

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
May 23, 2019

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on May 23, 2019, at the Office of the Comptroller of the Currency (OCC), 400 Seventh Street S.W., Washington D.C. 20219.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 8:30 a.m. to 12:15 p.m.

Advisory Committee Members Present

Ana Babiasz, JR Buckner, Tom Fraser, Brian North, Dennis Parente

OCC Staff Attending

Comptroller of the Currency, Joseph Otting, Frances Augello, Charlotte Bahin, Priscilla Benner, Toney Bland, Michael Brickman, Arnie Cohen, Christopher Crawford, Ralph DeLeon, Emily Doran, Don Dwyer, Kevin Kirby, Benjamin Lemanski, Alison MacDonald, Michael Moriarty, Donna Murphy

Public Meeting

Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee and provided some background on the advisory committee. He noted that this committee meeting is the first one for the new members and the returning members. He gave an overview of the agenda for the meeting which includes a member roundtable, a discussion of the final rule for covered savings associations, a discussion of the OCC Proposed Innovation Pilot and an update on the review of the rule implementing the Community Reinvestment Act.

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the new committee members. He highlighted some of the successes of the advisory committee, including the enactment of the Covered Savings Association Act. He said that it is important to take a minute to reflect on the opportunity the legislation provides for mutuals. He also reiterated the agency's support of mutuality and the federal savings association industry generally.

Mr. Brickman described the background of the advisory committee and noted its role in helping to educate OCC staff on the differences between federal savings associations and national banks. He noted that the Committee was originally chartered by the Office of Thrift Supervision. After the integration of OTS and OCC, the Committee provided input on guidance on the supervision of mutuals, collaboration opportunities for community banks and legislative proposals on charter flexibility that resulted in the covered savings association legislation. The charter flexibility

initiative was developed by former Comptroller Curry and Comptroller Otting continued the agency's support for the proposal. The proposed legislation was included in the regulatory relief legislation enacted in May 2018 and an OCC working group worked on a final rule to implement the requirements.

Mr. Brickman explained that an annual financial report is usually provided. The industry is in the strongest position in a long period for a time. Mutuels, in particular, have strong capital and are in stable condition. The OCC's Semiannual Risk Perspective highlights the risks that the OCC is seeing. For example, a shift to increasing credit risk is an example of pre-crisis conditions. As a result, examiners may ask whether bankers are ready for the next crisis and what management teams have done to prepare. Cyber security is another identified high risk area. The industry has made good progress, but ongoing work and vigilance are necessary. Deposit rates, the impact on competition, and the implications for liquidity are other areas of identified risk. Consumer compliance is another risk area, in particular, Bank Secrecy Act and Anti Money Laundering compliance. All of the risks are described in the Semiannual Risk Perspective and Committee members can reach out to the appropriate Field Office with any questions or would like to talk about supervisory expectations.

Mr. Bland highlighted the area of credit risk. He asked whether the Committee members had considered whether the current staff could identify problem loans and whether the banks have the bench strength to work out problem loans. He asked whether the Committee members and their staff have the ability to identify the red flags in other areas of risk including deposit rates, liquidity and cyber security.

A Committee member mentioned that in addition to credit risk in the commercial market, for mutuels the competition with nonbank lenders in the mortgage market is significant. He mentioned that the terms offered by non-bank lenders can drive loan terms.

Member Roundtable

Mr. Brickman asked each of the members of the advisory committee to provide a brief overview of his or her institution as an introduction for Comptroller Otting. The Committee members described the general business and operating strategy of his or her institution and talked about any concerns that arise because of the geographic region and community served. The members of the Committee represent size and geographic diversity, as well as different operating strategies within the alternatives for federal mutual savings associations. Committee members took the opportunity to raise topics of interest.

Comptroller Otting welcomed the new members and thanked the Committee members for their participation. He noted that the advisory committee is a good channel to get feedback and to get early warning if things are not going well. He noted that GDP is strong and that loan growth is good. Banks are using innovative, creative solutions, doing well and serving customers. He also mentioned environmental-related issues as a topic for discussion. On the policy side, he said that the legislation passed in May 2018 had a big impact on reduction of burden on banks of all sizes. Twenty rules are required by the legislation but only one is an OCC-only rule. Several of the

rules will be complete by the end of the third quarter and the rest will be completed by the end of the year.

Comptroller Otting remarked that as a banker he had had no appreciation of the rulemaking process, especially the interagency rulemaking process. He described his agenda and priorities as Comptroller. He referred to the regulatory relief provisions that would positively impact all insured depository institutions with less than \$10 billion in assets. He provided an update on his priorities: CRA review, AML/BSA review, small ticket lending and the Fintech charter.

