

**Office of the Comptroller of the Currency
Minutes of the Virtual Meeting of the
Mutual Savings Association Advisory Committee
September 28, 2021**

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a virtual meeting at 8:30 a.m. on September 28, 2021.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 8:30 a.m. to 2:30 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 Michael Hsu, Jason Almonte, Frances Augello, Charlotte Bahin, Doug Boser, Michael Brickman, John Harootunian, Ashley Hicks, Cristina Im, Amy Klein, Ernie Knott, Karen Marcotte, Sydney Menefee, Michael Moriarty, John O'Brien, Joseph Smith, Demetria Springs, Susannah Strange, Heidi Thomas, Troy Thornton

**Public Meeting
Introduction and General Remarks**

Sydney Menefee, the OCC's Senior Deputy Comptroller for Midsize and Community Bank Supervision welcomed the members of the Mutual Savings Association Advisory Committee and thanked them for their participation. She reiterated that OCC staff values the Advisory Committee members' input. MCBS and the OCC as a whole support community banks and in every interaction with the committee the agency sees the value the Advisory Committee members provide to their communities and the banking system. She reiterated the support of the agency for the continued success of mutual institutions as an important segment of the community bank sector.

Ms. Menefee described the OCC's examination approach. The agency had been moving to using a hybrid approach to examinations prior to the pandemic and that prepared staff to move to an almost 100 percent virtual environment for examinations during the pandemic. OCC staff has learned from the lessons learned during the 100 percent offsite examinations during the pandemic and plans to leverage the best of both the onsite and offsite examination processes.

Ms. Menefee noted that OCC staff continue to see value in being onsite at the banks the agency supervises. It facilitates better relationships and discussions, but the agency appreciates that off-site examinations can reduce some of the burden on the banks and the right balance has to be struck with a mix of relationship building, face-to-face work and efficiency and effectiveness in

the examination processes. She asked the Advisory Committee members for feedback on what is working.

In another area that affects community banks, Ms. Menefee said that the OCC is looking at how the agency can be more transparent about the de novo process. She explained that agency staff are concerned about the decline in the number of community banks and mutuals, more specifically, but also the lack of new entrants. She said that the agency intends to look internally at processes and have conversations with the other agencies that are critical actors in the de novo process to better understand their expectations.

The last item she discussed was assessments. The OCC has reduced assessments for the prior two years and this year the agency is reviewing what the principles around assessments should be going forward. She noted that as individual banks consider their cost structure, the OCC needs to think about its costs. She said that the agency continues to think that there are efficiencies to be gained from a review of the entire assessment process.

Ms. Menefee concluded her remarks by reminding the Advisory Committee members that the Acting Comptroller would participate in the Roundtable discussion. She said that it is an opportunity for the Advisory Committee members to talk to him about whatever is on their minds, but also his priorities. He is very engaged with the community banking sector. He has appreciated the prior conversations and she added that she hopes the Advisory Committee members will ask tough questions and provide feedback because he welcomes it.

Michael Brickman, Deputy Comptroller for Thrift Supervision and Designated Federal Officer reviewed the administrative information for the meeting. He welcomed the Advisory Committee members and described the agenda for the meeting. He reminded the Advisory Committee members that as representatives of the mutual industry, OCC staff wants to hear what pressure points the mutual industry is facing.

He introduced the OCC District staff at the meeting: Troy Thornton, Deputy Comptroller for the Southern District, Michael Moriarty, an associate deputy comptroller from the Northeastern District, Doug Boser, an associate deputy comptroller from the Central District and Amy Klein, an associate deputy comptroller from the Western District, participated in the meeting. He explained that representatives from Licensing, Legal, and other lines of business that deal with mutual issues at the OCC are on the call to respond to any questions that come up.

Mr. Brickman pointed out that materials had been sent in advance including a financial presentation and a copy of OCC Bulletin 2021-45.

Mutual Financial Trends

Mr. Brickman introduced Ernie Knott, the Financial Analyst for the Northeastern District to provide the mutual financial trend presentation. Mr. Knott was joined by Ashley Hicks, who is the financial analyst support in the Northeastern District and Cristina Im, who is the Deputy Comptroller Analyst for Thrift Supervision.

Mr. Knott provided background on the development of the presentation and went through the areas covered by the slides. The demographic slides show that the OCC supervises a diverse group of 1,194 charters. He explained that there are 272 federal savings associations, representing 22 percent of OCC charters and that federal mutual savings associations are the third largest group by percentage of OCC charters at nine percent. The breakdown of assets shows that federal savings associations comprise four percent of OCC assets and 24 percent of midsize and community bank assets.

Mr. Knott explained that consolidation of all charter types continues in the banking system. In the fourth quarter of 2020, there were 279 federal savings associations. The net number of federal savings associations has declined by 377 since integration of the OTS into the OCC in 2011. That decline was primarily due to mergers and acquisitions. Mr. Knott noted that de novo banks of all charters have not been formed in the decade since the passage of Dodd-Frank. He provided an example for comparison, in 1985, the chartering of 200 to 300 new charters a year was not uncommon. A number of mutuals converted to stock and a number of stock federal savings associations converted to national banks.

Since 2011, the number of mutuals has declined about 29 percent. However, during that period, the federal stock savings associations declined 63 percent. He explained that mutuals are increasing as a percentage relative to the total number of federal savings associations. In addition, if the 26 mutual holding companies that have not issued stock are added to the mutual number 51 percent of all federal savings associations are mutuals. Although there are federal mutual savings associations in most states, there are concentrations in three states, Ohio, Pennsylvania and Illinois. Federal mutual savings associations generally are smaller than federal stock savings associations. Thirty-one percent have less than \$100 million in assets compared with only 19 percent of federal stock savings associations, and only eight percent of mutuals are larger than a billion dollars in assets compared with 26 percent of federal stock savings associations.

Mr. Knott turned to a discussion of branches and he noted that branching is a hot topic in the industry. Banks are looking at whether to open branches, close branches or expand. Fifty-five percent of federal mutual savings associations operate from three locations or less. But the takeaway is that the industry has been closing branches for years, especially some of the larger banks, but the number of closures hit a record in 2020 and that was due to the pandemic, which accelerated the move to online banking. Mr. Knott reported that according to experts, over the next 10 years, all banks are going to require 30 percent fewer branches and the actual amount of space will be 40 percent less.

He said that in a change to provide financial relief during the pandemic, the agencies modified the community bank leverage ratio in April 2020. If a bank meets the criteria and has a leverage ratio of 8.5 percent, the bank is considered to be well-capitalized as described in the prompt corrective action definitions. If the bank falls below 8.5 percent, there is a two-quarter grace period, as long as the bank stays within 100 basis points of 8.5 percent or 7.5 percent. Forty-eight or 43 percent of federal mutual savings associations have opted into the CBLR framework. Federal mutual savings association capital levels remain strong. The median leverage ratio is 14.06 percent and this ratio would be 12 basis points higher if it were adjusted for the rapid

growth and Payroll Protection Program which lowered the ratios by creating a larger denominator. In general, the smaller federal mutual savings associations have the highest levels of capital. The numbers for the federal mutual savings association population are the highest of any charter type supervised by the OCC. Total risk-based capital levels are strong and they increased in 2021 to almost pre-pandemic levels.

