

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
July 25, 2017

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on May 9, 2017, 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 2:45 p.m.

Advisory Committee Members Present

J.R. Buckner, Tom Fraser, Jeff Hyde, Shirley Hughes, Jim McQuade, Dan Moore, Charles Timpa, James Wainwright, Bill White

OCC Staff Attending

Acting Comptroller of the Currency Keith Noreika, Charlotte Bahin,, Darrin Benhart, Toney Bland, Michael Brickman, Arnie Cohen, Beverly Cole, Kevin Corcoran, Erica Flemantes, Amy Friend, Joey Johnson, Matt Johnson, Andrew Moss, Donna Murphy, Keith Osborne, Jason Sisak, Roger Smith, Enice Thomas, Grace Vallacchi and Gerald Williams

Public Meeting

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee and introduced the OCC staff attending the meeting. He described the agenda, the topics and the speakers for the meeting. He noted that Acting Comptroller Keith Noreika would participate in a portion of the Member Roundtable discussion. Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the committee members. He noted several events that had occurred since the last meeting including the testimony of the Acting Comptroller before the U.S. Senate Banking Committee and the confirmation hearing for Joseph Otting to be the next Comptroller of the Currency. He highlighted the presentation that Accenture would make before the committee that reports on the results of a survey of customers of community banks and what the customers value on their relationships with community banks. He also noted that Senior Deputy Comptroller and Chief Counsel Amy Friend would join the meeting for a portion of the Member Roundtable.

Member Roundtable

Mr. Brickman introduced the Member Roundtable by reporting on OCC staff research to provide data requested by committee members at the prior meeting. Committee members had asked whether the OCC could segment data for federal mutual savings associations by which operational strategy the institution used. The members are interested in whether the performance

and failure rate for mutuals that follow a more traditional residential mortgage lending model are different than for those that offer a broader array of lending products. Mr. Brickman described some of the limitations in segmenting the population and asked questions to ensure OCC staff understand what data are useful. He urged the committee members to take advantage of the opportunity to ask the Acting Comptroller questions when he participated in the Member Roundtable.

Committee members said that having historical data that can show how mutuals perform when they engage in traditional residential mortgage business is helpful in telling their story. Other committee members said that it would be interesting to show federal mutual savings association performance compared to state-chartered mutuals and to community banks more generally.

Mr. Brickman invited the committee members to comment on a variety of topics from a federal mutual savings association perspective, including regulatory burden relief, activities, new products and services and strategic planning. The focus of his questions was whether the differences in the mutual business model are understood by boards of directors, staff, customers and the communities being served. He asked whether additional data would be helpful to them when they talk to their boards of directors and others.

Committee members responded that data available from the OCC is useful in talking to board members and others about a federal mutual savings association's strategic opportunities and challenges. Recognizing that mutuals are different and having data to explain the impact of the differences is useful. Other members remarked that showing successes of mutuals also is helpful in highlighting the positive differences. Committee members noted that they can provide better customer service than competitors and that branding and marketing can highlight that feature as a positive benefit of banking with a mutual. The corporate culture of a mutual is different. The need to look quarter to quarter that is part of being a stock bank creates operational pressures that do not exist at a mutual. A committee member pointed out that it is important to show communities and customers the positive benefits the mutual brings to the community.

Committee members talked about how external forces are changing the business model. Technology and the rapid changes in how nonbank competitors use technology to deliver products and services more quickly to consumers is an example of the external forces that impact the way that mutuals compete. Market share for lending products has shifted as a result of the evolving business models of nonbank competitors. Another example is the changing expectation of the customers and how younger customers expect to be able to get products and services using technology. Technology also has played a role in changes to operations.

Committee members remarked how important the innovation discussion at each federal mutual savings association has become in order to evolve to be able to continue to compete and meet customers' expectations. The ability of mutuals to be able to compete was discussed. The number of mutuals has continued to decline and committee members discussed the feasibility of new mutuals being chartered.

Keith Noreika, the Acting Comptroller of the Currency, welcomed the committee members and reiterated how important the advisory committee is to the OCC. He commented that when he

participated in the meeting in May, it was his second day as Acting Comptroller. He described the three priorities he has established since coming to the OCC. First, support the men and women of the OCC, who support the agency's statutory mission and work ensuring the federal banking system operates in a safe and sound manner, provides fair access, treats customers fairly, and complies with applicable laws and regulations. Second, champion the value of the national charters and the federal banking system. He referred to his July speech on the OCC's Responsible Innovation initiative and the importance the evolution of banks. Third, minimize unnecessary regulatory burden and promote economic growth. The Acting Comptroller recently testified before the U.S. Senate Banking Committee and recommended the enactment of the Federal Savings Association Charter Flexibility Act, among other legislative initiatives. He mentioned that he had met with mutuals who described some of the challenges they face and he also met with Congressman Keith Rothfus (R-Pa.), the sponsor of the Federal Savings Association Charter Flexibility Act, and discussed how important the legislation is, particularly to mutuals.

He also mentioned that he had solicited suggestions from the OCC staff on ideas for burden reduction and greater operational efficiency at the agency. He asked the committee members what suggested changes they would like to see. Committee members asked the Acting Comptroller what types of changes have priority from his perspective. He mentioned the Volcker rule and the notice of proposed rulemaking that the OCC had issued in order to get comments on the rule generally and how to make it less burdensome. He mentioned some consumer protection rules, Bank Secrecy Act and capital simplification. Several committee members had thoughts about how rules and supervision practices could be revised to be less burdensome for community banks generally. The Acting Comptroller suggested that the committee members contact their elected representatives and their staffs with suggestions and examples of changes that can be made.

The committee members talked about how some regulations with a good purpose have gone too far and how non bank competitors have taken advantage of opportunities that result. They talked about how important it is to look at updating the mutual charter and the statutory and regulatory limitations on activities. The committee members discussed the importance of capital for mutuals and the growth opportunities that are open to mutuals with additional capital. They highlighted the importance of capital when considering new products and services and considering innovation generally. Committee members talked about whether there are groups that would consider chartering a de novo mutual. They addressed the benefits and the risks.

Other topics addressed by the committee members included questions about the CFPB's consumer complaint database and whether there is any analysis done in advance of the posting of the complaints. Another topic was a discussion of the OCC's examination efficiencies initiative for community banks. Mr. Bland described the initiative and explained that the result is that examiners will spend less time in banks and more time off site. He remarked that communication between examiners and the bank is a priority and will drive the success of the initiative.

Results of the 2016 North America Consumer Digital Banking Survey

David Helin, Research Director, Accenture Consulting, and Stephanie Sadowski, Financial Services Managing Director, Accenture Consulting, presented the results of the North American Consumer Digital Banking Survey. The survey is designed and updated annually to provide feedback from customers of retail banks on a broad array of topics. The findings of the survey included four broad conclusions: Hunting for value is hot; switching is not an obstacle; robo advice is welcome; and the branch is alive and well. A general theme is that customers are searching for value. The survey results provide detail on what customers look for and what is important to them when making decisions about financial services.

Committee members asked questions about the survey results and made observations from their experience with consumers. The report of the survey results is in the committee materials.

Semi Annual Risk Perspective and Supervision Risk Management

Darrin Benhart, Deputy Comptroller for Supervision Risk Management gave a presentation on metrics used by the Supervision Risk Management unit at the OCC tailored to federal mutual savings associations. He provided an overview of the supervisory data, reported on a system-wide earnings performance, looked at retail and commercial credit trends, and identified key risk themes. Mr. Benhart reviewed the Matters Requiring Attention (MRAs) given to mutuals and indicated that the larger the institution, the more frequently operational risk was identified. He said that smaller institutions had more credit, audit and control MRAs. He looked at earnings in particular for institutions with less than \$1 billion in assets and he noted a reliance on fee income.

When discussing retail credit trends, he highlighted mortgage lending performance and trends in auto lending. He noted that the commercial real estate lending trends remain mixed. Mr. Benhart discussed the geographic nature of multifamily lending and the demographic demand. He noted that concentration risk management is important and that understanding concentration levels relative to capital is critical. He pointed out that examiners are reporting a continued easing of underwriting standards.

The key risk themes identified are strategic, credit, operational and compliance. Cyber risk is a high concern in the operational risk area. Compliance risk, both compliance with the rules and change management, has been identified as posing a high risk.

Committee members asked questions about the risk assessments in the reports of exam and what the OCC has identified as a concern for mutuals. Mr. Benhart mentioned concerns regarding interest rate risk but said that more broadly credit risk a greater concern. A committee member asked where we are in the credit cycle. Mr. Benhart replied broadly about the work of the OCC's Risk Committee and the challenges it looks for. He mentioned that all cycles are different and that in some instances the initial shock can be absorbed but that contagion issues are the concern. A committee member asked about talent management to address the complexity of credit and Mr. Benhart agreed that succession management is an important element in looking at risks.

Compliance Risk Management

Donna Murphy, the Deputy Comptroller for Compliance Risk Management, and Beverly Cole, Deputy Comptroller for Compliance Supervision Management, updated the committee members on changes that have occurred in the compliance area. Ms. Murphy talked about changes in the interagency compliance rating system and how it has been updated to address current practice and systems. Ms. Murphy also talked about consumer complaints and the process that each agency uses to address the complaints. Ms. Murphy talked about the importance of change management in the compliance area. With so many frequent rule changes, management at all banks must have processes and systems in place to ensure that staff are trained and know about the changes to ensure compliance.

Members of the committee asked questions about specific rules and how to address compliance for particular products that they offer. For example, several questions about mortgage products offered by committee members and compliance with the lending requirements, including TRID, were asked. Ms. Murphy pointed out that the OCC does not interpret the rules issued by the CFPB but they work with CFPB staff to get an interpretation. She also suggested that the committee members work with their ADCs when they have questions and the ADCs will communicate with the Compliance Management staff in Washington.

A committee member asked what the OCC approach will be to examining for the revised HMDA rules. Ms. Murphy said that the OCC is working with the other agencies on some guidance that will identify the important data fields that the OCC will focus on. Ms. Cole added that initially the OCC will look at a bank's policies and procedures rather than doing transaction testing. She said that training of staff will also be a priority.

Ms. Cole said that examiners will move to being more risk focused in an effort to provide some relief to banks, where it is permitted. Reviews of policies and procedures will be critical. Ms. Murphy added that the OCC will develop its own processes when new or revised rules have been issued. The information will be communicated to the Field Offices so that exams can be scoped more efficiently. Ms. Cole said that with so many changes, the OCC is trying to take a holistic view of the banks and examinations and to focus on communication.

Public Statements, Wrap up and Adjournment

A letter from a member of the public was included in the materials for the advisory committee meeting. A member of the public complimented the OCC on its work with mutuals and said that the agency's work was a catalyst for meetings with the other agencies.

Mr. Brickman adjourned the meeting at 2:45 p.m.
Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer