

Office of the Comptroller of the Currency  
Minutes of the Meeting of the  
Mutual Savings Association Advisory Committee  
November 18, 2013

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 1:00 p.m. on November 18, 2013, at the Crowne Plaza Hotel, 733 Madison Street, Chicago, Ill. 60661.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 1:00 p.m. to 4:30 p.m.

**Advisory Committee Members Present**

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

**OCC Staff Attending**

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Kevin Corcoran, Donna Deale, Ralph DeLeon, Michael Finn, Gregory Golembe, Arthur Goodhand, Jennifer Kelly

**1:00 p.m.—Public Meeting**

Donna Deale, the OCC's Deputy Comptroller for Thrift Supervision and the committee's Designated Federal Official, called the meeting to order and welcomed attendees. 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 commitment.

**1:30 p.m.—Discussion With Members**

- **Director Workshops and Board of Directors' Assessments**

Ms. Deale introduced Ralph DeLeon, National Bank Examiner and Industry Analyst in the Banking Relations Department. Mr. DeLeon also is the lead instructor for the OCC's "Mastering the Basics" workshops for bank directors. At the mutual forum held in June 2013, a participant asked whether the OCC provides information or examples of self-assessment tools for boards of directors. Mr. DeLeon described how self-assessments are covered in the workshop agenda and provided background on other available resources for self-assessments. Mr. DeLeon further suggested that self-assessments are a good way to help evaluate the board and its processes for maintaining an active and engaged level of participation from all board members. He then asked the committee members whether the boards at their institutions perform self-assessments on a regular basis.

Most of the committee members reported that the members of the board of directors or management at their banks perform some type of assessment. The board assessments range from structured reviews utilizing a consultant to less formal assessments as part of the review of corporate governance, audit committee and other committee structure, or the strategic planning process. The members reported that the frequency of board assessments varies from every year to every few years. Several committee members noted that they use questions agreed upon in advance or questionnaires they have observed used by other boards. Some committee members noted that their banks' assessments include a process whereby individual board members assess themselves, their participation, and whether they are meeting expectations, as well as an assessment of the full board.

Mr. DeLeon turned the discussion to the content of the workshops for bank directors generally. He asked whether there are particular challenges faced by directors of mutual institutions that can be addressed by the workshop agenda. A committee member mentioned that several members of his board recently had attended a "Mastering the Basics" workshop, and they thought the workshop was useful for new board members. They thought that there should be information about mutuals beyond that generated by questions. Another committee member shared that several members of the board are retiring and will need to be replaced. Once the new members are on board, they will attend a "Mastering the Basics" workshop.

Mr. DeLeon asked whether new board members receive education about the mutual form of ownership. Several committee members replied that when they are looking for new board members, they look for individuals who can fill a need on the board. They look for individuals who understand the fiduciary responsibilities of being on the board of a mutual institution. The committee members said they spend time with prospective board members so they are confident the prospective board members understand the corporate governance responsibilities. Mr. DeLeon mentioned that, based on the questions asked at the workshops, it is obvious there are challenges with bringing new directors onto established boards. He mentioned that new board members are sometimes intimidated by the more experienced directors.

The committee members indicated that they allocate more time at board meetings to strategic issues. Committee members asked about the use of advisory directors on boards. For example, a person might be appointed as an advisory director for a period to see whether he or she would be a good fit on the board. In that role, the person could attend meetings, read the minutes, and generally familiarize him or herself with the institution and board responsibilities. Advisory directors may attend meetings but may not vote. Comptroller Curry mentioned that confidentiality agreements could address privacy issues. For a person considering a board appointment, another option might be to meet with management without other board members so the person can get a sense of the institution and what is important for board members to know and understand.

Other committee members inquired about how much information to provide to board members and the OCC's view on the degree to which board members are involved in running the bank. Comptroller Curry replied that board members and management need to establish and follow good corporate governance practices and procedures. Members of boards of directors need to

know where the boundaries are, and resolution of Matters Requiring Attention (MRA) should show that management is doing what it needs to do to run the institution. Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Banks, reiterated that the board should provide oversight to management. The primary audience for the report of examination is the members of the board. Arthur Goodhand, Senior Advisor for Thrift Supervision, Western District, noted that it is the expectation of examiners not to push management responsibilities to the board, but the members of the board should be aware of the issues. A committee member mentioned that board minutes could demonstrate the awareness level of board members. Mr. DeLeon highlighted how important communication is among management, board members, and examiners.

Ms. Deale asked whether there is any information specific to mutuals that would be useful to include as part of a workshop. Comptroller Curry reminded the committee members the general rules of corporate governance and fiduciary duties apply to mutuals the same way they do to stock institutions. One committee member commented that compensation is a governance issue with which directors are wrestling. Ms. Kelly suggested that a module for mutuals is an option. She mentioned that the OCC is looking at additional ways to deliver content to groups that could supplement the workshop agenda. Issues for mutuals could include corporate governance and compensation.

This portion of the meeting concluded with a discussion of information provided to board members. Mr. DeLeon remarked how useful it is to hear questions from directors in attendance at workshops and to see that they are not all bankers.

- **Committee Member Updates on Industry Initiatives**

Many of the committee members are officers or members of mutual councils sponsored by national organizations. During this portion of the meeting, they were offered the opportunity to discuss issues and concerns raised by a broader population of mutual savings associations. Martin Connors reported that the American Bankers Association (ABA) is developing a corporate governance guide for mutuals. He also mentioned a guide to examinations that is under development. Mr. Connors said that mutual members of the ABA are interested in charter flexibility, the mutual national bank option, and the proposal that mutual capital certificates receive Tier 1 capital treatment. An important issue for the group is how to survive in this environment.

Paul Mackin commented that the Independent Community Bankers of America (ICBA) members have a number of priority issues similar to the ABA's. He remarked that the Mutual Bank Council of the ICBA spent much of its recent fall meeting discussing regulatory relief, especially with regard to the mortgage business. The members of that group are concerned about the recently adopted mortgage rules, he noted. The group also discussed charter flexibility and the differences between national banks and federal savings associations.

Martin Neat noted that America's Mutual Banks (AMB) members have met with both state and federal regulators. AMB members have also met with legislators and gotten the endorsement of several state banking organizations of the Grimm Meeks Bill, which was reintroduced in this session of Congress, he said. The bill includes provisions on mutual capital certificates, a mutual

national bank charter, and the chartering of new mutuals, he added. He remarked that small mutuals are the “good guys” in the community because of their community involvement.

- **OCC District Business Plans and Examination Priorities for Fiscal Year 2014**

Mr. Goodhand presented an overview of the annual business planning process for the OCC’s district offices with a special focus on examination priorities and areas of interest for mutuals. He described the principal inputs to the business plan process, including the strategic initiatives established by the OCC’s Executive Committee, the supervisory priorities contained in the Operating Plan developed by the OCC’s Committee on Bank Supervision, and the business plans and supervisory strategies developed by the field offices in each district. Consistent with the OCC’s commitment to risk-focused supervision, each district business plan addresses the primary areas of risk identified by the OCC’s National Risk Committee. The top risk areas are strategic, operational, credit, compliance management, and asset liability management.

Mr. Goodhand compared risk assessments and MRAs for mutuals versus all community banks. He said the risk assessments and principal types of MRAs cited at mutuals are largely consistent with community banks, but he noted minor differences. Compared with all community banks, MRAs in compliance, which includes the Bank Secrecy Act (BSA), represent a smaller percentage of total MRAs for mutuals, while a greater proportion of mutuals’ MRAs are in asset liability management.

Mr. Goodhand addressed each of the primary risk areas and related examination priorities contained in the district business plans with a focus on mutuals. Strategic and operational risks were the top risks identified. Regarding strategic risk, he addressed earnings challenges including margin compression for mutuals. He asked the committee members about their general level of lending because the data show that during the second quarter loan growth for mutuals was negative while it was modest for community banks generally. He asked the group members whether there are constraints on their institutions’ loan growth as mutuals. One committee member remarked that mutuals continue to originate 30-year fixed-rate loans that are retained in portfolio, but that some are venturing into commercial lending. Another committee member noted that mutuals are slower to chase revenue because they are more conservative and do not try to compete with the price pressure from big banks. The member noted that mutuals can be more patient because they do not need to manage to shareholder earnings expectations. The committee members agreed that loan pricing is very competitive.

