

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
July 24, 2018

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 1:00 p.m. on July 24, 2018, 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 1:00 p.m. to 4:00 p.m.

Advisory Committee Members Present

In person: JR Buckner, Tom Fraser, Shirley Hughes, Jim McQuade, Charles Timpa, James Wainwright, Bill White
By telephone: Jeff Hyde,

OCC Staff Attending

Comptroller of the Currency Joseph Otting, Fran Augello, Charlotte Bahin, Pricilla Benner, Toney Bland, Michael Brickman, Don Dwyer, Erica Flemates, Brian Fullmer, LaVell Hall, Demetria Hannah, Kris Kiefer, Kevin Kirby, Kay Kowitt, Alison MacDonald, Robert Ortiz, Blake Paulson, Maria Reigger, KerryAnn Samuel, Marta Stewart-Bates, Troy Thornton, Patrick Tierney

Public Meeting

Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee on the telephone and in person. He explained that due to the inclement weather, a member of the committee was not able to attend the meeting in person and as an accommodation to him, a conference call had been set up. He described the agenda, the topics and the speakers for the meeting. He noted that the committee meeting was an abbreviated meeting in advance of the 2018 OCC/FDIC Joint Mutual Forum being held on July 25.

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the committee members. He mentioned the importance of mutuality and the federal savings association industry generally. He mentioned several items of interest. He asked the members to consider key issues in the context of where the industry is in the credit cycle. He asked about funding and technology in particular.

Mr. Brickman provided a brief overview of the topics on the agenda to be covered at the committee meeting. He noted that Comptroller Joseph Otting would participate in the Member

Roundtable discussion and said that he expected the Comptroller to give an update on the priorities he had described at the March 21 MSAAC meeting. Mr. Brickman also noted that all of the District Deputy Comptrollers were participating in the meeting and he urged the committee members to take advantage of the opportunity to ask questions or voice concerns about supervision or examination process. Finally, he listed a number of topics that he and other OCC staff would cover and about which OCC staff would solicit feedback during the meeting:

- Follow up on the use of on- and off-site examinations, the application of guidance by examiners and communications by examiners;
- Overview of the changes made in the Economic Growth, Regulatory Relief, and Consumer Protection Act and the OCC's implementation of the provisions;
- Overview of the evolution of integrated guidance that is applicable to both national banks and federal savings associations; and
- Summary of emerging risks being highlighted by the National Risk Committee.

Implementation of Provisions of the Economic Growth, Regulatory Relief and Consumer Protection Act.

Before Mr. Brickman described the provisions of interest to federal mutual savings associations in the recently enacted legislation, he reminded the committee members that in most cases the OCC and or the other federal banking agencies would have to implement the provisions of the statute by rulemaking. He generally described the rulemaking process and noted that the OCC must have as transparent a process as possible so any comments or feedback on a proposed rule would be available. The OCC encourages comments on all proposed rules.

Charter Flexibility. Mr. Brickman began with a high level overview of the Charter Flexibility provisions in the statute. In particular he wanted to provide a sense of how the agency is thinking about implementing the statute with a notice of proposed rulemaking and to provide a tentative timeline. The statute requires the OCC to issue a rule to implement the requirements of the provision. Unlike many of the other rules required by the statute, this one is an OCC-only rule.

The version of the provision enacted is different in one respect from the version passed by the House of Representatives. The final provision contains a \$20 million asset threshold. Federal savings associations over that threshold may not elect to engage in the powers of a national bank. He said that OCC staff will seek the advice of the committee members as the rule and examiner training are developed.

The statutory provision is not effective until the required rule is promulgated and finalized to ensure consistent standard across population of federal savings associations. Mr. Brickman said that if committee members and the senior management at other federal savings associations have questions or are interested some of the business and risk management issues that will be looked at by the OCC, they should contact their ADCs. A working group to draft a proposed rule has been formed and is working on a proposal. The goal is to issue the proposal in September and have a final rule by the end of the year or the first quarter of 2019.

The statute is simple, but there are challenging implementation issues to address in any rule. One difficult issue is how to implement the requirement that federal savings associations must identify the assets, investments and subsidiaries that are not permissible for national banks and whether to permit the federal savings association to retain any such activities, investments or subsidiaries.

The statute requires a simple notice process. The OCC is considering a supervisory approach, not requiring a licensing application. Any additional information requests might be required based on any possible changes in the federal savings association's business plan. Kay Kowitt, Deputy Comptroller for the Western District asked whether the rule would establish the criteria for identifying nonconforming activities and entities. Mr. Brickman replied that the proposal would address the criteria.

The OCC is considering including an eligibility requirement for federal savings associations wishing to make the election in the proposal. The OCC may propose that a federal savings association be well-rated, well-managed and have a satisfactory CRA rating to be eligible to make the election. The statute requires that the rule include the process for reversing the election. The OCC may solicit suggestions as to whether a cooling off period is necessary and how long it should be. Mr. Brickman noted that if a federal savings association is close to the lending limits or is close to failing the qualified lender test and is considering converting to a state commercial bank or a national bank, management should contact the OCC to discuss whether a more simplified process is available under the charter flexibility provision.

Committee members had a number of questions about how the OCC would implement the statute. A question was asked about whether a federal savings association could make an election more than once. Mr. Brickman said that a federal savings association likely can make the election more than once. A question was asked about how long it will take to get a decision once a notice has been submitted with the OCC. Mr. Brickman noted that the statute includes a 60-day timeframe within which the OCC must communicate that the federal savings association is not eligible to make the election or the election is deemed effective. Further, the simpler the notice, the more quickly the OCC can act. A question was asked about the impact of the provision on savings and loan holding companies and whether the OCC is working with the Federal Reserve on holding company issues. Mr. Brickman replied that the OCC proposal will not address savings and loan holding companies and that the Federal Reserve will have to determine the applicability.

A committee member asked why federal savings associations want to convert to a national bank. Mr. Brickman replied that the most frequent reason stated is the statutory lending limit that does not permit an expansion into commercial lending. Making an election would not require changing corporate governance or the name of the federal savings association. A member asked whether a federal savings association making an election would have to obtain a member vote. Mr. Brickman replied that supervision treats this type of change as a change in business strategy, but that the OCC's Law Department will need to do research and provide its views. A question may be included in the notice of proposed rulemaking soliciting comment on this question.

Ms. Kowitt asked the group whether there is still interest among federal savings association in making an election. The members answered that there is continued interest. One member noted that making an election may be an advantage in making acquisitions. Another is interested in how nonconforming activities will be treated. Mr. Brickman said that this is a topic that will be revised at the September committee meeting. Mr. Bland pointed out that it will be important to get the views of the broader federal savings association community.

Community Bank Leverage Ratio. Mr. Brickman described another provision included in the Economic Growth, Regulatory Relief and Consumer Protection Act that may be of interest to community banks generally and mutuals in particular. The provision would amend the risk-based capital rules applicable to insured depository institutions that are community banks. A community bank could agree to maintain capital at above a specific tangible capital level. A concern that must be addressed is what happens to community banks that fall below the capital level or are experiencing deterioration in their capital levels. This provision will be implemented by an interagency rule and a proposal is expected to be issued in the third quarter of 2018.

Other Changes. Mr. Brickman asked the members of the committee what other provisions of the Economic Growth, Regulatory Relief and Consumer Protection Act are important to mutual institutions. A member asked about the HMDA changes. A compliance update would be part of the Joint Mutual Forum the next day. Another member asked about the timing for the implementation of raising the threshold for banks to qualify for the 18-month examination cycle. Mr. Bland said that the rule is an interagency project but that an interim final rule would be issued in a few months. Ms. Kowitt added that the Districts have been planning for the change.

Member and Comptroller Roundtable

Comptroller Otting joined the meeting and, after introductions, provided the committee members with an update on the initiatives that he described as part of the committee meeting in March. He reminded the committee members that one of his important priorities is for the OCC to operate efficiently and effectively, for the OCC staff to be good stewards of the assessments and OCC resources for the industry. He said that one of his goals for 2019 is to reduce the budget. He continued that he has worked to improve the internal processes, to improve the decision making process in the various groups at the agency and to track decisions and approvals electronically.

Comptroller Otting turned the discussion to three policy areas that are priorities. The first is Bank Secrecy Act/ Anti Money Laundering compliance. He said that the goal is to maintain the approach to BSA/AML compliance but to relieve the burden of compliance on banks. The federal banking agencies have developed 14 recommendations to relieve the burden and have send them to FinCen. The second policy priority is small dollar lending. The OCC published a bulletin about a month ago encouraging banks to get back into that line of business. The third policy priority is the revision to the rule that implements the Community Reinvestment Act. The Comptroller began by saying that the OCC staff is working with the other federal banking agencies but that it is likely that the OCC will issue an Advanced Notice of Proposed Rulemaking that seeks comment on a number of issues.

The questions will ask for comments on: developing metrics to determine compliance; looking at a broader group of products and investments that can count for purposes of CRA; and looking at how CRA can hamper merger and acquisition transactions. The Comptroller said that there should be greater transparency in how a bank complies with CRA and how the agencies examine for compliance.

The Comptroller mentioned other initiatives at the OCC. He supports smaller banks getting regulatory relief and the OCC doing what it can as part of the rulemaking process. He also described an initiative to improve job satisfaction for examiners. He wants to push the decision making authority back to the Field Offices and wants examiners to use the expertise housed in OCC Headquarters in Washington. He wants local ADCs and EICS to be empowered.

The members of the committee asked the Comptroller a number of questions. A member asked whether there is a possibility that the threshold for Currency Transaction Reports might be increased from the current \$10,000. The Comptroller replied that legislation is necessary to make the change and that law enforcement does not support such a change. He noted that the OCC had suggested retaining the current level but asked that FinCen permit exceptions for certain customer relationships.

Several members had questions about the CRA review including the timing of issuance and questions about the definition of assessment area. The Comptroller replied that he is spending time meeting with civil rights and community groups to talk about the questions that may be asked in the ANPR and learning what the groups' concerns with the review are. The members asked whether there is anything they can do to help the CRA message. The Comptroller replied that when the ANPR is issued that will be the time to talk about CRA. The goal is to improve the quantity and type of products that will be considered as part of the examination process and to address the assessment area questions. He mentioned that when the concept of the assessment area was developed, interstate banking was not permitted. The ANPR will have a number of questions about the assessment area.

A member made a comment about the implementation of the charter flexibility provision. He is interested in the OCC looking at opportunities for collaboration among banks using service corporations and operating subsidiaries. He said that it would be especially useful in the FinTech area. Another member asked a question about whether the OCC is able to assist with due diligence informational resources FinTech companies, particularly financial information of service providers. For example members said that they can obtain cybersecurity information and they can negotiate better termination terms into their contracts, but they are unable to get financial information.

A member mentioned that because there are only a few core service providers for the financial services industry, there are risks and costs associated with the contracts. Banks try to collaborate with other banks to try to mitigate the risks and share the costs. Mr. Brickman mentioned that the OCC is looking at ways to help banks mitigate the risks that the banks can not directly control.

A member said that he finds value in quarterly reporting done by the OCC. He finds that it allows for more focused risk-based exams. He provided an example of a difference in examination approach of the OCC the FDIC when looking at loan participations. Kris Kiefer, the Deputy Comptroller for the Northeastern District noted that the OCC focuses on emerging risks at particular institutions and that might be why OCC examiners have a different perspective based on the risk profile in the bank. She suggested talking through the issues with the examiners.

Mr. Brickman asked how examinations are going in general. The members said that the examination experience is generally positive. Several members noted comments about the cybersecurity portion of the examination. The members reiterated that they thought the quarterly monitoring was positive and they are interested in any relief for small banks. Mr. Brickman asked whether there are any pressure points about which the OCC should be aware. There was a discussion about the digital transmission of large files, both loan files and documents needed for the quarterly monitoring.

Mr. Brickman asked what emerging risks the members are seeing. Members mentioned, interest rate risk and Liquidity, GSE underwriting standards, and competition. Several members mentioned that larger banks are able to offer customers technology solutions and they are interested in looking at FinTech partnerships.

Mr. Brickman asked that the members provide feedback on the format and the topics presented at the OCC/FDIC Joint Mutual Forum. OCC staff is interested in how to approach outreach to federal mutual savings associations.

Public Statements, Wrap up and Adjournment

A member of the public made a statement about the uncertainty around the issues related to banking marijuana businesses.

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

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer