

Office of the Comptroller of the Currency  
Minutes of the Meeting of the  
Mutual Savings Association Advisory Committee  
September 17, 2019

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on September 17, 2019, 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**

Ana Babiasz, James Brown, JR Buckner, John Coyne, Tom Fraser, Jim McQuade, Annette Russell, William White

**OCC Staff Attending**

Comptroller of the Currency, Joseph Otting, Frances Augello, Charlotte Bahin, Toney Bland, Michael Brickman, Ralph DeLeon, Don Dwyer, Danial Grantham, Cristina Im, Steven Jones, Paul Moloney, Karen Marcotte, Carlo Martinez, Carrie Moore, Blake Paulson, Paul Ross, Ben Rudolph, Margot Schwadron, Joseph Smith, Demetria Springs, Steven Westenkow

**Public Meeting**

**Introduction and General Remarks**

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee. Mr. Brickman gave a brief description of the agenda for the meeting and provided an update on the number of federal savings associations that have made an election to operate as covered savings associations. Five notices of election have been submitted by federal savings associations, and additional conversations between supervisory staff and federal savings association management teams have taken place. In response to a question, the Federal Reserve has not issued any guidance on how it will treat the holding companies of covered savings associations.

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the Committee members. Blake Paulson, Deputy Comptroller for the Central District and Ben Rudolph Associate Deputy Comptroller for the Western District introduced themselves and provided some demographic information about their respective Districts.

**Residential Mortgage Update**

The following questions were sent in advance to the Committee members in preparation for the residential mortgage discussion. Also, a presentation by the OCC's Economics Department of residential mortgage trends was sent in advance and is available with the Committee materials.

- Over the past year, the Committee members have talked about the easing of underwriting standards by competitors, particularly nonbank competitors, have you changed your underwriting to match competition? Are you more likely to as time goes on?
- Do you see an evolution in the product mix that nontraditional mortgage lenders are offering that impacts your ability to compete? Do you find that you are changing your institution's product mix to meet demand?
- Will expected regulatory compliance changes influence the mortgage products you offer?
- How has the use of technology changed your lending strategy? Does competition drive your use technology to offer loans faster? Does it force you to think about matching products that non bank lenders offer? Does that impact the quality of the loans originated?
- How does the use of artificial intelligence impact your lending strategy?
- Do you originate loans that you are able to sell to the GSEs that you would be reluctant to hold in portfolio due to higher risk characteristics (higher DTI, lower score, higher LTV) or layering of such characteristics?
- How is the level of housing stock in your area? Is the market strong? Has it changed in the past year?
- Are there appraisal issues that have surfaced because of the market?
- How do you keep up with hiring, retaining, and training staff? Do you have to retrain lenders to keep pace with technology?
- Is your staff ready for an economic downturn – does it know how to look at loan applications in a changing environment? Does it know how to identify red flags in the portfolio?
- Are third-party service providers able to keep pace with changes?
- Have you talked about collaboration to address compliance needs or other aspects of mortgage lending?

Daniel Grantham, Senior Financial Economist and Paul Moloney, Lead Economic Expert, of the OCC's Economics Department presented data and trends on the residential mortgage markets. Joe Smith, Technical Expert, Mortgage Market Risk, in OCC's Credit Policy group provided information and observations of risk trends in the mortgage market.

Mr. Grantham noted that there has been an increase in demand for mortgage originations in the second quarter of 2019. He also noted that nonbank participants were very competitive and that the percentage of originations by banks continues to decline. The Committee members agreed with the observations based on activity in their markets, especially in the middle to upper middle price ranges of conforming loans. Mr. Smith asked the Committee members about funding of loans and described the condition of the credit markets. He said that when nonbank lenders are not able to securitize their loans, it puts pressure on banks that have other sources of funds. Banks are able to originate and hold loans and a high percentage of the loans held by banks are jumbo loans.

Mr. Grantham described the trends in the secondary market and the changes in percentages of loans originated to be sold to the housing GSEs. He noted that the biggest decline of sales by banks is in sales to FHA. There has been a 50 percent reduction in loans sold to Fannie Mae and Freddie Mac in the 2014 to 2017 time-period and generally a decline in FHA lending. Committee members noted that the change in FHA lending may be a result of litigation risk and nonbank lenders are more willing to take on that risk.

Mr. Smith said that the projection is for the market share of the GSEs to increase in the next few years. Committee members talked about the new entrants into the mortgage markets and the rapid rate of change. They noted that underwriting standards have loosened but not to pre-crisis standards. Mr. Smith described retail credit risk concerns that come up even in a benign credit environment. He highlighted the loss of the qualified mortgage patch and the uncertainty about what that means for the origination market. He also mentioned the move away from using Libor as an index for adjustable rate mortgage loans. Committee members said that the loss of the QM patch would not impact their lending and that they do not rely on Libor.

Committee members asked questions about the risk to their investment portfolios made up of mortgage backed securities from these and other developments. He said that it is a slow progression based on the underwriting for the loans. He also talked about the evolution of the use of technology to close loans, especially by nonbank lenders. Committee members talked about the shift away from adjustable rate loans in particular markets and the use of fixed-rate loans in low- and moderate-income areas. A Committee member talked about the use of the debt to income ratio as a predictor of loan quality of loans originated in low- to moderate-income areas rather than using a credit score. He pointed out that nonbank lenders may not have that perspective. Committee members talked about underwriting standards generally and how they have retained their standards and have not changed to meet competition from nonbank lenders.

Mr. Smith asked about processes being used to compete with the speed with which nonbank lenders can take applications and move to closing and how that drives a consumer's expectations. Committee members talked about the use of technology, third parties and the impact on the ability to get appraisals. In some markets, the speed with which a bank can get an appraisal is the factor driving the timing of closing. Other communities have local appraisers that can act quickly because they know the local environment. Another factor is having the right technology and the staff who can understand and use it. Several Committee members noted that they have to have the technology to compete and that the pressure to meet the time frames

offered by nonbank lenders is intense. Mr. Smith noted that the ability to get records electronically is important and that varies by jurisdiction.

Committee members talked about the customer experience and that as mutuals they can improve the customer experience. They can review their processes to see what the pain points are and revise them. Mortgage originations continue to be the bread and butter business, but Committee members report that they are not willing to layer on much additional risk. Committee members talked about the impact that appraisers and title companies can have on the ability to speed up the process. They also mentioned the post closing advantage of retaining servicing. Customers have a better experience, especially if problems surface after closing. The age demographic of the borrower makes a difference. It is important for younger customers that they be able to use technology. Relationships become important as younger borrowers do not have loyalty to specific banks.

Mr. Smith asked about the compliance issues and litigation risk of having relationships with mortgage brokers and real estate agents. Whether business relationships or referrals are used, there are compliance concerns. Marketing and advertising of products and the relationships was discussed. The Committee members had varied experiences with the relationships with realtors that depended, in part, on the communities they serve. Committee members talked about whether customers use realtors in their communities and whether they use the online services available to save the expense of using a realtor. Lenders can track online inquiries without a consumer calling or visiting a physical location and the lender can target marketing based on the inquiries. Internet marketing is less expensive than mailing marketing materials. Analysis of the trends and the number of hits can be done to make the targeted marketing more effective.

Mr. Smith asked about the relationship of other types of consumer debt and the ability to get a mortgage. Committee members talked about borrowers who have student loan debt and how that can drive behavior and the ability to consider purchasing a home. Further, consumer expectations are changing. Technology is used to market rental properties in urban markets. Consumers look at properties virtually and move in without seeing the property first. Technology has changed much about the business, but mutuals continue to look for ways to have customer relationships on different levels.

### **Roundtable Discussion**

Comptroller Otting joined the meeting and provided the Committee members with an update of his priorities. He said that he is maintaining his focus on the efficient and effective operation of the OCC. He spoke about the improvement to the processes at the agency, the better alignment of functions, the increased delegation of decisions and the more efficient organizational structure. He said that all of the work has resulted in a cost savings that will be translated into reduced assessments for most OCC-supervised institutions.

Comptroller Otting turned to his policy priorities. He updated the Committee members on BSA/AML initiatives and the CRA review. He said that compliance with BSA requirements has shifted to be more risk-focused. He also said that the revised interagency examination manual will be published in January. Comptroller Otting provided an update on the status of the review

of the rule implementing the Community Reinvestment Act. He highlighted four important areas of the review: what counts, where activities are located or assessment areas, how to measure the activities, and creating a reporting of the activities. He expects a joint proposal to be issued in a few months, with a final rule in the first quarter of 2020. He then described another of his priorities. He described the OCC's initiatives to develop a single supervisory platform and a more efficient and consistent way to collect and retain the data that come into the agency.

Committee members asked what the Comptroller thinks about CECL and its impacts on community banks. He said that he fundamentally agrees with the concepts and noted that the expected loss method takes a banker's judgment into account. Mr. Brickman described the examiner training that the OCC had done and asked whether as mutuals the Committee members had any concerns. Committee members said that while they do not expect much of an impact on capital, the delay of the effective date is welcome. Mr. Bland reminded the Committee members that the OCC will not require a particular model but will look at the methodology used.

Mr. Brickman asked the Committee members whether they had any comments on the changes to supervision or the examination process. Committee members generally are satisfied with the communication with examiners and appreciate the quarterly monitoring. A Committee member noted the change from the 12- to 18-month examination schedule for more community banks. He said that he appreciated that the examiners understand the risk profile and structure of mutuals. Another Committee member noted that the transparency and availability of subject matter experts is very helpful.

Committee members talked about some of the concerns with collaboration and how the process would work. Supervision concerns with multiple entities were highlighted. Mr. Bland talked about how the awareness of the initiatives among examiners can be addressed as part of an education process. Committee members said that there are differences in the views at the District level. Committee members said that they appreciate having examiners who are familiar with their communities and they see value in continued on-site presence as well as off-site examination work.

Committee members introduced the discussion of competition with credit unions and the recent increase in credit union acquisitions of community banks. Comptroller Otting described the strength of the credit union lobby and said that most members of Congress view the credit union industry as homogenous. The reality is that the industry is made up of smaller credit unions that stick to their mission and very large bank-like entities. He suggested that the industry should be bifurcated and understands that credit unions have an unfair advantage in the acquisition of community banks. Additional issues related to the pricing of the transactions, moving the community bank assets to non-tax paying entities and the role of the NCUA were discussed.

The Comptroller asked the Committee members about deposits in their markets and credit quality generally. There was a discussion of the trends. The Comptroller mentioned that the OCC is seeing a slight increase in fraud.

## **Congressional Affairs Update**

Carrie Moore, Director of Congressional Liaison, joined the meeting. She described the organization and work of the Congressional Affairs office at the OCC. The staff in the office provide input and technical support to Congressional offices when requested. They do not lobby, but they monitor proposed legislation and provide technical expertise on a nonpartisan basis. Comptroller Otting spends time on Capitol hill meeting with members of Congress and the Senate, in particular the members of the Senate Banking Committee and House Financial Services Committee. The OCC has testified several times in the past year on supervision, the status of regulatory implementation of the statutes, Bank Secrecy Act compliance and Fintech. Members of Congress are interested in Fintech and the Office of Innovation.

Both the House and the Senate are busy with many topics other than financial services and it is difficult to get floor time to debate banking matters. On the Senate side, Senate Banking Committee Chairman Crapo and Ranking Member Brown try to work in a bipartisan way and the Economic Growth legislation enacted in May 2018 is an example of that work. The Members are very interested in the status of regulatory implementation of the statute.

Changes to BSA/AML laws, privacy and data use requirements, GSE reform, digital currency, the impact of climate change on financial services and marijuana banking are among the topics of interest to the financial services committees in both the House and the Senate. Hearings have been held on a number of the topics as a way of gathering information and getting views from a range of interests. Legislation has been introduced on several of the topics.

Committee members asked questions about the possibility of changes to the BSA requirements and the status of the marijuana banking legislation. Ms. Moore noted that members of Congress are interested in the results of the CRA review and several have participated in outreach in their Districts and the bus tours organized by the OCC to get input from all stakeholders.

## **Capital Update**

Margot Schwadron, Director, Capital Policy joined the meeting and provided an update on three capital rules that recently have been issued. Two were issued as a result of the Economic Growth legislation enacted in May 2018. The capital simplification rule has an effective date of January 1, 2020, the community bank leverage ratio has an effective date of January 1, 2020 and the CECL implementation rule was recently issued in final form. The rule implementing the CBLR permits community banks below \$10 billion in assets to opt out of compliance with the risk-based capital rule. Instead, those institutions are required to hold capital of at least nine percent with adjustments made for certain off-balance sheet exposures. If a community bank falls out of compliance it will have a two-quarter period to get back into compliance. The rule should reduce burden for most community banks under \$10 billion in assets, if they opt in to the rule.

Mr. Brickman asked the Committee members whether they had considered opting in to the CBLR. Several said that they are considering it. He asked whether the CECL transition went far enough.

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

There were no written statements submitted in advance of the meeting. Members of the public thanked the Committee members for the discussion

Mr. Brickman adjourned the meeting at 3:00 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman  
Designated Federal Officer