

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
November 18, 2015

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on November 18, 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 8:30 a.m. to 3:00 p.m.

Advisory Committee Members Present

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

OCC Staff Attending

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Toney Bland, Michael Brickman, Sarah Chae, Arnie Cohen, Kevin Corcoran, Jeffrey Geer, Gregory Golembe, Kris Kiefer, Carrie Moore, Joseph Smith

Public Meeting

Michael Brickman, the OCC's Deputy Comptroller for Thrift Supervision and the committee's Designated Federal Officer called the meeting to order and welcomed attendees at 8:40 a.m. Following introductions of the committee members and individuals in attendance for the OCC, he introduced Thomas J. Curry, Comptroller of the Currency.

Comptroller Curry welcomed the committee members and thanked them for their time and commitment. Mr. Brickman introduced Kris Kiefer, the OCC's Deputy Comptroller for the Northeastern District. Ms. Kiefer also welcomed the committee members and made some introductory remarks. She described the number of mutuals in the Northeastern District and said they are the strongest group in the District. She also referred to some of the challenges that are unique to mutuals, for example, meeting earnings goals. Ms. Keifer said that she had learned some of the unique challenges to survival for mutuals since 2011.

Mr. Brickman introduced Toney Bland, the OCC's Senior Deputy Comptroller for Midsize and Community Supervision, who described some strategies employed by mutuals to serve their communities and to address the generational shift of the customer base. He also described a visit that he and Ms. Kiefer had made to a mutual in North Carolina and some strategic decisions it had made.

Mr. Brickman reviewed the agenda for the meeting and noted the handout showing the financial performance of the industry segment. Several members had questions about the time frames for

the consolidation data. A member asked a question about the criteria for voluntary dissolutions. The committee members discussed several of the slides and the improvement in performance in several areas was noted. Asset quality, earnings and capital all improved year over year.

Mr. Brickman described the data in the OCC's Semiannual Risk Perspective and the risks identified in the industry profile. He highlighted the top risks and the direction the risks were trending. A committee member asked what is included in operational risk and included in the category is cyber risk as well as governance. Mr. Brickman highlighted strategic risk and discussed the need for talent management. Mr. Bland talked about how the decision to offer new products and services relates to the relationship that banks have with third party service providers. He explained the importance of reputation risk when using a third party. A member of the committee remarked that there anxiety for income is reflected in offering new product sand services. He asked how OCC examiners would look at income, for example, would they tell an institution to earn more. Mr. Brickman explained that examiners are more likely to criticize an institution for offering a new product or service if a control structure is not in place to manage any new risks or if the control structure in place does not match the risks.

Ms. Kiefer said that for mutuals it is important to look at the drivers of the strategic planning process - goals and internal plans. Mr. Brickman said that the business plan is a critical part of this process. Mr. Bland reminded the committee members that examiners look for satisfactory earnings to augment capital.

A committee member asked whether the OCC had any information on how mutuals can develop a compensation plan. He remarked that there is not much data available on compensation at mutuals. Mr. Brickman reminded the committee that there is a provision in Dodd Frank that requires a rule addressing incentive compensation. The agencies are working on rule. He turned to a discussion of other factors that are included in operational risk including cybersecurity and third party relationships. He reiterated that community banks must constantly evaluate their cybersecurity risk. For community banks this is hard as they are reliant on third parties. Also it is tied to strategic risk. The next semiannual risk perspective will address resilience. Mr. Bland told the committee that the agencies are working on a cybersecurity assessment tool for third party service providers.

A committee member provided an example of sophisticated criminal schemes that impact the bank's reputation. He described a customer education program developed to educate and reinforce customers about the schemes that impact the bank and its customers. Comptroller Curry suggested that perhaps best practices could be developed. A member remarked that when he tried to work with the FBI or other law enforcement agencies, he found that white collar crimes do not get much attention. Other cybersecurity issues raised by the committee members included criminals using wire transfers ostensibly originating from senior officers at the bank.

A committee member mentioned that interest rate risk is an emerging risk at this point in the cycle. Mr. Brickman responded that interest rate risk would be highlighted in the upcoming Semiannual Risk Perspective. He noted that bankers should look for a logical methodology for measuring interest rate exposure. Another committee member asked whether there is any possibility that additional metrics may be included in the Call Report that would help to identify

interest rate risk exposure. He remarked that some detailed information on loans was lost with the move to the Call Report from the Thrift Financial Report.

Update and Discussion of CFPB Regulation

Grovetta Gardineer, Deputy Comptroller for Compliance Risk, introduced David Silberman, the CFPB's Associate Director, Research, Markets and Regulation, who described the operations of the CFPB and how the agency is organized. Mr. Silberman described the three operating divisions at the agency: Supervision, Consumer Education, and the policy making division - Research, Markets and Regulation. He explained that in the third division staff write the rules but also do research to understand the markets, products and services. Mr. Silberman noted that the research area is one of the most controversial areas of the CFPB and that was a surprise. He talked about the data sets that the CFPB has access to including the data for consumer credit, mortgage lending and credit cards.

Mr. Silberman described the regulatory output to date. Most of it has been in the mortgage lending area and is required by provisions in Dodd Frank. He described the substantive mortgage rules and the five year look back that is required to review the regulations. Another statutory mandate is that the CFPB must issue a rule for international remittances. He described the rulemaking projects that are in various stages of research, drafting or review. He also described how some of the CFPB rules differ from rules issued by other federal banking agencies in the same area. Finally, he described the Small Business Regulatory Enforcement Fairness Act process that the CFPB must undergo for its rulemaking projects that will impact small businesses.

Ms. Gardineer told the committee members that the OCC has engaged with the CFPB on the rulemakings as part of a consultative process. The OCC uses the information garnered from the supervisory process to provide input on how regulatory requirements will affect the operations of national banks and federal savings associations. She also described guidance that the OCC has issued that is complementary to the rules issued by the CFPB.

Ms. Gardineer turned to a discussion of Bank Secrecy Act/Anti Money Laundering compliance. She described the practice of derisking that has been going on at larger banks and what that means for community banks. She referred to the controls, policies and procedures that are necessary to manage the higher risk of the business if community banks decide to engage in it. She described the migration that occurs when a larger bank exits a business and how important it is for controls to be in place before another bank enters the business. Examples of this have occurred in the foreign correspondent business. Many of the businesses are high cash businesses and banks must perform a cost/benefit analysis before engaging in the business. Ms. Gardineer also described the use of third parties to offer some products and some of the pitfalls. She described how important it is to have a good change management and compliance systems in place given the number of new rules and regulatory requirements that have been issued.

A committee member asked Mr. Silberman a specific question about the requirements for a single closing for construction loans and described a concern with the requirements. Another member elaborated and said that his institution had stopped originating construction loans as a

result of the requirements. Mr. Silberman indicated that he understood the problem. The committee member said that it was one of the most challenging things in his work career. Another member said that other providers of services in closings also are leaving the market. Another member asked whether the CFPB knows whether consumers read the disclosures required by TRID. He explained that he had had to hire additional staff as a result of the changes to the mortgage rules. He made the point that as insured institutions are leaving the mortgage origination business, shadow banking companies – those companies that have no regulatory oversight - are getting into it.

Mr. Silberman reminded the committee members that the CFPB has oversight over non insured depository lenders and providers of others financial services. He said that the CFPB consults with a number of groups, including the agency’s advisory committees, while drafting the rules and that the goal is to have a level playing field. Ms. Gardineer encouraged the members of the committee to share their experiences with their examiners and the information about implementation hurdles can be provided to the CFPB.

Mr. Silberman said that he has heard a lot of complaints about the revised rules and that the CFPB is disappointed in the failure of vendors to be ready at the effective date. He said that if the rule does not work that the agency will not wait for the five year look back, they will try to correct ambiguities and revise the rule so that it is more workable. Comptroller Curry said that the vendor aspect of compliance is important. The problems mentioned underscore the importance of third party vendor management.

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:

- Compliance with new mortgage rules
- Strategic planning
- Status of the mutual institution segment of the industry
- Shift in customers’ expectations
- Capital concerns for mutual institutions
- Risk appetite
- Branches of the future
- FSA Flexibility legislation
- Examination consistency and communications with examiners
- Examination efficiency
- Status of de novo banks
- Compensation plans for mutuals
- Merger conversions and voluntary liquidations

Legislative Update

Carrie Moore, Director, Congressional Liaison, gave a brief legislative update and provided an update on the Federal Savings Association Flexibility Act. She said that the bill in the House of

Representatives – HR 1660 - has passed the Housing Financial Services Committee and the next hurdle is passage in the full House. She mentioned that there has not been any activity regarding HR 1661, which is the bill that would include mutual capital certificates that meet certain requirements to be counted as Tier 1 common equity for risk-based capital purposes.

Ms. Moore reminded the committee members about the other legislative initiatives for community banks supported by the OCC. They are increasing the asset threshold for institutions eligible to be examined on an 18-month cycle and providing an exemption for community banks under \$10 billion in assets from the Volcker Rule. The increase in the examination threshold is part of the pending bill that would fund the highway trust fund. Ms. Moore mentioned other pending bills of interest to community banks. Committee members asked her the status of proposals for regulatory burden relief and Dodd Frank reform.

Discussion of Current Expected Loss Implementation

Jeff Geer, the Associate Chief Accountant provided an overview of the new accounting standard and its implementation - Current Expected Credit Losses (CECL). As a result of the financial crisis, the agencies and the accounting standard setting bodies determined that the method of determining credit losses is not adequate. The agencies have supported the expected credit loss approach since 1999. The final standard is expected to be issued in the first quarter of 2016. The international standard setters have already issued their version of the impairment model. The US authorities had hoped for convergence with the international group however, the international standard is very different from what is expected to be issued by FASB.

The CECL model is principles based, removes the probable thresholds and the incurred loss notion, introduces a lifetime concept for estimating the allowance for credit losses, and considers more forward looking information than is permitted under current US GAAP. Enhanced disclosures will be required, however each institution can choose an estimation method most appropriate for itself. Specific techniques will not be required so each institution can choose the model that is best for its operations and complexity. Mr. Geer noted that smaller, less complex institutions do not need complex models. He said that institutions are encouraged to start collecting vintage data now and leveraging process the bank already has.

Mr. Geer said that institutions should start thinking about capital adequacy now. He also suggested that banks become familiar with the standard and start planning with an interdisciplinary team at the bank. Early adoption will not be permitted but banks should not wait to prepare. They should work with examiners as well. The OCC has formed an interdepartmental team to work on the supervisory response and the implementation of CECL. The members of the committee asked questions about the methodology and planning for implementation.

Discussion of Online Marketplace Lending

Joe Smith, Group Leader for Credit and Market Risk, gave a presentation on online marketplace lending. He began by providing a background on what he meant when describing online marketplace lending and who are the types of players. He described a new paradigm some of the innovations taking place with the use of technology. Generally the types of activities being

performed are: originations, operations that optimize current processing, liquidity provider and investor. Mr. Smith asked the committee members what they are seeing. He said that the OCC is in a discovery mode and is interested in what is in place and where gaps exist.

The members said that they are seeing REITs engaging in selling loans, consortiums originating loans with specific types of borrowers, for example health care loans, and originations of commercial loans, Mr. Smith talked about the speed with which decisions are made using some of the new platforms. He also talked about how some of the new entrants are trying to provide credit to those that do not have access. Mr. Smith also described how some of the transactions do not provide safety features for the parties, for example there may not be representations and warranties upon which the parties can rely. A committee member asked whether the CFPB is looking at these lenders and another asked about Bank Secrecy Act compliance.

Mr. Smith described the proposal issued by the Department of Treasury and the responses from the other regulators. There are a number of unanswered questions about how the entities will be treated by federal and state agencies. He suggested that in some examples, the entities are like the finance companies that operated a number of years ago. Mr. Smith mentioned some of the Dodd Frank provisions that affect the business operations of some of the lending entities, for example, the risk retention requirements.

Mutual Forum Discussion and Committee Planning

Charlotte Bahin, Senior Advisor for Thrift Supervision, briefly described the agenda for the OCC/FDIC Joint Mutual Forum that will be held in the summer 2016. She then asked the committee members to let her know what topics they would like to have discussed at future meetings.

Public Statements, Wrap up and Adjournment

A member of the public said that she would like to have a discussion with the OCC about the development of a mutual equivalent of common stock. Another member of the public suggested that the OCC look at ways to charter new mutuals.

Mr. Brickman adjourned the meeting at 2:50 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer