

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
July 23, 2014

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 1:00 p.m. on July 23, 2014, 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 5:05 p.m.

Advisory Committee Members Present

Martin Connors, David Ferries, C. Alan Horner, Thomas Kemly, Paul Mackin, Martin Neat, Michael Nolan, Margaret Smith, Steven Swiontek

OCC Staff Attending

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Arnie Cohen, Kevin Corcoran, Donna Deale, Ralph DeLeon, Philip Gerbick, Gregory Golembe, Jennifer Kelly, Amy Klein, Ernie Knott, Randy Roewe

Public Meeting

Donna Deale, the OCC's Deputy Comptroller for Thrift Supervision and the committee's Designated Federal Officer called the meeting to order and welcomed attendees at 1:00 p.m. Following introductions of the committee members and individuals in attendance for the OCC, she introduced Thomas J. Curry, Comptroller of the Currency.

Comptroller Curry welcomed the committee members and thanked them for their time and commitment.

Discussion with Members

- **Mutual Overview**

Ms. Deale introduced Ernie Knott, Financial Analyst in the OCC's Northeastern District to give an update of the trends and an overview of the financials of the mutual segment of the financial services industry supervised by the OCC. Mr. Knott went through a prepared presentation entitled "Mutual Overview and Trends." He explained that the information was compiled using aggregate data from the quarterly Consolidated Reports of Condition and Income (Call Reports) and supervisory data obtained by OCC examiners during bank examinations.

The presentation is part of the MSAAC record and is available at <http://www.occ.gov/topics/bank-management/msaac-overview.pdf>.

Mr. Knott described the demographic overview of the mutual segment of the industry. A committee member asked about obtaining demographic data on mutual holding companies. Ms. Deale explained that it is difficult to distinguish mutual holding companies that have issued minority stock from those that have not in the data available to the OCC. Mr. Knott responded that he is looking into obtaining this information and will make adjustments to the data going forward. A committee member asked whether the decline in the number of mutuals (five percent) is a continuing trend. Mr. Knott explained that it is a low percentage and that it looks like mutuals want to stay mutual. He referred to articles in the press describing recent surveys of mutuals. Survey results indicate that mutual boards of directors may look at mergers of mutuals in the next five years, particularly in situations where the institutions have complementary balance sheets. Mergers of smaller institutions may make sense given the rising costs of operations. A committee member asked about the accounting treatment for mergers of mutuals. He questioned whether examiners would be concerned about the impact of a merger on the institution's capital. Another member asked whether the capital issue could be addressed later as part of a broader discussion.

Mr. Knott discussed the age of many mutual institutions. Ms. Deale talked about the certificates evidencing the longevity of institutions that are being prepared for federal savings associations (FSAs), including mutuals, that have reached specified age thresholds. The difficulty is that many FSAs, including many mutual institutions, have longer histories than the age of the charter as a federal association. A federal association charter was not available until 1933, but many current FSAs, including many mutual institutions, were chartered by states well before that. The certificates that will be given will celebrate the length of federal supervision.

Mr. Knott turned to the financial metrics included in the presentation. He highlighted the loan distribution and noted that mutuals do not have concentrations in commercial and industrial lending. He noted that classified assets have declined and that asset quality at mutuals is better than at their stock competitors. Further, mutuals have lower allowance numbers. The discussion turned to earnings and capital. With earnings sluggish and capital levels high, Comptroller Curry asked why the efficiency ratios for mutuals have increased. Mr. Knott suggested that it is because mutuals have higher overhead. Committee members observed that mutuals may not cut expenses as quickly as stock institutions and that there is an increased need for staff given the increased regulatory compliance requirements.

Liquidity and sensitivity were addressed next. Mr. Knott highlighted that mutuals have more Federal Home Loan Bank advances and core deposits but fewer brokered deposits. He mentioned that interest rate risk is a concern to the agency as a result of the amount of longer-term assets. Mutuals have more lower-risk assets, including more community-based loans and deposits.

Mr. Knott described the breakdown of the composite ratings for mutual institutions. He pointed out that composite upgrades are outpacing composite downgrades. A committee member asked why there are fewer 1-rated mutual institutions for earnings. Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Banks reminded the committee members that the percentages changed because the overall number of institutions declined. Among the components of the composite ratings, earnings is the component that needs to be improved the most. A committee member asked how "earnings" is being defined. He asked, if a mutual's earnings are

sufficient to grow capital, could they be considered adequate? He suggested that it might be worthwhile to revisit what it takes to be 1-rated in earnings in a low interest rate environment. Ms. Deale commented that the earnings rating is not just a number but represents a combination of factors. In addition to the quantity of earnings, OCC examiners also focus on the stability and quality of earnings and compare mutuals to other mutuals when evaluating profitability. Ms. Kelly mentioned that the recently issued guidance is what examiners should look at for mutual institutions in the earnings area. Randy Roewe, an Examiner-in-Charge in OCC's Midsize and Community Bank Supervision Division, explained that examiners look for whether earnings are sufficient to cover operations and the allowance, and then look at pre-capital expenses. He said that examiners look at earnings compared to growth. Further, he said that even if earnings are compressed, examiners look at whether there are enough to support operations.

