Office of the Comptroller of the Currency
Minutes of the Meeting of the
Minority Depository Institutions Advisory Committee
April 5, 2016

The Minority Depository Institutions Advisory Committee (MDIAC) convened for a meeting at 8:05 a.m. on April 5, 2016, at the Office of the Comptroller of the Currency (OCC) headquarters located at 400 7th Street, SW, Washington, DC.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 8:05 a.m. to 12:00 p.m.

Advisory Committee Members Present
Jamie Bartholomew Aller, Director and General Counsel, The National Bank of Malvern, Malvern, PA; Larry Briggs, President and Chief Executive Officer, First National Bank & Trust Company, Shawnee, Oklahoma; Guillermo Diaz-Rousselot, President and Chief Executive Officer Continental National Bank, Miami, FL; John Hou, Chairman, President and Chief Executive Officer, Asian Pacific National Bank, San Gabriel, CA; Preston Pinkett, III, Chairman and Chief Executive Officer, City National Bank of New Jersey, Newark, NJ; Joe Quiroga, President, Texas National Bank, Mercedes, TX; Carlos Safie, Chairman of the Board, President and Chief Executive Officer, Executive National Bank, Miami, FL.

OCC Staff Attending
Thomas J. Curry, Comptroller of the Currency; Toney M. Bland, Senior Deputy Comptroller (SDC) for Midsize and Community Bank Supervision (MCBS); Grovetta Gardineer, SDC for Compliance and Community Affairs; Larry Hattix, SDC for Enterprise Governance and Ombudsman; Barry Wides, Deputy Comptroller for Community Affairs; Greg Golembe, Director for Banking Relations; Donna Murphy, Director, Community and Consumer Law; Beverly F. Cole, Senior Advisor to the SDC for MCBS and Designated Federal Officer; Glenda Cross, Senior Advisor for Outreach and Minority Affairs; Sydney Menefee, Deputy Chief Accountant; Jorge Aguilar, Attorney, Community and Consumer Law; David Black, Community Development Expert; Ralph DeLeon, National Bank Examiner and Industry Analyst; Bobbie Kennedy, Bank Examiner Compliance Specialist; Beth Knickerbocker, Counsel; Andrew Moss, Community Relations and Minority Affairs Specialist.

External Speakers
None.

Public Observers
ShaDonte Butler, Community Investment Business, Development Manager, Federal Home Loan Bank (FHLB) of Atlanta; Moriah Costa, Banking Reporter, S&P Global Market Intelligence; Reginald G. Exum, Vice President/Community Development Officer, Citigroup Community Development; Tomeka Lashunda Lambert, Manager of CIS Systems and Reporting, FHLB of Atlanta; Jena Roscoe, Operation HOPE; Kim Saunders, Eads Group, Inc.; Carmen West, U.S. Department of Commerce, Minority Business Development Agency, Office of Business Development.

Opening Remarks

- Beverly Cole, the OCC's Senior Advisor to the Senior Deputy Comptroller for MCBS and the MDIAC's Designated Federal Officer, called the meeting to order at 8:05 am. Ms. Cole provided an overview of the requirements for members of MDIAC, a committee chartered under the Federal Advisory Committee Act (FACA). She also provided a brief description governing the rules for FACA committees and their members, including the public nature of the meetings. Next, Ms. Cole introduced Thomas J. Curry, Comptroller of the Currency.
- Comptroller Curry welcomed the committee members, thanked them for their time and commitment, and made remarks regarding the growing importance of responsible innovation and how banks will need to consider how they will address this issue and position themselves accordingly.

"Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective" – Beth Knickerbocker, Counsel

Ms. Knickerbocker led the discussion on "S*upporting Responsible Innovation in the Federal Banking System: An OCC Perspective.*"

Key points of the discussion included the following comments from Ms. Knickerbocker and other OCC participants:

- The financial industry is rapidly changing, in part because of 1) changing customer needs and interests (e.g., millennials are very receptive to technology); 2) changes in small business lending; and 3) mobile banking, particularly for unbanked and underbanked.
- The OCC has long supported innovation, back to the days of President Lincoln.
- The responsible innovation initiative stems in part from the OCC's recent consideration of how to implement OCC Strategic Priority 2, "Enhance our value to the American public and federal banking system," (for which the Executive Sponsor is SDC and Chief Counsel Amy Friend). The OCC conducted a great deal of background research and met with a variety of entities, both domestic and foreign.
- The next step was drafting and issuing the white paper on Responsible Innovation in March 2016. Comments are due by May 31, 2016.
- The white paper discusses principles but makes no real concrete decisions. One priority of the drafters was to agree on a definition of responsible innovation that balanced both the need to support innovation and the need to support such innovation in a responsible way.
- OCC wants institutions to know that the OCC is receptive to new ideas.
- Responsible innovation in this context is not only focused on new products and services, but also on new *processes.*
- The focus of responsible innovation at the OCC is on innovations that are new to the banking system, in general, but also on innovations that are new to individual banks.

- It was noted that a similar interest in innovation has informed the OCC's consideration of Community Reinvestment Act-related activities among banks.
- Outreach is key and enables OCC to learn more and share more expertise. The plan is to do formal outreach, and the white paper makes reference to innovation fairs, which allow for more bank participation, including community banks.
- The first principle detailed in the white paper is "Support responsible innovation," which includes possibly updating existing guidance. OCC management acknowledged that OCC must make examiners well-versed in this issue.
- Principle 2 is "Foster an internal culture receptive to responsible innovation," which involves, in part, training examiners and utilizing internal resources, such as the OCC's Payment Systems Policy Group.
- It was noted that these third parties (e.g., FinTechs) compete with large banks, as well, but that there possibly exists a unique environment where small FinTech firms might want to do business with smaller banks.
- Core processors are the subject of ongoing interagency review, and the OCC's third-party risk management guidance is applicable to other relevant third parties.
- It is not the OCC's job to say what product is best. The OCC's job is to help OCC-supervised institutions determine how best to approach a given product.
- The OCC does not determine who are the winners and losers. But the OCC does ask about a bank's related risk management.
- A member of OCC management stated that, in fact, another analogy might be telephones. We all have telephones, but it is how they are utilized that is changing. ATMs also caused some disruption, and ATMs are another example of how things have evolved.
- Cybersecurity is a major risk implicated by innovation. A principle relevant to cybersecurity is Principle 5, which is "Further safe and sound operations through effective risk management." The OCC has evolved in how it examines risk. Currently, we have a National Risk Committee and an internal marketplace lending group.
- There will be an innovation forum on June 23, 2016.
- Innovation is somewhat vendor-driven. Vendors engage community banks directly and big banks follow vendors.
- FinTech firms can market speed, such as with making credit decisions.
- Another issue is how you reach people not currently with access to technology. How social media is used must also be a consideration.
- All innovation needs to be consistent with sound banking practices. Innovation also needs to be part of a long-term business strategy.
- If OCC-supervised banks want to experiment, we want to know your strategy and monitoring and reporting, as reflected, at least by analogy, in the OCC's HighLoan-toValue guidance, which addresses the importance of appropriate monitoring and reporting.
- A relevant bulletin is a 2004 OCC bulletin on new product development. In response to a question about foreign actors, the United Kingdom is ahead of other nations in terms of supporting and considering innovation.

Committee members made comments about innovation, such as:

- Balancing the need for long-range planning and keeping up with evolving technologies can be difficult.
- Asking how can minority depository institutions (MDIs) compete with the Bank of Americas/big banks and the unregulated nonbanks, FinTech entities, and shadow banks?
- Stating that MDIs think about FinTech entities in relation to risk management. These FinTech/nonbank entities are third parties. We think of banks in the middle, with FinTech at the top (and core processors are also in the model). Banks right now are like the "Baby Bells" of the past.
- Indicating that small community banks rarely are on the front lines—usually the small community banks wait for big banks to test. Do you find that this is the case here? Ms. Knickerbocker responded that there is a spectrum as some banks are "fast followers."
- Observing that many of these FinTech companies are very dependent on private equity. They lose money and depend on venture capital.
- Doing nothing is its own risk.
- Noting that there is so much innovation in vendor management.
- Expressing that bank examiners need to know that banks are still experimenting and considering marketplace lending and peer-to-peer lending and Blockchain.
- Indicating that emerging markets are also surprisingly ahead, although OCC staff stated part of the reason for this is that emerging markets, such as in Africa, do not have the infrastructure of a banking system.

Current Expected Credit Losses (CECL) – Sydney Menefee, Deputy Chief Accountant
Ms. Menefee's presentation largely followed the handout each attendee had in front of them. A key point of the presentation was that OCC wants its supervised institutions to contact OCC examiners, the OCC accounting department, and other key points of contact within OCC if they have questions. OCC believes small banks do not need big models to properly implement CECL. Additional major points included:

- On Slide 4, CECL introduces a "lifetime" (e.g., over lifetime of loan) concept for estimating credit losses, under which prepayments can be considered but not renewals, except for troubled debt restructuring (TDR). Disclosures will be more robust.
- On Slide 5, while banks are usually well-versed in their losses, the issue is documentation. The struggle with documentation may be expanded because there will be more to document.
- Slide 6 includes effective dates. The definition of debt security is not changing. Institutions will continue to use historical information to estimate losses, but will need to consider historical losses over the entire life of the loan (rather than, for example, an annualized net historical charge rate as is typically used today by community banks).
- We are training our examiners. To date, we have conducted two webinars for examiners. We hope this better equips them to address questions from bankers as we want OCC-supervised bank to get their information from the OCC.

- On Slide 7, Ms. Menefee noted that CECL will be scalable. One size does not fit all.
- We're not expecting benchmark increases for any institution.
- On Slide 8, our implementation team is multidisciplinary and does not just include accountants, but includes Legal, Economics, and other staff.
- It is important for banks to talk to their examination teams.
- On Slide 9, conceptually CECL amounts to A (amortized cost) - B (allowances) = C (amount expected to be collected). We hesitate to give examples, because, when we do, people think that we are saying to do things a certain way or promoting one way. Examples can be premature.
- We have to clarify TDRs.
- OCC is building a library of questions.
- Previously, it wasn't permissible to include expected losses in allowances.
- A MDIAC member noted that more documentation means more expense.

MDIAC Roundtable

Ms. Cole initiated a roundtable discussion with the members. Each of the members shared thoughts on issues faced by MDIs. The OCC staff and other members provided feedback. Issues discussed included the following:

- The first discussion involved foreign customers and the need for Bank Secrecy Act (BSA) compliance-related risks and work for banks. SDC Gardineer led the OCC discussion for this topic. In response to her question of "Is there a sense that the OCC is overemphasizing certain clients?" a MDIAC member stated there is scrutiny of a few specific clients. SDC Gardineer stated the OCC will look at systems and controls. The customer base is a part of these internal controls and enhanced due diligence. The OCC should not go beyond this and second-guess bank's judgment. The OCC's message is we do not tell banks whom to bank.
    - Another member indicated that more BSA outreach by the OCC and greater focus on regional risks (e.g., evaluation of human trafficking in certain areas) would be helpful. There should be more conferences. SDC Gardineer agreed that OCC should be more proactive on BSA/Anti-money laundering compliance, rather than just reacting through enforcement, and to share what the OCC knows.
    - Another MDIAC member stated the press on what happens to big banks on BSA issues scares MDIs. We are asked, "If big banks have pulled out of certain services, why haven't you?" Big banks and small banks have different objectives. We (i.e., MDIs) are trying to know our customer and serve the unbanked. The MDIAC member also noted that the Comptroller's white paper on correspondent banking has been useful.
    - Another MDIAC member noted that high-risk customers require more work and some noted that they charge due diligence fees for high-risk customers. SDC Gardineer said she appreciates that risky customers are higher-cost. If there are communication issues with examiners, OCC can deal with it. However, "high risk" does not mean no relationships, just that banks need to manage the risk.

- Next the membership asked about progress on tailored exams for community banks and expressed disappointment in how the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) process has gone.
    - SDC Bland noted that there is an ongoing conversation on not doing all examiner work on-site. Examiners will be at your bank when needed but we must expect that examiners can do work in their offices. Driving five hours to a bank is time that could be spent doing work.
    - Comptroller Curry noted that there has been recent legislation on extended examination cycles and noted that the OCC is looking at a game plan for call report reform that is more tailored for community banks.
- There was another discussion on "TRID" (Truth in Lending Act-Real Estate Settlement Procedures Act [TILA-RESPA] Integrated Disclosure).
    - Another MDIAC member inquired about the OCC's plans for reviewing bank's compliance with TRID. SDC Gardineer noted that, in the next six months, the OCC will probably begin transaction testing. However, we are not trying to play a game of "gotcha."
    - The MDIAC member noted that some banks have left mortgage banking as a result of TRID. There is also a discussion about how some communities have few, smaller-value homes and have to go long distances to get "comps" (i.e., comparable sales), for appraisals.
    - The Comptroller noted that the FFIEC (Federal Financial Institutions Examination Council) is reviewing the issue of appraisals, including the issue of the availability of appraisers. A MDIAC member indicated that very few persons are entering the appraisal business.
- There was also a discussion on the OCC's HighLTV Guidance:
    - Deputy Comptroller Wides explained that the OCC was approached by the city of Detroit about low-value homes. Banks wanted to lend in these areas but faced hurdles. Under the guidance, banks can make loans above supervisory LTV limits, if the area has been targeted by government for revitalization. It is part of innovation to be flexible.
    - Deputy Comptroller Wides will meet with Detroit Home Mortgage.
- Next, a MDIAC member asked whether there would be more changes to the Consumer Financial Protection Bureau's Ability to Repay/Qualified Mortgage rules.
    - Director Murphy noted that the most recent changes (e.g., involving expanded small creditor exemptions) were due to legislative action.

Public Comments

Ms. Cole noted that Jena Roscoe of Operation HOPE had to leave early and sent Ms. Cole an email for the public comment section of the meeting. Ms. Cole read the email to the group. It was entitled, *U.S. OCC Public Comments MDIAC Mtg., April 5, 2016* and stated the following:

> *Dear Senior Advisor Beverly Cole,*
>
> *Thank you, for our dialogue today. Below are the Operation HOPE Government Relations, Public Policy Public Comments for consideration*

to read:

Today's MDIAC Meeting was a productive dialogue and Operation HOPE looks to review the Supporting Responsible Innovation In The Federal Banking System: An OCC Perspective Paper and provide public comments to the questions in this paper by May 31, 2016.

The work of OCC has long served the interest of support for minority banking from its work with 151 Year The Freedman's Bank Legacy to the support of minority banks now like HOPE Partner Industrial Bank. It was good to hear the comments by minority bank representatives today like City National Bank Of New Jersey Chairman and CEO Preston Pinkett III. Keep up the great work.

Next, Ms. Cole opened the meeting for oral comments. Tomeka Lashunda Lambert, Manager of CIS Systems and Reporting, FLHB of Atlanta, stated that the FHLB of Atlanta works with approximately 30 MDIs. The FHLB offers affordable housing and other products to MDIs and other banks.

Adjournment
The meeting adjourned at 12:00 PM.

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

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/s/ Beverly F. Cole
Designated Federal Officer