

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
March 21, 2018

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on March 21, 2018, 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 2:15 p.m.

Advisory Committee Members Present

In person: Tom Fraser, Jeff Hyde, Shirley Hughes, James Wainwright, Bill White
By telephone: Jim Brown, JR Buckner, Jim McQuade, Dan Moore

OCC Staff Attending

In person: Comptroller of the Currency Joseph Otting, Charlotte Bahin, Toney Bland, Michael Brickman, Ralph Deleon, Joel Denkert, Demetria Hannah, Bryan Hubbard, Kevin Johnson, Ben Lemanski, Donna Murphy, Joy Palmer
By telephone: Fran Augello, Kris Kiefer

Public Meeting

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, welcomed the members of the advisory committee on the telephone and in person. He explained that due to the inclement weather several members of the committee were not able to attend the meeting in person and as an accommodation to them, a conference call had been set up. He described the agenda, the topics and the speakers for the meeting. He noted that Comptroller Joseph Otting would participate in the Member Roundtable discussion.

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the committee members. He mentioned several items of interest. He said that overall industry ratings are good and that there are no significant concerns, but that OCC staff are staying alert for problems that may arise. Mr. Bland described an OCC initiative focused on communications during the examination process. He said that the goal is for communications to be more transparent. A supervisory communication should be clear about which issues are for the board of directors to address and which are management's responsibility to address. Finally, he said that additional communication has been sent to examiners clarifying the use of OCC guidance in examinations.

CRA Regulatory Update

Donna Murphy, Deputy Comptroller for Compliance Risk Policy, provided a brief overview of the OCC's review of the rule that implements to the Community Reinvestment Act (CRA). A review of the current CRA rule is one of Comptroller Otting's early priorities. Ms. Murphy began the discussion by reminding the group that CRA is a 40-year old statute that encourages insured depository institutions to meet the credit needs of the communities they serve. The regulatory framework has not been revised since 1995 and the banking industry has evolved in many ways since then. Further, a number of questions and answers have been published that interpret specific points in the current rule. The traditional banking business model was defined by geography and now a more national, more flexible model has developed. The OCC, working with the other banking agencies, plans to issue an advanced notice of proposed rulemaking (ANPR) to solicit feedback from all stakeholders on possible changes.

In response to a question about the scope of the ANPR, Ms. Murphy reminded the group that the statute is applicable to insured depository institutions and not credit unions. She noted that the Department of Treasury is looking at CRA and that a report on that review would be issued soon. She also mentioned that Members of Congress are waiting for the Treasury report and are interested in the banking agencies' plans. The ANPR will pose questions and solicit ideas. A committee member said that individual bankers will work with the trade organizations on comments. Mr. Brickman reminded the group that the role of the committee is to advise the OCC and he asked that the members provide feedback on this ANPR and other proposed rules.

Ms. Murphy said that another area of interest that will be identified in the ANPR will be to seek comments on reporting and asking about what activities and services qualify for CRA credit. She said that the goal is make any reporting more useful. Members of the committee asked questions about whether specific investments and activities would be given credit under any revised rule and she replied that an object of the review is that any new rule would be more transparent about which activities and services would receive credit.

Another member asked whether the OCC anticipated any changes in the lending area in any revised rule. Ms. Murphy reminded the group that the statute does not mention assessment area. That concept was introduced into the rule in 1995 and one of the questions that is being discussed now is how to define community. Mr. Bland said that an objective of Comptroller Otting is to have consistency in the process. The current rule and the process is too complicated. A revised rule should be clear about whether CRA credit will be given when the activity is begin or the investment made instead of when the evaluation is complete.

Members of the committee asked questions about ratios that are used in the current rule. They provided examples of lending products that had just been introduced in the market 1995 and the robust discussions that took place with examiners about those types of loans in the context of the CRA exam. They described interactions with examiners about performance context and the mix of products offered. Several members asked about comparisons that are made between institutions with different operating strategies and mix of loan offerings. A member asked about whether the length of time between examinations would change and Ms. Murphy said that is under review. Finally, Ms. Murphy responded to questions about whether the other banking

agencies are involved in the review. She said that OCC staff is working with the FDIC and the Federal Reserve, but the Comptroller is pushing the initiative.

Mr. Brickman reminded committee members that if there are unique concerns or issues affecting mutual institutions that they should provide comments. The committee also can talk about these types of concerns at future meetings.

Ms. Murphy highlighted two additional compliance-related issues of concern to community banks. The first is that she noted that the federal banking agencies had revised and published the publication "HMDA Data: Getting it Right." The revisions were necessary because of the revisions to the rule that implements the Home Mortgage Disclosure Act and the required data collection.

She also noted the upcoming effective date for compliance with the FinCEN customer due diligence and beneficial ownership rule. She added that the FFIEC BSA examination guide is being amended to include guidance on complying with the requirements. Committee members asked if there are any efforts underway to increase the \$10,000 threshold for filing CTRs. Ms. Murphy said that there is a legislative proposal pending that would increase the threshold but that it is not supported by the law enforcement community.

Discussion of the Senate-Passed Economic Growth, Regulatory Relief and Consumer Protection Act

Mr. Brickman provided an update on several items of interest included in the Senate-passed Economic Growth, Regulatory Relief and Consumer Protection Act or S. 2155. The OCC-supported Federal Savings Association Charter Flexibility Act is one of the provisions in the legislation. The version of the act in the Senate legislation is different in one respect from the version passed by the House of Representatives. The Senate version contains a \$20 million asset threshold. Federal savings associations over that threshold may not elect to engage in the powers of a national bank. Mr. Brickman noted that if the legislation is enacted, the OCC will be required to issue a rule to implement the statute. He said that OCC staff will seek the advice of the committee members as the rule and examiner training are developed. He mentioned that the OCC-supported Volcker rule exemption for community banks is part of the legislation. Other provisions in the Senate bill include Call Report reform, a simplified capital requirement, appraisal reform, and amendments to mortgage lending rules. Members of the committee mentioned other items of importance in the Senate legislation including the provision that would raise the threshold for the small bank holding company policy statement.

Mr. Brickman explained that versions of many of the provisions of interest also are included in legislation passed by the House of Representatives, but that the bills must be reconciled before they can be enacted and signed into law.

Member and Comptroller Roundtable

Comptroller Otting joined the meeting and participated in the Member Roundtable. He asked each of the MSAAC members to introduce themselves and to describe his or her institutions He

asked follow up questions about the operations of and market served by the mutuals represented on the committee. He noted that the combination of the ages of all of the institutions represented is almost 500 years. Comptroller Otting introduced himself with a brief description of his career in banking. He pointed out that he came to the OCC as a banker, and had not been a regulator and that he takes a long-term view of the agency. He described his priorities: Review of the CRA rule and evaluation process; review of the BSA/AML rules and reporting requirements; review of the rules and guidance for small dollar consumer lending; and review of the efficiency and effectiveness at the OCC, including the decision making process at the agency. He wants to ensure efficiencies in the supervision by and operations of the OCC. He noted that he wants OCC staff to be good stewards of the agency.

The discussion turned to specific topics. A committee member asked about the CRA examination process and offered a suggestion that community banks that are active in the communities they serve should have a longer examination cycle. Several members noted that they support the possible use of quantitative data and metrics in the evaluation process. Committee members then asked about the review of the BSA/AML rules and reporting requirements. Comptroller Otting reported that the federal banking agencies are compiling a list of possible changes to the examination process to provide to FinCEN for consideration. Members of the committee commented that the relative resources spent to BSA compliance are not commensurate with the risks at many community banks. They noted that the dollar threshold for CTR filings has not changed since 1970.

The Comptroller asked whether each of the members has a BSA officer. They all replied that they do and several mentioned that they have been advised to get a back-up BSA officer. A member said that his bank's BSA officer is retiring and that is the most difficult position fill. Mr. Brickman noted that when OCC staff were drafting the agency's 2015 White Paper on Collaboration, the example of a community bank sharing a BSA officer was given.

Mr. Brickman asked the members of the committee if they had any comments or questions on the small dollar lending initiative. Several committee members asked for a more detailed description of what is meant by the term small dollar lending in this context. The Comptroller described a two different types of short-term consumer loans and said that further clarification would be forthcoming. A member described a program that his bank had just started as a way to have an online product that can compete with the products offered by Fintech companies. Another member of the committee pointed out that community banks have an obligation to provide such loan products but that they need the rules of the road.

Mr. Brickman raised the topic of the authority in the supervisory process given to examiners-in-charge and assistant deputy comptrollers. He asked whether members believed that there is a lack of clarity in how examiners are interpreting and applying the guidance and regulations issued by the OCC. The committee members generally think that the level of communication and understanding is appropriate. However, a member observed that less experienced examiners are not always aware of the nuances of the operations of a federal mutual savings association. Mr. Brickman referred to a letter submitted to the MSAAC by a member of the public describing a situation that the author of the letter believes shows that examiners are not being careful enough in discussions with management at mutuals about the issues of capital planning.

Mr. Brickman highlighted initiatives undertaken by the Thrift Supervision area at the OCC to ensure that examiners know about issues that affect federal savings associations generally and mutuals in particular. He also noted that there is a mechanism for examiners to ask questions. He advised that if senior management at mutual federal savings associations feel that examiners do not show an understanding of mutual earnings and capital issues, they should challenge them and if that is not successful, they can escalate the discussion to the appropriate assistant deputy comptroller.

The members of the committee are interested in looking at some issues in more depth than is possible by the committee and they formed a subcommittee to take on the project. The agenda items for the smaller group generally include topics that can be discussed as part of a look at the long-term viability of the mutual charter and whether there is a path for persons interested in forming a mutual denovo. The subcommittee members spoke about some of the industry segment trends and the ability of mutuals to raise capital. The subcommittee members are also looking at whether a designation as a Benefit Corporation or certification by B-Labs would be an advantage for a mutual federal savings association.

Comptroller Otting asked whether the members of the committee are interested in the proposed Federal Savings Association Charter Flexibility Act and whether they would take the opportunity to make the election to engage in the powers of a national bank if the legislation is passed into law. MSAAC members support the enactment of the Federal Savings Association Charter Flexibility Act. They spoke of it as an important tool for the long-term survival of the industry. A committee member mentioned that his institution is close to the limit under the Qualified Thrift Lender test. He said that he felt it was necessary to apply to convert his institution's charter to a state charter rather than face noncompliance with QTL. Other members of the committee said that they are aware of other institutions in the same situation.

Financial Update

Mr. Brickman presented a financial update. The committee members asked questions about the data presented. The financial update is on the MSAAC committee page on the OCC's website.

Discussion of Future Committee Activities

Charlotte Bahin, Senior Advisor for Thrift Supervision, reported that the committee charter expires in 2018 and will have to be renewed. The process of renewing the charter will begin in the early summer. In addition, the terms of the members will expire at the end of 2018 and the nomination process for committee members also will begin in the summer. She reported that the OCC would hold a Forum for Mutuals jointly with the FDIC on July 25 in Washington. The MSAAC will meet on the afternoon of July 24. She asked that the members let the OCC staff know about topics of interest for the Forum program. She also mentioned several rulemaking projects that might be of interest to committee members and noted that OCC staff will solicit input from the committee.

Public Statements, Wrap up and Adjournment

A letter from a member of the public was included in the materials for the advisory committee meeting.

Mr. Brickman adjourned the meeting at 2:15 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer