

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

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on July 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 10:30 a.m.

Advisory Committee Members Present

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

OCC Staff Attending

Comptroller of the Currency Joseph Otting, Frances Augello, Charlotte Bahin, Toney Bland, Michael Brickman, Cindy Coleman, Ralph DeLeon, Don Dwyer, Kevin Johnson, Kevin Kirby, Nathan Perry, Demetria Springs, Marta Stewart-Bates, Daniel Wynbrandt

Public Meeting

Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee. He introduced the OCC staff attending the meeting. Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the Committee members and noted that the Virtual Forum for Mutuals is a good opportunity to have outreach with mutual bankers without the bankers or OCC staff having to travel. If this Virtual Forum is well received, it will be considered in future years.

The Comptroller of the Currency, Joseph Otting, joined the meeting and provided some observations based on his discussions with bankers around the country. He noted that the economy is performing well, however there are pockets of risk. For example, agricultural lending is exhibiting negative some impacts of production and prices. In urban areas, the building and pricing of condominiums is causing concern. Comptroller Otting said that in this cycle banks have done a better job of defining their risk appetite than they did in the last cycle. Risks are not emerging in the US banking system, at this point.

Comptroller Otting talked about the policy initiatives that OCC staff have worked on this year. Agency staff have worked on 20 rules required by the Economic Growth Act that was signed into law in May 2018. All but one of the rules is an interagency rule and that process is complex and time consuming. The Comptroller described his three policy priorities. The first is a review of the Bank Secrecy Act/Anti Money Laundering regulations and guidance. He referred to the

recently issued interagency risk-based BSA guidance and said that a revised examination handbook would be issued by the end of the year. A second priority is a review and rewrite of the rule that implements the Community Reinvestment Act. OCC staff is actively working with the staffs of the FDIC and the Federal Reserve and Comptroller Otting is hopeful that a proposal will be issued by the end of summer or early fall. There are several key areas that are under review: a way to measure CRA activities, a definition of what investments, loans or activities qualify for credit, a revised definition of the assessment area and a method of measuring CRA investments. The third priority is small ticket consumer lending. OCC staff is working on a proposed rule with staff from the FDIC and the Federal Reserve.

Another priority for Comptroller Otting is the way the operation of the agency. Because of significant cost savings by the agency, over the past year the OCC has reduced assessments on its supervised institutions and hopes to be able to do so again. Meetings among employees are done virtually rather than having groups travel. Other efficiencies include looking at how examinations are being performed and how they will be done in the future, making sure that supervision is done in the most efficient way possible.

Members of the Committee commented on the Comptroller's initiatives. A Committee member thanked the Comptroller for his work with the review of the BSA requirements. He asked whether there is a possibility that the thresholds for Currency Transaction Reports and Suspicious Activity Reports would be increased. He noted that the amount of resources that go into monitoring transactions does not seem to be beneficial and that law enforcement cannot look at the volume of reports in a meaningful way. Comptroller Otting described legislation that had been introduced but suggested that it is not likely that it would be enacted this year, but the OCC had expressed its views to Congressional staff.

Other members of the Committee talked about the sharing of resources in the mortgage area, in particular, for loan review. Model validation is resource intensive and a group of mutuals is talking about a way to share costs and maybe targeted examinations. Mr. Bland said that the OCC welcomes the discussion. Multiple banks can share loan review and he asked how the members are looking at a collaboration for loan processing. The Comptroller mentioned the BSA resource sharing guidance as an example of collaboration. Another member raised the issue of using artificial intelligence in lending and how the model validation is different from other models used in banking. Mr. Brickman mentioned that the OCC's National Risk Committee is looking at machine learning and the use of third parties. Mr. Bland reminded the Committee members that it is fundamentally risk management and that banks need to continue to measure, monitor and control risks. Members of the Committee noted that there may be unintentional effects of using Artificial Intelligence and there may be risks that may not be managed. Others members noted that the outputs are is dependent on the data input.

Comptroller Otting asked the Committee members what is the credit quality of the loans being originated. Several Committee members reported that the level of housing stock is low and that there is pressure on appraisers. There is stiff competition for quality loans. Competitors are offering aggressive deals and terms with thin margins. Large banks are coming into markets and being very aggressive and testing conditions. Consumer loan products other than residential mortgages are performing and filling gaps in capacity. Other members report that residential

home prices are high, and all members agreed that appraisals are a problem, either because of lack of appraisers or over payment of the appraisal. Another member reported that credit scores are a concern because of the algorithm being used, but his is a good credit market with a strong housing market.

