Office of the Comptroller of the Currency

Mutual Savings Association Advisory Committee

Minutes of the Meeting

June 17, 2013

The Mutual Savings Association Advisory Committee (Committee) was convened for a meeting at 1:00 p.m. on June 17, 2013, at the Office of the Comptroller of the Currency (OCC), Constitution Center, Washington, D.C.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 1:00 p.m. to 5:00 p.m.

Advisory Committee Members Present:

Martin Connors, David Ferries, C. Alan Horner, Thomas Kemly, Paul Mackin, Martin Neat, Michael Nolan, Steve Swiontek, Paul Thompson

OCC Staff Attending:

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Arnie Cohen, Kevin Corcoran, Donna Deale, Michael Finn, Gregory Golembe, Jennifer Kelly, Paul Kelly, Kristin Kiefer, Ben Lemanski, Kristin Merritt, Carrie Moore, William Rowe, Scott Schainost, Amrit Sekhon

1:00 p.m. – Public Meeting

Donna Deale, OCC Deputy Comptroller for Thrift Supervision and the Committee's Designated Federal Official, called the meeting to order and welcomed the attendees. Following introductions by the Committee and individuals in attendance from the OCC, she introduced Thomas J. Curry, Comptroller of the Currency.

Comptroller Curry welcomed the Committee and thanked members for their time commitment. He commented on the value of their input and noted that mutual savings associations are important to the OCC's mission. Comptroller Curry highlighted the importance of hearing from the Committee on issues of concern to them. He also mentioned that he found the comments at the January Committee meeting valuable and expressed his appreciation for open discussions on the mutual form of thrift ownership. Lastly, he urged Committee members to take advantage of the open forum to provide their views on a variety of issues.

1:30 p.m. – Discussion With Members

- **Guidance to OCC Examiners on Unique Considerations for Mutual Savings Associations**

Ms. Deale introduced Charlotte Bahin, Senior Counsel in OCC's Legislative and Regulatory Affairs division of the Chief Counsel's Office. Ms. Bahin led the discussion of potential updates to guidance for OCC examiners regarding unique considerations for mutual savings associations. Ms. Bahin provided background on the guidance originally developed by the Office of Thrift Supervision. Based on the Committee's experience with OCC examinations since the transition, she asked the Committee to identify any areas that need further clarification for examiners when they examine mutual savings associations. Committee members commented that when assessing the operations of mutual savings associations, examiners should understand

- that mutual savings associations have a longer planning horizon.
- the mutual focus on serving the community and charitable giving.
- that peer comparisons with other mutuals are more useful than broader comparisons to a combined population of mutual and stock institutions.
- that earnings in mutual savings associations are driven by net interest margin.

A Committee member from a larger institution noted that the most recent examination showed that OCC examiners have an increased understanding of mutuals, and, in his opinion, the OCC listens to what mutual savings associations have to say.

Ms. Bahin indicated that the OCC might organize the revised guidance around the CAMELS rating components. Based on this approach, the Committee was asked to provide its thoughts on important considerations for each of the CAMELS components.

Starting with *Capital*, the Committee mentioned the need for alternate sources of capital other than retained earnings. Mutual capital certificates were mentioned as one option. Committee members also commented on the timing and method of capital calculations for mutual savings associations. Michael Finn, Senior Thrift Advisor for the Northeastern District, noted that national banks use a quarterly average in the denominator while savings associations use an actual month-end number. To harmonize the calculation for federal savings associations and national banks, a regulatory change would be required.

The Committee raised several questions about the proposed Basel III capital regulations, and Ms. Deale gave a brief update on the status of the rulemaking process.

In the area of *Asset Quality*, the Committee said that it noticed a difference in the way the OCC applies loan classifications to loan participations held by both OCC-supervised and FDIC-supervised institutions. There is a perception that the portion of participations held by FDIC-supervised institutions receives easier treatment with respect to the loan classification. The Committee mentioned that some members have seen a difference between OCC-supervised and FDIC-supervised institutions when applying the definition of a troubled debt restructure. Bankers view the OCC as more stringent. Bankers also see differences in the way regulators treat loans discharged in bankruptcy. Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Banks, noted that the guidance on troubled debt restructuring is an interagency document, and, as such, the result should be consistent treatment by different federal regulators.

Ms. Bahin posed several questions to the Committee on the *Management* component. Ms. Bahin requested comments on whether such topics as compensation, governance structure, or level of management control should be addressed in the revised guidance. She asked for the Committee's thoughts on what would be important for examiners to know about the management of mutual savings associations. The Committee was asked how a longer investment horizon for mutuals should be factored into assessing the success of management.

Comptroller Curry asked the Committee for feedback on the OCC's approach to assembling examination teams comprising of both OCC and former OTS examiners. Comptroller Curry asked if these examination teams were familiar with the governance differences that exist with mutuals and whether Committee members had seen any biases demonstrated during the examination process.

The Committee commented that examiners should be respectful of the mutual ownership form and acknowledge the difference that exists from stock form institutions. The Committee advised that examiners should not suggest changes to the operations or governance of mutual savings associations simply out of a lack of understanding. Mutuals do not have investor pressures for returns on investments. Ms. Bahin acknowledged these comments and noted that the revised guidance will focus on the importance of service to the community by both management and directors.

A goal of the revised guidance is to clarify and highlight the differences between mutual and stock savings associations. Scott Schainost, OCC Associate Deputy Comptroller, Northeastern District, mentioned that the OCC's "Mastering the Basics" workshop for community bank directors includes a separate focus on mutual savings association directors as part of the curriculum, where appropriate.

A Committee member reinforced the statement that the first examination experience under OCC supervision required that examiners be educated about some of the unique features of mutual savings associations, for example, that the focus of a mutual is the customer, not the shareholder. The Committee member noted great improvement in the level of examiner awareness and understanding of the mutual form of business from the first OCC examination to the second.

Ms. Kelly discussed the OCC's reasons for using examination teams composed of OCC and former OTS examiners. The goal of this approach is to help OCC and former OTS examiners learn from each other the important and unique aspects of examining both national banks and federal savings associations. Ms. Deale noted that senior thrift examiners help train OCC examiners for the cross-credentialing test. Mr. Finn further discussed the OCC/OTS examiner cross-training process and explained to the Committee members that the OCC expects the bulk of its examiners to have completed the cross-credentialing process by 2015. Mr. Finn also noted that the OCC's Assistant Deputy Comptrollers are also required to complete the cross-credentialing certification.

With respect to the area of *Earnings*, existing OTS guidance contains a wealth of information to be incorporated into the revised guidance.

The Committee members offered no comments regarding revised guidance in the areas of *Liquidity* and *Sensitivity* to market risk.

The group next discussed specialty examinations covering information technology, asset management, compliance, and the Community Reinvestment Act (CRA). The Committee inquired whether CRA examinations are conducted on a stand-alone basis or together with other examinations. In response, it was noted that CRA examinations may completed in conjunction with other examinations, such as compliance examinations.

Finally, the Committee was asked to consider any lessons from the recent economic downturn and whether those lessons should be incorporated into the guidance.

The Committee asked whether the OCC would follow rules promulgated by the Consumer Financial Protection Board (CFPB) and apply them to institutions with total assets of $10 billion and less. It was explained that the CFPB does have rulemaking and enforcement authority under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) for a variety of consumer laws, such as the Truth in Lending Act, the Real Estate Settlement Procedures Act, and the Equal Credit Opportunity Act. The OCC follows the CFPB's rules for consumer laws. Comptroller Curry mentioned that the OCC has established coordination processes with the CFPB to provide input and share comments on rulemaking issues. Committee members should provide any comments or suggestions for coordination with the CFPB to Ms. Kelly.

A Committee member pointed out that mutual savings associations employ many different business models. Ms. Kelly acknowledged this and stated that the OCC would keep the dialogue open so that this type of information may be communicated to OCC supervisory staff.

- **Mutual Overview and Tools That OCC Uses to Analyze Mutual Associations**

Mr. Finn presented an overview of the portfolio statistics and financial metrics of federal mutual savings associations and selected tools the OCC uses to analyze mutual savings associations. The presentation included portfolio statistics on all OCC-regulated national bank and thrift charters and total asset and charter data on those OCC-regulated institutions supervised by the Midsize and Community Bank Supervision (MCBS) division. OCC-regulated charters hold $9.3 trillion in assets, of which $723 billion are thrift assets. Thrift charters represent 39 percent of MCBS-supervised charters with $603 billion in assets. There are 193 OCC-regulated mutual thrifts holding a combined total of $52 billion in assets. Mutual thrifts account for 36 percent of OCC-regulated thrifts and hold 7.2 percent of total thrift assets supervised by the OCC. While the number of mutual charters has declined 5 percent in the past year, assets held by mutual savings associations remained stable at $52 billion. While mutual charters are concentrated in the OCC's Central and Northeastern districts, the Southern and Western Districts have a number of mutual charters under their supervision. There are six states with 10 or more mutuals and 10 other states with more than five mutuals. In terms of asset size, 90 percent of mutuals have assets totaling less than $500 million and 71 percent of mutuals have less than $250 million in assets. Mr. Finn noted that 80 OCC-regulated thrifts were established over 100 years ago and 87 percent of the mutual population has operated for 75 years or more. Only one existing OCC-supervised mutual savings association was formed in the last 50 years.

The presentation reviewed financial metrics for mutual savings associations. Residential mortgage loans represent 74 percent of all loans held by OCC-supervised mutual thrifts. Mutual loan portfolios are less concentrated in commercial and industrial and consumer loans than stock thrifts. Asset quality improved over the last year based on metrics for classified assets, noncurrent loans, and other real estate owned. Earnings showed a slight decline year over year as margins shrank. Capital measures continued to show strength. Retail deposits represent the primary funding source for mutual savings associations. Although loan origination levels are low, loan to deposit levels remain high.

Mr. Finn provided the Committee with an overview of supervisory data for OCC-supervised mutual thrifts. The data showed in aggregate that composite supervisory ratings for mutual thrifts stabilized in 2012. Eighty percent of mutual thrifts are satisfactorily rated. Almost half of the mutual charters under OCC supervision have strong capital or liquidity ratings. Compared with stock thrifts, mutuals had stronger supervisory ratings for capital and liquidity as well as better aggregate risk ratings under the OCC's Risk Assessment System (RAS) for key risk areas.

After the portfolio statistics and financial metrics presentation, Mr. Finn discussed supervisory tools the OCC uses to evaluate the mutual thrift portfolio and individual mutual savings associations. In May 2013, the OCC's Canary System, an early-warning system designed to identify emerging credit, interest rate, and liquidity risks, was enhanced with the addition of new thrift benchmarks. Canary is available for use by OCC-supervised institutions on BankNet. Mr. Finn also discussed the Thrift Analysis Report Tool (TAR). The TAR highlights institution-specific financial and supervisory information; aggregate comparative examination ratings and risk assessment information for mutuals, stock thrifts, and all federal thrifts; and comparative analysis data for mutual thrifts by supervisory component rating for capital, asset quality, earnings, liquidity, and sensitivity to market risk. The TAR also provides each mutual savings association with comparisons by peer group.

The Committee wanted to know if examiners would use this analytical data to compare a mutual savings association with the banking industry in general or with mutual savings association peers. Mr. Finn stated that he would expect examiners to use the mutual peer analysis in the context of other mutual savings associations. Either or both the Uniform Bank Performance Report or the TAR would be used. Associate Deputy Comptroller Kristin Kiefer added that examiners look at the uniqueness of a particular mutual and track it against those unique aspects.

- **Charter Considerations**

Ms. Deale asked the Committee for its thoughts on any factors that might be driving mutual savings association conversions to stock institutions over the last three and a half years. The Committee members indicated that the qualified thrift lender (QTL) test makes it difficult to remain a mutual thrift. Comptroller Curry asked about the relevance of the QTL test today in light of Dodd-Frank and whether the QTL was constraining mutual thrifts. The Committee members stated that the QTL is a constraint. Comptroller Curry next asked if the Committee felt that commercial lending is a key attribute of what a mutual thrift should be allowed to offer. One Committee member agreed that commercial lending should be a key attribute.

Comptroller Curry asked the Committee about the value of the QTL test. A Committee member noted that the QTL test is a limitation to a federal savings association's business model. The analytical presentation showed that asset quality issues are showing up in thrift's commercial lending portfolios and not their mortgage portfolios. The Committee noted that the value of a mutual thrift is its service to its community, particularly with stable mortgage lending.

The Committee members expressed concern about competition from credit unions that enjoy non-taxable status. The members noted that with 65 percent of mutual savings associations' assets in mortgages, they are concerned about interest rate risk.

Comptroller Curry asked the Committee if a statutory requirement to maintain a certain level of loans was needed to qualify as a mutual thrift. The Committee indicated this was not needed.

Ms. Deale asked the Committee if there was any factor driving conversions to state charters. In response, the members mentioned that there is a perception that state regulators are friendlier and easier to work with than the OCC. Other factors cited included the cost of OCC assessments compared with state regulatory assessments and the perception that a state-chartered institution has a closer relationship with its state regulator. The Committee noted, however, that state regulators tend to change with some frequency. The Committee also commented that assessment costs may be a short-term rather than a long-term issue. One of the Committee members reiterated the earlier comment about differing classifications on participated loans.

In closing this portion of the meeting, the Committee members advised that the best way to optimize the mutual thrift charter would be to revisit QTL and commercial lending limitations.

3:00 p.m. – Break

3:30 p.m. – Member Roundtable

At this point in the meeting, each Committee member shared issues of concern and provided comments on his or her local economy.

The most frequent concern expressed by the Committee involved competition from credit unions. Other concerns included regulatory compliance burden, the QTL, the need to finalize adjustable rate mortgage and qualified mortgage rules, low interest rates, and low margins.

Comments on local economic conditions varied depending on the geographic location of the Committee member's institution.

4:30 p.m. – Public Comments

No written public statements were received. Douglas Faucette, representing America's Mutual Banks, asked to speak. Mr. Faucette complimented the Comptroller for establishing the Committee and complimented the various presenters for the information shared and discussed at the meeting.

4:35 p.m. – Adjournment

The next scheduled meeting will be held in Chicago, IL, on November 18, 2013.

Comptroller Curry provided closing remarks and said he found the dialogue meaningful. Ms. Kelly thanked everyone for participating, and Ms. Deale adjourned the meeting.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

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Donna M. Deale
Designated Federal Official