Banks that did not opt in to the CBLR are evaluated by the capital rules that have been in place since 2015. For those banks to be well-capitalized, the bank must have five percent leverage capital, eight percent tier one risk-based capital and 10 percent total risk-based capital. And in 2015, a fourth threshold was introduced. A bank must have 6.5 percent common equity tier one. All federal mutual savings associations are well-capitalized and federal mutual savings associations are the only group that are well-capitalized as defined in prompt corrective action. Return on assets are up in 2021 about four basis points, Mr. Knott noted that the larger the federal mutual savings association, the better the ROA. The revenue to average assets illustrates the low contribution of income to total revenue. Federal mutual savings associations are hurt more than other charter types because non-interest margin compression is significant in the industry and NIM represents 91 percent of mutual income. Smaller mutuals are hurt more. Federal mutual savings association net income increased due to the lower provision expenses. Non-interest expense for the industry was up about 10 percent during the pandemic and for federal mutual savings associations it is five percent showing that federal mutual savings associations are able to contain expenses. Because federal mutual savings associations are mainly spread lenders, the deposit surge came with lack of loan demand and it has been channeled into some investments, but mostly into cash and interest-bearing bank balances.

Mr. Knott provided the conclusion that the NIM issue started with the rate reduction in March 2020, when the Federal Reserve lowered the Fed Fund rate to combat the possible economic downturn as a result of the pandemic shut down. However, due to lack of loan demand, it has evolved into more of a mixed issue because there is a higher percentage of assets not in loans compared to the pre-pandemic timeframe.

He noted that while fee income is up six percent compared to a year ago there are still 62 federal mutual savings associations that reported fee income of less than a 25 basis points. Non-interest expense is only up five percent. He said that expense has been going up over time and has dropped because while PPP and the inflated assets have hurt the capital ratios, it makes the expense numbers look positive. These numbers are coming down more from a combination of factors, not just from the five percent increase, but also because of a higher denominator. Personnel expense is the largest piece of non-interest expense. He said that he had analyzed bank performance by lender peer group using numbers from the uniform bank performance report. Seventy one percent of federal mutual savings associations are residential real estate lenders.

The efficiency ratio, which peaked in 2016, has always been a challenge for federal mutual savings associations. It is elevated and above 80 percent and the smallest federal mutual savings associations have higher ratios. The average assets of federal mutual savings associations are \$437 million, and the average assets of state nonmember mutual banks supervised by the FDIC are almost double at \$762 million in assets. OCC-supervised federal mutual savings associations might be performing better because they are almost half the size of the average for the FDIC-

supervised mutual bank. Some ratings have slipped for example, the earnings component for mutual banks of all charter types, lags the ratings in other safety and soundness areas.

Ashley Hicks introduced herself and described what she would cover. She described the asset quality, liquidity, and sensitivity to market risks portions of the presentation. She explained that loan growth of 14 percent was highest for construction and development loans and for commercial loans the negative 20 percent growth was due to PPP loans rolling off. Loan losses peaked in 2012 for OCC-supervised banks and have been steadily declining since then. She noted that the median federal mutual savings association non-current loans, plus OREO ratio peaked in 2012 at 2.24 percent and has been on a steady downward trajectory since then. In the second quarter, the ratio had dropped down to 0.57 percent for OCC supervised mutuals. Loans that were 30 to 89 days past due are at the lowest point in over a decade at 0.29 percent as of the second quarter.

She said that classified assets have also declined and are now at the lowest level since 2008. They are at 4.35 percent currently and special mention asset numbers also are low. There has been a steady decline in the allowance starting at the high in 2013. She noted that there was a slight bump in the allowance during the pandemic. The allowance levels for federal mutual savings association are stable this year at 0.92 percent of total loans. She noted that 28 federal mutual savings associations had taken negative provisions in the first six months of 2021 and 52 had no provision. Federal mutual savings association loan growth fell to negative 2.2 percent. She explained that these figures have been adjusted for PPP loans and the result is that loan growth improved slightly to negative 2.1 percent.

Normally, the highest loan growth is at the largest banks. In previous years it would not have been unusual to see double-digit growth and the lowest loan growth for the smallest banks. Usually, a couple of the asset groups have negative loan growth, but this year it is very different. Federal mutual savings associations with over a billion dollars in assets have the lowest loan growth out of all of the asset classes and loan growth was negative for most of the mutual bank groups, supervised by both the OCC and the FDIC. She said that the pandemic has added a lot of complexity to loan demand, and as demand starts to return to normal, the numbers likely will fall back in line with the previous year trends. Federal mutual savings association asset quality ratings are strong, and they are flush with liquidity. Federal mutual savings association deposits have grown 13 percent year over year, largely due to fiscal stimulus and a higher consumer savings rate. Because of the sharp rise in deposits and a lack of loan demand, federal mutual savings associations are relying less on wholesale funding sources and they have significantly higher levels of on-hand liquidity. There was a sharp rise in the on-hand liquidity starting in 2020 and on-hand liquidity for mutuals, the median is 38.81 percent which is the highest that it has been since before 2007. If the on-hand liquidity ratio is looked at by asset size, the larger the banks, the lower the on-hand liquidity ratio and vice versa.

Cristina Im introduced herself and presented the supervisory information portion of the presentation. The supervisory portion includes the management section the specialty component ratings for information technology, asset management, consumer compliance, and Community Reinvestment Act. The CRA rating reflects how well a depository institution meets the credit needs of low- to moderate income neighborhoods within the bank's market area. For consumer

compliance, federal mutual savings associations' ratings are strong. She turned to the risk assessment system categories. The aggregate level of risk is low with six of the eight risk categories, predominantly rated as low. The risk areas with the most designations of high-risk, were interest rate risk and strategic risk.

The top four risks were strategic, credit, interest rate and operational risk with strategic, credit and interest rate showing year over year increases from last year. The majority or 93 percent of federal mutual savings associations are on an 18-month examination cycle. The requirements to be eligible for the 18-month supervisory cycle include that the bank must have total assets of less than \$ 3 billion, be well-capitalized as defined in Prompt Corrective Action, have a rating of one or two for both management and the composite rating, and the bank must not be under a formal agreement or a formal enforcement action. Finally, the bank must not have changed control within the prior 12 months. Ms. Im said that there has been a 21 percent reduction in the volume of MRAs or Matters Requiring Attention and more than half were centered in the bank information technology and capital markets areas.

At the conclusion of the presentation, Ms. Hicks told the Advisory Committee members that she and Mr. Knott can prepare a quarterly report for each Advisory Committee member and other mutuals that is referred to as a "mutual Q book." It includes many of the financial graphs provided in this presentation and adds a line for the individual mutual and a line for the mutual federal savings association's peer group, as determined by the UBPR and the mutual median.

Mr. Brickman noted that Mr. Knott has adapted his presentation over time in response to questions. An Advisory Committee member thanked Mr. Knott for the presentation and asked when a de novo mutual application would be filed. Mr. Knott replied that he had recently read about a possible mutual de novo that would be formed with a state charter. The Advisory Committee member noted that the possible de novo mutual was for a New Hampshire-chartered savings bank and asked whether it could be a model for an OCC-supervised mutual.

Mr. Brickman added that in previous meetings he has said is that it would be fantastic to see a live application and to work through the decision-making process real time. He noted that the example referred to is a state charter, and the FDIC will be the agency working through the application. It is beneficial for all of the regulatory agencies to have the live application under review as it can lay some groundwork for how these transactions will progress in the future. The FDIC will review the current example from a deposit insurance perspective and from a supervisory perspective since it is a state of New Hampshire charter application. He said that OCC staff is looking forward to the discussion. He reminded the group that Ms. Menefee mentioned that the OCC is starting an initiative to look at the licensing process for de novo banks from start to finish to figure out what impediments or bureaucracy have been introduced over time that are preventing organizing groups from attempting to charter banks. OCC staff hopes that it will be an inter-agency effort.

An Advisory Committee member said that he had had conversations with many state and federal lawmakers about the mutual model being the perfect example for MDI de novos and CDFIs.

An Advisory Committee asked Mr. Knott about future earnings and sensitivity ratings if net interest margins remain depressed for another year or more. Mr. Knott replied that third quarter numbers are going to be bumpy because of the Delta variant, and he projected that loan demand is going to increase for all institutions, including mutuals by year end. An Advisory Committee member asked whether the OCC has done any projections on when the deposit outflows from the government stimulus programs will occur. Mr. Knott replied that he is looking at the deposit rate, the annual rate, the year over year rate has peaked already and it has declined. It fell from a high of 20 percent to single digits. He said that he will have a better sense of the pace when the September 30 numbers are available, but he thinks it has peaked. He noted that a lot of people who were not going back to work, were living off savings and the stimulus payments and that is being drawn down now.

An Advisory Committee member asked whether the ALLL and the analysis of the negative provisions that were seen in the industry is a by-product of asset quality improving or a lack of loan demand or whether it is a representation of the new CECL modeling. Mr. Knott replied CECL is part of it. He explained that during the pandemic larger community banks and midsize banks were concerned as the severity and the length of the pandemic was uncertain. They built up reserves from first quarter to second quarter of 2020 and then mid-size banks started releasing reserves in the third and fourth quarter and community banks as a group started doing that just last quarter. The larger community and mid-size banks were very aggressive, so they built reserves very quickly and now they are releasing those reserves. In looking at the mid-sized portfolio – all banks have taken the negative provision.

Mr. Brickman thanked Mr. Knott, Ms. Hicks and Ms. Im for the presentation and reminded the Advisory Committee members that for those members interested in getting a personalized “Q book”, they can ask Mr. Knott and Ms. Hicks directly. He also noted that if Advisory Committee members have any additional follow-up or additional questions, they can reach out directly to Ernie, Ashley or Cristina and they can provide additional context. He also noted that OCC staff try to schedule Mr. Knott’s Advisory Committee presentation at least once a year, in order to keep up to date with trends and performance.

Mortgage Lending/Mortgage Banking Update

Mr. Brickman welcomed Joseph Smith, the OCC’s technical expert in mortgage banking in the retail credit risk section of bank supervision policy. He reminded the Advisory Committee that Mr. Smith had attended meetings in the past and that the dialogue has been beneficial to OCC staff in understanding the perspective of mutual community banks involved in the mortgage markets.

Mr. Smith welcomed the new members to the Advisory Committee and provided some context for the mortgage lending and mortgage banking discussion He said that much of the concern about emerging credit risk and about widespread credit deterioration has been allayed. Employment levels are continuing to improve.

Mr. Smith encouraged the Advisory Committee members to look at all of their retail portfolios as holistically as possible with respect to individual borrowers, industries and geographies. He suggested that it is good to drill down on the specifics as part of the discussion. He noted that the OCC encourages banks to look closely at the higher risk portfolios, because looking at the individual borrowers and performing stress tests as exuberantly as possible helps to understand the adverse market conditions that may affect earnings and capital.

Similarly, the OCC monitors exposures and from a policy perspective, looks at at-risk industries and markets. During the reviews, there needs to be heightened awareness about individual businesses regarding resource shortages, rising input costs, and elements that can be more difficult to identify. Mr. Smith said that one of the biggest issues is forbearance. He noted that there are about 1.6 million borrowers that are in active forbearance. The number varies depending on the source, the OCC looks at Black Knight data and Black Knight is one of the largest servicing repositories in the country. About 60 percent of those borrowers will be coming out of forbearance by the end of 2021 and in the first six months of 2022.

He said that the OCC staff hopes that the notable increase in home price appreciation will be a rate softener. Mr. Smith said that there is a heightened sense of concern about the number of borrowers that may need loss mitigation programs. If the borrower is not capable of being able to manage a loss mitigation program or loan modification program, the borrower will hopefully be able to get out of the property, sell the property, and be able to move into another property if possible with a short sale and not a foreclosure.

Mr. Smith described what the OCC is seeing with house price appreciation, home price increases, and the market itself. The market is extremely tight right now. In July 2021, there was a 2.6-month supply of homes. There was a record low 1.9-month supply in 2020 and in January 2021. This is a historically low level because in the normal market, there is usually six- to eight-month supply.

In August 2021, house price appreciation year over year was 16.4 percent which was down slightly from the month before at 16.5 percent which is almost double the year before. In addition, low rates are driving up the housing prices because borrowers can afford more expensive homes.

As context for the mortgage discussion, Mr. Smith provided the questions below in advance.

Questions for the Mortgage Discussion at September 28, 2021 MSAAC Meeting

General:

- Generally, is the market in your geographic footprint experiencing similar issues seen in many parts of the country with respect to supply, marketing times, and property type availability?
- Have the employment levels returned to the pre-pandemic levels and have you seen any noticeable changes in the types of available employment?
- Several members have noted that house prices have increased.
 - Can you speak to those factors that are currently impacting house prices?
 - Supply, building costs, demand, et al.?

- What was/is the general direction of your institution going forward? Are you concerned with the general direction of borrower needs/acceptance of risk by lenders?
 - 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?

Origination

- This group has frequently discussed the competition from nonbank competitors.
 - How much market share do you think that you are losing to NDFIs?
 - Are some products more likely to be originated by NDFIs than others?
- Do you see an evolution in the product mix that nontraditional mortgage lenders are offering that impacts your competitiveness? To what extent are you using agency v non-agency products to meet your customers' needs?
 - The GSEs continue to adjust their lending standards and some of which to make housing more attainable.
 - Are you seeing a discernable easing of the standards for the acceptance of qualifying loans?
- Has your funding base changed because of the pandemic?
- Has the demographic of the borrower changed, for example, are millennials starting to buy homes? Are more homes available for first time homebuyers?
- How important is technology to your customers?
 - What changes did you have to make during the pandemic to accommodate customers?
 - Are you continuing to use the technology or processes?
- What challenges did you have in the processing and underwriting of the loans during the pandemic?
 - Have you continued any new processes that you developed?
- Are you taking a more/less a conservative approach in lending to new borrowers or refinance customers?
 - Are you using overlays or process adjustments to any of your offerings?

Servicing

- Could you speak to the number of forbearance requests that you have gotten relative to Covid?
 - How many requests have ended voluntarily?
 - How have you managed your outreach efforts? Are you having difficulty in contacting these borrowers?
- What type of forbearance/loss mitigation activities are you offering to those customers' loans that are on book?

Mr. Smith asked each of the Advisory Committee members to talk generally about their local mortgage market. Most of the Advisory Committee members agreed with Mr. Smith's summary and reported that the median home value in their market had increased and that most homes are selling at above market value with very few days on the market. The supply of homes has gone

down and, in many markets, first time home buyers and those purchasers at the lower end of the price spectrum are not able to purchase homes. The purchase market moves very quickly in some areas with sellers accepting cash offers or ones with large down payments. FHA/VA borrowers are disadvantaged in this market because of the house price appreciation but also because sellers want to move quickly and not wait for the FHA/VA process.

Mr. Smith noted that in some areas, contracts are being written with no inspection, no appraisal and the prices are very high. In a lot of FHA bids, the contracts will not be accepted if there are multiple bids. Several Advisory Committee members reported that there is still a strong refinancing market. Advisory Committee members noted that there are long-term implications of the lack of homes for first-time home buyers particularly with regard to diversity, equity and inclusion efforts. If there are fewer first-time home buyers there will be ripple effects in the future as more people will not be able to own homes and transfer wealth to future generations. Mr. Smith reported that this year, 85 percent of FHA's purchase business is first-time home buyers and 50 percent of VA business is first-time home buyers. He said that with these numbers of first-time home buyers there is an impact on servicing. He noted that if the Advisory Committee members have FHA books, it is important to pay attention to the market. There may be a push by the agencies for first-time home buyers.

Several Advisory Committee members said that the multifamily market continues to be strong. Apartment buildings being built in their markets and multifamily is very healthy. The investors/owners are experiencing full occupancy, getting rents beyond what they had projected or estimated, and are able to raise rents. There is an imbalance between supply and demand in housing units overall.

An Advisory Committee member said that things have moderated in the market as the seasons have changed. The market is still robust but the stories of the multiple offers over asking price, houses disappearing before they have been listed have gone away. The market is healthy but moderate.

Another factor identified by Advisory Committee members is the lack of new construction because of the price of materials or the inability of construction companies to acquire lots or materials. This has impacted the availability of new housing stock. Further, the inability to get an appraisal or to get an appraisal that comes in at the purchase price is a problem in many markets. Homes with comparable values are difficult to find.

Mr. Smith said that the supply chains for builders are very difficult and that on a national basis there has been about a \$20,000 increase just in the cost because of lumber. Other materials that are necessary to build homes, for example, plumbing supplies, have increased in price or are scarce. The average cost of a home is going up because of these supply chain challenges. He said that it might ease up in the next six to 12 months, but it is uncertain how much. He said that the lot supply is a big issue especially near metropolitan areas and it is one of the key drivers for people to move more towards the suburbs and rural areas because the lots are more affordable so the presumption was housing was more affordable.

Most of the Advisory Committee members report that there has been a population shift in their markets. Those markets that are away from the largest urban centers are experiencing growth with people moving to less urban or rural communities where they can purchase larger homes with more room to work from home. As more employers permit work from home or telework arrangements, these moves have become more common even in areas where people move within an urban market from a much more expensive central area to more suburban areas as commute times are no longer part of the decision. In some markets, the type of property buyers look for has changed. For example, people who want to start their own businesses look for mixed use properties. In fast growing areas, the unemployment rate is down compared to national rate. In some areas that are reliant on manufacturing, the supply chain problems are affecting employment levels.

Mr. Smith said that the migration away from urban metropolitan areas given the new work dynamic is a common theme. At the height of the pandemic, 35 percent of workers were teleworking. Right now, about 14 percent are teleworking and that is double the pre-pandemic levels. It is expected that the level will hover around 14 percent and may increase incrementally over time. That data is from an Ernst and Young housing conference. An Advisory Committee said that another interesting dynamic is that the telework situation is putting unexpected labor constraints on the market because the workers moving into the community do not need employment because they are teleworking. There is a customer surge for the local business to keep up with but no new labor in the market. As a result, there is wage inflation in the markets.

Mr. Smith followed up the general discussion with a question about the strategic direction of each institution. He asked whether the Advisory Committee members are generally concerned with the direction of borrower needs relative to the risk tolerance. He asked the question about each institution but also for other institutions in the market. He asked whether the Advisory Committee members will continue to retain originated mortgage loans or if they see lender risk standards at the GSE's expanding would they consider selling the loans.

Several Advisory Committee members responded that they would not change the practice of holding all of their loans in portfolio. They have not changed underwriting standards to meet the standards of the competition, including non-bank lenders and credit unions. An Advisory Committee member noted that the bank's standards have been so tight that the bank could not lend on many of the houses in the area because of the cap on the loan amount. The risk appetite is where it needs to be. The bank is competitive without being crazy.

An Advisory Committee member said that the bank sells 15- and 30-year loans to the GSEs so they are not able to flexible. He said that the bank has held its underwriting standards very steady throughout and been consistent. The market is not affected by lenders being crazy. Much of the business is driven by relationships in the market.

An Advisory Committee member said that he is concerned about the future and that some of the competitive lenders that are not institutionally based or relationship based are going to be in trouble. He said that the bank's lending standards are stringent and that loan to value ratios are at around 50 percent through the whole portfolio.

Mr. Smith responded with regard to pricing disparities and the competitive disadvantage the Advisory Committee members might see can be explained partially by how the non depository competitors do rate locks. Most of their customers are “float to lock,” and they lock them with 10-day locks. He said that the Advisory Committee members may offer a 30- or 45-day lock and that will give them the advantage without doing anything regarding risk. That is a price difference. Accepting risk is something those entities are able to do because they are able to negotiate with Fannie and Freddie a lot of individual commitments with risk adjustments in those commitments and tolerances around certain variables. Those are some of the competitive elements in the market.

An Advisory Committee member said that his bank sells most of its mortgages. They do not want 15-, 20-year loans on the books at the current rates. It has worked well. The trend in the market is a little different because people are putting more cash down, there are more situations with low loan to values ratios. He said that the bank keeps a few loans on the books for certain situations. His biggest concern is with some of the builders and how many houses they are building and if there was a slow down or increase in rates, what is their ability to weather the change. But right now, the builders are healthier than ever with more liquidity than in previous economic environments.

An Advisory Committee member said that the bank has the capacity to take more into its portfolio so they are doing that, but they are not adjusting the standards at all. On the investor side the bank has reduced the loan to value limits to help mitigate some of the future valuation risk. The other observation is that the bank is not making loans with exceptions. The Advisory Committee member said it is the non-bank lenders that are starting to take the risk.

An Advisory Committee member said that he is operating in an extremely competitive market and that most of the competition is coming from non-bank lenders. He said that the bank has not reduced its standards in to stay competitive. He said that they do things the old-fashioned way and hold the line on underwriting guidelines. What they have done is probably more market driven, maintaining good loan to value ratios but the loan amounts that have gone up and, in some cases, have gone up significantly, but the market has been able to support that change. It is not a reduction in the underwriting standards.

An Advisory Committee member said that the bank holds some loans in portfolio and that seems to be a competitive advantage, but they sell about 70 percent to Freddie Mac and the Federal Home Loan Bank. The bank is holding onto a lot of long-term assets, but it continues to diversify the loan portfolio. The bank has a good share of commercial loans on the balance sheet in primarily commercial real estate; the values and demand seem strong. The bank has DEI initiatives and is looking at other markets that it can serve. The bank recently introduced an ITN loan product in response to a demand. The Advisory Committee member said that the focus is on continued diversity and being flexible in the product offerings so that the bank can continue to compete with the mortgage brokers in the area. Another competitive concern is the recruiting efforts of the mortgage brokers. They try to attract the bank’s talent and it is forcing the bank to pay attention to the wage base more closely.

Other Advisory Committee members described the categories that the banks use for mortgage originations. In some cases, it is because the loans originated are nonconforming because of the land type while other loans are underwritten to be sold but then the loans are retained for possible future sale. Whether loans are sold may depend on where interest rates are. Interest rate risk is used in determining whether to sell or hold the loans and sales with servicing that are available as offset on net interest margin compression.

An Advisory Committee member said that the bank prices for sales to the Federal Home Loan Bank and retains the servicing because there is value in that. The bank holds in the portfolio what can be sold, but the bank tracks exceptions to make sure that it is staying within the limits. It puts some guard rails up and keeps a percentage of long-term mortgages on the books and makes sure not to exceed those limits.

Mr. Smith provided some information about the non-bank market. He said that from an origination perspective, they have about 51 percent of the overall market and servicing is almost the same. They have been gaining ground in servicing. They have 91 percent of the FHA market and approximately 73 percent of the Fannie Mae and Freddie Mac market. Overall, they have 77 percent of the market. There are two perspectives. The first is product differentiation and whether they have any, and the second is pricing and that goes to operations. He asked the Advisory Committee members to consider when they think about how mortgages are being put through the process and whether they feel that they have the competitive advantage that may not warrant a change or whether the process is adding on an unacceptable level of risk. Speed to close does have value for consumers.

An Advisory Committee member said that the bank is implementing an end-to-end loan origination system that is going to cost double per month of the current payments just so that the workflow can be managed more easily and it uses DocuSign because of the pandemic. An Advisory Committee member said that the bank adopted a more sophisticated online loan origination system and the majority of borrowers now apply online in the more streamlined system, but it is more expensive.

An Advisory Committee member said that the bank does not see enough volume with FHA, the GSEs or other programs to justify the cost of changing the process. The bank has streamlined as much possible on the single product and not tried to be all to everyone. The bank is not able to find a price point with economies of scale that the national lenders can bring to the table. The bank has taken a different approach and just said they are not going to put the resources to compete there.

An Advisory Committee member said that the bank's long-term strategy has always been to retain servicing in order to retain the customer relationship and it has been monitoring the profitability of that service much more closely lately to determine how much longer the bank will retain that part of the mortgage process. The bank is also looking at an end-to-end digital product to be more efficient, but the technology cost for all of this eats into the operating cost.

An Advisory Committee said that as a 100 percent portfolio lender volume is important, but it is not the most important thing. The bank invested in as much technology as it can but still provides

personal service. The market share is very small but there is a segment of the borrowing public that wants to do business with the bank. The Advisory Committee member said that the bank invests in technology and that continues to evolve but the reputation in the community as a portfolio lender is really what leads the way, because of the competition it would not be easy for the bank to compete on pricing with the non-banks that are strictly volume driven lenders.

An Advisory Committee member said that the bank was having issues on getting qualified personnel for the middle part of the process. The bank outsourced the processing and is closing using a white label. The bank originates the loan and takes it in portfolio, or if it is sold, the bank sells the servicing under its name. It has decreased the processing time and increased the ability to do business. The only downside was it took the bank some time to get it up and running and it missed the first part of the refinance boom, but now it is paying dividends.

An Advisory Committee member said that the bank continues to look for ways to streamline the digital process and the role Fintechs play continues to be on the radar for the rest of this year and looking in the next. The bank has some middleware coming in that will help, where the bank uses a mortgage bot on the front end that will help move the application at a little more rapid pace and avoid the double entry. The bank is also looking at ways to streamline servicing and automate the tax reporting and escrow. Balancing the technology cost with what non-bank competitors can do is always a challenge for community banks. The competitive advantage offered is the service that the bank provides, staying in touch with borrowers throughout the mortgage process. The price is the price and if the credit score is 700, it is this price, if it is 800, it is the same price. The bank thinks that is a competitive advantage particularly for the first-time and maybe second time homeowner market.

An Advisory Committee member agreed with the approach. The bank does not have any scale on pricing. The bank has been forward thinking in its mortgage online applications. Something popular in the market is that real estate brokers are involved and that is always price sensitive, but it is more about relationship lending. When a broker brings the bank a deal that may not make sense for the portfolio, the bank will not make the loan. The bank concentrates on loans that are going to remain through the lifetime or sometimes generations of the loan. The bank does have an online process for loan applications for both mortgage and commercial loans.

An Advisory Committee member said that the bank has a mortgage buyer platform and that it has offered an online option for a while, and volume has picked up, but as a community bank the primary source of business is the relationships that in the market. The bank has been able to hire loan originators as the larger competitors have moved to a technology only format. Given the community relationship nature of the business, it has been a successful move.

An Advisory Committee member said that technology for the last few years has been positive in the consolidation of operations and in workflow. The biggest problem is that there are a couple of large credit unions that have tried to get more aggressive and as soon as back-room people are trained, they get hired by the credit unions. The bank has revamped how it pays mortgage operations staff and include a different scale for them compared with other parts of the bank.

Mr. Smith thanked the Advisory Committee members for the discussion. Mr. Brickman thanked Mr. Smith for facilitating the mortgage lending discussion. He noted that there were some surprises in what the Advisory Committee members reported. He said that it is useful getting a perspective from the mutual bankers on what they are seeing in their communities. The information influences the agency's approach to risk management and decisions about examining institutions in areas like retail credit. He reminded the Advisory Committee members that Mr. Smith is available for follow up questions or conversations if anything he said today sparked an interest, or an Advisory Committee member wants additional information.

Committee Updates

Mr. Brickman turned to the topic of committee updates. He reminded the Advisory Committee members that this is the final meeting of 2021. The 2022 meetings are tentatively scheduled for April 19, 2022, June 27 and 28, which will be combined with the OCC-only mutual forum, and September 20. He noted that the September meeting will be the last meeting for this group of Advisory Committee members. He also reminded the Advisory Committee that the OCC would update and renew the charter for the mutual savings association advisory committee. Once the Advisory Committee charter is renewed, the OCC will solicit for members.

He let the Advisory Committee members know that the OCC will work on having in person meetings in the next year. He noted that the appropriate strategy might be to offer a hybrid approach and if there are any Advisory Committee members who are unavailable to attend in person, it is possible to have both an in-person and a virtual option available. He noted the gap between the meetings in September 2021 and April 2022 and let the Advisory Committee members know that OCC staff appreciate hearing from the Advisory Committee members and getting input on relevant issues affecting the mutual industry. He said that OCC staff would like input on topics for the agenda for committee activities for next year. There are a lot of initiatives underway at the OCC. He reiterated comments about the absence of de novo applications for community banks over the past decade and that there is going to be an initiative within the agency to take on that challenge. He noted that the topic of de novo mutuals has been raised by the Advisory Committee multiple times and having mutuals be part of the broader conversation is important. OCC staff want to actively engage with Advisory Committee members and the industry on options for that possibility.

Mr. Brickman discussed OCC Bulletin 2021-45, which addresses the requirements and process for voluntary liquidation of federal mutual savings associations. The topic of voluntary liquidations was raised at the last two Advisory Committee meetings because of a specific transaction. Advisory Committee members expressed concern that there was lack of transparency around how the OCC made the decisions, which federal mutual savings associations are eligible to go through a voluntary liquidation and the standards of review for those transactions. He noted that this is a first step in achieving greater transparency, and OCC staff appreciate that the Advisory Committee members raised the concern and appreciate that the function of the committee is to do that. He noted that the review of the licensing handbook is a bigger project in terms of timing, attention to detail and a review and finalization process.

The bulletin provides some initial concepts on which to get feedback. He highlighted a few of the bulletin's points. The bulletin clearly states that voluntary liquidations should be rare transactions and they are subject to close scrutiny by the OCC. These transactions get scrutiny to ensure there is no indication of conflicts of interest or insider abuse from the members of the board or members of senior management as transactions are constructed and OCC seeks to protect member rights in those transactions

Mr. Brickman said that these voluntary liquidations are a business decision by the board of directors. The board of directors has to exhibit that it has conducted appropriate due diligence in assessing its options before it proposes the voluntary liquidation to the OCC. The OCC reviews due diligence and any other options the board considered in developing the proposal to voluntarily liquidate. The voluntary liquidation cannot proceed without OCC non objections and the approval by a vote of the members of the mutual savings association.

An Advisory Committee thanked the OCC staff for recognizing the request and is working towards greater transparency. The Advisory Committee member asked for confirmation that the bulletin strictly addresses voluntary liquidations.

Mr. Brickman responded that there are other transactions that involve federal mutual savings associations, including conversions to stock and other combinations. They are all different from voluntary liquidations and the intent with the bulletin and other documents is to ensure the precedent is correct when describing these transactions.

He noted that the only transaction that is out of the hands of the board of directors is the supervisory conversion which is when the OCC would intervene because the bank is failing and the OCC would force the conversion and the merger of the bank into another financial institution to prevent the failure itself.

In response to a question about whether merger and acquisitions also require a plan or agreement that is approved by the OCC, Mr. Brickman noted that every transaction that involves a licensing application includes a plan for the action for which approval is being requested. He gave the example that in a standard conversion, a plan of conversion is submitted to and reviewed by the OCC.

Mr. Brickman noted that there are references in the Terminations handbook to these types of transactions and the references there are not very detailed. They acknowledge there is a regulation associated with these transactions, but they do not give the additional context around what some of those legal standards are and how procedurally the OCC would address those issues as the agency considers the transactions. The one thing that has been a challenge is that each of these transactions is novel. The agency has to assess the facts and circumstances of the mutual, its market area and its competitors and it is hard to say that there is a perfect way to make sure the transactions are approvable. The OCC encourages early and often communication with the Licensing department.

An Advisory Committee member noted that a concern as a mutual institution is that non-mutual competitors can come in and see a huge carrot at the end of the stick. Activists, depositors, credit

unions, all of these other entities are looking at transactions with mutuals as a windfall. The focus has always been on the protection of members and communities served and when unique situations occur in applications it gets a little bit unnerving as the industry tries to protect institutions and their members more importantly. The Advisory Committee member said that the voluntary liquidation document is helpful but agreed that further clarifications on other types of applications that may come before the OCC are needed. He noted that transactions need to be disclosed as soon as possible because sometimes the industry seems to get the tail end of these transactions and feels powerless.

Mr. Brickman replied that the OCC pays close attention to ensuring that there is no windfall to either the existing board and senior management or the acquiring institution that is at the expense of the members. That has been one of the fundamental pillars of how the agency reviews liquidations, conversions and supervisory conversions. It is important that the Acting Comptroller signed off on this bulletin, which clearly acknowledges these transactions are rare, and these transactions do require diligence to determine that member rights are upheld. Again, the agency wants the mutual industry to continue to thrive and grow and it is a part of a bigger dialogue the OCC is having about the value of community banks in general within the banking industry.

An Advisory Committee member asked the criterion for issuing a bulletin versus publishing a document in the Federal Register. Mr. Brickman responded that going through the notice of proposed rulemaking process is typically associated with issuing a regulation as opposed to issuing guidance. If the agency were to go back and look at the regulations addressing any of these transactions, any proposed amendments would be published for public comment. He noted that this forum provides an opportunity for feedback on guidance and for this group to ask questions about guidance. An Advisory Committee member noted that as the OCC revises the licensing handbooks, to remember the activist depositor situations that can arise during a mutual combination transaction.

Mr. Brickman reminded the Advisory Committee members that the Acting Comptroller would join the meeting in the afternoon. He noted that the Acting Comptroller wants to hear the Advisory Committee members concerns and is willing to act when it is within the agency's capacity to make a change, both in the short term and in the longer term.

Mr. Brickman mentioned a final topic. He encouraged the Advisory Committee members to raise questions and concerns about the treatment of covered savings associations by the Federal Reserve during the Roundtable discussion. He said that the OCC appreciates the feedback and questions. Since April 1, when the advisory letters were issued by the Federal Reserve, there have been staff level conversations to discuss concerns with OCC Chief Counsel McDonough and other subject matter experts with representatives from the industry, including several members of this Advisory Committee. OCC staff continue to advise Advisory Committee members and other interested parties to contact the Federal Reserve directly and to send the questions and concerns to the Federal Reserve in writing. He said that the best way to resolve the lack of transparency is to ask the Federal Reserve for guidance.

He reiterated that the OCC encourages a direct dialogue with the Federal Reserve, and also to keep the OCC informed. OCC senior staff have evidenced their willingness to have conversations and to understand the perspectives as Advisory Committee members assess individual outcomes. From the OCC's perspective, the agency supports the ability of federal savings associations to make an election to become a covered savings association. He reminded the Advisory Committee members that the OCC view the election as a reduction in regulatory burden, and that is how staff approached the rulemaking. All of the OCC's guidance and interpretations of the topic are available on the agency's website as well as through the materials shared with the members of the Mutual Savings Association Advisory Committee. He adjourned the meeting for a one-hour break.

Member Roundtable

Mr. Brickman welcomed the Advisory Committee members back from the break and welcomed Acting Comptroller Michael Hsu to the meeting for the Member Roundtable. He said that this is one of the most important parts of the committee meetings. He urged the Advisory Committee members to ask the Acting Comptroller questions and to voice concerns. Acting Comptroller Hsu told the Advisory Committee members that he wanted to use the time to hear what the Advisory Committee members are thinking about. He was interested in the reaction to the OCC Bulletin and the other issues or concerns about which the agency should be mindful.

An Advisory Committee member said that his federal savings association had made an election to operate as a covered savings association and he said that he appreciated the support the OCC has have provided. He said that he remains concerned about whether covered savings associations have to become members of the Federal Reserve and what that means for regulatory oversight. He also expressed concern about the treatment of holding companies, and whether the QTL is applicable. He said that he and others have spoken with the Federal Reserve staff several times and another conference call is scheduled. He said that they feel like they are caught between two regulatory agencies. The Advisory Committee member appreciates the OCC's support.

Acting Comptroller Hsu thanked the Advisory Committee member said that he has gotten more background on this topic and that he would bring the issues up when he talks to the members of the Board of Governors of the Federal Reserve.

An Advisory Committee member thanked the Acting Comptroller for his attention to the issue. He also asked that the Acting Comptroller communicate to the Federal Reserve the type of federal savings associations that have made an election to operate as covered savings associations. The Advisory Committee member noted that his institution would not have been able to participate to the level of PPP that it did in the community and saved the number of jobs it did if it had not made an election to operate as a covered savings association. He said that covered savings associations are not federal savings associations that are trying to have a super charter. He also mentioned that his bank had just completed an exam. He said that the professionalism and the way that the agency was able to conduct the exam remotely was excellent. There were challenges but everybody understood exactly what those challenges were and there could not have been a better experience in a challenging environment. The Advisory

Committee member noted that he hopes whatever can be done to relieve the travel burden on the examiners so quality examiners that would still want to do the job

Acting Comptroller Hsu thanked the Advisory Committee member and said the information was valuable to hear directly. He said that he had heard this kind of anecdote from other sources. The OCC is trying to build off of experiences and lessons from the pandemic and as the agency moves back to normal operations, look at which practices should be retained, built upon, and incorporated into the normal processes in a way that is more efficient for everybody. He said that there is thought being given to real gains in burden reduction for banks while maintaining safety and soundness.

Mr. Brickman noted that the election to operate as a covered savings association is not confidential supervisory information. The OCC treats it as if it is public information, but the list is not published on the agency's website. OCC staff provides it to the Federal Reserve staff. They know that the profile of institutions that have made the election is largely community banks and not grandfathered unitary savings and loan holding companies. They know that many do not have holding companies and those that do are shell holding companies.

An Advisory Committee member thanked the Acting Comptroller for proposing the repeal of the 2020 revisions to the CRA rule and working with the other agencies on any revised rule. The Advisory Committee member asked whether the 2020 interim rule that permitted certain federal savings associations to hold annual and special meetings virtually would be continued in 2022.

Mr. Brickman said that in response to the pandemic, the OCC had issued an interim final rule that permitted mutuals to hold their member meetings virtually rather than in person, if their bylaws permitted virtual meetings. The OCC permitted federal savings association to amend their bylaws to permit virtual meetings with an expedited filing. The interim final rule was adopted as a final rule in late 2020.

The Acting Comptroller noted that in addition to corporate governance concerns, employees in all sectors are considering whether they need to go back into the office at all. He said that employers will have to wait to see how the situation plays out over time and be open-minded and reasonable.

An Advisory Committee member reported that they had recently finished a safety and soundness exam and the examiner in charge deserves credit for doing a wonderful job. He understood what the mutual model is, how it works and how the young team of examiners should look at the bank. He communicated the important metrics for a mutual institution, as they are different than for publicly traded banks. The Advisory Committee member asked about loans in forbearance held by banks, especially community-based mutual banks. He asked about how the loans were going to be examined in the future and noted that in some jurisdictions, the moratorium on evictions and foreclosures remains in place. The Advisory Committee member asked whether there would be conversations with the field offices about how those loans in forbearance are going to be viewed as businesses, including banks, transition into a recovery mode. At his bank, forbearance was successful at helping many residents and people in the community survive financially as they were dealing with the pandemic itself.

The Acting Comptroller responded that he agreed that such conversations are critical. It is important that the lines of communication are maintained between the bank and the examination teams so that there is full understanding of what is going on. He noted that at a high level there are two risks that have to be balanced. On the one hand, when the moratoriums end, banks and the OCC want to make sure that those consumers that are still in these programs have the full range of options discussed with them to ensure they can avoid foreclosures where it is possible. That is a really high priority not just across the agencies but the Administration as well. It is the right thing to do. At the same time, the agencies also want to make sure that there is appropriate loss recognition where there are losses associated with the loans. The Acting Comptroller said that he thinks the way to achieve the balance is to get into the details and have a conversation. At the OCC the examiners are expert on credit. This is a bread-and-butter strength of OCC examiners and the more information they have there, the more the banks and the OCC can have an informed dialogue on these issues.

Mr. Brickman agreed. He noted that the earlier mortgage discussion shows the OCC's subject matter expertise in this area. The dialogue that examiners and subject experts would have with banks as examiners and bank staff are seeing nuanced evolutions of how some of these loans and programs are moving either back to payment or potentially deteriorating. OCC examiners want to have those conversations early so they understand the trends and the thorny issues and can provide the best guidance possible. He noted that there could be some significant economic impacts, if things go in the wrong direction and OCC staff want to be conscientious if those red flags start to materialize. He suggested that the Advisory Committee member take advantage of the relationship with Joe Smith and contact him with questions. He also noted that the local field office examiners have a tremendous amount of credit expertise and they know which people they can reach out to in accounting and credit policy at the OCC to get quick answers to some of the thorny questions.

An Advisory Committee member asked about the viability and the longevity of the mutual charter. He pointed out information from the earlier presentation that 10 years ago there were 219 federal mutual savings associations. He referred to the loss rate from consolidation, closures and charter conversions and noted that if those transactions occur at the same rate in the future in ten years not many mutuals would exist. He asked the Acting Comptroller for his thoughts about whether there is a time and place where the mutual charter does not have a place in the future. He said that as he considers long-term strategies for 10, 15 and 20 years out, he thinks about whether mutual banks will continue to be viable in small, rural communities where a stock bank will not see an incentive to move into the area because the returns will not be adequate for investors but having a mutual community bank places a small community on the map and makes the community viable for a lot of people.

The Acting Comptroller replied that this is a critical issue. The entire financial industry is undergoing a lot of change. There are interesting charts that show where the pandemic has taken about five years of trends and combined them into a year. Transitions that normally would have taken another five years were accelerated, for example, adoption of digital, mobile and other trends. To have that kind of activity in such a short period of time is creating quite a bit of disruption for bankers everywhere. The entire community banking world and even big banks

have said that there is disruption from all directions from the technology firms. Everyone is feeling pressure and trying to extrapolate into the future and asking where do we sit for the future. Ten to 20 years is a long time, it is hard to say where are things going to be six to 12 months from now. The questions really come down to thinking about what is the comparative advantage of the mutual. The Acting Comptroller said that for mutuals the membership structure is different from stock banks and as much as technology and transactions are discussed, consumers value relationships. There will be demand for that. Many of the tech companies like to do things at super scale, which means that as things are more localized they are not either interested or they are not good at them. That creates a constant reassessment of the risks, the opportunities, the special things that banks bring to the table. That special thing does not have to be a product. It can be a process, an approach, or governance. All of these things matter, especially if you are playing the long game and there is value to that because we are going to look at some of this in one- or two-years' time and a fair amount of it is going to be a flash in the pan.

An Advisory Committee member replied that from a competitive standpoint, if mutuals continue to be in the same box and do not leverage their advantages ultimately the charter is going to be extraordinarily challenged. He said that he wonders long-term if there are only a handful of charters, how much time and effort continues to be placed on supporting the charter, and that is why everybody is so excited about the de novo opportunity and trying to find relevance in the charter.

The Acting Comptroller replied that the only thing he would add is the time horizon; it is useful to think in terms of different time horizons. He said that he thinks right now we are in a particular environment with the kind of high growth, high innovation and high change environment. These trends feel scary. It cannot last forever. At some point, the cycle will turn and then being the tortoise versus being the hare is where the advantages are. Banking is good in the middle. It is not too fast it is not too cold. You play that middle and over a long period of time that serves the banking industry well because there are a lot of shiny objects right now that a lot of folks are chasing. The objects are not going to be shiny forever. And when that change happens, the pendulum swings back and people want something familiar that they trust and is stable and is not crypto. On longer timeframes, these trends look a little bit different and it really comes back to, the business model, what are you good at, what do you feel comfortable doing, and staying the course is important.

An Advisory Committee member asked whether since the last meeting anything has come before the agency that the Acting Comptroller would consider innovative in the industry that is something that he did not expect.

The Acting Comptroller replied that not all innovation is equal. He said that we have a tendency to paint innovation with a broad brush, either for good or for ill. There are people who say all innovation is good, and if you are standing in the way of it, that is bad or others who say all innovation is bad, and if you are not stopping it, then you are bad, but he explained that he takes a more nuanced view. There is good innovation and there is not good innovation. Some of the good recent innovation is in the area of overdrafts. The overdraft product has been around for a long time and it has been largely unchanged. There has been more recent attention on it, public

attention from the Hill but it has gotten a higher profile especially over the past six months to a year. Some of the big reforms to those programs have been driven in part by a couple of things. The first is because some of the Fintechs have been offering products that are essentially competing with the traditional overdraft product. The kind of reforms of programs where there is more flexibility being built in for the consumer. Everyone recognizes the consumer that has accidentally over drafted and paid \$35 for coffee.

That is not a good thing and so how can that be avoided. He said that features for notifications, for reordering payments, for providing grace periods can be developed. There are a number of things that can be done that a number of banks are onboarding and being built in. The customers are saying, this is helping me because I can manage a bunch of payments that are really hard to manage day to day and this is giving me more control. This is giving me more flexibility to meet those needs. Therefore, I trust my bank more. My bank is listening to me. This is helpful. The Acting Comptroller said that is an example of good innovation.

The second example where there has been a lot of activity is about buy now, pay later. It looks lot like installment loans with different kind of bells and whistles. There are some versions that provide that if it is structured in a particular way that may be enabling more purchase activity by consumers, which is great. Structured in a different way, it can lead to a lot of penalties and potentially high-cost debt traps, which is not so great. It is not the product per se, but it is how it is structured, marketed, and used. That is why the Acting Comptroller said that he shies away from trying to paint innovation with one brush. It is important to consider what it is trying to be accomplish.

An Advisory Committee member asked whether the Acting Comptroller thought the agencies might work together on a policy on crypto. The Acting Comptroller replied that there are two formal efforts that are underway and then there is a number of informal ones. The highest profile one is the President's Working Group, which is led by Treasury, and includes the Federal Reserve, the SEC, the CFPB, and this particular effort includes the OCC and the FDIC. A paper on stable coins is coming out shortly where the PWG identifies the risks with stable coins and makes some policy recommendations on how to address them. Stable coins are very important because they bridge the traditional economy and the crypto world. He explained that it is necessary to navigate between dollars, Fiat currency and crypto tokens, and stable coins are that bridge. Stable coins perform an important function within crypto and it is largely unregulated.

He explained that stable coins are like bank notes in the pre-civil war world because each stable coin is like a dollar. It is a dollar, represents itself as a dollar, but they are all issued by different entities and in some cases there is no issuer, they are all supposed to be representing the same thing, but they are different, which is like bank notes, pre-civil war where there would be a Bank of Maryland dollar and a Bank of New York dollar. It was a very unstable system. The OCC was created by the National Currency Act and National Bank Act to create a single currency. There are a lot of policy implications and that is one area that has gotten a lot of focus. Among the federal banking agencies, there is a digital assets policy sprint team that has been working hard over the summer try to get the three agencies to agree on definitions, use cases in the banking context, risks in the banking context and where the policy gaps are.

That is going on at the federal banking agency level, and that sprint is starting to come to a close and hopefully there can be some policy movement in the near term. Those are the major formal efforts. He said that he has also talked to the SEC and the CFTC about similar interests, for example custody activities related to crypto. No one agency has jurisdiction over the product because it is such a strange product. There are some novel and interesting governance implications for crypto, which not many people are talking about but will be discussed more and more in the future because the idea that it is a trustless, immutable thing is not actually true. There are people and conflicts and those conflicts are decided by people and there is very little awareness of who are these people or who are the core Bitcoin developers or who are the Ethereum founders. He said that there are questions about the rules by which they operate and make decisions.

An Advisory Committee member asked to return to the earlier discussion about community banks and the importance for OCC to have a portfolio of banks that focusses on housing and community banking. He provided the example of his community where previously there were three community banks. His bank is the only one remaining. The other two went through a series of mergers and now they are part of major banks. Both of them closed their lobbies during the pandemic. The Advisory Committee member's bank is the only bank in town that still has a lobby open and that is because it is a community bank. He pointed out that consumers do not appreciate the value of community banks until they are gone. He said that it is to the detriment of the OCC as well. He said that he hopes the OCC will push to keep community banks in the portfolio and to help them thrive.

The Acting Comptroller agreed with the Advisory Committee member that it is a challenge in that consumers will not realize the value until community banks are gone, which is too late and agreed that he wants to avoid that situation. An Advisory Committee member reiterated the comment about community banks in a community dominated by large banks that have closed downtown locations. He noted that the credit unions in the community did not do anything with PPP for their commercial customers. There are two or three very large credit unions that continue to be spreading throughout the community. He noted that the mutual concept has a lot of benefit from a community standpoint. He said that the bank just finished an exam last month and said that he noticed that during the pandemic the coordination of OCC examiners that had specialization in some of the areas of the bank, such as trust or CRA, that the caliber was the best the bank has seen.

An Advisory Committee member echoed much of what has been said at the meeting. The bank had recently gone through a positive exam. The examiners were very professional. The exam was done off-site but it was one of the better exams that the bank has had, and a lot of credit goes to everybody involved in making that happen. The Advisory Committee member noted a possible contributory factor was that a few years ago the bank hosted a training team with some of newer examiners and found it to be a very good experience to give those examiners an opportunity to be in a mutual, to see things firsthand. He said that it is a great opportunity for a mutual, to be one of the first places that examiners go to see the differences. The Advisory Committee member asked for the Acting Comptroller's perspective, about where the OCC is right now on CRA and what the end result will be with the collaboration among the agencies.

The Acting Comptroller thanked the Advisory Committee member for the question about CRA but turned to the comment about training teams. He appreciated the comment and said that the OCC is looking at how examiners are trained and how they learn. After a year of remote exams, some on-site work has started again, but examiner training is something that is being looked at. He turned to CRA and said that the OCC is doing two things simultaneously. One is that the agency proposed rescinding the 2020 final rule and going back to the 1995 rule. The purpose of that is to get the OCC back in line with the Federal Reserve and the FDIC. While the agency is doing that, staff is currently working with the other agencies on what would be a notice of proposed rulemaking that will be a joint NPR with the agencies. If the three agencies were to move together to strengthen and modernize the CRA, the staff is thinking about what that would look like. He said that the OCC wants to be able to move with the Federal Reserve and the FDIC quickly but in order to do that, the proposal to rescind the current rule has to be finalized. There are some elements of the 2020 rule which have been implemented.

The OCC asked a series of questions about what should be retained from the 2020 rule to minimize disruption. The goal is for all three agencies to have the same rule. If the three agencies can strengthen and modernize the rule in the same way, it helps everybody. By strengthen the agencies mean that the level of CRA activity should go up overall in aggregate. The larger banks should do more than midsize, community and smaller banks, but the overall amount of activity needs to go up because the communities need it. Second, it has to be more targeted. Each community has different needs depending on where it is -- there is no one size fits all solution.

In order to know what is needed, there needs to be a lot more engagement with community groups especially for the larger banks. He said that for community banks, they know the communities well, they are the customers, they are the members. He noted that community banks are intertwined with the community, and that is not necessarily the case, with bigger banks. There needs to be some kind of interface to understand, what are the actual needs in a particular community. And the third is that the agencies want to be a lot clearer about what qualifies. There is a lot of guessing and time and effort that gets spent on trying to figure out if activities qualify or not. The agencies want to clarify what qualifies because by providing certainty, banks can move faster. Communities can get the needs met faster. That is the purpose.

An Advisory Committee thanked the Acting Comptroller and said that mutual bankers are the poster children for what CRA was intended to be in 1977. Community institutions take in deposits and keep those deposits in the community and lend them to people to buy and build, homes and businesses. Simpler is better. He urged the OCC to not overcomplicate the rule to accommodate institutions that may not have intentions like mutual institutions.

Mr. Brickman concluded the Roundtable portion of the meeting and thanked the Acting Comptroller for his participation. He noted that this dialogue is important and the Acting Comptroller's participation in both this advisory committee and the minority depository institution advisory committee, are noteworthy.

Public Comments and Adjournment

Mr. Brickman asked the public attendees if they had any statements or comments they wished to make. He asked them to use the question and answer box at the bottom of the screen. He asked that they type the comments in and let him know if they intend to submit a public comment, so he will know it is coming and he will read those public comments into the record. He added that at the beginning of the meeting, Ms. Menefee talked about the importance of community banking and in reflection on some of the comments that came in during the Roundtable with the Acting Comptroller, Mr. Brickman noted that the question of the future of community banking is a complicated one but one that the Midsize and Community Bank Supervision line of business at the OCC, is taking very seriously.

It is goal within the OCC to make sure that there is a diversified banking industry which includes a healthy population of community banks. OCC staff has studied the attrition rates of community banks over time to get a better sense of where the agency is experiencing the most losses within the industry. It is obvious that the lack of de novo activity drives a lot of that attrition because new charters are not filling gaps as community banks are merging out of existence, failing, or liquidating. There will be a focused effort looking at the agency's licensing process around de novo activity, figuring out if there are any impediments that have been introduced, any bureaucracies that exist, that may be causing a cooling effect on de novo activities. One of the lessons learned in the past few years as through the concept of Project REACH is that there are pockets of the country, where there are unbanked or under-banked individuals and that is symptomatic of the reduction in the number and footprint of community banks. He noted that an Advisory Committee member had said at its heart, a community bank is there to take local deposits and reinvest those deposits in the community. By looking at programs like Project REACH, the OCC's licensing process, and having an active conversation about de novo opportunities both for stock and mutual institutions, the agency intends to work towards creating more of a balance in terms of the number of exits versus the number of entrants.

Mr. Brickman said that he looks forward to the ongoing dialogue. He said that in the comment field that someone has indicated they will provide comments. The comment is from the American Bankers Association from Joseph Pigg on behalf of the ABA, "we appreciate the opportunity to observe the MSAAC meetings. We want to thank the OCC and the Acting Comptroller for engagement on issues of concern to the industry and mutual banks in particular. We especially appreciate the Acting Comptroller's comments regarding the treatment of CSAs by the Federal Reserve and his willingness to engage representatives of the Federal Reserve further on those issues." Mr. Brickman said that is the only public comment that has been received. He reiterated that if anyone else is planning to submit a comment, just make a quick note so he would a comment is coming.

He did not hear any additional comments. He asked that if a public observer was going to submit a public comment and had technical difficulties, the member of the public could email those to the OCC using the same email address from the Federal Register notice. Mr. Brickman thanked the Advisory Committee members for their time and commitment over the past year. He said that 2021 has been a good year for this committee. There have been some actionable discussions that will result in positive changes in how the OCC regulates mutual institutions, how transparent the

agency is about specific types of transactions and hopefully with the passage of time, the agency will get more clarity on the treatment of covered savings association by the Federal Reserve to take any of the guesswork out of the legal opinions that have caused some frustration. Thank you all for your time.

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

Certification

/s/

Michael R. Brickman
Designated Federal Officer