In other markets, commercial and multifamily lending is very competitive. Competition from nonbank lenders in both residential and commercial is very stiff. However, in the residential markets, the underwriting discipline is better than it was last year. In rural areas, commercial pricing is very aggressive and there are challenges with residential lending.

Comptroller Otting asked about the deposit markets. In some markets the members report that deposits have grown and others report stability. Pricing has remained stable generally, but there are examples of competition from credit unions and large banks that offer high interest rates. Committee members are concerned about retaining core deposits. Several members offer deposit rate specials but others have not changed their pricing and have not seen core deposits leave.

The Committee members discussed the alternatives to the use of Libor as an index in adjustable rate loans and what indices they are seeing being used. Mr. Bland mentioned that examiners will start to ask what plans are in place to replace Libor and whether the Committee members are prepared for the change, one committee member said that his bank is waiting for guidance from the GSEs for the loans the bank services. Mr. Bland asked whether the Committee members have considered whether they have staff in place who will know how to identify and work out loans in an economic downturn. He said that the OCC is looking at the same questions regarding examiners and other staff. Committee members said they look for red flags and have thought about training that is necessary.

Future Committee Plans and Activities

To begin a discussion of future plans, Mr. Brickman described the initiatives and the work of the Committee. The charter of the Committee is for two years and each of the members serves a two-year term, with the possibility of one renewal. Each year the OCC plans and holds a Forum for Mutuals and every other year the FDIC and the Federal Reserve participate in the Forum and mutuals of all charters are invited to attend. In 2020, the Forum will be a Joint Forum with the FDIC, and the Federal Reserve will be invited to participate. The Committee members participate in the program planning and are serve as speakers and panelists.

Other important projects the Committee members have been part of include the 2014 supervisory guidance for mutuals, the 2015 collaboration White Paper and the work done to develop the charter flexibility proposal and provide input on the final covered savings association rule. The Collaboration White Paper is being revised and the Committee members can provide valuable information as part of that effort. Further, as the covered savings association final rule is implemented and additional guidance is developed, Committee members can provide valuable comments.

Mr. Brickman described the program for the Virtual Forum for Mutuals that begins at 11 am with a Financial Presentation and mutual peer analysis. This analysis was requested by the

Committee members and has evolved to include information requested by Committee members. Mr. Brickman said that if there is information that the Committee members would like to see added to the report, they should let OCC staff know. Mr. Brickman also described the option of having a subcommittee of the advisory committee and explained the process and operation of a subcommittee.

Mr. Brickman asked the Committee members whether they think that the White Paper on Community Bank Collaboration serves the original purposes. Committee members said that it is a good start but that an update is welcome. Another Committee member said that supervision of banks that are collaborating is something that needs to be considered and addressed, given that the banks may be in different Districts. Mr. Brickman responded that examining multiple institutions that are collaborating is something that the OCC staff is considering and options may include having targeted examinations. Another factor highlighted is that some collaborations may include the holding companies of some of the bank participants. The Federal Reserve may have questions or concerns and it may be important to get input from Federal Reserve staff.

A Committee member asked about the interest in the covered savings association option and Mr. Brickman replied that a small number of federal savings associations have made an election to operate as a covered savings association. He said that there is a concern that the Federal Reserve has not provided any guidance or information about how savings and loan holding companies will be treated if the federal savings association subsidiary makes an election to operate as a covered savings association.

Among the new initiatives that the Committee members have discussed is the idea of a de novo mutual. Committee members are interested in seeing de novo charters generally but understand the challenges of chartering a mutual de novo. Another topic raised in the past is that of a capital instrument for mutuals. Capital levels are high and capital raising may not be a priority now. Several Committee members noted that the discussion of capital raising should always be on the agenda. Collaborations, mergers and growth all take capital and having the ability to raise capital is important.

Mr. Brickman asked the Committee members about compliance with CECL accounting requirement and whether the OCC's guidance is adequate, especially for mutuals and federal savings associations that are primarily residential mortgage lenders. Other topics raised included whether OCC examiners understand the unique characteristics of mutuals and whether the 2014 guidance should be updated or revised. Mr. Brickman asked whether the Committee members would like a presentation on the community bank leverage ratio or other regulatory topics in the future. The Committee members appreciate the updates on the CRA review and have questions on a number of mortgage-related topics.

Committee members asked what risks OCC staff is seeing. Mr. Brickman reminded the Committee of the Semiannual Risk Perspective and the discussion of emerging risks that is included in that publication.

Public Statements, Wrap up and Adjournment

No written comments were received in advance of the meeting. Two members of the public thanked the Committee members for the discussion. A member of the public also provided some thoughts about the mortgage indices published by the FHFA.

Mr. Brickman adjourned the meeting at 10:45 a.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer