

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
November 18, 2014

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:05 a.m. on November 18, 2014, 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 8:05 a.m. to 1:35 p.m.

Advisory Committee Members Present

Martin Connors, C. Alan Horner, Thomas Kemly, Martin Neat, Michael Nolan, Margaret Smith, Steven Swiontek, Paul Thompson

OCC Staff Attending

Comptroller of the Currency Thomas J. Curry, Karolina Arias, Charlotte Bahin, Toney Bland, Arnie Cohen, Kevin Corcoran, Donna Deale, Ralph DeLeon, Deborah Katz, Philip Gerbick, Marc Goldstrom, Gregory Golembe, Alison MacDonald, Carrie Moore, Michael Moriarty, Nida Zaman

Public Meeting

Donna Deale, the OCC's Deputy Comptroller for Thrift Supervision and the committee's Designated Federal Officer called the meeting to order and welcomed attendees at 8:05 a.m. Following introductions of the committee members and individuals in attendance for the OCC, she introduced Thomas J. Curry, Comptroller of the Currency.

Comptroller Curry welcomed the committee members and thanked them for their time and commitment.

Discussion with Congressman Keith Rothfus

Comptroller Curry introduced Representative Keith Rothfus (R-PA). The Comptroller described Congressman Rothfus as a supporter of mutual institutions who recognizes the importance of these institutions to communities. In November 2014, Congressman Rothfus was reelected to a second term from the 12th District of Pennsylvania and serves on the House Financial Services Committee.

Congressman Rothfus described his background and the economic composition of the 12th District. He spoke about the work of the House Financial Services Committee and his interest in regulatory burden relief. He emphasized his support for the mutual form of ownership. He highlighted the ability of mutual institutions to engage in long-term planning. He said that he

understands the pressures created by the implementation of the rules required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the pressures imposed by the new capital rules. Congressman Rothfus explained that his proposed legislation – The Mutual Bank Choice and Continuity Act of 2014 – was introduced to address some of these pressures. He asked the members of the committee for their input on what regulatory challenges they are facing and said that he is intrigued by the OCC proposal.

Members of the committee discussed the bill introduced by the Congressman and provided input on various provisions. A committee member began by saying that he supports the bill and that it is important to work together to have legislation enacted that provides more flexibility for mutuals. Another member provided some background on his institution and explained that the alternative presented by the OCC would provide flexibility without requiring the federal savings association to change charters. [A copy of the OCC's proposal to enhance charter flexibility is attached.] Other committee members supported the OCC proposal citing struggles with meeting the qualified thrift lender test, credit union competition, a desire to diversify in a low interest rate environment, and the costs of conversion to a bank charter.

Another committee member asked Congressman Rothfus and the Comptroller how long it would take to enact legislation similar to the OCC's proposal and to implement its provisions. The Comptroller reiterated the simplicity of the proposal and said that the rulemaking should not take long as the OCC would control the rulemaking process. He further commented that the OCC could be flexible during the rulemaking process if situations arise that need to be addressed. Another committee member asked what are the obstacles to enacting legislation based on the OCC proposal and he asked what the committee members could do to help. Congressman Rothfus told the committee that they should reach out to as many Members of Congress as possible, especially their local Member of Congress to reinforce the importance of mutuals in the community.

Congressman Rothfus asked the group about the pressures felt by community banks as a result of Basel III. He explained that his bill includes a provision for mutual capital certificates. Several members indicated that they would like to have the option of raising capital through the issuance of mutual capital certificates in the future but it is not necessary right now. A committee member pointed out that the accounting change that will be required by Financial Accounting Standards Board's Current Expected Credit Losses guidance may have more of an impact than Basel III.

The final topic discussed with Congressman Rothfus was credit union competition, in particular for mutual institutions. The Congressman concluded this portion of the meeting by urging the committee members to have their board members and other stakeholders communicate with their Members of Congress about their support for legislation.

Legislative Option for Thrift Charter Flexibility

After Congressman Rothfus left the meeting, the committee turned to a more detailed discussion about the OCC's legislative proposal for thrift charter flexibility. Among the specific topics was what impact an election under the proposal would have on subsidiary and service corporation authorities of those federal savings associations that made the election contemplated by the

proposal. Members inquired about the impact of the election on corporate governance matters. Deborah Katz, Assistant Director in the Legislative and Regulatory Activities Division of the OCC's Law Department, responded to some of the questions with an explanation of the rulemaking that the OCC's proposal would require. She said the OCC's legislative proposal contemplated that a rule would be issued with opportunity for public comment that would set forth eligibility criteria, transition periods and other issues.

Ms. Deale asked the committee members a number of questions about the proposed legislation. She asked the committee members whether they support providing the members of a mutual or shareholders of a stock savings association with the authority to vote on the election or, alternatively, whether they supported granting this authority to the board of directors of the institution. The general view of the committee members was that this election reflects a change in business focus and is not a conversion or charter change, and therefore the board of directors should be given the authority to approve an election. Members of the committee discussed whether an election should be permanent or reversible. The committee members generally supported flexibility and agreed that an election should be reversible. Additional discussion was held about possible tax consequences, branching authority and supervisory expectations.

The Comptroller thanked the committee members for their input on the proposal and said that it was important for the OCC to offer a proposal. He reiterated that the inclusion of the mutual capital certificates in any proposal is a problem for the OCC. Carrie Moore, the OCC's Director of the Congressional Liaison office, said that OCC staff has discussed the proposal with congressional staff and that the ideas have been well received. This proposal, if adopted, would help to reduce the burdens on federal savings associations wishing to expand their commercial and consumer activities without having to go through the expense and burden of a conversion to a state or national commercial bank.

Ms. Moore described the next steps in the process and suggested that if committee members support the approach outlined in the proposed legislation they should let their Members of Congress know. Ms. Deale offered some suggestions about how the proposal could be described to the Members of Congress, including an explanation of why the proposal would be especially helpful to mutual institutions.

Congressional Update

Ms. Moore described the changes that occurred on Capitol Hill after the 2014 midterm election. Senator Richard Shelby (R-AL) will chair the Senate Banking Committee. He has been the Chairman in the past. The OCC's Office of Congressional Liaison is nonpartisan and has relationships with staff and members of both parties. The Ranking Member likely will be Senator Sherrod Brown (D-OH). Chairman Shelby's agenda will be different from the agenda of former Chairman Tim Johnson (D-SD). Ms. Moore then discussed the range of issues that the Senate Banking Committee may consider in the next year and our expectation that the Chairman and Ranking Member will work together on many issues.

No changes to the leadership of the House Financial Services Committee are expected as a result of the election. There is an expectation that the House and Senate will work together more next Congress and that Democrats and Republicans will work together more as well.

With regard to cybersecurity, there are a number of constituencies and a number of congressional committees with an interest in legislation. Ms. Katz reported that the OCC has sent a proposed amendment to the USA Patriot Act to Capitol Hill that would provide a safe harbor from liability for the sharing of information about cyber crimes. Ms. Moore said that the OCC's Office of Congressional Liaison would be monitoring any legislation on cybersecurity. The OCC is interested in proposals that would affect the operations of insured depositories or the authority of the banking agencies.

Ms. Moore described the three legislative proposals that the OCC has developed to reduce regulatory burden. The committee has already discussed the charter flexibility proposal. The other two proposals are: (1) to exempt insured institutions with \$10 billion or less from the requirements of the Volcker Rule and (2) to increase the size threshold for insured institutions that are eligible to be examined on an 18-month cycle.

Toney Bland, the OCC's Senior Deputy Comptroller for Midsize and Community Bank Supervision, described the decennial Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review process that was begun earlier in 2014. He told the committee members that the OCC is committed to the current review and wants to hear suggestions from the industry. Greg Golembe, the OCC's Director of Banking Relations described the outreach meetings that the agencies have held and are organizing for the future as a means of obtaining comments from as many industry participants as possible.

As a result of questions from the committee members, the cybersecurity initiatives being proposed in Congress were discussed. A committee member asked whether any of the legislative proposals would bring the retailers to the table. Mr. Bland referred to the testimony given by the Comptroller addressing the need to have an incident response mechanism and that the bar has been raised for expectations. Ms. Moore said that the message about the impact of the attacks on insured depositories institutions is being heard but that the retailers are very vocal as well. A number of congressional committees have jurisdiction over various aspects of cybersecurity. Mr. Bland reminded the committee members that the Federal Financial Institutions Examination Council (FFIEC) issued a paper in November outlining general observations from the cybersecurity assessment conducted last summer; he also emphasized the importance of every institution to consider a membership in the Financial Services Information Sharing and Analysis Center (FS-ISAC).

A committee member asked whether there is any consideration to adopting a short form Call Report. Mr. Bland acknowledged that a comprehensive review is needed and that the FFIEC Task Force on Reports is looking at all aspects of the Call Report.

Meet and Greet with Toney M. Bland, Senior Deputy Comptroller

Mr. Bland introduced himself and described some of his background. Prior to moving to Washington to become the Senior Deputy Comptroller for Midsize and Community Bank Supervision, Mr. Bland was the Deputy Comptroller in the Northeastern District. He became an examiner 33 years ago. He has thought about how better to deliver supervision to meet the OCC's mandate, including what is needed now as part of the supervisory process. He said that the examiner skillset is evolving to include more emphasis on information technology in response to changes in the payments systems, increased reliance on third parties and use of technology. Mr. Bland touched on strategic risk and its potential impact on the community bank business model. He also discussed the generational shift and recognized the challenges that community bankers face in meeting the product and service expectations of younger customers.

Members of the committee asked Mr. Bland questions on a number of topics including: interest rate risk, capital planning specifically for mutual institutions, IT examiners and community banks and the new OCC Bulletin on Matters Requiring Attention. Mr. Bland asked the committee members about communications with examiners. Committee members replied that the turn around time on Reports of Examination has improved and that outreach meetings are important. A committee member noted that his Assistant Deputy Comptroller has attended his board meetings. Other committee members said that communication is much better and the Semi-Annual Risk Perspective document is valuable.

Finally, the committee members discussed whether the OCC should hold a forum for mutual institutions jointly with the Federal Deposit Insurance Corporation (FDIC) in July 2015. It was agreed the OCC should hold a forum in July 2015 and that the next joint forum with the FDIC should be held in July 2016. The OCC forum for mutual institutions will be held on July 23, 2015. The next meeting of the committee will be on April 28, 2015.

Member Roundtable

Each of the committee members shared thoughts on issues faced by mutual institutions and community banks in general. Common themes included the following:

- Competition from credit unions, larger financial institutions and shadow entities
- Regulatory burden and the EGRPRA review
- Pressure of compliance in the current environment
- Strategic planning
- Status of the mutual institution segment of the industry
- Value of a national charter
- Shift in customers' expectations
- How the committee members are addressing the required increase in understanding technology
- The future of the community bank model

Discussion with the Committee: Collaborative Opportunities

Ms. Deale thanked the members of the committee for their contributions over the years. In particular, she highlighted that the committee members had requested that the topic of collaborative opportunities be added to the committee agenda and that the discussion had resulted in the development of a white paper. A draft of the paper was sent to the committee members prior to the meeting to solicit feedback. Ms. Deale reiterated that comments are welcome and asked the committee members for their views of the paper and the topic generally. Members of the committee said that they appreciated the effort of developing the paper and clarifying what can be done by federal savings associations. Examples of successful collaborations were discussed, including back-up sites for core processors for disaster recovery. Ms. Deale asked the committee members if there were other examples that could be included. Comptroller Curry asked if other issues need to be addressed in the paper. Committee members remarked that reading the draft triggered some ideas that need to be explored. Some of the concerns expressed included, competitors collaborating, oversight of the relationships and geographically diverse entities collaborating. Committee members will take some of the ideas back to their institutions and think about options.

Public Statements, Wrap up and Adjournment

No public statements were submitted in advance of this meeting.

Comptroller Curry thanked the members of the committee for their participation on the committee. He said that the evidence of tangible outputs was a testament to the members' service. Several members of the committee expressed their appreciation to the OCC for acting on what the committee discussed.

Ms. Deale adjourned the meeting.

Certification

/s/ Donna M. Deale

Donna M. Deale
Designated Federal Officer