

**Minority Depository Institutions Advisory Committee Minutes  
October 18, 2016**

The Minority Depository Institutions Advisory Committee (MDIAC) convened for a meeting at 8:30 a.m. on October 18, 2016, at the Office of the Comptroller of the Currency (OCC) headquarters located at 400 7<sup>th</sup> Street, SW, Washington, DC.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 8:30 a.m. to 2:00 p.m.

**Advisory Committee Members Present**

Mukhtar Ali, President and Chief Executive Officer, Mission National Bank, San Francisco, CA; Jamie Bartholomew Aller, Director and General Counsel, The National Bank of Malvern, Malvern, PA; Guillermo Diaz-Rousselot, President and Chief Executive Officer, Continental National Bank, Miami, FL; John J. Hou, Chairman, President and Chief Executive Officer, Asian Pacific National Bank, San Gabriel, CA; Preston D. Pinkett, III, Chairman and Chief Executive Officer, City National Bank of New Jersey, Newark, NJ; Joe Quiroga, President, Texas National Bank, Mercedes, TX; Carlos Safie, Chairman of the Board, President and Chief Executive Officer, Executive National Bank, Miami, FL.

**OCC Participants Attending**

Thomas J. Curry, Comptroller of the Currency; Jorge Aguilar, Attorney, Community and Consumer Law; Charlotte Bahin, Senior Advisor for the Deputy Comptroller (DC) for Thrift Supervision; Toney M. Bland, Senior Deputy Comptroller (SDC) for Midsize and Community Bank Supervision (MCBS); Karen Boehler, Risk and Operations Officer, Western District; Michael Brickman, DC for Thrift Supervision and Special Supervision; Arnie Cohen, Congressional Affairs Specialist; Beverly F. Cole, DC for Compliance Supervision Management and Designated Federal Officer; Glenda Cross, Director of Minority Outreach; Spencer Doak, Director for Bank Secrecy Act and Anti-Money Laundering (BSA/AML) Compliance Risk; Kim Hebb, Director for Compliance Training and Tools; Sydney Menefee, Deputy Chief Accountant; Andrew Moss, Program Manager, Outreach and External Relations, Troy Thornton, Associate Deputy Comptroller; Barry Wides, DC for Community Affairs.

**External Speakers**

None

**Public Observers**

Michael Bailey, Senior Vice President/Compliance, American First National Bank, Houston, TX; Sharon Zimmerman, Community Development Relationship Manager, Woodforest National Bank, The Woodlands, TX

**Meeting Opening**

Beverly Cole opened the meeting at 8:30 a.m.

### **Remarks by Comptroller of the Currency – Thomas Curry**

Comptroller Curry welcomed the members back. He stated we had a packed agenda for our July meeting and there were some interesting points raised about Cybersecurity and Collaboration. The prior meeting presented an opportunity and example of how OCC supervised Minority Depository Institutions (MDIs) can collaborate with other institutions, and Comptroller Curry stated he was happy to hear about one committee member's partnership to use the ATM network of one of our large banks. These are the kinds of partnerships we want to see within the industry because institutions of all sizes offer a unique purpose to the banking system. He reported there have been a lot of recent changes in the banking industry that may require additional oversight. We hope to find a way to construct these new requirements under our current framework and not impose any excessive burden on our community banks. Comptroller Curry stated that he understood the challenges the committee members face and that is why OCC hosts this forum – to give the MDIs the opportunity to communicate the challenges unique to their institutions.

### **MDIAC Roundtable**

One of the committee members spoke about the collaboration interactions experienced with Texas Capital's program, and highlighted the National Bankers Association (NBA) Conference held in Detroit, MI. It was reported this conference was well attended by OCC staffers and a bright spot on the regulatory front in its supervision perspective on MDIs. Another committee member thanked OCC for making its MDI collaboration program more than a program on minority banks. This member informed the group about a Bank Secrecy Act/Anti Money Laundering (BSA/AML) conference scheduled for November 2016, and reported that he had successful meetings with another financial institution regarding an affordable housing initiative. Others stated they had similar interests regarding affordable housing, but the potential partner and geography do not always make it feasible.

Committee members reported continued concerns with HVCRE. OCC representatives indicated there are ongoing discussions with OCC, FDIC and FRB on the definition. OCC's emphasis is on risk management including risk and volume – higher volumes will increase examiner focus on a bank's concentration risk management, its capital levels, and stress testing process. Additionally, bankers need to remain mindful of sound underwriting for healthy loan growth in a competitive market. Another member commented regarding concentration risk management one has to consider in respect to the business model challenge and whether it is sustainable long term. It was stated that the traditional thought of what a bank originates and holds in its portfolio may not be the same. An OCC representative encouraged the need for stronger capital, increased stress testing with concentration risk especially concentration risk in construction and development lending.

A committee member indicated the technical assistance OCC provided on strategic planning was very helpful. He stated the opportunity to communicate more freely with OCC representatives allowed banks to be less reliant on consultants.

Several committee members were complimentary of the relationships built with Citibank, N.A. related to their ATM network. Some reported they are making process in the affordable housing market with city and county officials. In discussing concentration limits, a committee member indicated their growth is in small business lending where they do not have a loss history.

Committee members discussed how higher capital levels provide comfort to their bank management team until they have more experience with losses in the affordable housing segment. Other members stated that Fannie Mae and Freddie Mac were their competition in the residential mortgage lending area, and therefore, believed it was difficult to make a profit.

Members stated they are experiencing a reduction in branch traffic so having to consider different approaches and changes to their business models – separate business management from relationship management. Many considering the role the branch plays in addressing community and consumer needs. Some reported they are reaching out more to the communities ...churches, schools, with community ambassadors and generating a lot of accounts but not necessarily a lot of monies and therefore need to grow these relationships. Some stated the strength in the MDIs is in knowing the community and the consumers...especially true in when compared to Financial Technology companies (FinTechs). MDIs invest in customers that larger institutions do not, however the MDI's risk is losing the customer relationship to larger institutions once the customer becomes successful. The committee members agreed that the MDIs are relationship banks versus transaction banks. There was also recognition that more consumers demand the technology. However, one committee member stated customers want to interface with a person (in-person) when they have a problem and that is becoming the role of the branch. Many stated social media is where a bank differentiates itself but must have the ability to deal with customers online, Vimeo, etc. Others indicated different means of reaching out to millennials – including focus groups, having them serve as ambassadors for the bank on social media similar to physically being in neighborhoods, or serving on Advisory Boards.

Next the discussion focused on Suspicious Activity Report (SAR) monitoring systems, customer risk assessments and customer risk methodologies – manual versus automated. Also, members expressed it is important to take what you know about the bank's customer base and develop appropriate controls critical to understand the culture of customers, and ensure bank staff have the proper stature and influence in the bank.

The bankers indicated they would appreciate being kept informed of the various schemes examiners see in our various experiences. The bankers stated having information similar to Financial Services Information Sharing and Analysis Center (FS-ISAC) regarding information security would be beneficial. They would like to have an ongoing dialogue regarding best practices examiners see at other institutions. The bankers also stated it is getting more difficult to hire staff with good BSA experience.

#### **Accounting Update provided by Sydney Menefee, OCC Deputy Chief Accountant**

Sydney reported to the committee that "Minority Interest" is now called Non-Controlling Interest Investment in Subsidiary. The new capital rule is more restrictive and the preamble explains this very well. Simply put it is no longer a deduction but rather it limits the excess amount. It only applies to consolidating subsidiaries.

Sydney shared that the Bank Accounting Advisory Series was recently issued. She reminded committee members it is published annually in August. Next, Sydney provided an update on Current Expected Credit Losses (CECL). The Financial Accounting Standards Board (FASB) standard was issued in June. The banking agencies issued another standard. A few items of note

include: (1) the effective date may be 2020 or 2021 (2) whether a public entity or non-public entity, the rule defines the life of the loan for credit cards and commercial revolvers, (3) do not discard your data and ask your service providers for your data now, and (4) step back and re-evaluate your methodology.

Sydney also provided a status update on proposed interagency revisions to the Call Report for domestic banks with \$1 billion or less in total assets. Reportedly, about 954 items (approximately 24 pages) of the report were reduced. Many of these items were not filled out previously by these institutions but these proposed changes reduce burden.

### **TARP Update provided by Charlotte Bahin, Senior Advisor to the Deputy Comptroller for Thrift Supervision**

Charlotte provided an update on the investment in bank programs. The Small Business Loan Fund (SBLF) investment received a huge number of redemptions, and the interest rate increased from 5% to 9%. Charlotte also reported on the CDFI Program. Treasury is not authorized to provide additional funds after 2010. There is no authority for new investments – CDFI funded 84 institutions (banks and credit unions) for approximately \$5.7 million. Of those institutions, approximately 25% redeemed the investment – they have a lower interest rate of 2% until 2018. On August 1, 2016, institutions received a letter with an early redemption offer. Institutions can repurchase – Treasury will only repurchase at fair value. Only the institutions can submit the applications which are due November 18, 2016. The process takes about 15 days, however, the vast majority submitted to date have not been approved as Treasury was seeking additional data. Although, resubmissions seem to be approved. The target date for all approvals is December 30, 2016. Almost all SBLF and CPP banks were redeemed. Additional information can be found on the FSB section of the Treasury website as this is all public information.

### **BSA Update on Re-evaluation Guidance provided by Spencer Doak, Director of BSA/AML Policy**

Spencer Doak provided a brief overview of the re-evaluation guidance. He emphasized that the re-evaluation guidance is not designed to open or close the door on institutions getting into any particular line of business, but really about institutions having the correct controls and an established risk appetite. The memo on correspondent banks was issued to articulate OCC expectations – including best practices. The agency looks for proper metrics and data that supports risk analysis and customers because banks were closing foreign correspondent bank accounts. Banks should look at control structure and ability to manage properly. OCC does not have plans at this time to issue additional guidance on Money Servicing Businesses (MSBs). Also, OCC does not target specific areas as high risk – instead we look at many variables – cross-section of products/services offered but not just because it is a certain geographical area.

### **Public Observer Comments**

None.

### **Adjournment**

The meeting was adjourned at 2:00 p.m.

The minutes are an accurate representation of the meeting.

/s/ Beverly F. Cole  
Designated Federal Officer