduced Acting Comptroller Brian Brooks for the Roundtable portion of the meeting.

Acting Comptroller Brooks provided information about his background, including his experience with the federal savings association industry. He discussed the release of the OCC's Semiannual Risk Perspective and its findings. He highlighted the report's information about bank net interest margin compression, increased loan loss reserves, credit performance, and other factors that resulted from the shutdown response to COVID-19. He noted, however, there is positive information coming out of the economy.

The Acting Comptroller described the remarks he made in the press announcement accompanying the release of the Semiannual Risk Assessment. He noted that there is currently an important balancing act with the economy and the course of the pandemic. The risks to the banking system are balanced against what has been learned about the affects of COVID-19. They include commercial real estate defaults, home mortgage delinquencies and the profitability of the banking system in general. The length and depth of any downturn is dependent on the underlying economy and the direction the pandemic takes. The Acting Comptroller asked the Committee members to describe what is going on in their markets.

Committee members reported high unemployment in some market areas. Some areas have started to reopen and loosen restrictions and the expectation is that the reopening of businesses may help the unemployment situation. They described the closure of local retail and eating establishments and the impact of the closures on small businesses. Committee members also talked about the status of their commercial real estate loan portfolios and noted the uncertainty resulting from employees in the offices in commercial properties working remotely. Some Committee members discussed what they had heard anecdotally in their markets about whether businesses would return to office buildings. Committee members report that companies have stated that they will permit employees to work remotely for the foreseeable future and maybe longer causing uncertainly about the stability of the loans. Some commercial borrowers have requested deferrals of loan payments.

Committee members generally reported that they are not concerned about the capital or liquidity levels at their banks. They agreed that now is a good time to be a mutual with high capital levels. Several members reported that they were not following their bank's strategic plan but were thinking differently about the future. The discussion distinguished between this shutdown of choice, not an economic recession like the financial crisis. Committee members reported that in some market areas, banks of all sizes are working together to minimize the negative impacts of the shutdowns in the market areas. Because geographic areas varied in the timing of closures, the perspectives of the group are different.

The Committee members discussed the levels of forbearance requests in their portfolios. The level of forbearance is less than the levels reported by the Mortgage Bankers Association. Several Committee members report forbearance levels of two to three percent. Others note that they are concerned about what will happen with the forbearance periods expire and whether the borrowers will be able to pay. As long as the borrowers are able to go back to work by the time the forbearance expires, unemployment supplement expires, or their PPP funds expire, it will be alright but they may not be able to begin paying again if they are not able to go back to work. There is concern among the Committee members about what will happen when unemployment benefits expire, and the PPP funds run out.

Several Committee members reported record mortgage demand and strong housing market resulting from migration from urban to more rural areas. In some geographic areas, housing appreciation is eight to ten percent and there is record mortgage demand for both purchase and refinance transactions. Committee members report reasons for economic optimism, and that so far, credit quality is holding up. Construction lending is strong for those Committee members who engage in construction lending.

A Committee member addressed possible policy responses to the economic environment. A follow up point was made that credit losses frequently trail the economic events, but that mutuals are well-capitalized. However, if there is a capital solution in the future, Treasury and the OCC should remember that in the last crisis, mutuals were disadvantaged and not able to participate in the TARP program in the same way as stock banks. Any future program should provide mutuals with the opportunity to participate in the programs.

Mr. Brickman explained that Blake Paulson has assumed the role of Senior Deputy Comptroller and Chief Operating Officer, which is responsible for quite a few of lines of business at the OCC, and introduced Sydney Menefee, who was formerly the OCC's Chief Accountant is temporarily taking on Mr. Paulson's responsibility as the Acting Senior Deputy for Midsize and Community Bank Supervision. Mr. Brickman described the range of level of forbearance that examiners are seeing. There are banks with requests for forbearance at levels as low as three or four percent to rates over thirty percent. The range depends on the location, the types of loans involved and how aggressively forbearance is being provided to customers who request it.

Mr. Paulson noted that Committee members had likely had some recent interaction with examiners and were aware of the risk assessment the OCC is performing this quarter to try to understand which banks are likely to have more significant impacts from the economic downturn resulting from the pandemic than others. He explained that the risk assessment will be used to inform the OCC's resource allocation and adjustment of the scope of exams, where necessary. He asked whether the Committee members had any feedback on recent interaction with examiners.

Committee members continued the discussion of how their geographic areas were being affected by the pandemic and the economic downturn. The Committee members in rural areas report a flight from urban areas to their rural markets. Customers are moving to less densely populated environments. Mortgage originations have increased to higher levels than in the past few years. Committee members also report low rates of requests for forbearance. They also noted the significant impact on unemployment resulting from the shut-down of local businesses.

Committee members asked about the safety and soundness guidance that was issued earlier in the year. They were interested in how much latitude examiners would have in looking at how banks respond to the pandemic. They explained that every bank and market is different, and that reactions to events by mutuals likely are different from those of stock banks. Mr. Paulson noted that the guidance was developed on an interagency basis with negotiation among the agencies. It was intended to portray that the agencies want examiners to use judgment, that this is unlike other recessions and past strains on the industry and requires a different response.

The OCC has been focused on that message to its examiners. Each of the four districts have had calls with their teams and they stressed the need to use judgment, they should not be in a hurry to downgrade ratings or taking actions. It is going to take some time for the current situation to settle. The data do not exist at this point to draw conclusions. There are areas where the OCC has concerns, but every bank is different and unique, and examiners need to remember that. The guidance identified potential issues that examiners should be thinking about, but behind those concerns is the need to use judgment and understand the context of each individual bank. Mr. Paulson noted that a critically important message that the OCC has tried to reinforce is that the examination staff should not automatically assume the worst, nor should they try to predict the future.

Committee members noted that they appreciate hearing about the flexibility. There is a tremendous amount of uncertainty, and no one can predict what the downturn will look like when it is over. They noted that their surprise at how quickly the guidance was issued. It addresses all of the component issues, but they hope that OCC examiners will take a deliberate approach as they work with institutions, because they will have mixed experiences. They noted that generally mutuals are going to be in a better position because of the capital position and other factors.

Mr. Paulson acknowledged the intent of the guidance and that there is a balancing act between some of impacts on the economy and other pandemic-related affects. For some banks, there will be a more muted impact because of the geography. He noted the comments about mutuals, in particular, the capital levels and the ability to take the long-term view. He suggested that mutuals might fare better. Patience is needed and examiners should use judgment and think through what is happening, but on the other hand, they have to recognize the risk that the pandemic has caused. This is a recession. We hope it is short and not severe, but there are going to be some real impacts that cannot be ignored.

Mr. Paulson mentioned that he had been looking at the level of commercial real estate across the OCC portfolio of banks. He looked at the number of banks with large concentrations in commercial real estate, and whether they are permanent loans or construction loans. The levels of construction loans are much lower now than in 2007. Fewer banks are at the 300 percent of capital threshold or whatever number is used for a more moderate level of concentrations. Far fewer banks have concentrations, and among those with concentrations, far fewer have large ones. OCC feels better about that as well as the capitalization levels and the strength of earnings going into the downturn.

Mr. Paulson observed that he does not recall a downturn where banks have been in as strong a shape going in and he noted again, with generally lower concentration levels. The OCC is optimistic that if the downturn is not deep and long, most banks will come out fine. However, there are banks with concentrations, and banks in areas of the country that are going to suffer worse than others. Some will have additional complications, oil and gas areas of the country were challenged before the virus hit. There will be banks that have significant issues, but again, examiners will give management the opportunity to work through those.

A Committee member noted that the mayor of the city just announced mandatory mask requirements for all establishments. From a retail banking perspective, the requirement presents security issues and challenges. Operationally, if the requirement continues for six months or a year or more, opening bank lobbies in an environment where every single person that comes in is wearing a mask is going to be difficult to get comfortable with.

Mr. Paulson suggested sharing best practices with each other and working with trade associations is probably going to be the best source of advice and guidance on how to deal with those operational issues. Other issues might include both the working at home and opening up your lobbies with less staff and all of those protocols.

A Committee member asked whether in conversations with bankers across the county, the OCC has heard anything about increases to loan loss provisions. Mr. Paulson replied that the results were mixed. He had looked at the first quarter data from the FDIC, which was delayed because of the extra time permitted to file the call reports. Most banks were ready to file on time, and an early review of the data showed an interesting result that 50 percent of banks for first quarter reported no increase in their provision expense.

Mr. Paulson noted that the OCC saw some of the largest banks make large provision expenses in the first quarter. That is driven by their portfolios being more retail, credit card and auto. The expectation is that more banks will book increased provisions in the second quarter. Some that made big provisions in first quarter will probably follow up with similar in second quarter.

The expectation is that there will be more banks building reserves in the second quarter than there were first quarter and some will continue to build, but there will be an industry segment that will have less obvious impacts and may have more positive news than negative news. Each situation will have to be looked individually.

Mr. Brickman added to the comment by letting the Committee members know that Ernie Knott, the Financial Analyst in the Northeastern District, ran some quarterly numbers for the mutual industry, specific to the allowance. The annualized first quarter provision expense across the mutual industry compared to average assets was 0.12 percent which is triple what it was the same period last year, and the last time an allowance expense was that high was back in 2013, when it was roughly around 0.12 percent, and then prior to that in 2012, it was actually double of that, closer to 0.23 percent. Just this one quarter of allowance activity, essentially mimics what was happening in 2013, which again was a little bit after the major influx of allowance provision in 2012 and 2011. That is a little bit of perspective.

CRA and Compliance Update

Grovetta Gardineer, the OCC's Senior Deputy Comptroller for Bank Supervision Policy joined the meeting to provide an update in the Community Reinvestment Act rulemaking and other compliance topics.

Ms. Gardineer provided context for the OCC's final CRA rulemaking. She explained that the CRA rule has not been updated since 1995. After soliciting comments in an advanced notice of proposed rulemaking and a notice of proposed rule making, the OCC issued the final rule on May 20, 2020. It was published in the Federal Register on June 5 with an effective date of October 1. Until the OCC issued this final rule, the CRA rule had been an interagency rule.

Ms. Gardineer explained that the final rule makes three broad changes. It clarifies what counts as a CRA qualifying activity, and it includes an illustrative, not exhaustive, list of what are CRA qualifying activities. Many of the activities on the list are derived from the current interagency question and answer document. New additions to the qualifying activities are consistent with expanded CRA activities to address how banks do business today.

Secondly the final rule identifies where the activity counts, or updates what is an assessment area. The OCC did not change the way assessment areas have been defined for many years, that is based on the bank's geographic location. A geography- or facility-based assessment area still encompasses where the bank has a branch, where it has a home office or deposit taking ATM, as outlined in the statute. However, the OCC added a second way to determine the assessment area, which is a deposit-based assessment area. The deposit-based assessment area applies to a bank with 50 percent or more of its retail domestic deposits outside of these facilities or geography-based assessment areas. For most institutions, the assessment area designation will not change, but it will impact those institutions that are internet platform based.

Ms. Gardineer described the third general change in the final rule. The change is how the CRA qualifying activities are counted. A goal of the CRA review was to improve the reporting and to make the Performance Evaluations more user friendly. Ms. Gardineer suggested that there could be an annual report similar to the OCC's Mortgage Metrics report. Such a report could show all of the good that CRA does for the economic growth of this country. Before this change is implemented, another notice of proposed rulemaking will be issued to seek comment on metrics.

In addition to the three major changes, Ms. Gardineer described some other changes. The thresholds for small, intermediate and large banks have been changed. A small bank is defined as an institution with assets less than $600 million. An intermediate bank is defined as a bank with assets greater than $600 million, but less than or equal to $2.5 billion. Banks that meet those two designations, small and intermediate banks, may comply with the current performance standards.

The banks that meet those definitions are not required to comply with the new rule for purposes of reporting and meeting the thresholds, unless they wish to opt-in. What every institution regardless of size and designation will be able to avail themselves of qualifying activities list. The qualifying activities list goes into effect on the effective date of the final rule, which is October 1, 2020. OCC staff is developing exam procedures and guidance that will be issued in advance of the October 1, 2020 effective date.

For those banks with assets greater than $2.5 billion, the compliance date will be different. The compliance date and the earliest date that any institution that is over $2.5 billion would be required to undergo an exam, will be January 1, 2023. For the smaller institutions, that earliest compliance date will be January 1, 2024.

The focus of the performance standards for banks with assets more than $2.5 billion will be on evaluations that include quantitative assessments of the retail lending and community development activities. Ms. Gardineer noted that rather than looking at the number of loans that have been made to low- to moderate-income communities, it is important to do a combination of looking at the number of loans, but also at that dollar value to determine the impact is on the low to moderate income community.

A Committee member reported that he had heard from community groups that the new CRA rule is a checklist that can do more harm than good for low- to moderate-income communities. Ms. Gardineer responded that the revised rule does not harm the very communities that are intended to be the recipient of these services under the statute. She provided an example of a common investment practice that routinely is given consideration that should be revisited and revised. Ms. Gardineer said that the OCC will continue to do outreach with all stakeholders. Examiners are equipped with the facts of how the final rule works and the benefits to low- to moderate-income communities.

In response to a question from another Committee member, Ms. Gardineer clarified that the assessment areas of small and intermediate institutions will not be affected as much as larger institutions. Based on available information, banks in smaller asset sizes generally are conducting business through branches. They have the home office, deposit taking ATMs, but not as much activity that is being directed nationwide and that is what is needed to be captured by the deposit-based assessment area definition.

Ms. Gardineer asked the Committee members if they had questions on other bank supervision policy topics. She mentioned the work of the staff of the OCC, in coordination with the federal agency partners, on the issuance of COVID-related guidance, statements, interim final rules, and other documents. She also mentioned the work with FinCEN on some Bank

Secrecy Act guidance materials, and she highlighted the revisions to the Bank Secrecy Act Examination Manual. She described some of the changes that help clarify the OCC's posture on risk tolerance in BSA/AML compliance.

Another area Ms. Gardineer highlighted the was the OCC's prior LIBOR preparedness statement and previewed a follow-up statement that will be issued soon. She reminded the Committee members that after December 2021, it cannot be guaranteed that LIBOR will continue as the rate that will mark credit and derivative features, and other aspects of banks' financial life.

Ms. Gardineer asked the Committee members which pandemic related document was the most useful. A Committee member replied that the most impactful documents were the first ones that came out and set the tone, in terms of allowing institutions to begin to work with borrowers, not worrying about any of the accounting implications, or and in advance of the passage of the CARES Act. While Congress was debating whether loans would be TDRs, the interagency guidance, and the discussions with OCC set the tone and provided guidance. That allowed forbearance programs to be stood up well in advance of the enactment of the CARES Act. At the end of March, it was the most helpful in theme and tone. The follow up discussions as part of the quarterly check-ins with field staff and portfolio managers and the questions today provide consistent information.

Mr. Brickman observed that the Committee historically has been very useful in terms of identifying issues that are specific to the thrift industry or the mutual subset of the thrift industry. With the volume of guidance coming out, sometimes the unique aspects of running a mutual are not considered. The guidance is general enough to apply to banks in general, including mutuals and thrifts, but he asked the Committee members to keep in mind that the group serves a very valuable purpose in raising specific concerns. He asked that if the Committee members think there is something missing or something that could be clarified in guidance, that would be applicable specifically to the mutual industry that they should let him know. He specifically mentioned the possible impact on capital of the pandemic and asked that Committee members let him know about what they are hearing or ideas they have.

Economic Update

Daniel Grantham, Senior Financial Economist, Economic and Banking Condition and Christian Malagon, Senior Financial Economist, Economic and Banking Condition joined the meeting for the Economic Update. The Committee members received the presentation in advance, and it is part of the Committee materials.

Mr. Grantham provided an overview of the presentation with the following agenda:

- Economy beginning to improve; labor market recovery is years away
- Home prices grew across most metros through March 2020
    - Sharp decline in housing permits and starts
    - Minimal home price decline under baseline forecast; 10% national decline under strong COVID-19 second wave
- Mortgage market originations and home sales benefit from low rates; share of loans in forbearance declining

He described two of the key data points that measure economic activity, they are real GDP and the unemployment rate. The presentation shows the actual economic data and a forecasted value for both GDP and unemployment. The forecast values are coming from blue chip consensus, which takes a simple average of 50 professional economists. The first quarter GDP fell a little over five percent and that only captured the last two weeks of March, when the severe closures across the US contracted gross domestic product. Second quarter GDP contracted sharply. To put that into perspective, real GDP decline in the great recession was four percent. The current downturn is a sharp and unprecedented decline in the post-World War II period. A rebound in 2021 of four percent real GDP growth is projected, but it is anticipated that it will take several years for the real GDP to return to the pre-pandemic levels.

In terms of the quarterly average unemployment rate, the last numbers from the first quarter where unemployment was at near historic lows at 3.8 percent. The forecasted level for the second quarter is a little over 15 percent, which is extremely high. Since World War II unemployment has been at 10 percent only twice, one month during the great recession and one brief period in the early 1980's.

The forecast is for the unemployment rate to improve, but remain high at over seven percent, at the end of the 2021 forecast period. Mr. Grantham provided additional detail about the labor market and the two metrics that get a lot of headlines. The first, is the initial unemployment claims, and that number has declined for 12 straight weeks. The cumulative amount of state unemployment claims filed since the crisis began is 47 million claims. To put the number into perspective, the percentage would be 30 percent of the labor market or the total labor force pre-pandemic.

Looking at it in terms of cumulative unemployment, is not quite the best way of looking at it for a variety of reasons. First, people apply for unemployment claims more than once, some people make an application and are declined, and others have been able to return to work. A better measure is the continued unemployment claims, which have improved. There are a little under 20 million continued claims of people that are receiving state unemployment insurance. This is quite an improvement over the numbers in early May, where over 25 million people were receiving state unemployment claims.

Mr. Grantham noted an improvement over the last couple of months. Slide five shows different industries and how they have been affected. Two and a half million new jobs come online or returned in May, which is a record. But unfortunately, the volume of unemployed outweighs those gains. The industries most benefited were leisure and hospitality. 1.2 million jobs came back online between April and May, and these are in hospitality.

He explained that compared with pre-COVID, at the end of May, 42 percent of leisure and hospitality jobs are still on the sidelines. One area of note where there was no improvement in May, was in state and local government, which is not surprising as economies were closed. The revenue impact for state and local governments is starting to be felt and budgets are starting to tighten. This is one area where there will be further pain going forward.

Mr. Grantham described how active policy makers have been during this downturn, both in monetary policy, as well as fiscal policy. Slide six looks at the Consolidated Federal Reserve Balance Sheet, which is a measure of monetary policy. The chart shows the amount that the balance sheet has grown since they entered the market in mid-March with the COVID-19 response. The Fed has grown its balance sheet in a little over two months by $2 trillion. If that growth is compared with the time and size of the balance sheet growth in earlier periods in 2008, 2010 and 2012, this Fed response has been faster and larger.

Another positive development has been the cumulative impact of fiscal pandemic relief for different industries. Congress has been active and has passed stimulus and they have spent about three quarters of the little over $ 1.4 or $ 1.5 trillion in total fiscal relief. Mr. Grantham pointed out that that is a little over 10 percent of US GDP. The government and policy makers have been active in helping to ease some of the burden within the economy, which has been helpful, both in terms of scale and swiftness.

He described the range of forecasts for economic growth and unemployment shown on slide seven. In terms of the general economy, Mr. Grantham concluded in a baseline forecast that the economy is turning a corner. There has been improvement, albeit from extremely distressed levels. The takeaway is that the unemployment rate in the labor market is going to take several years to get back to where it was, or even near where it was in January 2020 or late 2019.

Mr. Malagon took over the presentation and turned the discussion to residential home prices and the mortgage finance market. He began by describing that home prices started at a very strong place before the pandemic, and he noted the differences in the reaction of the market from housing permits and starts. In slide nine, the US Home Price Index shows the average single-family homes and the least expensive and most expensive homes. In general, appreciation has been calming since last year, and prices have benefited from low mortgage rates for the last year. He noted that the concerns about COVID become evident the second half of March, and this data only go through March 2020.

Home price appreciation peaked in 2018, and then it slowed because of the increase in mortgage rates, but because of concerns of economic slowdown, mortgage rates started coming down, and appreciation rates across all property tiers increased. Measures to address the pandemic started during the second half of March. New prices for April are not available. Home prices are looked at year over year, for example, changes in home prices for March 2019 and March 2020 are noted here. The first quarter was so strong that for March, there is an increase in the number of metropolitan areas where prices were growing faster than five percent relative to March last year.

Slide 11 shows the year over year changes in home prices for the least expensive homes and more expensive homes in March 2020. The geographic distribution shows that the least expensive homes have been growing faster than most expensive homes, which produces challenges for first time home buyers and middle income to low income borrowers. In general, around 75 percent of prices are growing between one and five percent for the most expensive homes, while the least expensive properties are growing more than five percent.

The reasons there have been a strong housing market entering this year have been because of a low housing supply, shortages in housing supply, and low mortgage rates. Also, underwriting standards have been tightened. Finally, the possibility of forbearance introduced by the CARES Act prevents homeowners from having to give up their houses or be in foreclosure. This differs from the prior crisis, where properties were being built, but also were flooding the market through the foreclosures.

Slide 12 looks at annual residential construction starts for single-family and multifamily units since 1968 to 2019. Residential construction peaked in 2006 and, after the housing bubble, reached bottom in 2011. There has been growth after 2011 and 2012, but it is low relative to what it was before 2007. Slide 13 shows the response of builders during the COVID-19 crisis. Both permits and residential starts dropped after March 2020. The slide shows an estimate of the data before middle of June.

Slide 14 shows the comparison of the geographic distribution of residential permits in the first quarter of 2020 versus the second quarter of 2020. As a clarification, for the second quarter, data are available only for April and May. The data show the beginning of the crisis and that reductions in permits were concentrated on the East Coast, in the second quarter, it is across the nation.

In the first quarter, in March, in only 35 percent of the metropolitan areas were numbers of permits falling. The numbers of permits were falling more than 25 percent by the second quarter in May, in more than 90 percent of metropolitan areas permits were falling more than 25 percent. This is a very volatile series but having more than 90 percent of metropolitan areas falling more than 25 percent is unusual and reflects the impact of COVID in terms of expectations.

Slide 15 shows the baseline forecast for US home prices. In general, the expectation is that the decline in home prices will not be more than three percent, and then it will recover faster. At the beginning of the crisis, the big concern was that the market was heading towards a crisis similar to the housing crisis in 2008. Fortunately, that did not happen. It looks like even with a strong second wave, it is distant from what happened during 2006 through 2010.

It is forecast that there will a more moderate home price decline this cycle. This prediction is due to the forbearance, low mortgage rates, housing supply shortages and tighter underwriting. The mortgage holders are a better quality because underwriting standards were tighter. Also, the borrowers that acquired mortgages during the last six-years, are significantly better-quality borrowers than during the housing bust, and their equity positions are better because of the consistent home price appreciation during this period. Even those mortgage holders that are in tight situation have the option of selling their property, and there is demand for these properties as compared to the prior crisis. Different geographies will be affected more in this crisis.

Slide 16 shows the scenario that assumes a second strong wave of COVID. The baseline forecast and the forecast for the downside scenario show the respective GDP, unemployment rates and home price index. By the end of 2020, there would be deterioration, but the expectation is that there will be a recovery. House prices are going to take longer to recover under the assumption of a severe downturn from a strong second wave, instead of returning to prior levels in two years, or even exceeding that level, it will be around six percent below the level that are in early 2019 prices. These are national numbers and residential real estate is affected dramatically by location of markets and geography, composition of their local economies and their exposure.

Slide 17 shows the map of the forecast downside effect. The metropolitan areas that are going to be affected the most are those where the economy is exposed to tourism and accommodations as previously mentioned. In the metropolitan areas in Florida, Miami, Orlando, Tampa, in Colorado, Colorado Springs, and in Nevada, Las Vegas, and Reno, where there have been severe layoffs will be severely affected by a strong second wave of COVID.

Mr. Malagon turned the discussion to portion of the agenda describing the mortgage market and housing finance. Slide 19 shows the gap between the rates on the 30-year fixed rate mortgage and the 10-year treasury note yield between 2015 and 2020. The 30-year fixed mortgage rates have ranged between five and three percent during the last five years and the 10-year treasury note is in a range between three and one percent. In general, there is a relationship between these two, and there was credit availability during the last 10 years because there is a pricing effect on risk. In addition, new regulations were promulgated that addressed or eliminated problematic mortgage products that were in the market in the prior recession.

Slide 20 shows home sales during the first quarter of 2020. Many buyers took advantage of low mortgage rates that began in December 2019. At that time there were some concerns about a possible economic slowdown, unrelated to COVID. The graph shows the annualized sales for new and existing homes between 2016 and 2020 and first quarter numbers for 2019 and 2020.

The annualized mortgage origination volume for purchases and refinances for 2016 and 2020 is on slide 21. The quarter to quarter number for the first quarter in 2019 and 2020 is on the graph. It is evident that the low mortgage rates, close to historical lows, have resulted in a wave of refinances. Slide 22 shows mortgage performance. Mortgage delinquencies were very low entering 2020. There is an increase in the number of delinquencies, but as a percentage of mortgages it is not large. The base is small, and the early delinquencies were distributed in Florida and Nevada, that are heavily dependent on tourism. The slide shows the level of mortgages in forbearance for all the programs, Ginnie Mae and the traditional GSEs. There is a higher level of forbearance from Ginnie Mae, which is mainly FHA mortgages. The traditional GSEs account for almost 60 percent of all mortgages and have six percent of the forbearances. About 40 percent of those borrowers in the forbearance program are current, and only around 30 percent of those within the forbearance program are delinquent 30 days. Less than or around 10 percent are more than 60-days delinquent. The number of applicants for forbearance programs has slowed.

In general, the mortgage market is strong, and the expectation is that the housing market will recover. It has benefited from the strong fiscal and monetary government response and given the strong conditions of the market, there is confidence about the future.

Committee members asked questions about the presentation. A Committee member asked whether the research that was described at the April Committee meeting about using the Hurricane Katrina recovery efforts as a model to think about the future had been continued. Mr. Grantham explained that there has been further work done internally looking or trying to compare the Katrina response, which is a natural disaster. He said that that additional material will be posted to BankNet. Mr. Malagon also highlighted the difference between the two crises. The current crisis is a health crisis mixed with a confidence crisis, and there is a difference when there are physical damages to the infrastructure or when a factory no longer exists.

Public Comments and Committee Matters

Mr. Brickman opened the public comment period. He asked the members of the public to submit a comment by selecting the "all panelists" category from the dropdown and type the comment. He addressed administrative matters while waiting for public observers to submit comments. Mr. Brickman described the charter renewal process and explained that the OCC has renewed the Committee charter for two years. The second component is the membership renewal. Each member serves on the Committee for a two-year term. Members may serve for two terms. A request for nominations of members for the next two-year period will be issued shortly. Any existing Committee members will have to go through the formal nomination process, so we would request you either self-nominate yourself, or you have someone else nominate you. For the Committee members who have been on the Committee for two terms, you are encouraged to submit nominations.

The Committee received two public comment letters in advance of the meeting, and those were included in the materials sent to the Committee members and are posted with the Committee materials. One is from America's Mutual Banks and is in response to an active notice of proposed rulemaking. Because the OCC is in an open comment period, OCC staff will not comment on the public comment itself, but would strongly encourage any members of the Committee or anyone else listening to submit a comment on the rulemaking. In addition, if Committee members wish to discuss the comment, a record of any comments will be included in the public rulemaking file. A second comment letter was submitted by an individual, asking a question about the need for executive compensation disclosure for mutual management was submitted.

The Committee members asked whether they are required to respond to the public comments and Mr. Brickman told them they are not.

A public comment was received from an ABA representative who wanted to note the ABA's continued support for the mutual industry, and that it appreciated the opportunity that the OCC provides via the Mutual Savings Association Advisory Committee. She wanted to point out the discussion point that a Committee member raised capital for mutuals and the Acting Comptroller's response. The ABA also said that they appreciate the willingness of the OCC to have an open dialogue with the industry and its willingness to provide flexibility in the pandemic environment.

Mr. Brickman adjourned the meeting and reminded the Committee members of the opportunity to submit agenda items for the upcoming meeting. He also noted that the OCC will hold an OCC only mutual forum and is starting the planning.

Mr. Brickman adjourned the meeting at 4:00 p.m.

Certification
/s/
Michael R. Brickman
Designated Federal Officer