Mr. Knott turned to a discussion of Risk Assessment System (RAS) ratings. The quantity of risk and the quality of systems are evaluated for eight risk areas. The RAS ratings for mutuals are markedly better than those for stock FSAs. A committee member asked about the results shown in the Semiannual Risk Perspective for certain activities. Ms. Kelly explained that the numbers being discussed are for mutuals specifically but the Semiannual Risk Perspective does not break mutuals out. She further explained that examiners assess the quality of risk management in the context of each institution's risk profile. A committee member asked about the reference to indirect auto lending in the Semiannual Risk Perspective. Mr. Roewe mentioned that with regard to indirect auto lending, competition is a contributing factor to the loosening of underwriting standards. The committee member continued by stating examiners should look at the business plan for auto lending and that for the past 30 years, delinquencies have been low, but some banks are moving into subprime auto lending. Ms. Kelly reiterated that competition may drive some banks to loosen underwriting standards and that subprime auto lending is where profits are.

Mr. Knott discussed the information on Matters Requiring Attention (MRAs). He pointed out that about one third of 1-rated institutions have MRAs. If a bank has multiple MRAs, there may be systemic concerns with the institution. Examiners become concerned when a bank has repeat MRAs. The data show that there was an increased percentage of MRAs given for concerns with audit and internal controls. The volume of violations of law cited by examiners decreased through the first quarter of 2014 compared to the same period last year. Ms. Kelly suggested that the information technology component/aspect of audit and internal controls might be part of the increase.

Mr. Knott then provided a demonstration of how to create a peer report for mutual institutions using the Uniform Bank Performance Report tool on the Federal Financial Institutions Examination Council (FFIEC) Web site. The FFIEC data set is populated by information from the Call Reports. The committee members asked whether it is possible to create a peer report for mutual holding companies. Another member asked whether it is possible to create a peer report for national peers if there are not enough regional peers to populate the report. Ms. Kelly reiterated for the group that examiners could create custom peer reports that are useful in doing analysis. Committee members should work with their portfolio managers to get the kind of custom report that would be useful to their analysis.

- **Mutual Guidance**

Ms. Deale let the committee members know that the recently issued guidance for mutuals entitled “Characteristics and Supervisory Concerns” is in the meeting materials. She thanked the committee members for their comments and suggestions and reminded the group that some of the concepts addressed at the April committee meeting were highlighted in the guidance. She asked the committee members for any reactions they had on the guidance. The response was positive.

- **BankNet Enhancements**

Ms. Deale gave a brief introduction to BankNet and reminded the committee members that it is available to all banks supervised by the OCC. She mentioned that the OCC is working on enhancements. Greg Golembe, the OCC’s Director of Banking Relations, described some of the features. For example, it is possible to sign up for user alerts. There is a mutual page and the Banking Relations staff is considering ways to make the page more dynamic and to provide more information. At a recent meeting of the Minority Depository Institutions Advisory Committee, there was a discussion of including a discussion board to enable minority institutions to communicate with one another on issues of interest. BankNet is becoming more dynamic and the committee members were encouraged to send suggestions of additional changes they would like to see. The committee members indicated an interest in having a mutual discussion board.

Member Roundtable

Each of the committee members shared thoughts on issues faced by mutuals and community banks in general. Common themes included the following:

- Competition from credit unions and larger financial institutions
- Regulatory burden
- Succession planning
- Interest rate risk
- Compliance with revised mortgage rules
- Possible changes to business as a result of the new mortgage rules
- Mutual to mutual mergers and resulting capital issues
- Strategic planning
- Operation Choke Point
- Mutual capital certificates

Future Meetings and Charter Renewal Process

Ms. Deale reminded the members that the charter for the committee expires in November and the OCC has begun the renewal process. Nominations have been solicited for membership and a number of nominations have been received. The process of reviewing the nominations has begun. Ms. Deale told the committee that the last meeting of the committee with this group of members would be in November in Washington.

Public Statements, Wrap-up and Adjournment

Two public statements were submitted in advance of this meeting. America's Mutual Banks submitted a letter regarding the guidance and the American Bankers Association submitted a letter regarding recently introduced legislation. Both of these letters are attached.

Ms. Kelly thanked the members of the committee for their participation and involvement with the committee and reiterated the value to the OCC of the members' participation in the committee.

Ms. Deale adjourned the meeting.

Certification



Donna M. Deale
Designated Federal Officer