One committee member mentioned that his bank is slowly moving into commercial lending. He said that he felt that his OCC examiners have been supportive of this shift. Ms. Kelly stated that committee members are encouraged to use examiners as a resource because examiners have the benefit of lessons learned. Another committee member said that in his dialogues with examiners he finds that their perception is that if his bank does something different, it increases risks, even if the change actually reduces risk. Mr. Goodhand responded that the focus should be on proper planning and risk management processes. Depending on the circumstances, not responding to changes in the environment may result in risk to the institution, he said.

Also related to strategic and operations risk, Mr. Goodhand addressed succession planning, third-party relationships, and information technology (IT) risk management, including the increased risk from cyber threats. He pointed out that smaller banks, particularly those operating in remote areas, may have challenges with succession planning and attracting and retaining qualified staff. He noted that mutuals do not have equity-based compensation tools and that some mutuals have expressed interest in finding alternatives to such compensation tools. A committee member recounted that he had recently hired a new vice president of commercial lending who had previously worked at a large regional commercial bank. The person was interested in working at a smaller community bank for the opportunity to get things done and to make a difference and was, therefore, willing to work at a mutual without equity-based compensation.

Mr. Goodhand turned to a discussion of credit-related risks. He noted that credit-related MRAs compose the largest category of MRAs for mutuals and community banks generally. Looking at the types of credit-related MRAs cited, he noted there are no significant differences between mutuals and other community banks. He added the OCC is looking closely at changes in underwriting standards and the level of underwriting and other credit exceptions.

A committee member asked how examiners would look at loans that are not qualified mortgages (QM) under the Consumer Financial Protection Bureau's (CFPB) rules and retained in portfolio. Ms. Kelly remarked that the OCC is not opposed to banks making non-qualified mortgage loans and that many community banks may see that market as an opportunity. A committee member asked about the necessity to document his institution's decision to originate only qualified mortgages. Mr. Goodhand explained that the bank's loan policy should reflect the lending the institution intends to do and risk tolerances. The loan policy can establish parameters for loans originated outside the established standards. Exceptions to the limits in the loan policy should be justified, and the number of exceptions tracked. Mr. Goodhand noted that the cost of compliance is increasing at the same time mortgage products are being commoditized and spreads reduced. Banks should base the lending strategies they adopt in response to regulatory and market changes on a comprehensive risk assessment and strategic planning process that considers relevant risks such as credit, litigation, and interest rate risk (IRR).

Other areas of supervisory focus mentioned by Mr. Goodhand in the credit area include risk management, particularly where new products are being introduced, accurate risk rating, and concentration risk management. He said stress testing is required at all banks, but for most community banks this can be a relatively non-complex process. From his discussions with banks in the Western District, the cost and burden has not been as great as many banks initially feared, he said. He mentioned that allowance for loan and lease loss methodologies present challenges at this point in the credit cycle. Examiners have been looking at this closely. The Financial Accounting Standards Board has introduced a proposal that may add complexity and some banks may need more reserves, he said.

Mr. Goodhand said that compliance management and BSA are the two areas of compliance that have received the most MRAs, and both remain areas of supervisory focus in district business plans. The review of the compliance program is risk focused and includes a bank's internal risk assessment. Other areas of compliance focus include fair lending, flood insurance, and Servicemembers Civil Relief Act compliance. He said the compliance review will consider

implementation of the CFPB's mortgage rules, but OCC recognizes that institutions require time to fully implement the rules. The OCC held an industry call to discuss compliance requirements. The transcript, recording, and FAQs from the call are posted on BankNet. Comptroller Curry mentioned that the CFPB and the banking agencies are focusing on interagency training on examination of and compliance with the recently issued mortgage rules.

A committee member questioned why a greater percentage of mutuals were cited for compliance MRAs on fair lending compared with community banks overall. Mr. Goodhand responded that the proportion of such MRAs for mutuals, while larger than for all community banks, was still relatively small at just over 10 percent of all compliance MRAs. He further noted that no analysis of the root cause of this difference had been done, but speculated that because mutuals are more involved in retail lending, there may be more opportunity for fair lending issues.

Mr. Goodhand turned to a discussion of asset liability management. He advised the committee members that the OCC expects all banks to evaluate model assumptions, such as decay rates, critically and to do some stress testing of the assumptions. He acknowledged that this has been a challenge for smaller thrifts, including mutuals, since most have only been doing IRR modeling since the integration of the Office of Thrift Supervision (OTS) into the OCC. The OCC expanded its IRR data collection beyond what is available in the Call Report to allow more robust analysis, and the data will be aggregated and shared with institutions, he said.

Mr. Goodhand touched on the districts' quality assurance process, including horizontal reviews of certain business lines, the results of which OCC takes into consideration in the business planning process. He also described staffing initiatives, including the National Bank Examiner and Federal Thrift Regulator cross training program, which has greatly increased the number of OCC examiners certified to lead thrift exams and has provided the OCC with more flexibility in scheduling staff.

A final area Mr. Goodhand addressed was external communications between the OCC and the industry. He said effective communication of OCC priorities and results of supervisory activities, including timely transmission of examination reports, is an area of focus in all the districts' business plans. Industry training at the field office, district office, and national level is also a priority, he said. He described the recent use of conference calls for delivery of training in such areas as cyber threats and IT risk, the ability-to-repay (ATR) and qualified mortgage rules, and vendor risk management and IRR. He asked what topics might be useful in the near future and whether additional training on the new mortgage rules might be helpful. Committee members mentioned BSA as a topic of particular interest and several committee members responded affirmatively on additional training on the new mortgage rules apart from ATR and QM.

## **Member Roundtable**

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

- Credit union competition
- Interest rate changes

- Regulatory risk related to CFPB mortgage rules
- Third-party compliance with mortgage rules
- Succession planning
- Compelling reasons to remain a federal savings association despite pressure to consider converting to a state charter
- Good communication with examiners and noted improvements between first and second post-transition examinations

A committee member asked how many mutual banks the OCC supervises and of that number how many have attended one of the forums. Ms. Deale replied that a representative of about half of the mutuals supervised by the OCC has attended or will attend one of the forums. There was a discussion of the number of state chartered mutuals in operation. Another committee member asked how many mutual banks are in a troubled condition. As of June 30, 2013, about 20 percent of mutual banks were rated 3, 4, or 5 compared with 33 percent of stock banks, Ms. Deale noted.

### **Future Meetings**

The timing of future meetings and possible forums in 2014 was discussed. The committee members were asked to take back some dates and let Ms. Deale know what dates would be best for meetings next year.

### **Public Statements**

New Buffalo Federal Savings Bank submitted a statement before the committee meeting (attached).

Douglas Faucette from AMB made a comment about the importance of data. He also complimented the OCC on the work of the committee.

Alex Maroulis Cronmiller from the ABA complimented the OCC on the work of the committee.

### **Closing Remarks**

Comptroller Curry thanked the committee members for their time and work. He reiterated that he personally gets value from attending these meetings and that the OCC benefits greatly. Ms. Kelly echoed Comptroller Curry's remarks.

### **Adjournment**

Ms. Deale adjourned the meeting.

Certification

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Donna M. Deale  
Designated Federal Official

## **Public Statement**

Sent: Tuesday, October 29, 2013 12:28 PM  
To: MSAAC  
Subject: Mutual Advisory

The mutual structure leaves a small mutual limited opportunities for growth through mergers or acquisitions. A benchmark asset size should be set (\$250 - \$500 Million) which provides a streamlined lower cost process to convert to stock, or acquire or be acquired by another financial institution that is not of a mutual form.

Ron Farina, Chairman  
New Buffalo Savings Bank, FSB