Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
September 20, 2022

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a virtual meeting at 8:30 a.m. on September 20, 2022.

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

Ana Babiasz, David Barksdale, John Coyne, George Hermann, Dennis Parente, David Reynolds, Thomas Rudzewick

OCC Staff Attending

Acting Comptroller of the Currency Michael Hsu, Charlotte Bahin, Julie Blake, Michael Brickman, Beverly Cole, Christopher Crawford, Kimberly Pratt, Daniel Grantham, Eden Gray, John Harootunian, Cristina Im, Ernie Knott, Crystal Maddox, Benjamin Pegg, Maria Riegger, Jenny Small, Joseph Smith, Demetria Springs, Johnny Stanley

Public Meeting
Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Thrift Supervision called the meeting to order and explained that Acting Comptroller Michael Hsu is joining the meeting virtually from West Coast. Mr. Brickman said that the first agenda item is the member roundtable and that he would describe the rest of the agenda after the roundtable.

Member Roundtable

The Acting Comptroller welcomed the Advisory Committee members and explained his virtual attendance. He noted how much he gets out of the advisory committee meetings and the importance of the dialogue. He thanked the five members of the Advisory Committee who had served two two-year terms and would be going off the Advisory Committee - Ana Babiasz, John Coyne, Brian North, Dennis Parente, and Annette Russell.

He thanked all of the committee members and said how useful it is to hear about their markets, the pressures and the opportunities that they see and are experiencing. He described several of the achievements of the Advisory Committee during the past two years - highlighting the need for transparency in the documents that describe mutual licensing transactions that has resulted in a review of some of the OCC's guidance documents. The Advisory Committee charter has been renewed. The nomination period for new members has closed. The nominations are being reviewed and the agency would start the process of getting new members approved shortly.

The Acting Comptroller mentioned some areas of interest that have been highlighted in prior roundtables asked whether anyone would like to start further discussion. One was on the idea of a mutual de novo charter, including ideas for an MDI mutual de novo. He also referred to a speech on community banking that he had made at the Texas Bankers Association and the current economic environment.

An Advisory Committee member praised the speech on community banking and asked whether the Acting Comptroller could say the same things before both the House Financial Services Committee and the Senate Banking Committee, to show the OCC's commitment to community banking and to differentiate community banking and the other institutions supervised by the OCC. He also noted that he appreciated the decrease in the OCC's assessment. He continued that with the changes in technology that there may be an opportunity for the regulators to look at how they regulate and examine the core providers. He said that for example, that banks cannot get a copy of the examination reports that the regulators have prepared until after the bank has signed a contract with the core provider. He noted that seeing the report would help banks do third party due diligence.

The Acting Comptroller said the idea is interesting and he will take it back. He also said he will have a chance to give testimony in front of the House in the Senate later this year. He said that he commits to discussing the importance community banking. He asked what the Advisory Committee members planned to do with the money they would otherwise pay in assessments. He continued that the hope is that by reducing assessments money is freed up to make the necessary investments in people and technology that are good long-term investments.

An Advisory Committee member explained that in his state, the OCC assessment is a competitive concern. State-chartered banks in the area pay lower assessments and he must justify to the board why the bank is federally chartered. He noted that as a mutual bank, the bank has greater flexibility to invest back on the community. For example, the bank made a very large contribution to a blighted area of the community that was looking for some federal grant money, and part of the scoring was related to the whether organizations like the bank are stepping up to support this cause. The Advisory Committee member thought that the bank played a part in the $40 million grant that was given to the community for much-needed revitalization.

An Advisory Committee member said that the bank had already spent the money. He explained that the bank had converted to a new online and digital platform. He also said that funds would be used to address wage pressures, as well as giving back to community. He said that there is not an end to how much they could spend on technology.

The Advisory Committee member asked about the culture at the OCC. He said that he had read the recently released strategic plan that focuses on the culture of the OCC and on being able to attract, retain and develop employees. He noted that middle schoolers are not raising their hands to say they want to be community bankers and probably fewer raising are their hands to say they want to be bank regulators. He noted that the examiners they see are probably closer to the end of their career than the beginning. He asked how the OCC brings in new staff that understand community banking and mutuality.

The Acting Comptroller thanked the Advisory Committee member for the question. He said that the agency and the industry have a pretty similar set of challenges. He noted that it is important to get out and tell the story about what the OCC does. He described that He has the honor of being able to talk to younger, newer employees at the OCC. They enjoy their jobs but when they talk to their friends, they face challenges. They say the agency does not have the things that young people use to communicate about what they are doing.

Community banks are not in the headlines. Often the headlines for banks are negative because things have gone wrong. The headlines tend to focus on the larger institutions. That is what creates drama and conflict and sells newspapers and clicks. Community banks are not there. Bank supervision is a mystery to everybody. It is one of the best jobs out there. It is fun, it is interesting, there are opportunities to learn, it is important, it is relevant, and has mission. Young people are more anxious now and they are relearning the meaning of relationships after the pandemic. The Acting Comptroller said that he can see it now that things are getting more to back in person, they are grasping onto these relationships because they did not have them for a period. It is positive for community banking. Relationships matter. People care about relationships, even in how they bank.

For regulators and supervisors having a mission focus is a draw. The Acting Comptroller said that he is excited about the OCC's strategic plan. The goal of the strategic plan is to have an overarching strategy to connect all the pieces. He said that potential employees can talk to people. They can talk to their local banks. There is a holistic way of approaching recruiting. He said that once employees are in the agency or in a community bank, there needs to be constant learning. Employees and the employers need to be agile on how they learn just to keep up. He said that OCC is good at teaching and going through training, but the agency needs to adjust and modernize.

An Advisory Committee member asked a follow up question about how the OCC enhances and develops its culture. The Acting Comptroller talked about the OCC's strategic planning process. He described how most strategic planning processes start at the top and do not have engagement from the staff who have to live the plan. He noted that the culture is in that top middle management of any organization. It is the middle, especially that senior middle, where inertia can be the strongest. As part of the OCC's strategic plan process, the Acting Comptroller engaged the senior middle managers directly with discussions about challenges, threats and solutions for the agency.

He said that part of culture is having a shared sense of purpose and direction. Culture is like a tanker ship it does not turn on a dime. The OCC has a very strong culture and if there is a strong culture, there is not as much a need for process. He said that people hate process, but process is necessary to ensure alignment. If there is a strong culture, that culture to get through process.

An Advisory Committee member described a financial literacy program his institution has with local high schools and colleges. He noted that many students have not been introduced to the basics of banking or financial awareness. Bank staff tour schools during the semesters, and they bring back questions from these students. The questions are where bank staff gained some insight about how the students think about banking.

This is where bank staff can educate some of the students about the basics about grants and scholarships and what type of financial burden they will incur. Those students come bank to the bank through an internship program. They all have a project. The project was what would they want from a small community bank. They said that the biggest piece they brought back is convenience. The Advisory Committee member said that that is really where the bank focused the resources that would have been paid in assessments.

The Acting Comptroller reacted to a number of different things, especially the internship program. He said that it is smart to use internships to push information, to educate, use it as a way to crowdsource information, to bring students in. The OCC is starting to centralize how the agency does its internships. He said that internship programs can increase diversity.

He said that Fintechs, crypto, are areas where there is great convenience, those companies use all sorts of technology to figure out how to get customers onto the platform. They are not all safe and sound. This is where banking can really provide service, they can hit that sweet spot, which is providing that convenience while providing safety and soundness.

An Advisory Committee member said that he appreciated the opportunity to be part of the committee and that he had taken cost savings and technology ideas back to the bank. He explained that the reduction in assessments can be translated into dollars and turned back into CD rates for the bank's customers. He thinks that could directly impact their lives through the increased rates.

He asked the Acting Comptroller's for his perspective about the current rising interest rate environment. He noted that this is the first time that many bank staff have worked in this type of environment and fears that are starting to develop, even though they have not been articulated yet. Conversations are being held at the board table and with bank management about what a new regulatory cycle may mean.

The Acting Comptroller said that the point is very important. He made the point when he talks to different banker groups. He observed that this is the kind of thing that everyone is supposed to learn in banking 101, but as the Advisory Committee member points out, a lot of people have only read it in a book. They have not lived it and that is different.

He pointed out that the OCC has guidance and other documents which are transparent about how the agency approaches and assess risks. There is a constant dialogue and part of the MCBS realignment is about making sure that the OCC is consistent in how it assesses risks across all exam teams, because the last thing bankers want is one team doing this and another team doing something else.

OCC is trying to ensure that consistency is part of the muscle, as a higher rate environment begins, and bankers and OCC staff will see a lot of changes to deposits, to investment portfolios, to losses, and other areas. He noted that therefore the agility of the strategic plan is important. Everyone will have to learn to be credible on all those topics.

Mr. Brickman added that the agency does real time training with examiners and during the past six months has been digging into the inflationary pressures, the rising rate environment and trying to get some guidance out to examiners about how to approach conversations with bankers. OCC staff have spent time looking at investment portfolios and there are a lot of embedded losses, because of the rising rate environment. It is important to educate examiners on the accounting and the decision-making for when they have conversations with bankers.

He also noted that given the federal savings association business plan, particularly in this type of rate environment, Thrift Supervision at the OCC tries to make sure that examiners and policy staff understand that when they go into a federal savings association, they understand the unique aspects of how that rate environment would affect those institutions.

An Advisory Committee member said that was what he was thinking about. He described a recent exam and the questions examiners asked were part of an appropriate dialogue. He noted it is at an early stage in the cycle and he asked as the economy moves through this cycle, what are the expectations for communication. He noted that he does not want to get criticized but wants to continue the collaboration that has strengthened the industry. He observed that balance sheets have never been better going into a similar cycle than they are today.

An Advisory Committee member said that the quarterly updates that he receives from the ADCs and their teams are critical. They are come to bankers with questions about trends, what they are seeing and what are the expectations for the next cycle. An Advisory Committee said that even if a banker or examiner has been through a past rising rate environment, this one is different, because of the consolidation and all the money that is still out there.

An Advisory Committee member provided some perspective on the current market. He said that his career started in the early eighties and inflation was much worse than it is now. He remembers paying 15 percent on certificates and that adjustable-rate mortgages were introduced because fixed rates were so high. The most important lesson is not to panic. The situations unwind. The balance sheet will unwind. The interest rate risk dynamics will unwind. His perspective is that the industry is completely different now than it was then. Everyone is much more prepared, much more educated.

An Advisory Committee member agreed but noted that the dynamics of the early eighties and what is going on now only have rising interest rates in common. Everything else is different. His concern is that as mutuals so much time is focused on the future and planning for the future. He is concerned that the regulators do not have the same kind of perspective as they look at mutuals and their balance sheets. If mutual bankers have done the job appropriately on the front end, it should be fine through the cycle.

The Acting Comptroller said that it is because of the Advisory Committee members and advisory committee meetings that he has developed a passion for community banking. He said that it sounds like one thing that may be useful to carry forward into future advisory committee meetings is circling back on this issue of, as rates rise, how are different institutions are adjusting. How are examiners are adjusting. He suggested that it be a future agenda item, to make sure that the OCC is being consistent and flexible in how things are done.

Mr. Brickman noted that the Advisory Committee can have more of this conversation today as it works through the agenda, which includes a discussion of the mortgage industry and what is going on with the rate environment and the supply demand issues.

An Advisory Committee member asked whether the Acting Comptroller is working with the FDIC on the de novo mutual in New Hampshire. He asked whether there is any progress that can be shared. The Acting Comptroller said that he is careful about talking about specific cases, but as a director on the FDIC board, he has responsibilities and visibility into things going on at the FDIC. It was at the cross section of two things he is interested in - mutuals and de novos. The FDIC staff walked through both the story of how that came about and some of the challenges and the technical stuff and it is encouraging. The OCC approved a de novo MDI in Houston, the first OCC de novo MDI in more than 10 years.

He said that he hopes the de novo mutual in New Hampshire is the start of a trend. It does require certain stars to align, but it is encouraging. He asked for the Advisory Committee members thoughts and acknowledged that the topic had been raised in the past. The Acting Comptroller said that he thinks it requires more openness from the OCC while at the same time staying true to safety and soundness and the values and the agency mission.

An Advisory Committee member said that the collaboration of working with another entity absolutely critical, and he would like to see a little bit more of a conversation between minority depository institutions and mutual institutions. He noted that his suggestion was a Mutual MDI. He noted that raising capital for a mutual institution is still a very high hurdle.

The Acting Comptroller said the OCC also has an MDI Advisory Committee and suggested that the advisory committees could meet together to discuss the issues and impediments. The Advisory Committee members supported the idea of a joint meeting.

The Acting Comptroller thanked the Advisory Committee members. Mr. Brickman briefly described the agenda for the rest of the meeting.

Economic Update

Mr. Brickman introduced Daniel Grantham, a Senior Financial Economist from the OCC's economic and banking division for an economic update. The presentation was sent in advance to the Advisory Committee members and virtual attendees.

Mr. Grantham began his presentation by describing the agenda and letting the Advisory Committee members know they could ask questions during the presentation. In particular, he asked to hear what the members see in their markets. He noted that much of what he sees can be obscured by the national data and lose some of the nuance of what the bankers are seeing in their individual markets.

He explained that the two main areas of focus are the overall economy with particular attention on inflation and growth with some emphasis on the labor market, and the housing market, particularly the effect of rising rates. He began with the overall economy and said that economic signals are mixed. Looking at the data, things that would normally go along together, labor markets moving and lockstep GDP, have diverged. Consumer sentiment has been low, but consumer spending has been increasing.

The forecast is not necessarily calling for a recession, but GDP growth is expected to be anemic, at least through 2023. There is the prospect or increasing prospect of the potential recession as the Federal Reserve continues to navigate the persistent inflation. There is a change between the consensus forecast from January of this year, going to September.

In the last two quarters, there has been negative real GDP growth. Traditionally, a textbook economics definition of recession would be two quarters of negative GDP growth. He said that is an oversimplification, particularly when looking at the drivers for real GDP growth changes. Consumption, the main driver for the economy, is positive adding to GDP growth. Traditionally in prior recessions, going back to World War II, it is the collapse of consumption that really drives the decline in real GDP. Another factor is there is a lot of measurement error. There are a lot of new things happening and how the Bureau of Economic Analysis attempts to measure GDP is somewhat of a moving target. There has already been a revision to the second quarter GDP numbers. Originally, they were as negative 90 basis points. They have been revised upward to just 60 basis points.

Historically, the difference between the advanced GDP estimate to the final numbers, is o average 1.5 percent with the variation going up to four to five percent. An original negative GDP number of two percent historically, has turned into a three percent growth rate. So as new information data constantly come in, they adjust the numbers. So initial GDP numbers are not always the best measure for what is happening in the economy.

Typically, all six of these variables, household employment, nonfarm payroll, personal income, manufacturing, trade, industrial production are all negative during recession. When looking at the national numbers, only two of the six, are currently negative. Even the personal income excluding transfers, looking at the data and just at wages and salaries on an inflation adjusted basis and aggregates are actually higher. There is not a lot of stress in the economy when looking at that variable.

The Advisory Committee members discussed the labor market and employment trend in their geographic areas. Technology has changed how several of the Advisory Committee members do their business and their need for fewer employees with different skills. An Advisory Committee member said that he has outsourced the middle of the mortgage business. The loan comes to the bank and is on the bank’s books, but everything else in between, including underwriting is done by a third- party provider. The change is a result of the inability to find qualified people. Now there is a fixed expense.

An Advisory Committee member said that credit staff is in high demand and that credit unions and bigger banks are recruiting them. Mr. Grantham asked whether the staff who leave are staying in banking. Advisory Committee members said that if the person is specialized, they will stay in financial services, but they also see non-bank competitors look for personnel. They are going to non-financial institutions doing the same kind of job, but they are not really a bank anymore. Mr. Grantham said that voluntary quit rates are near all time highs going back 22 years. He said that from the surveys that he sees, he cannot tell whether people are leaving those industries and going to higher-paying industries, or they are just leaving. He said that there are the national retirement numbers, some people who retired during COVID have come back. It seems to correlate to the decline in the stock market.

The Advisory Members had a discussion about benefits and salaries in their areas and their banks. The Advisory Committee members discussed how benefits had changed during the pandemic and how different benefits were important to employees in different age demographics. Mr. Grantham said that when he looks at high-level data, whether for compensation, that includes wages and benefits or just wages, the different age groups have different benefits that are valued. He said it interesting that the bankers are reevaluating benefits. He asked whether other people are seeing that the younger generations are not valuing the benefits as much and that banks are providing higher salaries, but less in terms of benefits.

An Advisory Committee member said that data are fascinating and the demographic of the age side of the equation is as well. There are people who have been impacted by COVID at the end of their careers who are asking themselves if they want to continue. But then there is the younger demographic who are either delaying their entry into the workforce for different reasons, but the bulk of the workforce in his area right now is the middle.

Mr. Grantham asked what the Advisory Committee members are seeing in rents in their areas. He noted that in the DC area, it is hard to get a measure of what is happening. The direction is increasing but the magnitude is where there is a disconnect. An Advisory Committee member said that they do not have data, but they see rents continue to increase. An Advisory Committee member said that a continued concern, as it relates to the housing focus of the mutual industry is the number of institutional investors that are coming in and buying homes to rennet out. Then they are absentee owners, and they are charging very high rents. That is a problem because home ownership is impacted, and it compounds the problem of being able to get people in affordable housing.

An Advisory Committee member said that in his area the city regulators have taken away tax incentives, so there is no incentive for the builders to build an apartment building in the geographic area. The result is that rents are being increased and there is a continuation of escalating home prices in the local markets because there is no new construction.

Mr. Grantham said that he saw a large growth in construction lending both year over year and quarter over quarter for mutuals in the aggregate. He asked whether it is construction lending or single-family homes. Several Advisory Committee members said that there is a lot of reconstruction. For example, a builder goes into a neighborhood and takes down a house or buys a home for the land, tears the house down and builds a new house or houses that are not new housing, but just replacement housing. In another area, construction is down, because consumers can not afford new homes because of rates and the costs of building materials.

Mr. Grantham asked whether the Advisory Committee members have seen a decline in deposits. He said that for mutuals as an industry through June, the numbers were flat. Advisory Committee members said that early in the year, deposits were growing but recently have flattened or decreased

Mr. Grantham asked about whether home prices have declined. He said that the data they see show a month-over-month a decline in home prices, but there is accelerated year-over-year price growth. This may be because of the rising interest rates squeezing affordability. He noted that home prices nationally are about 40 percent higher than when the pandemic began. He said that there are not usually large, national home-price declines, unless there are distressed and forced sales. Some in individual markets where there has been the largest run up, there is a potential for correction but even in those markets the forecast is fairly mild.

Mr. Grantham noted that a takeaway is that where there has been positive migration, Idaho is a great example where the population grew by three percent in the hot markets like Boise, there was the fastest home price growth. He asked whether the cash buyers that Advisory Committee members are seeing in their markets are intending to rent the property. He asked whether these relocations are where people have the ability to telework and are choosing areas that are nicer or less congested. An Advisory Committee member said that it is a combination of both. Consumers are leaving expensive areas to move to less expensive areas, and they are cash buyers. There also are institutional investors, paying cash for homes that they intend to rent.

Mr. Grantham said that the national headline numbers for weekly office occupancy for the US, through the first week of September are still flat, it is below 50 percent. He asked the Advisory Committee members about whether their employees are coming back to the office. The Advisory Committee members said that they were never not in the office unless there was the immediate threat to the health of the employees. They had heard about the larger bankers, especially in Manhattan, that have told their employees to be back in the office. An Advisory Committee member said that the current environment is leading to a reset on office rental rates in the market. His bank relocated and built out an administrative space. They received incentives. It made no sense for them to buy.

An Advisory Committee said his bank's policies have not changed. It permits remote work in the right spots. But he said he is concerned about the soft end of the office market. He said that he realizes that it is going to be a three-year trend because places are still under lease, but they are watching the office markets on the loan side. An Advisory Committee member noted that as companies permit more remote work, they lose their culture. Employees have to be in the same place to collaborate.

An Advisory Committee member said that he did not know whether that means that everyone is back five days a week. As an example, in the past a company may need 100 offices, now it needs 70 offices and the footprint has shrunk. He believes that a company can maintain culture with two or three days in the office. He thinks the footprint will shrink but does not think it will go away. There is some permanent change in the office. He also said that it depends on the position. Support staff who may be doing white label third party underwriting that has been outsourced can work remotely. However, a chief credit officer that is trying to interact with commercial bankers on a credit deal may not be able to work effectively four states away for a long period of time.

An Advisory Committee member provided an example of a large employer in his market that is trying to lease out a 400,000 square foot building of which they plan to keep 85,000 square feet. An Advisory Committee member said that two issues are colliding because of a generational cultural change. Banks and companies need to be able to have a level of continuous involvement with internal or external business partners. At the same time banks and companies are looking at their corporate footprint, because they still need to make short-term earnings decisions. Fixed assets are not inexpensive.

Mr. Grantham said the question is what will happen over the next three years. For example, in the Washington, DC market in Northern Virginia on certain streets and in certain areas, there are commercial lease signs going up everywhere. He said that one thing that is not talked about, the office space part has changed, but in his market, the warehouse space market is very hot. He said that he is surprised how much retail has been able to adapt or change with COVID. There are aspects of malls that are gone and redeployed as something else.

An Advisory Committee member said that something else that he sees is that companies have taken down a couple office buildings and built distribution centers. Homeowners can only take so many tractor trailers coming through their neighborhoods. This is great for the tax base but the quality-of-life issue with the tractor trailers is an issue where it was not before. The same thing is happening with office space where the developers are starting to float the trial balloons that the space would be great for apartments.

Mr. Grantham compared the late seventies and early 80s as a time period where there are a lot of similarities to the present. The first is the demographics, the millennials and gen Z are extremely large generations that are beginning to age into home buying and are expected to over the next decade push housing demand. People do not want to live with their parents into their thirties. There are positive demographics, much like there were in the late 1970s with the early baby boom generation aging into home buying. The point he makes is there were significantly increasing rates in the late1970s, early 1980s, similar to today, but not as high which disproportionately hurt affordability in the near term.

He continued that if nominal home prices during the late 1970s, early 1980s are looked at, they were actually increasing to fairly flat. The home prices were able to weather a large surge in interest rates because there was a deficit in housing supply in the late 1970s, as well as the demographic factor of new generations coming up into their prime home buying years. Rates by themselves are not necessarily in the longer term a huge deterrent or impact on home prices. Now in the short term, there can be some friction, but in the longer term, there is really no correlation between interest rates and home prices going back 70 years.

He said that typically when rates rise, the Federal Reserve is trying to control inflation and things are going fairly well. The downside this time may be that if there is an area where GDP starts to stagnate and inflation is rising, a rising rate environment would be much more difficult to manage than what occurred in the mid 2000s as well as in the 1990s where the economy was growing quite well. The rise in interest rates really did not have an impact on home prices. He suggested that the factor for this cycle, the shortage of housing stock, will be the key.

Mr. Grantham said that in the great recession, a factor was overbuilding in housing. In the last decade, more households have formed than houses being built by quite a bit. When the underbuilding of the last decade with the potential for the younger generations coming up, there will be a very large surge in demand over the next decade for housing and household formation as these younger generations age into homeownership.

He said that new home sales, as rates rise, would not be a doomsday scenario that the headlines present. It is natural that for homes that are not started or under construction and interest rates are rising, the timing of the occupation of the home is uncertain. There is a lot of uncertainty that is causing consumers to back off of houses that are under construction or not yet started. He asked the Advisory Committee members whether they are seeing that trend. The responses varied by geography. An Advisory Committee member noted an increase in adjustable-rate mortgages. The responses were mixed. An Advisory Committee member said that credit unions are offering ARM loans that are popular.

Mr. Grantham asked whether there has been an increase in home equity loans. He asked whether borrowers are taking out home equity lines of credit to improve their homes rather than buying new homes to upgrade. An Advisory Committee member said that his bank is currently at a record level of home equity lending.

An Advisory Committee member asked a question about whether there has been a study on the productivity of the work force from home. Mr. Grantham said that is an unknown. The productivity data for headline productivity has been increasing in the U.S. That is occurring while there are higher levels of telework. He also noted that it is still early, and employees seem to have more power than they have in recent times.

In response to another question, Mr. Grantham said that there is a fundamental mismatch between housing demand and supply. There is a housing deficit. However, there are still a lot of houses and places people do not want to live that are vacant. When houses where people want to live are accounted for, the housing shortage is probably even more than people think. He said that in the 1980s, people were willing to devote more of their income to buy a home to not live with their parents and buy fewer things.

He said that he thinks that going forward, people will still pay a premium to establish their own home. One of the takeaways throughout history is that national home price declines occur when there are fewer sales, people are reluctant to sell at a loss. They will sit and let inflation eat away the value of their home, but still get the number they have in mind. Interest rates psychologically have a large impact on building, but for home ownership, there are so many other factors that go into buying a home. The interest rate is one, but it is not the driving force for a lot of people when they buy a house. How much they can afford, yes, but whether they buy or not, probably not.

Mortgage Update and Discussion

Mr. Brickman introduced Joseph Smith, Technical Expert, Mortgage Banking Risk, from the OCC's Retail Credit Risk Group. Mr. Smith asked the Advisory Committee members whether the mortgage market is going through a normalization process in their markets. He said that at the end of the discussion he would like to get the Advisory Committee members reaction of what they believe and see from a macro perspective of how the two intersect. The intersection is extremely important in terms of how to predict, how to assess and determine what loss reserves should be from any type of business strategies and what operational limitations exist. The questions sent to the Advisory Committee members in advance are attached as Appendix A.

He asked the Advisory Committee members to talk about their general operating environments and geographies. He asked about the availability of property types, where there are limitations, where there might be excess. What type of financing is being used, whether largely fixed-rate, but whether some adjustable-rate mortgages are coming into the marketplace.

The Advisory Committee members described the mortgage market in their geographic areas. An Advisory Committee member reported that his bank is the largest financial institution underwriting mortgages in the market. The bread-and-butter products are 15-year and 30-year fixed-rate loans. There has been more of a trend in construction perms and they are seeing a few more ARMs than in the past. Most customers want a fixed-rate product as the environment and rates are still good for those products.

Mr. Smith asked the Advisory Committee members whether there are certain price ranges that are prevalent in their markets. An Advisory Committee member said that the trend he saw was the houses in the $150,000 to $250,000 range in the market going to $300,000 and up is a growing trend. He noted that the bank covers the high and low ends of the community.

Another Advisory Committee member said that in his mostly urban market there seems to be a bifurcation of markets. In very diverse neighborhoods, the bank works with as many of the new families that are coming into the country as it can. The demand for the smaller homes in sections of the market has surged and that has driven prices up dramatically. Days on market are incredibly short. Some of the brokers reviewing the appraisers' reports report that single-family homes in the area are in excess of a million dollars. The two- to four-family dwellings are in the range of $1.2 million to $1.5 million.

Given the prices and lack of affordability it is unknown whether the market will continue. When underwriting those types of mortgages, based on the cash flows of families that are trying to get themselves on track, the families are not buying the homes. The buyers are mostly investors that purchase the homes, and they rent them out. The rent levels are getting to astronomical levels. The question is where all of these people going to be able to go. In areas further out, the markets are strong because there are a lot of remote workers that are staying in the outer areas.

The Advisory Committee member said that there are so many new entrants coming into the more urban areas that the occupancies are filling up faster as they become vacant. That market is continuing on an upward trend. That is where the affordable homes are going in the long-term. High interest rates are starting to creep into that market and affordability is going to be a problem. He noted that the market does not think that affordable housing is something that should be discounted. When he looks at some of these areas that need some affordable housing, that trend will not change at least until the expiring tax breaks are renewed.

Mr. Smith asked a follow up about whether the discussion of renewing the tax breaks is in terms of the future need down the road. The Advisory Committee member said that the city council is cutting back on tax breaks and the builders are building somewhere else. He thinks that is the trend and it will take a long time for the trend to change because a lot of the tax exemptions that were in place over the last 10 to 15 years are expiring. There will be a sudden strong correction in real estate pricing, once those cash flows are diminished.

Another Advisory Committee member said that the overall number of loans closed in the summer was down. There were two factors that may have affected the market; the refinance market dried up and pricing was crazy. Rates were going up and down. Customers decided to wait longer. The potential loan funding reports for September show a pickup, but the bank is in a very high-cost market. It is still tough to buy a home except for the more marginal properties. The marginal properties are staying on the market longer. Homeowners may have put their houses on the market thinking they can get whatever they are asking. Those listings are being pulled back, but availability is still tight.

An Advisory Committee member explained that the residential side of the business is not a large part of the bank's business. More than 70 percent of the bank's business is commercial. He said that the housing inventory is still limited in the market. Originations are down significantly. The loans are all purchase money. He said that an interesting development is that non-bank competition is starting to lay people off in pretty large numbers. The bank's funding is such that it is more competitive now for them to hold some loans in portfolio. The bank is more competitive than the lenders that are only selling into the secondary market. Over the years, the bank has been active in the secondary market. They do have a servicing portfolio.

He said that unemployment is low, labor participation rate is high. In the multi-family market, there are a lot of investors coming out of urban areas that are buying in the area and they are overpaying in the market. There are multi-family apartment developments as consumers move away from the urban centers where housing prices are better. He said that he has not seen slower appreciation on the values. The bank does new construction financing and that is holding its own. The change is the length of time the builder holds the property. Instead of pre-selling homes, the builders are holding them. They are putting them up and holding them for a longer period of time. In a few towns because of what has already been built out, there are moratoriums on new building, no new subdivisions are being approved in the towns right now. The Advisory Committee member said that the population in the area was stable and there is manufacturing and defense spending in aerospace area.

Another Advisory Committee member said that his bank holds all if its loans in portfolio. His market does not get as red hot as other urban markets in the state and prices did not go way up and they are not coming way down. The area still has a very solid housing market, but the refinance market is dead. The bank was out of the construction perm business for a number of years, but it got back into it at the end of last year. The volume in construction perm has been decent. He said that there is not a lot of activity at the lower end of the housing market. He said that he is concerned about the trend of institutional investors buying houses in low- to moderate-areas for cash and turning them into rental units. He said that there is not a lot of movement in the high-end houses.

He noted that consumers bought second homes early in the pandemic and are selling their primary residences because they can get a good price. Those consumers who have the flexibility to stay in the second home and get premium dollar for their primary residences are selling their primary residences. They can buy another primary residence later wherever their primary residences are when the house prices and interest rates come down.

Another Advisory Committee member added that in his market he noticed the dynamic transformation of the population. For example, California has seen a tremendous number of people moving out of the state to other surrounding states. As a result, house price appreciation in those states has increased. As part of that move, homeowners are able to cash out of their principal residences in very expensive geographies and they move with a tremendous amount of cash. They are able to buy a new principal residence, and also an investment property or vacation home. For a while during COVID the number of cash transactions was alarming.

Another Advisory Committee member noted that everyone comes from a different geography and the areas are growing at different rates. Smaller banks in areas that are growing may serve a market where the loans are not as homogenous, and they hold loans in portfolio. The consumers in the community know that they can see the smaller bank and have their needs met.

An Advisory Committee member said that the millennials and the Gen Z's are going to be an interesting group to watch because they delayed home buying. They would rather have an adventure. The perception is that they would rather move to a place in town and work for three or four years, then move to another town, work three or four more years versus going to buy a house with a fence and raise a family. As they start now edging into home buying, it will be interesting to see whether they continue to move every few years or whether it will abate.

An Advisory Committee member said that she purchased her first home in 1982 and the loan was an ARM with an adjustable rate of 14 percent and the rate declined over the years because those rates came down and they never got that high again. Consumers are afraid of adjustable rates but in many cases they should not be.

Mr. Smith added that when the younger generations come in and buy homes after delaying the purchase of a home, many are still living at home as they accumulate cash. There is a delayed effect in terms of household formation. In addition to the continued development and expansion of working at home, the time in a property may change. That changes the number of times a consumer may move with a job during their lives. He also noted that if a consumer works in a city but wants to live in a suburb, the closer in communities are more expensive but if a borrower can move further out and work remotely, it changes the number of times they may need to move. An Advisory Committee said that in the past he had to move to be the same community as the bank for which he worked. That trend is of the past and employees can live several states away.

An Advisory Committee member said that another interesting factor in the relocation trend is the remote worker that is looking towards their retirement. That person is not adding to the workforce, but it is putting pressure on the workforce. The trend is going to continue to play out in the non resort community where the appreciation in the homes is also real. Affordability in these markets has increased so that homes are out of reach for most borrowers. In the other communities, house prices have doubled but are in reach of some borrowers.

Mr. Smith said that in the last year a large portion of mortgage originations was in refinancing and not necessarily cash outs. This year, Fannie Mae, Freddie Mac and the MBA are expecting somewhere in the neighborhood of $2.4 trillion of originations. One of the things that is interesting to keep in mind in terms of the origination composition is that there are more cash out refinances right now but given the number of refinances even though there have been almost an 80 percent increase in cash out refinances, that is not that big a number because only 20 percent of the volume right now is in the refinance area.

He asked the Advisory Committee members about how they are thinking about their originations either through portfolio or secondary market and then a second question is how are they dealing with the staffing. He also asked how the Advisory Committee members are going to be able to keep a competitive advantage in terms of margin and qualified staff with current systems.

An Advisory Committee member said that the bank had thought about this a couple years ago during the refinance boom and there were pressures to hire up, try to take advantage of the market that was presented. In a small community, the idea that the bank would hire staff, knowing that it would have to lay them off at the end of the cycle was not an option. The bank found ways, either through technology or through additional support with existing staff, to continue to manage the levels at the time.

Another Advisory Committee member said that the bank was going to stick with mortgage lending. That has been the business for 135 years and during the pandemic, they implemented an end-to end-loan origination system to help employees go through the process a little bit easier. It worked well and they considering hiring more mortgage loan originators.

Mr. Smith raised some questions about compensation of loan originators. He referred to the current headlines about the bonuses being paid for top originators, especially for purchase money loans. He noted that refinances are not necessarily difficult if they result from call-ins, but to be able to have those relationships with realtors, title attorneys, builders, and other providers. He asked whether the Advisory Committee see a lot of competition for loan officers.

An Advisory Committee member said there is a lot of competition, but the bank has always had a model where loan officers get a salary plus commission. Because the bank does not have a call center, loan officers have to work on relationships. Another Advisory Committee member said that all of his mortgage originators are all salaried. There is no commission. They benefit from an incentive plan from which the entire staff benefits. Commissioned loan officers are a different type of mortgage banker that may produce a lot of volume and command high signing bonuses and move around as the market goes. He said that the bank did not overly staff up. During the past two years of refinancing, they added a processor, and they were working overtime and nights and weekends and not able to do some of the usual second and third checks.

He said they are catching up and they at a comfortable pace right now. If it is busy again, they might have to take a look at redeploying staff. As a 119-year-old mutual, the bank does not necessarily want to go through a reduction in force. It probably more of a redeployment. The bank started doing commercial lending three years ago, and there are needs in that area that need to be addressed and they let attrition take care of the rest of excess staff.

An Advisory Committee member said that mortgage lending business has always been feast or famine. When the market is good, staff are working overtime. The bank always had an art to expanding and contracting the loan staff. The bank does not let people go when it is slow and does not hire up when it is busy, staff is augmented with the technology and resources from other parts of the bank that are steered towards the lending side. Other times the mortgage area is very slow. The bank eliminated its originator when it went to a national rate board, they found that that that was bringing in enough origination. The bank also acquired a loan origination system. Mr. Smith reminded Advisory Committee members about the OCC's third-party risk management practices guidance.

An Advisory Committee member said that his bank will have one of the biggest production years they have had, and they have a pipeline. That will help retained earnings and capital. The bank had converted into an online application system for residential and commercial applications. All of the teams are working on the same file at the same time and are able to track any changes that are occurring. He noted that there are some trends that he has noticed with some of the larger players and some of the non-financial players that are in the markets as well. The trends involve higher LTVs and some DTIs.

He said that those trends are troubling, especially for a portfolio lender that has been so diligent in keeping the underwriting standards as high as they have always been, if not even higher. He said that the bank writes mortgages that are not just going to be good the day of origination but is going to be good seven years later when they look to refinance. Mr. Smith said that he agreed with what the Advisory Committee member said in terms of the non-QM space or expanded credit space. There will be liquidity in the marketplace for that. He said that is usually through private-label securitization.

An Advisory Committee member said when the pandemic hit the bank realized quickly that customers were not going to be able to make their mortgage payments. The bank's board reminded management about why the bank has high capital levels that it has to be saved for a rainy day, and the pandemic was a monsoon. He said that he looks at the numbers now and how the customers who were struggling are doing, and they are paying again. In the long-term community banks are going to be okay because they help people who recognize that the bank is helping them, and they are back to paying status. He said that the bank retains all of the servicing. It is an expensive piece. There are about 4,000 loans in portfolio, so it is a big undertaking, it is a very big department. He said that he thinks the bank gets little bit of traction because customers like to come in and talk to the servicing staff when there are issues.

Mr. Smith provided some forbearance numbers from the pandemic loans. There is a dramatic improvement with those loans. The vast majority of borrowers that initially took COVID forbearance are now out of forbearance. They are either paying as agreed or they refinanced out of the transaction or they got loss mitigation.

An Advisory Committee member described trends at his bank. The number of loan originations are down for last year but the dollar volume is up. The bank is ahead of last year by double digits. The originators are a hybrid. There are a few that are compensated on the number of loans they bring in and there are a few that are salaried and that seems to have worked well over the years.

Mr. Smith raised an issue that has come about in the last three months about a coding issue between March and April on many loans that could have adversely affected what was going on in the origination space in terms of approval or potential denial. He wanted to see what the approach was at the institutions if there were originations during that time. He asked whether Advisory Committee members thought it was necessary to go back and do any kind of remediation for those consumers.

An Advisory Committee member said that the bank was affected. He said there is a lot of touch with the bank's process, and they felt good with decisions made at the time and everything that was done. They looked at the denials. Mr. Smith said that he understands that a lot of times a bank will take the average or the middle of the three, and Equifax may not even have been included in the mix. He said that he wanted to make sure that the Advisory Committee members thought about the risk that might have been brought to the institution.

An Advisory Committee member said that the bank looks at underwriting holistically. They look at the borrower's ability to repay and focus on the life of the loan. They are comfortable with that because they find that an anomaly that comes through on the credit scores can really cripple a borrower's ability to get a loan. They have constant conversations with the borrower as they go through the process, it is a very interactive approach that has been successful.

Another Advisory Committee member said that his senior loan underwriter actually picked up on the fact that something was going on with the credit reports. He said that they made a lot of exceptions for credit. If there is a review of the loan approval reports, there were exceptions for credit reports that are unusual. As a result, it did not increase the denial rate but it probably cost some borrowers money on loans that were sold to the secondary market. Borrowers may have had to charges, but that is out of the bank's control.

An Advisory Committee member said that his bank does not score the loans, so they did int see any major changes. The bank's process includes a second look on all denials at a senior level. Another Advisory Committee member also said that his bank does not use a credit score on loans. He said they do not use desktop underwriting. They underwrite the loans and put them in portfolio. They did not have any need for remediation.

Mr. Smith described several of the initiatives in Project REACh including the work stream that is focused on credit invisibles. Part of the efforts to support low to moderate income consumers is to try and obtain information from banks to be able to assess a borrower's ability to be able to afford various payments. In the past credit scores were not used and banks did a cash flow analysis of borrowers. The bank understood, when it looked at a loan, what the borrower's cash flow meant and whether they had the ability to repay that obligation. He noted that it is hard to know which is better.

An Advisory Committee member said that mutuals have is a lot more the touch when working with customers. Mutuals are old school. They know their customers, or want to get to know the customers, before they are willing to hand over a check for the house to be purchased. Mutuals want to feel comfortable with them, but the banks also want the customer to feel comfortable with the bank. It is not a national program, mutuals are in the local communities doing local things.

Mr. Smith said that the industry has a conflict because it has a goal of making sure that liquidity is provided as fast as possible to consumers, but banks still want the controls. He noted that speed and controls do not always align. There is a question about what the balance is going forward. An Advisory Committee said that if the industry is going to solve the home ownership gap, it has to be done differently than it has been done in the past and it will to take all stakeholders, including regulators and community banks at the table.

Mr. Smith asked the Advisory Committee members whether they think that things are getting back to normal or whether there are concerns about inflation. The Advisory Committee members responses were mixed. Several said that they think that we are headed to normal. Several were unwilling to predict or do not know what normal is anymore. An Advisory Committee member said that she thinks that the industry is much better prepared for whatever the future holds having learned lessons from the last twenty years. Even if lending standards have loosened, banks are monitoring and tracking the factors better and taking action as needed. Another Advisory Committee member said that consumers are better educated now as well having learned lessons from the crisis and the pandemic.

Another Advisory Committee member said that he thinks that millennials and others in the next generations have gone through a lot and have watched their parents work through down times. He thinks they are better off as a result. He also thinks that the banking industry is in a good financial position with high capital and plenty of liquidity. An Advisory Committee member said that he thinks that the mortgage market is getting back to normal volumes. It seemed unsustainable in the long-term. He also said that there is a category of people for whom home ownership is unaffordable and that is a real challenge for the banking industry. He said that he thinks that it is something that the OCC can help banks wrestle with, but he thinks that the industry has got to think more creatively or outside the box on how to help those parts of the community somehow.

MCBS and Community Bank Update

Mr. Brickman gave a brief description of the agenda for the afternoon session. He introduced Beverly Cole, the Acting Senior Deputy Comptroller for Midsize and Community Bank Supervision and Benjamin Pegg, Acting Director for Capital Policy, Bank Supervision Policy.

Mr. Brickman provided a summary of some of the topics of interest touched on earlier in the day or in prior meetings. He said that one of the topics that was discussed briefly during the roundtable discussion with the Acting Comptroller was the potential new mutual saving bank application in the State of New Hampshire. As the Acting Comptroller mentioned, OCC staff have been working with the FDIC to understand the capital instrument that would be used in that transaction. He said that it would be good to not to talk about the specific transaction, but to talk more holistically about capital tools for mutuals.

He said that OCC staff had an active dialogue with the industry for the past several years, trying to find that tool that meets regulatory capital requirements, but also would be something that people would be willing to put their money behind in order to form a de novo mutual. He said that this live example is what OCC staff have been aiming for where staff can explore what is a non-starter in the application versus what is acceptable. Mr. Pegg is going to be able to, at a high level, talk about some of the features of a capital instrument that make it eligible for regulatory capital and can answer some maybe more nuanced questions.

Mr. Brickman also described the Acting Comptroller's speech before the Texas Banker's Association. In that speech, he outlined five priorities for community bank supervision. The first of which was the assessment reduction for 2023. Beyond that he had announced four other initiatives that would help OCC improve the efficiency and effectiveness of the agency's community bank supervision program. The first is focusing on de novo charter applications. In addition to the transaction in New Hampshire, the Acting Comptroller's bigger picture idea is that a healthy banking industry relies on entrants to system but also exits from the system. The new entrant's piece of that puzzle has been lacking for the better part of the last decade. By looking at the agency's own process and looking at potentially inefficiencies or burdens that the agency is adding to the process by how it collaborates with the FDIC or the Federal Reserve on a charter application, the OCC wants to be become more efficient and effective and make sure that anyone who is attempting to charter a community bank has all the information they need to get through the licensing process in the most efficient way.

The third initiative he announced was a focus on risk-based supervision. That is an initiative that the MCBS team and the entire community bank supervision team took on wholeheartedly in 2021 and 2022 and has translated into some practical changes that in how the OCC approaches supervision of community banks. It should have a reasonable impact on what bankers see during the course of its next FDICIA examination. Mr. Brickman said that he could talk about the details if the Advisory Committee members would like to delve into that a little bit and talk about what MCBS staff looked at, how they analyzed the situation and how they regularly try to reassess what is truly necessary in terms of the risk of the industry is facing versus what examiners actually go out and examine for.

The fourth initiative was about how the agency prevents trickle down supervision, essentially large bank standards becoming applicable at the community bank level. It is under the broader umbrella of regulatory burden, but more specifically the Acting Comptroller has been speaking about some of these key initiatives, OCC staff have heard complaints or concerns from the industry that some of the initiatives that are more of large bank centric would eventually trickle down and create burden for the community bank population.

Within the size banks supervised by community bank supervision, OCC staff is aware of the regulatory burden that is already in the system, just doing the bare minimum work needed to be done. MCBS staff do not want to see items added because of a misunderstanding of how to apply a policy in the context of a community bank examination versus the context of a large bank examination. He said that the agency would double down on efforts to make sure to avoid as much regular burden as possible and to acknowledge that the agencies are getting close to starting back up the 10-year EGRPRA process and assessing where the OCC can make modifications to laws and rules, in order to accomplish regulatory burden reduction.

Mr. Brickman said that the final thing the Acting Comptroller announced, in line with the MCBS realignment, is a reinvigoration of the concept that local presence is important for the OCC and how the agency supervises banks. It is also important to maintain the national perspective that the agency brings that differentiates the OCC from the other supervisory options.

He said that enables the agency to be more effective and efficient, longer term as the population of banks shifts, whether there are de novo banks or more merger activity, the OCC is not going to have a fixed geographic footprint based on real estate. The agency will be able to adapt based on where the banks are and deliver that local presence as the industry evolves, as opposed to having to do realignments on a 15- or 20-year cycle to try and catch up to how the changes have are occurring.

An Advisory Committee member said that he is interested in the risk-based supervision as well as reducing regulatory burden and how the OCC sees that working. Mr. Brickman started with risk-based supervision and described the process begun about a year before to look at ways that the OCC can be more efficient and effective. OCC staff did data analysis on the amount of time it takes to do an average community bank examination based on rating, size, and complexity and started to identify deviations that were occurring in terms of the number of hours and FTEs dedicated to the supervision work. After looking at the data, MCBS staff talked about what is it that is causing additional burden on certain banks, but not on other banks.

MCBS staff identified what is what is required by statute that the OCC has to examine on a regular basis. There are a fixed number of consumer regulations. There is a certain bare minimum that can be done on information technology. Some of the core areas that are always supervised including credit risk and other areas that look at the overall risk profile of a bank. Staff added up the things that OCC started to do because someone asked a question but found that the agency does not use that information.

There are mandatory activities that became part of our core exam, but there are a series of things that the agency will stop doing. MCBS announced those initiatives to the examiners and over the course of the last six months other activities have been identified. The supervisory strategies are being built for the coming years, as activities are compressed into the those that are the most meaningful, to deliver the most value in terms of the agency assessing a bank's safety and soundness and for banks to understand whether or not its risk controls are appropriate for the size complexity of the organization.

So that is how the exercise was approached. It is going to be hard to tell how on a bank-by-bank basis how it is going affect each bank because every bank is slightly different. Mr. Brickman encouraged the Advisory Committee members talk to their examiners about what has changed in the bank's supervisory strategy.

Ms. Cole agreed with Mr. Brickman that examiners should be equipped to tell bankers what is different. She reiterated the process of doing things out of habit that we started doing them five years ago, 10 years ago, and they worked their way into the standard process, but they are not necessarily an area of concern that we need to continue assessing. And then if it becomes an area of concern, then it can be added back, but it is not necessary to continue doing it because examiners are used to doing it or because OCC is using it as a training exercise.

Mr. Brickman said that as the OCC reviews the hybrid examination process by digesting the lessons learned from the pandemic, there will be less of a footprint of examiners in the banks, putting pressure on staff to answer questions real time. In the speech the Acting Comptroller said that the agency has had five or six years of evolution in technology over the one-year pandemic period where people had to adapt because there was no alternative. It is important to take that evolution and make sure the agency does not backtrack and start putting pressure on banks to do things in the less digitalized way. It will not change the fact that in-person communication is essential.

Ms. Cole reiterated the balancing of being efficient and being effective with communication. She said that she would not want an exam to be a hundred percent hybrid with only asking questions by email, and then get a report dropped on her desk. There are so many nuances that go into credit risk or IT risk and having those conversations with bankers. It is important to try to achieve balance, examiners welcome some interaction. Mr. Brickman noted that the agency has invested in trying to educate examiners beyond just being technical experts in laws and rules but also having the leadership skills, to have those tough conversations, to really engage with the bankers they interact with and to be open to hearing feedback on conclusions before ever finalizing reports.

Mr. Brickman said that he had been asked a question about where the OCC was getting the cost savings to have this major assessment reduction. He said to dispel any potential concern or rumor, the agency is not changing the quality of exam supervision, not reducing hours of examiners on site in order to give that benefit. Ms. Cole added it would be based on the work before examiners arrive at the bank. Instead of doing work in the institution, it will be done offsite more and more. When examiners show up, they will be showing up for the interactions with bankers.

Mr. Brickman added that there was one additional element of the speech that was a call to action to on digitalization that is happening within banking. He said to try to translate that into what community banks continue to do to chip away at the divide that is occurring between some of the financial technology providers versus the cost of deploying similarly convenient apps or tools to a bank's consumers within the community bank footprint. An Advisory Committee member said that when there is a discussion of digitalization and community banking, the mantra is that community banks never on the bleeding edge of technology. They like to be a little bit behind the curve. Community banks take a slower approach to those things. Community banks want to be a part of that innovative movement, but it is all about security. It is about customer safety.

Mr. Brickman said since the financial crisis, the past 10 years, 10 plus years, a lot of time has been invested in the evolution of how OCC communicates a concern when it becomes something that is a ratings driver, when it becomes something that requires an enforcement action. The banks that are getting in trouble for some of the more widespread adoption of innovative technologies are the ones who are failing at the basic issues of internal controls.

He urged the Advisory Committee members to look at the recent enforcement actions that are focused on third party risk management, there is a fundamental breakdown in control structure, which is very different than forming a partnership with a new third party. If OCC were to come in and examine that single relationship and find errors or flaws, it might cite a matter requiring intention. There may be something that examiners ask to be corrected, something that is a deficiency, but it certainly would not result in a ratings change or in an enforcement action.

Ms. Cole said it is all about the controls as well as the risk management. Because some of the third-party relationships are like an engagement period, a marriage, and then heaven forbid a divorce. In knowing what the risks are on the front end of the relationship, who owns the data, who owns the customer, who is responsible for doing what. When things go wrong who is responsible for doing what is in the bank's contract. There should be is no confusion on the back end of if the bank needs to exit, how the bank exits and how the bank does that in an orderly way for the customer.

Mr. Brickman said that on the topic of regulatory burden. One of the key takeaways the Acting Comptroller focused on has been the negative feedback he has gotten from the industry as he has been touring the country and meeting with community bankers on the clarity of messaging around climate risk and some of the initiatives that the OCC is undertaking. A lot of time at outreach meetings has focused on trying to clarify that climate risk management is a large bank initiative right now. Community banks are already very good at managing risk.

An Advisory Committee member said that he was excited for this Advisory Committee to have the opportunity to meet with the OCC's MDI Advisory Committee. He said that in discussions on the state level, he has talked about the possibility of a de novo MDI mutual. He said that nothing could be better than a mutual charter that would help them understand how these institutions were started, why there is a community connection.

Mr. Brickman noted that the terms of the members of each advisory committee do not conclude until the end of December. He suggested that a virtual meeting could be scheduled. A meaningful agenda would need to be planned. Ms. Cole said that she would ask the MDI Advisory Committee if they are interested in a joint meeting at its next meeting. Mr. Brickman reminded the Advisory Committee members of the rules for Federal Advisory Committees and described some alternatives.

An Advisory Committee member asked Mr. Pegg whether the agencies are looking at moving the community bank leverage ratio down to eight percent. Mr. Pegg described the terms of the community bank leverage ratio and the temporary change that had expired. The Advisory Committee member described his situation but said that it has improved.

Mr. Brickman asked how many of the Advisory Committee members have monitored the New Hampshire mutual de novo application. Several of the Advisory Committee members had talked to the organizers and have provided advice.

An Advisory Committee member asked Ms. Cole what she thinks is the most important issue for the bankers to be thinking about. She replied that it really comes down to risk management, risk management board and management engagement, and having a good strategic process. Are the right resources in place, whether that is people, tools or dollars. Whether a bank is looking at asset quality, interest rate risk, getting into a new product, partnering with another vendor or a fintech. All of those things come back to a risk management strategy and the capability and engagement of the management team.

Mr. Brickman thanked the Advisory Committee members have been part of the committee for a second term and will not be coming back. Annette Russell and Brian North could not be here, but they were two of the five members, but be thanked Ana Babiasz, Dennis Parente and John Coyne who have also served the two terms. He said that their engagement and participation was appreciated. He also noted that they get the badge of honor for having the most unique experience in that two of those four years were during the pandemic trying to adapt to how to have these meetings virtually and still make them meaningful and impactful.

Ms. Bahin described the member nomination process and the steps that all nominees have to go through. Mr. Brickman asked what tentative dates for next year for the meetings. They are March 21. the meeting/forum would be June 27th and 28^{th} and the last meeting of the year, October 3. The Advisory Committee members noted that several of them have conflicts on March 21 so a new date will be selected. Mr. Brickman noted that because of the success of the hybrid format for the forum that the coming year's Forum would be hybrid which will be co hosted by the FDIC.

Public Comments and Adjournment

Mr. Brickman said that the final thing on the agenda is the public comment period. He was monitoring the chat and no public comments have come in. He remined anyone participating virtually that they can use the chat feature of the webinar to input a public comment. There were no public comments.

Mr. Brickman adjourned the meeting at 2:35 p.m.

Certification

/s/

Michael R. Brickman
Designated Federal Officer

Appendix A

Questions for the Mortgage Discussion as part of September 20, 2022 MSAAC Meeting

General:

- Is the market in your geographic footprint continuing to experience issues similar to those seen last year in many parts of the country with respect to supply, marketing times, and property type availability?
- How have higher interest rates changed the mortgage market in your area?
- What are employment levels in your area? Have you seen any noticeable changes in the types of available employment?
- Last year, several members noted that house prices were increasing in their areas. Have prices stabilized? Are other trends emerging?
    - Have supply chain or other costs that impact housing costs stabilized? Can you speak to the factors that are currently impacting house prices?
        - For example, supply, building costs, demand, et al.? Are there others?
- What was/is the general direction of your institution going forward? Are you concerned with the general direction of borrower needs/acceptance of risk by lenders?
    - Do you originate loans that you are able to sell to the GSEs that you would be reluctant to hold in portfolio due to higher risk characteristics (higher DTI, lower score, higher LTV) or layering of such characteristics?

Origination

- In the past, this group has discussed the competition from nonbank competitors.
    - How much market share do you think that you are losing to NDFIs? Is the amount increasing each year or does it vary?
        - Are some products more likely to be originated by NDFIs than others?
- Do you see an evolution in the product mix that nontraditional mortgage lenders are offering that impacts your competitiveness? To what extent are you using agency versus non-agency products to meet your customers' needs or requests?
    - The GSEs continue to adjust their lending standards, some of which to make housing more attainable.
        - Are you seeing a discernable easing of the standards for the acceptance of qualifying loans?
- Did your funding base changed because of the pandemic? Has it returned to pre pandemic sources or levels?
- Has the demographic of the borrower changed, for example, are millennials starting to buy homes? Are more homes available for first time homebuyers?
- How important is technology to your customers?
    - What changes did you have to make during the pandemic to accommodate customers?
    - Are you continuing to use the technology or processes?

    - Have you continued any new processes that you developed to accommodate changes in the processing or underwriting of loans during the pandemic?
- Are you taking a more/less a conservative approach in lending to new borrowers or refinance customers?
    - Are you using overlays or process adjustments to any of your offerings?
- Concerns with the appraisal process have come up in the past, have there been any positive or negative developments in the past year?

Servicing

- Is the increased use of technology in originations reflected in changes to make servicing more efficient?
- Have the pandemic loans in forbearance resolved or do there continue to be loans in forbearance?
    - How many requests were ended voluntarily?
    - Are customers struggling?
    - Do you continue to have outreach efforts? Are you having difficulty in contacting these borrowers?
- Are you offering forbearance/loss mitigation activities to any customers' loans that are on book?