

Office of the Comptroller of the Currency  
Minutes of the Meeting of the  
Mutual Savings Association Advisory Committee  
April 27, 2021

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a virtual meeting at 11:00 a.m. on April 27, 2021.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 11:00 a.m. to 4:00 p.m.

**Advisory Committee Members Present**

Ana Babiasz, David Barksdale, John Coyne, George Hermann, James McKenna (Jay), Brian North, Dennis Parente, David Reynolds, Thomas Rudzewick, Annette Russell

**OCC Staff Attending**

Acting Comptroller of the Currency Blake Paulson, Jason Almonte, Frances Augello, Charlotte Bahin, Karen Boehler, Michael Brickman, Beverly Cole, Ralph DeLeon, Danial Grantham, Bill Haas, Cristina Im, Ernie Knott, Alison MacDonald, Karen Marcotte, Sydney Menefee, Andrew Moss, John O'Brien, Monique Parkmon, Nathan Perry, Margot Schwadron, Demetria Springs, Marta Stewart-Bates, Heidi Thomas, Troy Thornton

**Public Meeting**

**Introduction and General Remarks**

Michael Brickman, Deputy Comptroller for Thrift Supervision, welcomed the new and returning members of the Mutual Savings Association Advisory Committee. He summarized the agenda for the meeting. He noted that Acting Comptroller Blake Paulson and Sydney Menefee, the OCC's Senior Deputy Comptroller for Midsize and Community Bank Supervision would participate in the Roundtable discussion. Mr. Brickman provided background information about the OCC staff who would participate in the meeting. He also said that the group would discuss the members' priorities for the coming two-year term. A presentation with introductory information and the slides referred to throughout the meeting is posted on the MSAAC page of OCC.gov.

Mr. Brickman provided an overview of the administrative requirements for a federal advisory committee. The purpose of the Advisory Committee is to advise the Comptroller and senior OCC staff on issues of interest to federal mutual savings associations. He reminded the members that each member of the Advisory Committee is a representative member. That means the members represent their banks, but also represent all other banks that are similar in geography and in asset size to the member's financial institution.

## Economic Update

Mr. Brickman introduced Daniel Grantham, Senior Financial Analyst in the OCC's Economics Department. The economics presentation is posted on the MSAAC page of OCC.gov. Mr. Grantham reminded the group that the presentation represents his personal views, not those of the OCC. He described the three main areas that he planned to talk about. The first was the economic recovery. He noted that the discussion has shifted from how the economy would recover to the expected significant GDP growth.

The second topic was the strong residential real estate performance from the past year, primarily driven by lower interest rates and limited housing supply, as well as the government actions, for example the enactment of the Cares Act. And finally, he touched on mutual performance. He noted that the data he looked at includes both state-chartered and federal mutuals.

The discussion began with a look at the most recent blue-chip consensus. The blue-chip consensus captures a prevailing opinion about the future direction of the United States economy. The most recent blue-chip information from April projects real GDP growth in 2021 of 6.3 percent. This was the fastest rate of growth experienced since 1984. Over the prior four months, the real GDP growth has increased from a little over 4 percent to where it is today projected at 6.3 percent. The forecast for the labor market also is for continued improvement.

After discussion of the economy generally, Mr. Grantham turned to residential real estate. He noted that one of the unique factors about this time-period was the rapid growth in home prices. Home price appreciation continues at a very accelerated rate. One of the factors is that home building has not kept pace with household formation, and the data show, at least on an aggregate basis for the United States, that over the last 10 years, household formations outpaced the change in housing. This is most acute for entry level homes. New homes generally are not being built at the lower end of the price spectrum. Labor costs and lumber prices increased over the last year, which makes it difficult for builders to build starter homes while still making a profit.

Members of the Advisory Committee asked questions about the increased costs of building materials for new homes and whether increases result from a supply problem or the result of greater demand. Another Advisory Committee member attributed the decrease in locally available homes to the increase in people moving into the area from urban centers. The discussion turned to appraisals and house prices.

Another Advisory Committee member asked what the effect this housing boom has had on the apartment industry. Mr. Grantham pointed out that rents have risen nationally for apartments and single-family homes. The raw material to build new apartments is getting more expensive, which may impact how many are built. He noted that commercial real estate is starting to show some signs of stress, but it is still well below historical levels. An Advisory Committee member noted that the New York market is continuing to see continued pressure from the pandemic lockdowns. The owners of rental apartment buildings are struggling to collect rents, which is affecting mortgage payments.

Mr. Grantham noted that on a regional basis the disparities are large. The market for single-family rental properties is different from the apartment or multi-family market that is dominated by institutional investors. Primarily the investors in the single-family rental market are small business owners, and they tend to have some leverage. The majority own the properties outright and have more ability to not get paid.

In the mortgage finance market, government actions have changed the dynamic of the flow of foreclosures. The share or number of mortgages that are at least 90 days or more past due, has risen dramatically. These data come from the Mortgage Bankers Association. In their survey they have asked respondents to indicate whether a mortgage is meeting its original loan term, regardless of whether it is in forbearance. What the MBA data show is not necessarily delinquent loans, but non-payments. The borrower could be in an approved forbearance program as part of which payment is not required, but under the MBA survey, it would be identified as a delinquency.

Mr. Grantham noted the net interest income difference between mutuals and the entire system. For the fourth quarter year over year, 2020 compared to fourth quarter 2019, net interest income for mutuals increased two percent, compared to the overall system where net interest fell. Also, non-interest income grew in the second half of 2020 for mutuals, as well as other smaller community banks compared to the overall industry.

He explained that mutuals in aggregate were active in originating and selling mortgages, which boosted their non-interest income, compared to the entire system. Comparing mutuals to all FDIC insured banks there was a sharp decline in 2020 where the net interest margin went down. And one of the reasons for that is the changes to the composition of the balance sheet. Liquid assets, which are defined as cash and US Treasury holdings increased. Liquid assets increased more for the larger firms, which dominate the system, but they also increased for mutuals.

An Advisory Committee member noted a surge in deposits and a concern about the ability to deploy the increase in deposits to earn a decent return and support overall loan growth. When comparing loan growth year over year from the fourth quarter 2019 to the fourth quarter of 2020, the main component on the largest types of loan and where there has been the most growth, both the mutuals and the broader financial system, has been commercial and industrial loans. Mr. Grantham said that the OCC economics group looked at the overall system and the impact that the Paycheck Protection Program had, particularly on growth of commercial and industrial loans. There was dramatic growth in commercial and industrial loans for mutuals. The area where loans grew most in commercial and industrial loans, the supposition is that this was driven by the participation in the Paycheck Protection Program.

Mr. Grantham asked the Advisory Committee members for feedback on their experience with the PPP. He noted that it is an area where community banks generally are quite active. Comparing the performance of community banks that participated in a PPP, there is a boost in income for those that were active in this program. An Advisory Committee member commented that they had participated in the PPP and in their market, where there generally is a lot of credit union activity, the credit unions did not participate in the PPP program. It benefited the bank. In addition, some of the larger regional or national banks for various reasons were not providing

good customer service with the program. So, community banks really shined. Mr. Grantham agreed that that was what the national data show.

An Advisory Committee member described their bank's approach which was to participate in PPP loans through another community bank. They did not see the fee component come through because that was negotiated in how the process would be managed, but it impacted the bank's portfolio growth.

Another Advisory Committee member noted the volume of PPP loans originated by their bank was about \$20 million. That was reflected in the non-interest income while all FDIC-insured banks non-interest income increased only 6.7 percent.

Mr. Grantham said that anecdotally he had heard that community banks really shined in dealing with their consumers. They were more knowledgeable and more locally based, that the relationships carried over and were more successful in the PPP program than some of the larger banks. An Advisory Committee member said that the business model of their bank is a commercial and industrial loan lender, and with the PPP, and there was an almost 200 percent increase in loans year over year.

Mr. Grantham concluded that there was an extremely strong economic rebound regionally when massive government stimulus come into the economy. Consumers are starting to release a lot of pent up demand as vaccinations have become more prevalent. In this recession in terms of the residential real estate market, prices have increased by quite a bit. The fundamentals of lower interest rates, limited housing supplies, some of the other labor construction costs associated with housing, support some of this increase.

Finally, for the neutral performance from the last year, 2020 as a whole was not a great year but it rebounded in the second half. Loan sales from residential mortgages, and other factors helped boost income. One of the challenges going forward, will be the continued pressure of net interest margin. It means the yield curve will steepen, which will be a positive, but rates are still low and will make financial intermediation a little bit more challenging at today's spreads.

Mr. Brickman reminded the Advisory Committee Members that if there are economics or financial topic areas of interest, OCC staff can tailor the presentations. He also mentioned that the OCC's economics page on the OCC's website has a wealth of information that is updated regularly with new analysis and insights on different issues as they emerge.

## **Member Roundtable**

As the member roundtable began, Mr. Brickman asked each of the Advisory Committee members to introduce themselves and their institutions. He noted that Acting Comptroller Blake Paulson and Senior Deputy Comptroller for Midsize and Community Bank Supervision Sydney Menefee were on the webcast. He also noted that representatives of each of the Districts were present.

Each Advisory Committee member described their institution, the market served and the operating strategy. The Advisory Committee members also described whether their banks participated in the Paycheck Protection Program or other stimulus programs and the impact of the programs on their operations. Common themes included the increase in asset size, earnings and liquidity as a result of participation in the programs. The Advisory Committee members also provided an update on supervision experiences during the pandemic. An Advisory Committee member highlighted a question about the possibility of the formation of de novo mutuals or a de novo mutual minority depository institution.

Sydney Menefee, the OCC's Senior Deputy Comptroller for Midsize and Community Bank Supervision welcomed the Advisory Committee members and described her background. She thanked the members for their feedback on a variety of issues. Ms. Menefee listed some of the issues that she is interested in hearing more about. She was interested in further discussion about the increase in total assets that the Advisory Committee members described, any associated pain points and whether additional guidance is necessary. She also was interested in feedback on any recent examination experience. The OCC is reflecting on what worked and what might be able to be carried over into a post-pandemic examination process. Prior to the pandemic, about 50 percent of exam work was done off site. Currently that percentage is about 97 percent. She noted that going forward neither number likely is the correct level, but the OCC is looking for a balance.

Blake Paulson, the OCC's Acting Comptroller, welcomed the Advisory Committee members. He described his background at the OCC and mentioned that in his roles he had been attending the meetings of the Advisory Committee for several years and appreciated the discussion and the feedback. He is interested in questions from the Advisory Committee members.

An Advisory Committee member raised a question about special purpose charters and the application of OCC guidance or regulation under which those charters will operate. The Advisory Committee member is concerned about companies, some which appear to be retail, that are now entering financial services. The concern is about reputation risk for banks. Mr. Paulson responded that he understands the concern and agrees about reputation risk. He said that the most important point is that these new activities or methods of delivering financial services are happening now. He noted that references to a level playing field are used and agrees that there needs to be a leveling because it currently is not.

Mr. Paulson mentioned the OCC's role as a bank regulator and that the OCC is the only agency that gives federal charters. He said that bringing some of the entities into the regulated banking space will do more to level the playing field than anything else the OCC can do. The agency can do a better job supervising them than any current supervisor and subject them to the risk management expectations of the OCC.

Mr. Paulson noted that cryptocurrencies are being adopted at a rapid pace and having a trusted custodian, like a national bank with a trust charter will provide a great service to that industry. The OCC cannot focus on the current way of delivering financial services because customers are asking for products in different ways. Banks also are evolving and innovating. Bringing some of these other activities within the regulated bank charters will be a big improvement.

Mr. Paulson further explained that whatever activities these entities are involved in, any rules and regulations that apply to those activities will apply to the activities conducted by that entity if it has an OCC charter. CRA is an area that is different, under the statute CRA only applies if the entity has FDIC deposit insurance.

An Advisory Committee member described the history of their institution in the community. The institution is 85 years old and is fully committed to mutuality. The board and management team view the bank as a community trust and that the capital belongs to the community. The Advisory Committee member said that they are concerned about a recent application for a voluntary liquidation of a well-capitalized mutual institution. The Advisory Committee member asked the OCC to comment on the process and mentioned that the concern is the unintended consequences. One of the issues that smaller institutions deal with is activist shareholders or depositors if the institution is a mutual. As an industry, mutuals are concerned when people have tried to get the capital of a mutual institution to be distributed among its depositors. The Advisory Committee member said that they are concerned about what is going on right now, the lack of transparency in the particular transaction, the long-term impact that this could have on the mutual form of charter.

Mr. Brickman responded with a description of the process that the OCC uses and said that the process has not changed since the OTS integrated into the OCC. That process is defined in the regulation and in the Comptroller's Licensing Handbooks. The OCC staff has to reach a conclusion that the board of the bank has effectively thought out all available alternate paths to resolve itself before the OCC would make a determination not to object to a liquidation. It is a complicated decision because it has to be made in that narrow space between viability and not being viable.

If the mutual is no longer viable, it will not be able to liquidate and be solvent in that liquidation. There is a gray area where the bank is still in reasonably good shape, but the OCC has to make a decision that the future of that entity is challenging enough that it justifies not objecting to the liquidation of the entity. The regulation itself requires the OCC to assess the impact of the liquidation on all concerned, including the depositors, the customers, the creditors, anyone who is potentially engaged in a lawsuit, plaintiffs in a lawsuit, and to come to a conclusion as to whether we are going to be prejudicing the interest of any of those parties.

The other issue that the board has to describe to the OCC in the application is that the board has considered alternatives to voluntary liquidation, including documenting where they have had conversations with potential merger partners, potential acquirers. The complicating aspect of these applications is there is an element of supervisory information, which is confidential. Part of the liquidation application itself is subject to FOIA and is publicly disclosable, but a lot of the supervisory context in the decision-making is not.

Voluntary liquidations of this type have been rare for mutuals in the 10 years since integration. The active application right now is only the second one in that 10-year period. The Advisory Committee member noted that mutual management does not want this to happen in the industry and nor do they want to be distracted from the primary mission by trying to make sure that

certain groups are not trying to push this on an institution where it may be something that could enrich themselves and not be for the good of the community or the depositors of the institution. Mr. Brickman followed up with a comment about the history of concern over unjust enrichment in transactions with mutuals. The OCC is sensitive to the concern and takes it into consideration when it looks at applications. Agency staff prefers an open bank transaction. In the best of worlds, it would be a mutual to mutual acquisition, but sometimes that is not possible.

An Advisory Committee member asked a question about minority depository institutions and Community Development Financial Institutions. The recent stimulus legislation created a \$9 billion Emergency Capital Investment Program to distribute to MDIs and CDFIs. While the statute does not contemplate specifically funding de novo institutions, the Advisory Committee member asked about a possible interpretation that would support the use of the funds to capitalize de novo MDIs and CDFIs. The Advisory Committee member noted the mutual structure is ideal for such an effort. Mutual boards are motivated to serve the community versus providing a return to investors and mutuals frequently have programs to serve the unbanked and underbanked. The creation of a de novo MDI or CDFI not only increases the number of MDIs and CDFIs, but also increases the number of mutuals. The Advisory Committee member noted that there has not been new mutual charter in over half a century, and it could be a major component in serving these under-banked populations.

The Advisory Committee member suggested that there are solutions that can be worked out to create a de novo mutual MDIs or CDFIs. Mutuals try to serve the people within their own communities. The Advisory Committee member said that is a perfect opportunity to think about some of the regulatory policies that are in place that result in a high threshold for capitalization of bank startups.

Mr. Brickman mentioned that OCC staff has been developing an internal white paper on the potential reasons there are limitations or why the industry has not itself produced new mutual charters over the last several decades. OCC staff wants to hear more from the Advisory Committee members on what are the impediments. A \$30 million initial capitalization is an impediment. He said that the conversation is academic until an application is filed that identifies management team, a business plan and a location with the financial backing to get the charter off the ground. The OCC is open to having that conversation and hearing all perspectives to determine whether if it is possible to have a de novo mutual charter with the added benefit of potentially being an MDI or focused on unbanked or underbanked population.

Mr. Brickman mentioned that the OCC is in the information gathering stage of the exercise. He solicited the views of the Advisory Committee members and described the past discussions at the committee level. He noted that the advent of Project REACH and the intense focus on diversity and inclusion that has resulted over the past year has shined a new light on potential opportunities that exist within the banking industry for MDIs. He encouraged active engagement on the topic, and said that the OCC will work with Advisory Committee members to talk through the pros and cons of the approaches that are brought to the OCC.

An Advisory Committee member asked for an update on the SAFE Act and cannabis banking and on the OCC's views. Mr. Paulson replied that the OCC is tracking the legislation and that

there is not a lot of optimism it will get through the Senate. Otherwise, no other discussions have been held at the OCC about a change in the position on the issue, which is that banks need to have appropriate risk management and comply with the FINCEN guidance.

An Advisory Committee member asked about the recent approval of a new state bank charter that sought to be a bank but without regulatory oversight. Mr. Paulson discussed the mechanics of the business model and the abilities of the underlying technology to keep payments transactions non-public. The Advisory Committee member raised concerns about a possible high level of fraud, through wire and depository schemes that grow exponentially. Mr. Paulson noted that the OCC has approved three charter applications, de novo or conversions from state charters, in the crypto custody space. Those entities will all be dramatically increasing their investment in risk management, particularly audit, internal controls, BSA/AML.

An Advisory Committee member commented on the examination scheduling during the pandemic and said that they appreciated the efforts of the OCC to get a few examiners on-site. The Advisory Committee member noted that examinations are better when examiners are present in person and have conversations with bank staff when questions arise.

Mr. Paulson completely agreed about on-site examinations. He explained that the OCC did not close any of its offices during the pandemic, however many days there were not many people in the offices. An average of 10 to 15 percent of OCC staff came into the office. In instances where banks asked for examiners to come on-site and it made sense and could be done safely, it was done. He agreed that the experience and understanding that examiners get when they go on-site cannot be replaced through a virtual exam process.

An Advisory Committee member asked a question about the recent increase in deposits on banks' balance sheets. Ms. Menefee agreed that the OCC will talk to examiners about the change in balance sheets and what that means for the questions that we ask banks and expectations for institutions. Deputy Comptroller for the Western District, Karen Boehler added that it results in little bit of the pressure on the leverage capital ratio. The OCC needs to get a little more comfortable that it is going to be a little lower right now.

An Advisory Committee member asked a question about whether the banking agencies are considering issuing additional guidance about the community bank leverage ratio. Ms. Menefee replied that it is something the OCC is actively monitoring. The OCC is looking to see which banks have capital levels that are falling, and which might have fallen out of compliance because of the increase in total assets. So far, very few institutions would be affected. But it is something that the OCC and the other agencies are monitoring and can address it very quickly if needed. Mr. Paulson reiterated the comments and added that he talks to the agency heads at the Fed and the FDIC about this as well.

An Advisory Committee member asked another question about special purpose banks and whether they have access to deposit aggregators like Cedars to enable the offering of insured deposits in locations where no banks have offices or branches. Mr. Paulson replied that special purpose national bank charters issued by the OCC would not take deposits. There is on going litigation on the OCC's authority at this point, but theoretically a bank could take uninsured



deposits, they would need to be large institutional type deposits. The OCC would not expect that to be a very large portion of their funding and would expect it to be very stable, longer-term, not subject to early withdrawal. The expectation would be that they would not likely use a Cedar's-like program or take public deposits. It would be primarily institutional, maybe even affiliate type deposits or large accredited investor type deposits.

An Advisory Committee member echoed the comments about the non-banking competition. An area of concern is that a retail pharmacy with many branches is going to start offering bank accounts at locations that compete with branches. The company is new competitor that can use profits from non-bank commodities to offset costs to offer bank products. The Advisory Committee member is concerned that an alarm has not been raised.

Mr. Paulson said that the phenomenon of non-banks, partnering with banks is happening frequently. There are banks whose business model is largely focused on those kinds of partnerships. It does create a lot of competition and is something banks will have to monitor closely and understand what is happening, and why some customers find it an attractive way to get their banking services. The industry is evolving and changing rapidly, and consumer's views are changing on how they want to get their banking services. It is a threat to traditional banking.

An Advisory Committee member thanked OCC staff for the help in navigating the Covered Savings Association election process. It was a positive experience. Another Advisory Committee member complimented the OCC on the examination process. They were concerned about the new generation of examiners because they had had a lot of former OTS examiners on exams. The concern was about how the new generation would deal with mutuality and some of the differences in the way the balance sheet and the operations work. The Advisory Committee member said that they are pleased with the recent experience. Part of that may be that the bank participated with some training teams, where the OCC brought in some new examiners and they spent time with the organization before they went anywhere else. Some of the fears or concerns have been allayed because the bank has gone through an exam and the quarterly conversations with the portfolio manager and all have been very positive.

An Advisory Committee member asked about the CRA rule proposals, the current rules and whether there is going to be any alignment among the agencies. Mr. Paulson described the status of the OCC's proposal and the final rule. The OCC issued a final rule, but it did not include the benchmarking, the data requirements and setting how CRA ratings would be assigned, based on metrics. The final rule describes that banks will get credit as part of a non-exhaustive list of activities and investments that provides more clarity about what gets credit. Mr. Paulson also provided an update of the status of the review by the Federal Reserve and the FDIC. He noted that there is a lot of talk about how the agencies should agree and have a single consistent CRA rule. He agreed but said that he would not anticipate a common CRA rule anytime soon.

An Advisory Committee member asked whether the OCC could coordinate outreach meetings with bankers organized by asset size. In addition, there have been discussions about shared services or maybe some of the innovative things that mutuals are doing under their existing charter. The Advisory Committee member would be interested in participating in some type of virtual meeting on collaboration, if the OCC coordinates something of that nature. There is lot of

concern about the longevity and the sustainability of mutual charter and whatever the Advisory Committee members can do or the OCC can provide to help continue to strengthen the collaboration among the mutual banks would be very welcome.

An Advisory Committee member asked about the proposed rule the OCC has issued for comment on real estate bank premises. The concern about the proposal is that an institution in an urban setting where many of the facilities are among mixed-use property having a 50 percent serviceable area for banks as a threshold could cause some issues on any building that is above two stories. The example provided is a branch location that is being used on a ground floor for back offices, and the two floors above are residential, so the percentage of square footage is higher than 50 percent.

Mr. Paulson said that the comments have been very helpful. One of the primary things the OCC wanted to get feedback on was the 50 percent threshold. The comments give the OCC a lot to think about. The agency wants to find a place that is flexible enough but has clear guard rails, and 50 percent may not be the right number. Other concerns have been raised about whether it is parcel by parcel assessments or one building or a campus situation. The issue is the idea that when a bank fails and goes into receivership, if it has a lot of real estate, that the bank owns, the FDIC insurance fund is going to take a loss on that asset.

### **Thrift Supervision Update**

Mr. Brickman provided an update on the Thrift Supervision Activities. He provided a description of the past accomplishments of the group to provide a frame of reference for the contributions by the members of the Mutual Savings Association Advisory Committee.

- OCC Bulletin 2014-35 issued in 2014 and the Mutual Savings Association Advisory Committee was instrumental in getting the OCC focused on examiner education that includes the nuances of the mutual charter.
- The OCC issued a white paper in 2015 that addresses OCC willingness and interest in collaboration by community banks in order to share of the costs and exposures. This paper was developed as a result of discussions held at advisory committee meetings.
- The OCC supported the legislative change that created the covered savings association option. Once the statute was enacted the OCC proposed and issued an implementing regulation and accompanying guidance. The committee members provided input at each phase. Additional documents describing national bank and federal savings association powers were updated and republished to assist federal savings association management teams.
- Each year, the OCC hosts a forum for federal mutual savings associations. Every other year the forum is co-hosted by the FDIC and mutuals of all charter types are invited to attend.

The roundtable discussions at the Advisory Committee meetings with the Comptroller, Senior Deputy Comptrollers and other OCC staff are very informative for both the OCC and the Advisory Committee Members. Mr. Brickman mentioned other topics that the Advisory Committee has discussed that did not result in a paper or product, including supervision of mutuals, examination feedback, capital needs and capital instruments that are unique to mutuals. He mentioned that the topic of chartering a de novo mutual had been discussed with the last Advisory Committee and there are a number of issues that this group of Advisory Committee

members can discuss. The discussion can include state mutuals converting to federal charters, credit unions converting to mutual charters, and new charters to either increase or at least stabilize the numbers in the mutual industry so that it can be a strong part of the financial landscape going forward. The recently added element in this discussion is to consider a de novo MDI mutual.

Also, there are different corporate transactions that have surfaced based on what is going on within the industry. In the past the Advisory Committee has had in-depth conversations about the supervisory conversion process and merger conversions. There have been discussions about mutual holding company formations versus remaining a mutual with no holding company, and the different mechanisms with which mutuals can merge with each other either under a holding company restructure or as pure mutuals.

Twenty-one federal savings associations have made the election to operate as covered savings associations, 52 percent of those making the elections are mutuals. When the concept was first described, it was with federal mutual savings associations in mind. Mutual banks were the ones who were the most primed to benefit from the covered savings association regulation largely because there is not a mutual national bank charter equivalent.

Mr. Brickman updated the Advisory Committee on two interpretive letters published by the Federal Reserve Board of Governors on April 1 that replied to questions about the treatment by the Fed of covered savings associations and their holding companies. Mr. Brickman suggested that existing covered savings associations and those interested in making an election review the legal interpretations and contact the Fed with any questions. An Advisory Committee member asked for a clarification about whether covered savings associations must comply with qualified thrift lender test. Mr. Brickman responded that the OCC has issued a frequently asked question and a legal interpretation on the QTL requirement.

Mr. Brickman said that typically, at each Advisory Committee meeting there is a financial analyst presentation or an economics presentation. One of the components of the financial analyst presentation that Ernie Knott, the Northeastern District financial analyst, performs is a trend analysis over time of the OCC's mutual portfolio compared to stock savings associations, compared to community banks overall.

Mr. Brickman provided some context over the 10-year time horizon that the OCC has supervised federal mutual savings associations. Currently, the OCC supervises just over a thousand national banks and federal savings associations, collectively. The OCC supervises 279 federal savings association, and of that number federal mutual savings associations represent 140 charters comprised of federal mutual savings associations and stock institutions under a mutual holding company that has not issued stock. Ten years ago, the OCC supervised 219 pure mutuals and the number declined to 116 over the 10-year period from integration.

Mr. Brickman described the nature of exits from the mutual and the federal savings association industry. It is roughly broken into thirds, a third of them were from conversions to stock form of organization, a third were acquired by either other federal charters or by state charters, and a

third converted to state charters. And 3.8 percent failed in the 10-year period. And one charter was liquidated and the second one is pending liquidation that 10-year period as well.

Mr. Brickman explained that mutuals have proven to be more resilient than the overall federal savings association industry. The decline in the mutual population has been less than the decline in the federal savings association stock population. Also, consolidation in community banking has been on the same trajectory. There is nothing specific to mutuality in these numbers, the general trend for community banking is the same, which is why the OCC is focusing time and attention and importance on the mutual industry.

The OCC made a decision to renew the charter for the Mutual Savings Association Advisory Committee, noting that community banking is important and more particularly that Mutual Savings Associations are a critical component who that community banking environment. The OCC continue to show support retaining this group. Mr. Brickman pointed out that there is a large drop in the total assets. There was an upward trend in terms of the number of assets supervised under the federal savings association charter and the big drop is attributed to one charter conversion and exit.

## **Project REACH**

Mr. Brickman introduced Andrew Moss, the Director for Minority Outreach at the OCC and Bill Haas, the Senior Advisor for Project REACH. Project REACH is an initiative started under former Acting Comptroller Brooks and has been carried on since he left. He asked Mr. Moss and Mr. Haas to provide some background and details on Project REACH. Mr. Moss provided background and context for the establishment of Project REACH. The “round table for economic access,” is focused on how the OCC and its partners can demonstrate ways to build opportunities for economic inclusion for communities that are traditionally either economically disadvantaged or underserved. In July 2020, during the social unrest of the country, the OCC identified several banks, larger institutions, financial and technology firms, and other community, and civil rights stakeholders to work together to address or identify and address some of the structural barriers that limit the full fair participation in the nation's banking system and the economy.

By bringing all of these different stakeholders to the table, the OCC used its convening authority to focus on not just identifying or issue spotting, but how to take that opportunity by bridging the disconnect between community and industry to find actionable items that will help expand those opportunities so that more people have access to capital and credit. Project REACH is dedicated to four particular areas. The first is focused on how to address the needs of credit invisibles. There are the 45 million Americans that are either deemed not having a usable credit score or an extremely thin credit file where they have not met the credit worthiness criteria. They are not able to obtain any type of loan or investment to support their homeownership dreams or entrepreneurial endeavors.

The next focus is how to support or build off that to have opportunities for increasing home ownership within those underserved communities and financing for small businesses. The final part is looking at ways to support the minority depository institutions and the CDFIs that are in particular markets around the country by creating those investments.

There is a greater opportunity to have community banks involved as they understand what is happening on the regional level. Currently, LA REACH focusses on the particular challenges in that market and there are people in place who know the community better than a federal agency coming out of Washington, DC. There are community stakeholders, such as community banks, getting more involved in rural communities and also markets that may not have an outpouring of investment, to try facilitate ways to attract other investors and other types of federal resources in support of those particular communities.

Mr. Haas explained the origins of Project REACH LA. Los Angeles was viewed as a microcosm of the larger national economy and a test of how REACH could be expanded to a local market. The OCC is looking at other places it can take REACH on the road and in the future, but LA was a great place to start. The roadmap of key priorities is the same as those on the national level. There is a work stream focusing on home ownership. The challenges of the LA market, the high costs of home ownership, this is really an excellent place to consider this equity contribution program. But in LA, keeping people in their homes is important. The equity share program is a way to preserve home ownership. The other challenge in Los Angeles is the affordability challenge and the lack of affordable home inventory. There is a lot of competition from hedge funds or people looking to acquire homes on a cash basis and leaving people out of the market. The OCC is looking at a number of innovative programs there that would increase the supply of affordable home inventory and give people an opportunity to compete for, and have a chance to gain home ownership with the result that the lack of generational wealth accumulation can be solved as much of that can be attributed to the lack of homeownership.

There also is a small business enterprise effort in Los Angeles. An example of the work is looking at using special purpose credit programs under Reg B to expand the access to credit for historically underserved segments of the population. One of the banks active in REACH is going to announce the launch of a new special purpose credit program targeted to veteran owned businesses, minority owned businesses and women owned businesses that would have special features that would make them more accessible to mainstream credit, but give them an opportunity to qualify for credit under terms that they might not otherwise be able to meet if it were not a tailored or modified program.

An Advisory Committee member asked for examples of some roles that mutuals can play with Project REACH. Mr. Moss said that it is not about being a certified CDFI or an MDI. It is about benefiting those in the communities that do not have traditional access to capital. Those who may be unbanked, who may not be able to qualify within the system, the current structure of the credit reporting systems. Working with the OCC to link with some of the new initiatives that are being put into place, under the credit risk policies that are currently in place, and what will then be amended or adjusted so that those who need this type of access that may be within the communities.

Mr. Moss noted that there is a role for community banks, particularly when it comes to economic inclusion. All banks working together and helping is the only way to solve the problem. Mr. Haas suggested that one of the outcomes may be to put together a white paper or a guide that would make it easier for other institutions to develop similar types of programs. The special

purpose credit programs have been around for a long time, but many banks and other groups have not been aware of them and it has been a process to get qualified.

The FDIC and some of the banking trade organizations have asked banks to look at deposit accounts that are offered with low costs, no overdrafts, no surprise fee bank accounts that might be an option to offer to underserved areas. Mr. Moss noted that the accounts are a complement to the work being done as a part of Project REACH.

Mr. Brickman asked the Advisory Committee members about ways they think that mutuals can contribute to the programs. If they have thoughts or ideas beyond what has been described, to let the OCC know those as well. He noted that the concept of chartering a de novo MDI is an innovative approach to accomplishing the goal of what Project REACH wants to accomplish. He asked that if there are other thoughts in hindsight that they have they should let the OCC know. It could become an action item for this Advisory Committee over the next couple of years.

### **Committee Planning, Joint Mutual Forum**

Mr. Brickman noted that the public attendees who plan to submit comments will need to use the “chat” function. He suggested that if they plan to submit a comment, they should start typing it. He said that he would read back any public comments received into the record, at about 3:45 p.m. The final discussion item on the agenda is committee planning and planning for the joint mutual forum. The forum is planned for June 29th and it will be virtual. The audience will include both federal and state chartered mutuals.

He asked the Advisory Committee Members whether have any panel topic suggestions. He said that the Covered Savings Association topic is one that is a potential interest area for the OCC-only breakout. The program includes a keynote panel with Acting Controller Blake Paulson and FDIC Chairman McWilliams. In the past, the Joint Mutual Forum has a general session with at least one panel with bankers and regulators as speakers. The Federal Reserve Board is not a co-host, but they are invited to attend.

Mr. Brickman said that OCC staff have told FDIC staff that Advisory Committee members will be consulted about topics of interest. On the current agenda is a proposed exercise under the broad umbrella of cyber security, like a tabletop exercise of how bank management would handle a ransomware attack in the community bank world. Cybersecurity is one of the most preeminent risks. He suggested a topic to address the benefits of mutuality. The panelists could talk about how to build on the mutual industry and get some new entrants and to maintain the mutuals that do exist. The program also has had a financial and economics presentation.

Another idea suggested by Mr. Brickman was a discussion about what was learned from the pandemic, comparing it to past financial crises. An Advisory Committee Member suggested that the topic of lessons learned from COVID include a discussion on remote working and supervision and changes to corporate governance to accommodate remote meetings. He noted that the post pandemic business model is not the same business model that existed pre pandemic. Mr. Brickman agreed that a forward-looking approach is a valid way of approaching the topic. Another Advisory Committee Member suggested a discussion on diversity and inclusion at the

board level. The topic could include a discussion of whether to have an Inclusion Committee, salary and compensation issues and a charter for such a committee.

Mr. Brickman noted that the success of the Joint Mutual Forum relies on attendance and participation from the mutual industry. He said that OCC staff will circle back individually to assess Advisory Committee Members' willingness or interest in being part of specific panels. In addition, as representative members of the Advisory Committee, he asked that they encourage other mutual bankers to attend. Having a virtual forum creates an advantage because people do not have to get on a plane and give up a lot of time out of the bank. By design, attendees can come in and out and listen to a session at a time and not commit to the full day. Also, there is no limit on the number of attendees from each bank.

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

There was one public comment in the "chat." It was from the ABA's Joseph Pigg. "ABA appreciates the opportunity to listen to the mutual savings association advisory committee discussion and to submit comments. We'd like to reiterate the concerns raised in our recent letter to the Acting Comptroller regarding credit unions purchasing federal mutual banks. We share the observations and concerns raised by George Hermann about the risks posed by activist depositors, who may seek to benefit from such transactions of a particular concern and the need for OCC to ensure that the mutual bank charter is protected. The Acting Comptroller's comments in that regard were appreciated. The mutual charter is an important and valuable one, which benefits our nation as a whole and individual communities in particular." Mr. Brickman said that was the only public comment received. He asked whether any member of the public was typing and asked that they send him a note letting him know they are typing.

He asked the Advisory Committee Members to provide any feedback about this meeting of the Advisory Committee in advance of the June or September meetings. He said that he welcomes the comments and ideas of the Advisory Committee members and appreciates the active dialogue. He noted that senior OCC staff is strongly focused on the importance of community bank supervision, and even more specifically on mutual federal savings associations. He said that to the extent that the Advisory Committee can leverage that and build on the momentum from the meeting, it can be productive. He asked that the Advisory Committee Members let him know if they have any ideas or questions for future topics.

Mr. Brickman said that he did not see any additional public comments and said that no one has indicated that they want to make an additional public comment. He adjourned the meeting.

Mr. Brickman adjourned the meeting at 3:55 p.m.

Certification

/s/

Michael R. Brickman  
Designated Federal Officer