Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
April 21, 2020

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 10:00 a.m. on April 21, 2020. The meeting was conducted via webinar.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 10:00 a.m. to 2:45 p.m.

Advisory Committee Members Present

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

OCC Staff Attending

Comptroller of the Currency, Joseph Otting, Jason Almonte, Alexandra Arney, Frances Augello, Charlotte Bahin, Michael Brickman, Brian Brooks, Beverly Cole, Arnie Cohen, Christopher Crawford, Ralph DeLeon, Lance Downs, Don Dwyer, Jeffrey Geer, Danial Grantham, Vicki Hawkins-Jones, John Harootunian, Cristina Im, Brian James, Karen Marcotte, Sarah Nawrocki, John O'Brien, Blake Paulson, James Porreca, Eric Reinauer, Joseph Smith, Demetria Springs, Troy Thornton

Public Meeting

Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the Advisory Committee. Mr. Brickman gave a brief description of the agenda for the meeting. He recognized the members on the call and explained the mechanics of the WebEx meeting. He introduced the OCC staff representing each of the Districts.

Mr. Brickman introduced Brian Brooks, Senior Deputy Comptroller and Chief Operating Officer, who was new to the role of OCC Chief Operating Officer at the agency. He provided information about his background, including his experience as a lawyer representing large federal savings associations, his service at a federal savings association and at Fannie Mae. He noted Mr. Brooks' background and interest in housing and mortgage lending.

Mr. Brooks described some of the activities undertaken by the OCC in response to the pandemic and described several features of the CARES Act that address the housing-related impact of the pandemic. He briefly highlighted the forbearance and servicing provisions for customers affected by the pandemic in the CARES Act. He discussed the work of the Federal Housing Finance Agency and the Federal Reserve for servicers to try to avoid servicing transfers. Mr. Brooks talked about the Payroll Protection Program, another CARES Act program, and the OCC's work with the Small Business Administration to support these initiatives. He described the technology challenges using the Small Business Administration systems and he mentioned that fraud tools are needed for these types of programs.

Mr. Brickman introduced Blake Paulson, Senior Deputy Comptroller for Midsize and Community Bank Supervision. Mr. Paulson, formerly the Deputy Comptroller for the Central District, spoke about his experience supervising mutuals. He noted that the strength of the mutual industry is helping it weather the current economic environment. Mr. Paulson observed that mutuals are an important component of diversity in their communities and that their service to communities is a strength. He thanked the Committee members for the valuable input on important topics over the years.

Mr. Paulson turned to a discussion of the impact of the pandemic on the supervision of national banks and federal savings associations. He described the collaboration with the other federal financial institution regulatory agencies. Working together with the other agencies, the OCC has issued a number of pieces of guidance that address the impact of the pandemic as its the effects are felt in local economies. Further, he described the shift to all off- site examinations and that examiners had to think about performing examinations in different ways. He explained that in the past few years, more supervisory work had shifted off-site, but that the pandemic has caused almost all examination work to be performed off site as the banks themselves implemented remote working environments. Currently almost 100 percent of OCC employees are working remotely.

He then moved to a discussion of the economy going forward and urged the members of the Committee to work with their customers. He said that the Committee members should be realistic in discussions with customers. He then described the review of the risk areas that the OCC is performing in preparation for future examinations. Mr. Paulson told the members that on their June quarterly call, the portfolio manager would address risk areas and would ask about specific risks. He noted that the OCC and the industry have been prepared for a downturn but that the speed of change was unexpected.

Mr. Brickman noted that all COVID-19 issuances are posted on OCC.gov. The releases are updated as necessary, and updates also are posted

Economic Update

Daniel Grantham, Senior Financial Economist, Economic and Banking Condition and Eric Reinauer, Senior Financial Economist, Economic and Banking Condition, of the OCC's Economics Department presented data on the current economic environment and provided a forecast for the future. The presentation was sent to the Committee members in advance of the meeting and is available with the Committee materials. The remarks focused on the following agenda points: forecasters expect a short but severe recession in 2020; peak quarterly unemployment forecast to reach 15 percent; leisure and hospitality, entertainment, and retail industries suffer direct hit from closures; other industries indirectly hurt; the CARES Act will support the economy but will not prevent a severe recession; downside risk if policy response is ineffective or second wave disrupts restart of the economy; residential real estate prices were accelerating prior to the Coronavirus outbreak; and Hurricane Katrina caused a similarly swift and severe regional economic shock whose affect on bank performance receded after one year.

Mr. Reinauer began the presentation with a brief introduction. He noted that events are changing rapidly every day. Nearly 30 percent of the US economy is idle as a result of the COVID-19 containment measures. Output has been lost because of the stay at home orders and each industry has been affected differently. When the industries most severely impacted are ranked by assessment of risk, hospitality and tourism support are at the highest risk. The next level of risk includes industries whose workers cannot do the work remotely. Finally, the third level of risk is the industries whose workers can work remotely but the work may not be done as quickly.

The unemployment data for March and April were discussed. The industries and the geographic locations most affected were described. The forecast shows that unemployment is worse than during the financial crisis of 2009. The answer to the questions of how long the recession will last and what its shape will be depends on how quickly the virus abates and whether there is a second wave of virus. Mr. Reinauer described the economic impact of the passage of the CARES Act, the largest stimulus legislative package in history. He noted that the provisions support the economy but that risks remain. He described the components of the legislation including mortgage forbearance and the Paycheck Protection Program.

Mr. Grantham turned the discussion to the impact of the economic environment on residential real estate prices. He noted that residential real estate prices accelerated prior to the pandemic. He provided information on home price appreciation across the country in January 2020. He projected the home price declines for the rest of 2020 across 60 percent of the metropolitan areas in the country. He also provided a snapshot of the mortgage market at the fourth quarter 2019. He addressed the challenges of price discovery.

Finally, the discussion turned to a description of the severe regional economic shock that resulted from Hurricane Katrina. Mr. Grantham clarified that there is no true national precedent for the 2020 economic shock but suggested that the impact of Hurricane Katrina provides an example of a sudden and severe economic regional shock as a case study. He noted the differences between the impact on stock and mutual banks. He also noted that in the current crisis, there is no widespread property damage and that the recovery will depend on what happens with the course of the pandemic.

The general conclusions of the presentation were that the CARES Act will support the economy but will not prevent a severe recession; the Coronavirus outbreak will weaken home prices, but the recession's depth and duration will determine by how much; and most locally concentrated banks affected by Hurricane Katrina were able to recover within a year as employment rebounded within six months.

The Committee members asked questions about the affect of Hurricane Katrina on the commercial real estate market. A Committee member noted that property, flood and business interruption insurance were available to assist borrowers and banks in the aftermath of Hurricane Katrina. A Committee member observed that in the current environment, there has been a rapid influx of deposits and asked whether the same occurred post Hurricane Katrina. The economic work looking at the impact of the pandemic is evolving and updates to reflect changes in the market and economy will be available on BankNet.

Supervisory and Credit Discussion of Actions in Response to COVID-19

Joseph Smith, Technical Expert, Mortgage Banking Risk, Retail Credit Risk, joined the Committee meeting to provide a mortgage banking and industry overview. Mr. Smith began the discussion by providing some background on where the mortgage markets were pre-pandemic and where the markets are now. He described the unprecedented challenges that are influencing the economy, including record levels of unemployment and the closure of small businesses. Despite these challenges, including that the number of mortgage originations is being impacted by social distancing, Mr. Smith noted that creativity of the mortgage industry has not stopped the continued closing of loans both for refinance and purchase transactions. Changes and accommodations include realtors performing virtual tours, originations being documented via electronic means and curbside closings.

He reported that prior to the pandemic, mortgage rates in the US had dropped below four percent and refinance activity was brisk. The solid economy and strong employment numbers also fueled sales of new homes. At the beginning of 2020, expectations were that refinancing would fade out and home sales would increase, but high construction costs limited housing affordability. The biggest obstacle the housing market faced was lack of supply. One encouraging sign was that millennials were embracing home ownership.

Mr. Smith asked the Committee members a number of questions about the status of the mortgage market in their geographic areas. He asked whether the level of mortgage funding had changed since the pandemic began. Several members reported that they were seeing the funding growth from the stimulus programs. They reported that in recent weeks, funding had picked up. They also mentioned forbearance rates and delinquencies in both residential and commercial lending.

Mr. Smith asked the Committee members about mortgage originations pre-pandemic and since the pandemic began. He asked whether the strategy of the Committee members' institutions had changed. The Committee members described the challenges of originating and closing loans remotely, from staff working remotely to court houses being closed. They reported that volume had increased and that their staff were working hard to close the loans. In some cases, because branches were closed, staff were asked to take on mortgage processing responsibilities to get the work done. Additional processes were automated to try to increase the speed of getting applications reviewed and disclosures delivered to customers. Committee members also noted that obtaining appraisals was a concern.

The Committee members discussed whether the rate of unemployment was a concern in the consumer lending area and the rate of requests for forbearance. They reported low rates of requests for forbearance relative to other types of non-depository lenders. Generally, they reported that they had not changed their underwriting standards but several reported that they had made processing changes. They were confirming employment pre-closing and were limiting the amount funded. The Committee members noted that depending on how the economy changes or stabilizes, the level of forbearances might increase. A Committee member asked about the interagency guidance on troubled debt restructuring. There was a discussion of the guidance and the flexibilities available. OCC staff noted that an interagency webinar on the troubled debt restructuring guidance was scheduled for the end of the week and would provide an opportunity for bankers to ask questions.

Covered Savings Association and Committee Update

Mr. Brickman reported that the charter of the Advisory Committee would expire in a few months and that the OCC would submit the paperwork to the Department of Treasury to renew the charter. The OCC would begin the solicitation for nominations of new members at the same time. Mr. Brickman reported that there were 17 federal savings associations that have made an election to operate as a covered savings association. He noted that they vary in size and geographic location. The OCC continues to receive questions about the process to make an election and the applicable powers.

Member Roundtable Discussion

Mr. Brickman summarized the morning's discussion and welcomed Comptroller Otting to the meeting. Comptroller Otting provided the Committee members with an update on the OCC's recent activities to address the pandemic. The Comptroller acknowledged the value of the Advisory Committee and the strength of the mutual institutions industry. He mentioned that in early March the OCC instituted a maximum telework schedule. The agency continues to work on short- and long-term projects during a period of remarkable collaboration with the other banking agencies.

Since March 6, the banking agencies and/or the OCC have issued forty actions, including guidance, policies, frequently asked questions and interim rules, to address the pandemic planning, capital, bank operations and other critical topics. For example, guidance was issued that for the first time provides that CRA credit will be given to institutions for activities as a result of a national event, for example the pandemic. Previously, CRA credit was given for activities engaged in as a response to a regional or local natural disaster or other more local event. Other regulatory or supervisory actions included granting a call report filing grace period, guidance for banks working with borrowers on problem loan identification and the establishment and implementation of the Paycheck Protection Program.

Comptroller Otting noted that the OCC is seeing concerns about loan loss reserves, the first quarter of 2020 included a sizable allowance for loan loss reserves. He also mentioned net interest margin and the impact of this rate environment. He noted concerns about nonbank mortgage servicers. A sizable portion of mortgage loans are serviced by nonbank mortgage servicers and there are concerns about forbearance of loans serviced by these entities. Comptroller Otting was interested in whether the Committee members are seeing an increase in deposits or loan demand and consumers' behavior when refinancing. Finally, he mentioned the heightened cyber concerns and he referred to malware incidents that occurred earlier in the year. Comptroller Otting asked the Committee members to describe what is going on in their geographic markets, consumer behavior, loan demand, deposit growth and other general topics. The Committee members discussed:

- The OCC guidance issued in several areas, including troubled debt restructuring and asked questions about additional guidance that might be issued if the economic environment does not improve;
- The increase in deposits and the relationship of the increase with the Payroll Protection Program;
- The level of forbearance requests by mortgage customers and commercial customers;
- Concerns about the commercial real estate market and loans if companies continue to permit employees to work remotely after the pandemic;
- The composition of loan demand, whether it is refinance activity or origination;
- Changes necessary to get loans processed in a remote work environment;
- The number of mortgage originations and creative uses of staff working remotely;
- Other types of loans Committee members are originating, including construction loans;
- Concerns about when small businesses will reopen and levels of unemployment;
- Remote work at banks.

Public Statements, Wrap up and Adjournment

There were no written statements submitted in advance of the meeting. Members of the public thanked the Committee members for the discussion

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

Certification

/s/

Michael R. Brickman
Designated Federal Officer