He said that he is encouraged by the work with the FDIC and the Federal Reserve as part of the review the rule that implements the Community Reinvestment Act. The areas they are discussing include assessment areas, establishing metrics to use in examinations, determining what qualifies before an examination begins or an investment is made, and establishing a tracking mechanism to show how much investment is going to communities. Studies estimate that \$487 billion in investments in communities are made by banks across the country.

Turning to the BSA/AML review, the agencies are working together to review the BSA/AML requirements. It is challenging as the federal banking agencies do not have rulemaking authority for many BSA requirements. Comptroller Otting mentioned the resource sharing document that the agencies issued to provide guidance on the concept. He said that the agencies are encouraging creativity and collaboration for BSA compliance. The FFIEC BSA Examination Manual is being updated to be more risk-based and to provide more rewards for insured depositories that do a good job with BSA compliance. He said that agencies are looking at ways that banks can use technology for BSA compliance.

Comptroller Otting also highlighted the importance of small ticket lending in some markets and to some customers. In 2013, banks were discouraged from that kind of business and he wants to see a change. He also mentioned that the OCC is in litigation with the state of New York over the special purpose national bank charter for Fintech companies.

He spoke about the shift of supervision authority to examiners-in-charge and assistant deputy comptrollers in the local field offices. Comptroller Otting asked the Committee members about their interaction with examiners and whether they have seen any changes. A Committee member reported that several years ago, a matter had been sent to OCC Headquarters for review and it had taken longer and additional questions had been asked. The Committee member reported that recent interactions on similar topics had been easier. Several Committee members noted that the transition from the former OTS examiners is complete, however it is important to ensure that the unique characteristics of mutuals continue to be understood by examination teams. Mr. Brickman asked whether the three-cycle strategy had made any difference to the risk focus of the exams. The Committee members discussed their experiences with the quarterly monitoring calls and regular interaction with examiners.

Several Committee members raised specific topic areas that had been the focus of recent examinations. The example of cybersecurity was provided. Committee members noted that cybersecurity is a high priority issue but that examiners could not answer some of the questions asked as part of the examination. Mr. Bland noted that examiners know more now as a result of

the use of the Cybersecurity Assessment Tool, but that there continue to be gaps in the levels of knowledge of examiners.

Comptroller Otting asked the Committee members about their bank's exposure to natural disasters and concerns they have about the bank's portfolio. Several members described concerns with compliance with the Flood Insurance Program. Other Committee members noted that preparing for weather disasters requires looking at geographic concentrations of loans in the portfolio. Mr. Bland noted the lessons learned from and practices developed as a result of the agricultural lending crises over the years. The use of insurance, depending on the type of disaster, was discussed.

Comptroller Otting asked the members what they think about banking marijuana businesses and whether they support legislative action. The general consensus is that Congress needs to take action. Several members noted that the money needs to get into the banking system and the issues are not going away. The Committee members described differences in applicable state laws and discussed the treatment of hemp.

Implementation of Covered Savings Association Provision of the Economic Growth, Regulatory Relief and Consumer Protection Act.

Mr. Brickman provided a high-level summary of rule the OCC will issue to implement the establishment of the covered savings association option. A proposal was published in the *Federal Register* on September 18, 2018 and comments were due on November 19, 2018. The OCC received fifteen comments and the final rule is expected to be published May 24, 2019 with an effective date of July 1, 2019. Mr. Brickman went through a power point presentation that describes the final rule, the process of making an election and the determination of whether activities are permitted for national banks.

The Committee members asked questions about the purpose of the statutory provision and whether mutuals were interested in the covered savings association option. Mr. Brickman provided historical context about the development of covered savings associations and the pros and cons of making an election. In responding to questions about service corporations, Mr. Brickman noted that there are decision points that management teams must consider regarding the activities in a service corporation. A covered savings association may move activities permissible for a national bank to an operating subsidiary or if the activities are not permissible for national banks, the activities must be divested. Committee members asked whether the Federal Reserve staff has provided any information on how the Federal Reserve will treat the holding company of a covered savings association. Mr. Brickman reminded committee members that they should contact the Federal Reserve with those questions.

OCC Proposed Innovation Pilot

Emily Doran, Innovation Officer in the OCC's Office of Innovation, provided a summary of the OCC's Proposed Innovation Pilot. Ms. Doran began with a description of the Office of Innovation and its function at the OCC and outside the agency. She described the resources that are available to the industry as well as to OCC staff, including research, FAQs, facilitating

interagency coordination and holding one-on-one meetings with interested parties. She described the office hours that the Office of Innovation holds that provide opportunities for bankers and others to ask questions about possible initiatives outside of the supervisory process. She also talked about the listening sessions that have been held in several cities over the past year. Committee members asked questions about the process of getting the Office of Innovation to review collaborations that are being considered. Ms. Doran said that the Office of Innovation can coordinate among the different business units and can be a central point of contact.

Ms. Doran described the Proposed Innovation Pilot proposal. She said that the OCC is looking for public feedback on the pilot and the comment period closes on June 14, 2019. She pointed out that for banks of all charter types, not considering innovation or thinking broadly about new initiatives is a risk. The OCC wants to work with stakeholders to determine what the agency can do to help or what it can do that will not hinder advancement of innovation. As part of the comments on the proposed pilot the OCC is hoping to hear about impediments that can be addressed and hear about ideas for possible innovation in all areas of bank operations, not just customer facing initiatives, but also back office and risk management initiatives.

Ms. Doran replied to questions about proposal. There are no eligibility criteria for participation in a pilot, however the focus of participation is on OCC-supervised institutions and not Fintech companies. She talked about the development of possible collaborative initiatives and partnerships in which smaller banks participate to take advantage of opportunities. Committee members asked about collaboration among banks of different charter types and whether that type of partnership is envisioned by the proposed pilot. Ms. Doran replied that it is possible. A question about the necessary business model and control environment was asked. Ms. Doran replied that the OCC could provide feedback on the controls and that traditional controls may not be what is needed depending on the organization or the initiatives. She pointed out that small banks may not be the first to take advantage of any pilot, they may want to wait and see what other institutions are doing and learning as they participate in a pilot. The value of the Office of Innovation is that information can be shared about successes and failures.

Committee members asked questions about the kind of due diligence that is necessary to participate in collaborative arrangements. The current guidance on due diligence was described and Ms. Doran reminded the Committee members that the tools offered by the Office of Innovation are not new and that community banks may talk to the Office of Innovation about ideas or ask questions. Questions were asked about whether there are any success stories. Committee members suggested that Bank Secrecy Act compliance and small dollar lending are two areas that have been looked at for collaboration. Another example is for banks to look at what are pain points for community banks and their customers and how third-party providers or collaborations can provide services that help to resolve the problems.

Mr. Brickman told the Committee members that the committee has the ability to look at ideas for collaboration and to have discussions. In the past, banks came together to create ATM networks and data processing capabilities. However, capital is necessary for innovation and mutuals have additional concerns to consider regarding capital raising.

Review of the Community Reinvestment Act Implementing Rule

Donna Murphy, Deputy Comptroller for Compliance Risk Policy provided an update on the review of the Community Reinvestment Act implementing rule. The review is a high priority at the OCC and for Comptroller Otting. An Advanced Notice of Proposed Rulemaking was published by the OCC and the comment period has closed. The OCC received about 1500 comments on the ANPR. All comments have been reviewed by the OCC as well as the staffs of the FDIC and the Federal Reserve. The OCC is meeting with the other agencies to develop a proposal that may be issued during the summer.

Committee members asked about the timing of the proposal and when any final rule might be issued. Ms. Murphy said that after the proposal is issued, comments will be reviewed, and a final rule developed. She expects that a transition period will be included before any effective date of a final rule. Depending on what changes to the rule are made, banks may need to change processes. One of the Comptroller's priorities to be addressed in the review is transparency and that banks should know which activities and investments will receive credit at the time they are made. Ms. Murphy said that any list in the final rule should not be too strict but may look at processes the agencies have to provide feedback on the eligibility of particular investments and activities in advance of making the investment or loan.

Committee members highlighted the unintended consequence of any change in the rule that loans and investments may not be made in some areas. Ms. Murphy pointed out that is why comments are so important. There is a concern about changes resulting in unintended consequences and that the agencies do not want to discourage loans or investments. She said that the more specific the comments are the more useful they are so the agencies know exactly what is being described and can adjust the final rule, if necessary. One of the goals of any final rule is to have a way of measuring the impact of CRA in communities across the country.

Ms. Murphy also said that the agencies are looking at addressing any inconsistencies in implementation or interpretation of the rule. In some cases, it may be that the demographic composition of an assessment area might have changed because of population shifts. Such changes can result in inconsistencies or inaccurate results in an exam. She also described some of the reasons that performance evaluations are not promptly provided.

Discussion of Future Committee Activities

Charlotte Bahin, Senior Advisor for Thrift Supervision, reminded the committee members for the dates for the meetings for the rest of 2019. She said that the dates for the meetings for 2020 would be available in a few months. She said that plans for an OCC-only Mutual Forum in July are underway and solicited ideas for topics.

Public Statements, Wrap up and Adjournment

Two members of the public made statements about the value of the Advisory Committee. There were no written comments submitted in advance of the meeting.

Mr. Brickman adjourned the meeting at 12:15 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer