

Office of the Comptroller of the Currency  
Minutes of the Meeting of the  
Mutual Savings Association Advisory Committee  
April 28, 2015

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:05 a.m. on April 28, 2015, 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 8:05 a.m. to 2:40 p.m.

**Advisory Committee Members Present**

Martin Connors, Jeff Hyde, Thomas Kemly, Paul Mackin, Dan Moore, Susan Ralston, Ron Romig, Margaret Smith, Steven Swiontek, Charles Timpa

**OCC Staff Attending**

Comptroller of the Currency Thomas J. Curry, Karolina Arias, Charlotte Bahin, Toney Bland, Michael Brickman, Arnie Cohen, Kevin Corcoran, Donna Deale, Ralph DeLeon, Ernie Knott, Gregory Golembe, Chris McBride, Carrie Moore, Norman Williams, Nida Zaman

**Public Meeting**

Donna Deale, the OCC's Deputy Comptroller for Thrift Supervision and the committee's Designated Federal Officer called the meeting to order and welcomed attendees at 8:05 a.m. Following introductions of the committee members and individuals in attendance for the OCC, she introduced Thomas J. Curry, Comptroller of the Currency.

Comptroller Curry welcomed the new and returning committee members and thanked them for their time and commitment. Comptroller Curry highlighted the input of the Committee members on the legislative proposal to provide flexibility for federal savings associations. He introduced Michael Brickman as the new Deputy Comptroller for Thrift Supervision and thanked Ms. Deale for her work with the Committee and her advice to the Comptroller and Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision.

Charlotte Bahin, Analyst to the Deputy Comptroller for Thrift Supervision, provided a brief overview of the rules and responsibilities governing the conduct of committees established pursuant to the Federal Advisory Committee Act.

## **Mutual Trends and Overview**

Ernie Knott, Northeastern District Financial Analyst, gave a presentation on high-level financial trends that are specific to federal mutual savings associations. A copy of the presentation is published on the MSAAC Web page on OCC.gov.

Mr. Knott provided summary portfolio statistics and demographic data that describe the federal mutual savings associations supervised by the OCC. He described the industry segment financial metrics, including asset quality, earnings and capital, and liquidity and sensitivity to market risk. The discussion included a description of the factors that are part of the development of the financial metrics in these areas. Committee members asked questions about whether metrics take costs for consultants, increased compliance and IT into account, and how the metrics reflect the increased costs. The discussion turned to a discussion of the supervisory data and the condition of the industry segment. Mr. Knott clarified that the peer information is only for mutuals and explained how to create mutual specific peer groups using the FFIEC peer information.

Committee members asked whether the OCC tracks the changes in supervisory information between examinations. Mr. Bland explained that the changes are tracked whenever they occur, even if they are not tied to an examination. The aggregate risk trends were discussed and Mr. Knott explained that the trends are consistent with the findings described in the Semi Annual Risk Perspective. The committee members asked questions about the information on the volume and type of MRAs and the new guidance on MRAs. Mr. Bland explained that the reduction in the numbers of MRAs in the past four years is a reflection of the hard work done by the mutuals during that time.

Mr. Knott described the proposed comparative peer information tool that he is developing.

## **Profitability Challenges in a Rising Rate Environment**

Norman Williams, Director, International Analysis and Bank Condition, in the OCC's Economics Department, gave a presentation on the implications of an interest rate increase on performance of OCC supervised institutions. A copy of the presentation is published on the MSAAC Web page on OCC.gov.

Mr. Williams explained that the possible rate increase creates strategic risk for community banks. Any rate increase would be the first increase in a decade. In the past, rate increases have followed a cyclical pattern. He explained that OCC supervised small banks' long-term asset strategy emphasizes long duration securities. The financial markets and the Federal Open Market Committee have different assumptions on how rates will rise. Mr. Williams described two scenarios for increasing rates and the resulting potential long-term asset strategies. The first would be a sudden shock and the second would be a well telegraphed and steady rate increase.

Mr. Williams explained that in a rising rate environment, banks with high long-term assets holdings saw lagging yields and revenues as rates rose. Federal stock savings banks using the former OTS model saw similar results. A small universe of mutual institutions had similar results. The general takeaways from the research are, first, that the rate increase cycle is likely to

be gradual, but the effects of sustained low-rate period could be a complication. Second, a rising interest rate climate could add additional challenges for banks with long-term asset focus.

The committee members offered some observations. Several committee members noted that one result of the change may be a shift in the mortgage markets away from long-term loans. Banks may replace the long-term assets with shorter term loans. Other members noted that rates for commercial loans are very competitive with illogical pricing. The committee members discussed whether another result may be a shift to a focus on noninterest income.

In connection with the discussion about changes to loan terms, Ms. Deale described several projects underway in Midsize and Community Bank Supervision at the OCC. She described horizontal reviews that are being undertaken with a small group of banks in each District looking at underwriting standards.

### **Interest Rate Risk Update**

Chris McBride, Group Leader, Balance Sheet Management, in the OCC's Market Risk Division, gave a presentation on Interest Rate Risk. A copy of the presentation is published on the MSAAC Web page on OCC.gov.

Mr. McBride described the OCC CEO letter sent to supervised institutions in MCBS during the fourth quarter of 2014 that included summary observations of the range of practices the institutions use to identify and measure interest rate risk. He described the market environment and the different types of long-term assets as a percentage of total assets for OCC supervised institutions with assets greater than \$1billion and those institutions with assets less than \$1 billion. Those institutions with assets less than \$1billion had significant growth in long-term assets in recent years. For mutual institutions with assets under \$1billion, the percentage of long-term assets was much higher. Mr. McBride added that there had been a significant deposit growth in smaller FDIC-insured institutions over the past few years.

Mr. McBride gave a boarder overview of the data. He mentioned that the prolonged low-rate environment has resulted in pressure on net interest margins and net income as asset yields declined and cost of funds hit historic lows. He described the overview of mutual institution responses as part of the range of practice review. Mutuals monitor interest rate risk to both long and short term risk. They use a variety of scenarios to monitor the risk.

Mr. McBride reported that mutuals have different decay and repricing rates than stock banks and this could reflect more stability in the nature of the deposit base at mutual institutions. Asset size does not have an impact on assumptions. Mr. McBride suggested that all institutions should incorporate interest rate risk modeling results into the strategic planning process.

### **Update on Thrift Flexibility Proposal**

Ms. Deale gave a brief update on the status of the thrift flexibility legislative proposal. A proposal similar to the OCC draft proposal was introduced by Congressman Rothfus (R-Pa.) and Congressman Himes (D-Conn.) There are five cosponsors and congressional staff is having discussions with Senate offices. Committee members had questions about activities that are not

permissible for national banks. They also said that passage and implementation of the proposal would resolve the qualified thrift lender concerns. Committee members said that they had been criticized for concentrations of one-to four-family loans and Comptroller Curry explained that examiners are now more familiar with the business model. Mr. Bland discussed how changes in the business model are part of the evaluation of the strategic plan. Other issues were highlighted but the committee members would welcome the operational flexibility.

### **Collaborative Paper Discussion**

Ms. Bahin described the background to the development of the paper, “Collaborative Arrangements for Community Banks.” She explained that the topic had come up in discussions with the Mutual Savings Associations Advisory Committee and the Minority Depository Institutions Advisory Committee. Barry Wides, Deputy Comptroller for Community Affairs then described the use of collaboration by banks of all sizes. A group of banks may form a Community Development Corporation to engage in a variety of lending and services that a single bank is not able to do. Benefits of these activities include possible tax credits or CRA credit.

Committee members discussed some of the ideas for collaboration including data processing and the sharing of expenses for a service. Committee members described some of the ways that credit unions use collaboration for services and shared branches. Committee members welcomed the paper and the information about the regulatory requirements for developing a collaborative relationship with another bank. Mr. Bland said that bank management must think about how collaboration fits into the organizational structure of the bank and ensure that appropriate controls are in place. Governance provisions must be strong enough to address issues that may arise with the collaboration with other banks.

### **Member Roundtable**

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

- Competition from credit unions, larger financial institutions and shadow entities
- Regulatory burden and the EGRPRA review
- Pressure of compliance in the current environment
- Examination consistency
- Strategic planning
- Status of the mutual institution segment of the industry
- Shift in customers’ expectations
- Aging workforce and succession planning
- How the committee members are addressing the required increase in understanding technology
- Preparedness for the cybersecurity risks and engaging the bank’s customers
- Capital concerns for mutual institutions

### **Mutual Forum Discussion**

Ms. Deale described the planning for the OCC Forum for Mutuals. It will take place on July 23. She asked whether the committee members would be willing to participate in the program this year. She described the topics on the program and asked for suggestions for additional topics. The Committee will meet on July 22 from 1 p.m. to 5 p.m. in advance of the Forum.

### **Public Statements, Wrap up and Adjournment**

No public statements were submitted in advance of this meeting. Two members of the public made statements at the meeting. Both members of the public thanked Ms. Deale for her work with the committee.

Comptroller Curry thanked the members of the committee for their participation on the committee. He said that the evidence of tangible outputs was a testament to the members' service. Several members of the committee expressed their appreciation to the OCC for acting on what the committee discussed.

Ms. Deale adjourned the meeting.

Certification

/s/ Michael R. Brickman

Michael R. Brickman  
Designated Federal Officer