

Minority Depository Institutions Advisory Committee Minutes
June 27, 2017

The Minority Depository Institutions Advisory Committee (MDIAC) convened for a meeting at 8:35 a.m. on June 27, 2017, at the Office of the Comptroller of the Currency (OCC) headquarters located at 400 7th Street, SW, Washington, DC.

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

Advisory Committee Members Present

Jamie Bartholomew Aller, Director and General Counsel, The National Bank of Malvern, Malvern, PA; Lucilio (Louie) M. Couto, President and Chief Executive Officer, American Plus Bank, N.A., Arcadia, CA; Guillermo Diaz-Rousselot, President and Chief Executive Officer Continental National Bank, Miami, FL; John Hou, Chairman, President and Chief Executive Officer, Asian Pacific National Bank, San Gabriel, CA; Jesse Jackson, Senior Vice President, Texas Capital Bank, N.A., Dallas, TX; Valerie Mann, Senior Vice President, The First National Bank of Gordon, Gordon, NE; Preston 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

Keith A. Noreika, Acting Comptroller of the Currency; David Black, Community Development Expert; Toney M. Bland, Senior Deputy Comptroller (SDC) for Midsize and Community Bank Supervision (MCBS); Beverly F. Cole, DC for Compliance Supervision Management and Designated Federal Officer; Glenda Cross, Director of Minority Outreach; Industry Analyst; Grovetta Gardineer, SDC for Compliance and Community Affairs; Larry Hattix, SDC for Enterprise Governance and Ombudsman; Bryan Hubbard, DC for Public Affairs; Matt Johnson, Assistant Deputy Comptroller (ADC), New York Field Office; Ivan Lasoi, National Bank Examiner and Team Leader, Louisville Field Office; Kristin Merritt, Special Counsel, Administrative and Internal Law; Carrie Moore, Director of Congressional Liaison; Andrew Moss, Community Relations and Minority Affairs Specialist; Donna Murphy, DC for Compliance Risk; Jolene Schack, ADC Omaha Field Office; Seth Schwartz, Compliance Officer Bank Secrecy Act/Anti-Money Laundering (BSA/AML); Enice Thomas, Senior Advisor to the SDC for MCBS; Barry Wides, DC for Community Affairs.

External Speakers

David Helin, Accenture Research, North America Research Director

Public Observers

Natalie Abatamarco, Citi Inclusive Finance and Community Development, Managing Director; Francis Baffour, Director, Illinois Service Federal Bank, Chicago, IL; Hu Benton, American Bankers Association; Ernie C. Jolly, Legislative Director, The Honorable Gregory W. Meeks, (NY-05); Kim D. Saunders, National Bankers Association Board Member; and Sharon

Zimmerman, Community Development Relationship Manager, Woodforest National Bank, The Woodlands, TX

Meeting Opening

Beverly Cole opened the meeting at 8:30 a.m, welcomed both returning and new members. The meeting agenda was also reviewed. Attendees were reminded the meeting is open to the public and meeting minutes would be published.

Introduction of Members

Each committee member introduced themselves and the institution they represent.

Federal Advisory Committee Act (FACA) Overview

Kristin Merritt provided an overview of the FACA.

BSA/AML Update

Seth Schwartz provided an update on BSA/AML. Some key points included a discussion on the importance of the focus on the culture of compliance at an institution including the tone from the top and whether it has appropriate authority to carry out responsibilities. The technical aspects of FINCEN's final rule for customer due diligence (CDD) requirements for financial institutions was reviewed. This rule provides more guidance concerning the beneficial ownership (BO) of accounts with a May 2018 implementation date. Examinations conducted by OCC examiners in 2017 will focus on evaluating institutions' readiness – policies, procedures, systems, etc. In addition, examiners will follow-up on outstanding Matters Requiring Attention (MRA).

Some requirements of the BO rule require establishment and maintenance of written procedures that identify and verify BO of a legal entity customer, retention of records of information obtained regarding BO, includes risk-based procedures for CDD, requires understanding the nature and purpose of customer relationships to develop a customer risk profile, and requires ongoing monitoring to identify and report suspicious transactions and to update customer information.

Seth also reported that the Interagency BSA/AML Manual would be updated and the priority will be to incorporate updates concerning the CDD/BO rule.

A committee member asked “Overall do you see de-risking in larger banks and how community banks are impacted?” Seth responded that OCC issued risk re-evaluation guidance and we are not seeing as many institutions exiting customers. There may be an increase in nesting relationships where customers may go to their partners in other countries that retain relationships. In the Fall of 2016 OCC issued guidance and provided best practices. U.S. Treasury also issued a document. Also the Basel Committee on Bank Supervision updated its guidance on nesting relationships.

OCC looks at an institution's control environment versus its risk. Focus is whether risk is identified and managed appropriately within the control environment. Another banker asked if examiners question the existence of these accounts is that not an adversarial position? OCC representatives responded that asking a question does not mean get rid of the account, customer,

etc. However, it is our job to test and make sure we understand and that the banker understands the risks. And, there should be two-way communication. It is also important that bankers document decisions and how they manage the risk. It may be helpful to reach out to the examiner assigned to a particular institution to discuss. And, the examiners manager is always available if bankers believe there is a breakdown in communications. Finally, bankers are encouraged to use the appeals process when they believe it is warranted.

Committee members stated that BSA/AML is an evolving business and with expanding regulatory requirements and they would prefer to learn about those changes outside of the examination process. OCC noted that there is discussion about modernizing BSA/AML in the industry and banking. BSA/AML was the topic with the highest number of comments in the EGRPRA process. Acting Comptroller of the Currency Noreika stated he encouraged the Treasury Department to take on an EGRPRA like process related to BSA/AML. Bankers were also reminded that OCC implements the BSA/AML rules but FINCEN writes these rules. OCC shares information with FINCEN on an ongoing basis.

A question was asked what needs to be done to increase customer awareness regarding the CDD rules? The bankers indicated in some cases their customers indicate that their other bank does not require them to provide the same level of information as those supervised by OCC. Another banker indicated they would appreciate a document with the various regulations indicating the information requested for BSA/AML and financial statements are required. This would eliminate bankers being required to deliver the message to their customers. ADC Schack reported being aware of a community bank that incorporated this type information into their marketing campaigns. SDC Gardineer committed to taking the banker's suggestion back to our interagency partners.

The committee members also spoke about employee training on the topic, and asked if it is possible to have a robust program without every customer being in compliance? Concern was also expressed on whether one instance of non-compliance was sufficient to call a program into non-compliance? It is not simply the number of instances of non-compliance but also the nature, severity and impact of an account that may determines overall compliance.

Another committee member asked how do other committee members show source of wealth on deposit accounts? A committee member stated they provide a list to customers.

Another question was whether OCC can encourage smaller institutions to partner with other institutions to defray costs on compliance, technology, advertising costs, etc.? OCC representatives referenced two booklets "An Opportunity for Community Banks: Working Together Collaboratively" that was published in January 2015 and "Partnerships with Minority- and Women-Owned Financial Institutions, Low- Income Credit Unions" published in August 2016 that address the concern.

A committee member stated they were impressed the OCC had established an Office of Innovation. Points of discussion included topics such as supply and demand and the rate of change in Fintechs, whether certain things would be exempt, discussion on certain laws being enacted for totally different reasons – i.e. Collings amendment – trying to provide relief to

smaller institutions but must complete the calculation to see if a community bank can get the relief – and therefore may not provide the intended relief. The membership also discussed the open banking movement in Europe and wondered what the implications are for U.S. banks and/or U.S. banks that have a presence in Europe.

Social Media, Technology and Community Banking – David Helin

Mr. Helin discussed the results of the survey on a multi-year research initiative tracking consumer banking attitudes and behavior. Refer to handout for details entitled 2016 North America Consumer Digital Banking Survey- Banking on Value Rewards, Robo-Advice and Relevance.

Remarks from Acting Comptroller of the Currency (ACoC) Keith A. Noreika

ACoC Noreika addressed the group. In addition to prepared remarks he invited the committee members to raise any topics of interest to them. He also spoke about regulatory reform related to the definition of Significantly Important Financial Institutions, simplification of capital rules and standards, modernizing the Community Reinvestment Act, and while not a wholesale appeal of Dodd-Frank – but more a look at unintended consequences. ACoC Noreika also noted on the Fintech side that starting the Office of Innovation was good legacy for his predecessor and on the bank side it revolutionizing the way banks do business so it does not create a barrier to small banks. Are there ways to help coordinate services for smaller banks – OCC clearly has chartered full service banks with all requirements for national banks.

MDIAC Roundtable – MDIAC Committee Members

A committee member asked about the Taylor Act. It was stated that the OCC has a few concerns but we could open the door. Also, asked for consideration of (1) a 24 month examination cycle versus an 18 month examination cycle, (2) desktop reviews on banks with strong capital, and (3) revisit Dodd Frank due to the mortgage lending restrictions – and reported a 40% decline in mortgage lending because typically they structured repayments with balloon payments. This committee member also indicated there was a lot of uncertainty and drastic decline in foreign investment and retail trade.

Another committee member asked if there were examples of shared services that are working. And suggested OCC consider updating the collaboration whitepaper. Committee members also encouraged the OCC to continue to share best practices and knowledge in a constructive manner – especially BSA/AML related information. Another member stated the rate of change makes it challenging to attract customers, bankers, employees to banking. It was reported that the decrease in the overall number of banks is also attributable to the difficulty in sharing.

The committee members expressed a desire for more banker roundtables that address hot topics, trends, information technology, cybersecurity, credit (underwriting including more examples of Troubled Debt Restructurings, BSA/AML (specific examples), Current Expected Credit Losses (CECL) (as specific examples as possible and many thought current guidance was too vague), concentrations (concern is the 100% vs 300% guidance) and members expressed that take outs are not the same risks. There was also a discussion of whether anyone has done an assessment of Enforcement Actions – it was indicated that some in California had.

OCC representatives reported banker roundtable discussions on CECL will continue as well as discussions with examination staff. The High Volatility Commercial Real Estate (HVCRE) guidance was discussed including that there is not a concrete date to rewrite this guidance. Committee members expressed concern that borrower equity is now measured by appraisal value of the property.

Committee members also asked for a de-brief on the MDI Collaboration efforts that begin with a pilot in April 2015. It was reported that five sessions held in New York, NY; Miami, FL, Los Angeles, CA were held in 2016 and 2017. Each session had positive results and we were collecting information on bankers' reaction to the plan. The key takeaway was several bankers realized how they could assist smaller institutions including minority depository institutions and some developed their own programs to do so. Another benefit was getting the right persons together so they could establish their own method for future engagement. Some are helping with loan participations, technology efforts, ATM network accessibility, etc. The next phase is to analyze the feedback bankers provided and determine next steps.

Public Observer Comments

- Attached is a statement sent via email from Marshall Sitten on behalf of Natalie Abatamarco regarding *Citi statement for MDIAC Meeting* dated Tuesday, June 20, 2017. Ms. Abatamarco stated she has never seen such a good idea receive such a good impact and that every time she comes to one of the MDI Collaboration or MDIAC sessions she leaves with a new idea. She further reported this project has received attention from the top of the house on down in her organization.
- Attached is a letter from Members of Congress Gregory W. Meeks and Dwight Evans (CO-chairs of the Congressional Black Caucus' Economic Development and Wealth Creation Taskforce). The letter request OCC's MDIAC consider facilitation of partnerships between Minority Depository Institutions and other Financial Institutions of Federal Agencies, including: preservation of MDI opportunities to become, or partner with, CDFIs; facilitation of MDI Opportunities to partner with technology driven third-party service providers of special purpose national banks, and enhancing partnerships with the federal government through the Minority Bank Deposit Program. And, finally the letter stated the OCC should review the efficacy of its 2013 bank appeals process guidance.
- Frances Baffour stated he was on the Board of Directors of IFSB and expressed concerns regarding the supervisory conversion process, institution's expertise in interest rate risk management and encouraged additional technical assistance sessions.

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