Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
September 25, 2018

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on September 25, 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 8:30 a.m. to 2:30 p.m.

Advisory Committee Members Present

James Brown, JR Buckner, Tom Fraser, Shirley Hughes, Jeffrey Hyde, Jim McQuade, James Wainwright, William White

OCC Staff Attending

Frances Augello, Charlotte Bahin, Lazaro Barreiro, Pricilla Benner, Toney Bland, Michael Brickman, Arnie Cohen, Beverly Cole, Don Dwyer, Demetria Springs, Brian James, Kevin Kirby, Alison MacDonald, Sydney Menefee, Robert Ortiz, Tania Phillips, Joseph Smith, Marta Stewart-Bates, Danial Sufranski, Jason Wolf

Public Meeting

Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee. He noted that the committee meeting is the last one for the members and thanked them for their input and advice.

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. In thanking the members, he said that they helped the OCC make progress in looking at unique issues that are important in the supervision of mutuals and federal savings associations more generally.

Mr. Brickman provided a brief overview of the topics on the agenda for the committee meeting, including topics to be discussed during the Member Roundtable portion of the meeting. Because several of the items are the subject of proposed rulemaking that have either already been published, Mr. Brickman explained that OCC staff may not be able to respond to detailed questions but urged the committee members to comment on all proposals. The following are the agenda items:

- Overview of the charter flexibility provision in the Economic Growth, Regulatory Relief, and Consumer Protection Act and the OCC's proposed implementing rule;
- Overview of the other supervisory topics being considered by the OCC; and
- Summary of several collaboration initiatives developed in coordination with the Minority Depository Institutions Advisory Committee.

Implementation of Charter Flexibility Provision of the Economic Growth, Regulatory Relief and Consumer Protection Act.

Before Mr. Brickman described the charter flexibility provision included in the legislation, he reminded the committee members that the OCC would have to implement the provisions of the statute by rulemaking. He 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 proposed rule issued by the OCC to implement the charter flexibility provisions of the statute. The proposal was published in the *Federal Register* on September 18, 2018 and comments are due on November 19, 2018. Unlike many of the other rules required by the statute, this one is an OCC-only rule. Mr. Brickman went through a power point presentation previously distributed to the members of the committee that describes the proposed provisions of the rule and reminded the committee members to submit a comment letter even if they had provided feed back at the committee meeting.

The committee members asked questions about whether the proposed rule would permit state savings associations or de novo federal savings associations chartered after December 31, 2017, to make an election to operate as a covered savings association; whether the proposed rule would require a federal savings association to hold a member vote in order to make an election; and how making an election under the proposed rule would affect the status of any savings and loan holding company of a federal savings association. OCC staff reminded the committee members that questions regarding the impact of making an election to be a covered savings association on the federal savings association's holding company would be addressed by the staff of the Board of Governors of the Federal Reserve System. Committee members also asked about the circumstances in which the proposed rule would require a federal savings association that made an election to divest a service corporation or cease activities of the service corporation that would not be permissible for national banks.

The preamble to the proposed rule included a number of questions soliciting input from the public.

Member Roundtable

Mr. Brickman explained that several topics that were raised at the July 25, 2018, OCC/FDIC Joint Mutual Forum were items on which OCC staff wanted to get additional feedback. Additionally, the topics are discussed in the OCC's Semiannual Risk Perspective and a committee discussion helps inform OCC staff. Mr. Brickman explained that questions included in this document were sent to the members of the committee to help them think about the topics in advance of the discussion.

Mortgage Market Risks. At the OCC/FDIC Joint Forum, in response to a question about credit risk concerns, the audience viewed the number of competitors as a greater concern than easing of underwriting standards and/or rising interest rates, but the issue that generated the highest level of concern noted was preparing for the next cycle. These questions look at some of the factors that may influence the level of concern. The discussion at the committee meeting was general and did not address each factor in the questions.

- The Government Sponsored Entities have made changes to their underwriting requirements. For those of you that originate for sale to the GSEs, are you seeing a discernable easing of the standards for the acceptance of qualifying loans?
- Do these changes heighten competition for mortgage originations in your market? Are the changes resulting in an increased number of nonbank lenders that are active in your market?
- Do you see an evolution in the product mix that nontraditional mortgage lenders are offering that impacts your competiveness?
- Do you originate loans that you are able to sell loans to the GSEs that you would be reluctant to hold in portfolio due to higher risk characteristics (higher debt to income ratio, lower credit score, higher loan to value ratio) or layering of such characteristics?
- Does the direction of GSE risk acceptance concern you? Do you see a risk of the markets becoming saturated with higher risk mortgages that will have higher defaults and foreclosures in a downturn?

Joseph Smith, Group Leader for Credit and Market Risk, in the OCC's Retail Credit Risk division of the Office of the Chief National Bank Examiner, participated the discussion and provided information. Each of the members is primarily a mortgage lender but the business models differ. The committee members discussed observations the mortgage market in their market areas.

Several members of the committee reported concerns related to the availability of appraisers and competition from government entities that are active lenders or lender partners in rural areas. Other members noted that completion is intense from nonbank lenders who are able to offer more competitive mortgage terms to consumers. Other members mentioned that there is a shortage of housing stock. Members reported differing observations of the available inventory depending on the market area. A member reported that the lack of housing stock is across the board but is especially prevalent in entry level homes. Another member reported that inventory is low in the mid price range houses.

Mr. Smith observed that it has been reported that risk layering of terms has begun again. A member noted that the market has started to look like the mortgage market in the mid 2000's. Members noted the increase in margin pressure. The level of competition has increased and non depository lenders offer terms that many depository mortgage lenders will not offer. Several members noted that while they do not sell mortgages to the secondary market currently, they underwrite using government sponsored enterprise criteria. They noted that they use stricter underwriting criteria that would be required to sell to the secondary market.

Mr. Smith asked whether builders add higher costs for materials, labor or other fees that have increased the cost of a new home. Several members reported labor shortages and higher costs of materials that result higher construction costs. The cost of a newly constructed home raised another concern about appraisers as they will work with nonbank lenders who will make loans not will not be originated by depository lenders. Mr. Smith reported that in some geographic markets, builders have purchased thousands of lots and paid for access to infrastructure in reaction to possible high growth areas.

Mr. Smith reported that originations and servicing by non-depository financial institutions are increasing as a percentage of the total market. The members of the committee reported that competition is increasing and that lenders with fewer regulatory restrictions have a competitive advantage and apply pressure on depository lenders. Consumers may not know the difference in the types of lenders and will seek the fastest or least expensive option. Several members reiterated that the market is similar to the market in the mid 2000's. A member noted that mutual institutions can work together to gain scale in the servicing business.

Mr. Brickman asked the committee members about risks identified in underwriting criteria and asked what elements of the risks about which the OCC should be aware. A member suggested that the OCC look back to the mortgage markets in the mid 2000's and determine what can be done differently in this credit cycle to avoid the collapse of the market that occurred in the past. Mr. Brickman asked whether there are supervision gaps that can be identified. A member noted that the mortgage banking handbook was recently updated and that the changes have been reflected in exams.

Current Expected Credit Losses. The committee members turned to a discussion of the implementation of the new accounting standards for Current Expected Credit Losses. The questions were developed to generate discussion and were answered generally.

- What concerns do you have with CECL implementation? Have you participated in the OCC webinars for bankers? Have you discussed CECL implementation with your examiners or your ADC?
- As a mutual, are you concerned about changes to your capital levels as a result of CECL and if so, how are you addressing the concerns?
- Are there any CECL implementation concerns unique to mutual savings associations that you think the OCC should address in guidance, training, or outreach?

Sydney Menefee, the OCC's Deputy Comptroller and Chief Accountant, joined the meeting. She introduced the OCC's implementation of CECL and described the emphasis on examiner education and preparedness, in contrast to only asking bank management to be prepared. She said that the discussions have focused on working with cross functional teams and understanding where banks are in the process to prepare for full implementation. She described the educational webinars provided to examiners and bankers. The webinars identify the challenges of transitioning to practical implementation from theoretical accounting.

In response to questions, the members of the committee said that they or a member of their staff has listened to the webinars and were thinking about the impact on their institutions. Mr. Brickman asked whether there are particular issues related to the implementation of CECL for mutuals. A member mentioned that because capital planning is so important that it is critical to get an early read on the impact on capital. For mutuals, the impact may be significant as they are unable to raise capital quickly, if necessary. A member suggested that doing a parallel run may be useful in advance of the actual effective date. Ms. Menefee noted that very few large SEC filers have done a parallel run in advance of implementation in 2019. She said that she expects there will be changes and modifications.

Mr. Brickman asked the committee members whether more guidance needs to be provided to mutuals. The OCC and the other agencies have tried to provide information to community banks, but more information may be useful for industry segments with unique features. A committee member noted that there may be underappreciated impacts because of the nature of the mutual business model of having fixed-rate mortgage portfolios.

Several members suggested that additional FAQs would be useful. A member asked a question about the estimators that public accounting firms have developed. Ms. Menefee said that she has seen them and that the agencies do not plan to develop a tool, that it would be difficult for the agencies to do. She said that she thinks it is important that examiners get to the point of being able to make judgments and that every bank is different. Examiners cannot examine to the average. She also referred to the Bank Accounting Advisory Series that is published by the OCC. She pointed out that there is a chapter on CECL in that publication and that it is updated as necessary. She said that the Office of Chief Accountant invites questions and that including them in the publication and other advice promotes consistency. The BAAS is a living, iterative document. She also pointed out that with regard to CECL the past is the past and that each bank's history is its own.

Deposit Stability. The next topic discussed is deposit stability in a rising rate environment. The following questions are general guides for discussion.

- As mutual community banks, most of you report that you expect to fund growth through core deposits. In this rate environment, are you concerned about your ability to retain your core deposits? Do you see growth opportunities?
- Are you concerned about deposit competition in your market? Who are the competitors that concern you the most?
- Are you concerned about nonbank competitors in this area?
- Do you use mutuality to attract or retain deposits? Do your customers think about or understand how you are different from your competitors?

Mr. Brickman asked the members of the committee what the challenges they face to retain deposits in their markets. A member reported that it is a challenge to grow core deposits as there are new entrants into the market all the time. This is true for consumer funds, not wholesale funding which is more volatile. Mr. Brickman referred to the FDIC's restrictions on wholesale deposits depending on a bank's capital category. Members of the committee who use wholesale funding are trying to replace the deposits with core deposits. Mr. Brickman asked whether there is a change in behavior with different types of core deposits, whether some are stickier. A member replied that the behavior that surprised him was that the non interest demand deposit accounts did not move and that certificates of deposit decreased when interest rates rose.

Mr. Brickman said that the OCC is starting to look at trends and asked whether companies providing alternatives to checking accounts (e.g. Venmo) have made a difference in customer behavior or demand. Committee members remarked that access to the payment system by the new entrants on equal terms needs to be watched. Committee members noted that the long period of stable rates has blurred the line between core and wholesale deposits. The movement of non maturity deposits into certificates of deposit is occurring. That movement has helped to stabilize deposits.
Another committee member noted that in the merger context there is a flight to quality. Members also noted that they compete with brokerage and online specials.

Collaboration

Beverly Cole, Deputy Comptroller for Compliance Supervision joined the meeting to describe the collaboration initiative that the Minority Depository Institutions supervised by the OCC have undertaken with the Midsize Bank Supervision group. The Minority Depository Institution Advisory Committee began the discussion as they wished to collaborate with larger banks in operational and community development areas. Originally, it was difficult to find the point of entry at the larger banks. Collaboration among the MDIs themselves also was a challenge as there were competitive and information sharing concerns. After a meeting as part of which the Midsize Banks and MDIs began to talk, opportunities for collaboration were developed. Initially, the goal was to develop initiatives that would result in CRA credit being given to the Midsize Banks for investments in and assistance to the MDIs. After the initiative was underway, both groups of banks realized that good business decisions did not need the regulatory encouragement.

Examples of the projects started include an ATM network tied to banking products offered to MDIs by Citibank, loan participations, technical assistance and strategic management collaboration between Midsize Banks and MDIs. OCC’s Midsize Bank Supervision group developed an inventory of services and MDIs needing the services. Collaboration roundtables were held in several cities to discuss the initiatives and other activities that could be planned. Over time, both groups of banks understood the business value of the initiatives.

Mr. Brickman explained that the goals and motivation of the groups of banks may be different but the strengths of the program can be leveraged for the mutuals if the committee members believe there is an interest. A member suggested that ideas for collaboration that do not need to have regulatory changes to be successful are especially of interest. Mr. Brickman said that there are several alternatives to starting an initiative. The committee could discuss possible collaborations or the broader discussion with the mutual industry could take place as part of a Forum. There are some impediments that will need to be addressed, including information sharing, competitive issues and regulatory requirements. Each bank’s management and board of directors will have to make decisions for the institution. The members of the committee suggested ideas for types of collaborative arrangements to consider, including loan servicing, and third party arrangements.

Mr. Brickman discussed some of the logistical decisions that will have to be made in putting together a collaborative program. A member suggested that the OCC's Collaboration White Paper could be updated to include some of the solutions to the impediments and provide parameters for successful projects. A member suggested that collaboration is not always about a products or service but it can be information and relationship building.

Charlotte Bahin, Senior Advisor for Thrift Supervision, provided a report of activities undertaken by the OCC's Office of Innovation Working Group on Partnerships. The Office of Innovation has held listening sessions to bring banks and other entities together to talk about how they can work together to provide innovative services. These meetings are opportunities for companies to find out how to partner with banks and what are some of the concerns that arise for a non regulated company when considering collaboration with a regulated entity. The listening sessions also identify for the parties some of the regulatory requirements and limitations with working with an insured depository institution. An important consideration is the type of relationship developed with third parties. The Office of Innovation will continue to look at these issues and highlight possible collaborations for OCC-supervised banks.

Mr. Brickman described the ability of federal savings associations to organize and operate a service corporation as a vehicle to engage in a broad range of activities. He went through a power point presentation that was made available to the committee members. The statutory and regulatory restrictions were described. Mr. Brickman described the resources available to those committee members interested in learning more about the opportunities that service corporations provide. The licensing process was described for preapproved activities and those that are not preapproved. Committee members asked how the organization of service corporations would be impacted by the Charter Flexibility provisions. Mr. Brickman pointed out that the preamble to the proposal includes a number of questions intended to gather information about what kind of activities service corporations are engaging in. Other subordinate organizations were discussed.

Discussion of Future Committee Activities

Ms. Bahin reported the charter for the Mutual Savings Association Advisory Committee had been renewed for a two-year term and that the nomination period for new members would end on October 15. She described the vetting and approval process for new members and urged existing members to communicate their desire to be re nominated. She have a brief summary of the evaluations from the OCC/FDIC Joint Mutual Forum.

Public Statements, Wrap up and Adjournment

Two members of the public made statements about the implementation of the charter flexibility provisions. A member of the public also provided some thoughts about the innovation and partnership.

Mr. Brickman adjourned the meeting at 2:30 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer