

Office of the Comptroller of the Currency
Mutual Savings Association Advisory Committee
Minutes of the Meeting

January 16, 2013

The Mutual Savings Association Advisory Committee (the Committee) was convened for a meeting at 8:00 a.m. on January 16, 2013, at the Office of the Comptroller of the Currency (the OCC), Constitution Center, Washington, D.C.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 8:30 a.m. to 12:00 p.m. and from 1:00 p.m. to 2:30 p.m. The Committee met privately from 8:00 a.m. to 8:30 a.m. for a discussion of administrative matters.

Advisory Committee Members present:

Martin Connors, David Ferries, C. Alan Horner, Thomas Kemly, Paul Mackin, Martin Neat, Michael Nolan, Margaret Smith, Steve Swiontek, Paul Thompson

Staff from the Office of the Comptroller of the Currency attending:

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Beverly Cole, Kevin Corcoran, Donna Deale, Ralph DeLeon, Jennifer Dickey, Donald Dwyer, Michael Finn, Timothy Forsberg, Jeffrey Geer, Gregory Golembe, Gary Jeffers, Jennifer Kelly, Kenyon Kilber, Brandon Marriott, Kristin Merritt, Carrie Moore, William Rowe, Margot Schwadron, Karen Solomon

Staff from the Board of Governors of the Federal Reserve (the Federal Reserve) attending:

C. Tate Wilson

8 a.m. – Private Administrative Session

This portion of the meeting was used to address administrative matters.

8:30 a.m. – Public Meeting

Donna Deale, OCC Deputy Comptroller for Thrift Supervision and the Committee's Designated Federal Official, called the meeting to order and briefly described the purpose of the Mutual Savings Association Advisory Committee. Following that she introduced Thomas J. Curry, Comptroller of the Currency.

Comptroller Curry welcomed the Committee members and stated his support for the mutual form of ownership and community banks in general. He stated that the Committee is a good forum for hearing from the OCC's constituents on issues of concern. Comptroller Curry took a few minutes to introduce the members of the OCC staff in attendance and recognize those with supervision backgrounds. He commented that the OCC staff has a shared concern for issues involving mutual savings associations. In introducing Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision, Comptroller Curry described her background and provided an overview of her role in supervising mutual savings associations, community banks and midsize banks. In closing Comptroller Curry expressed his hope that the Committee would enjoy the program and encouraged them to actively participate in the discussions.

Ms. Deale described how the OCC sought diverse geographic and asset size representation of the mutual form of ownership in constructing advisory committee membership. Following that introduction, the Committee members introduced themselves and provided a brief description of their institutions and their roles in the community. They also described the benefits the mutual form of ownership provides to the specific communities served and the protections and benefits the mutual form of ownership provides over other forms of ownership. After the introductions, Ms. Deale asked that the Committee think about any regulatory or policy changes that are needed or desired in order to ensure the continued health and viability of the mutual form of ownership.

9 a.m. Financial Performance and Other Trends

Timothy Forsberg, Bank Examiner, Financial Analyst in OCC's Supervisory Information Unit, provided a presentation on financial performance indicators and trends for mutual thrifts compared to stock thrifts and nationally chartered community and midsize banks (presentation attached). The information covered the composition of institutions in the OCC's Midsize and Community Bank Supervision (MCBS) portfolio by number of institutions and asset size distribution. As of the third quarter of 2012, MCBS had 1850 institutions totaling \$1,535.3 billion in assets under its supervision. Of these, 360 were stock thrifts and 199 were mutual thrifts. Stock thrift assets totaled \$547.6 billion (including those controlled under a mutual holding company structure), while assets held by mutual thrifts totaled \$51.8 billion. The largest percentage of mutual thrifts falls in the \$100 to \$250 million asset range. Mutuals under OCC supervision are found in 40 states; however, the largest concentration of mutual thrifts is found in only 10 states. Mutual thrift assets are primarily concentrated in residential real estate (61.85% of total assets). Mutual thrifts generally have lower concentrations in construction and development loans, and the return on average assets is historically lower than other institution types. However, the median return on average assets has been more stable compared to other institutions. Capital levels for mutual thrifts are generally higher than for other institutions and noncurrent loan trends are stabilizing and improving.

Committee members were interested in seeing comparative analyses of their institutions against other peer mutual institutions. Michael Finn, Senior Thrift Advisor for the OCC's Northeastern District, mentioned that a mutual peer group performance report is available through the FFIEC Web site. The OCC's Comparative Analysis Report on the OCC's BankNet also was mentioned as a way of developing a customized comparative analysis for defined peer groups.

Ms. Deale asked the Committee members to discuss their institutions' capital levels post-economic crisis and asked whether the members thought that their institutions' capital levels were where they would like them to be. Each of the members then discussed his or her institution's current capital situation. Several of the members noted that an influx of deposits has caused balance sheet growth, but capital levels have not grown commensurately. The members discussed the regulatory difference in the denominator of the Tier 1 capital calculation for thrifts; it is calculated using quarter-end assets for regulatory reporting purposes rather than average assets for the quarter as it is for national banks.

Committee members expressed an interest in peer comparisons for net interest margin and CAMELS trends. Michael Finn mentioned that the OCC had developed internal tools for examiners to compare key financial ratios of a mutual against other mutual institutions and by CAMELS ratings.

9:30 a.m. Licensing Panel

The meeting was joined by Kevin Corcoran, Assistant Director, OCC Bank Activities and Structure Division; Don Dwyer, OCC Thrift Licensing Lead Expert; and C. Tate Wilson, Senior Attorney, Board of Governors of the Federal Reserve System to discuss licensing activities involving mutual thrifts.

Mr. Corcoran opened the discussion by providing a brief overview of a standard thrift conversion from a mutual to a stock form of ownership and contrasted that process with that of a supervisory conversion. Mr. Corcoran reviewed the standards for eligibility for a supervisory conversion. He noted that prior to revision by the Office of Thrift Supervision (the OTS), the standard for a supervisory conversion was insolvency. Subsequently, the OTS revised the standard to require that the institution had reached the significantly undercapitalized category under Prompt Corrective Action (or the undercapitalized category, if a standard conversion that would make the institution adequately capitalized is not feasible). Mr. Corcoran noted that even adequately capitalized and well-capitalized mutuals found it difficult to accomplish a standard conversion in the recent financial crisis. He noted that the term "severe financial condition" is not defined but that there may be many ways to meet this condition.

Mr. Dwyer discussed merger conversions and the associated regulatory requirements. In this type of conversion, the acquirer offers stock to the mutual members. The regulations date to 1983. He noted that this type of conversion was popular for about ten years following the issuance of those regulations. The OTS and the Federal Reserve had several concerns over the compensation and benefits received by thrift management from these transactions, as did Congress. Windfall gains and discounts on stock offerings were just a few of the concerns. The OTS and the Federal Deposit Insurance Corporation (FDIC) eventually placed a moratorium on such transactions, and the OTS issued revised rules in 1994 that finally quelled this type of transaction. The OCC will consider merger conversions on a case-by-case basis and plans to revisit the \$25 million asset threshold for waivers from the general policy for small institutions where a standard conversion might not be a good option.

Ms. Deale asked the Committee members to consider if there are impediments to mutual mergers. A question about accounting for merger transactions was raised by the Committee.

Mr. Wilson provided background on the Federal Reserve's new responsibilities as a result of the Dodd-Frank Act's transfer of supervision of savings and loan holding companies from the OTS to the Federal Reserve. The Federal Reserve Board issued an Interim Final Rule in September 2011 that included, among other things, Regulations LL and MM concerning the operation and activities of savings and loan holding companies. The Federal Reserve's Regulation MM concerns mutual holding company reorganizations, conversions to stock form, and other MHC-specific issues, including dividend waivers, as specified in the Dodd-Frank Act. The Federal Reserve received numerous comments on both Regulation LL and MM and is still closely reviewing and considering all comments.

The Federal Reserve System has recently implemented a new pre-filing process that affords filers an opportunity to request feedback on proposals and consult directly with Federal Reserve staff ahead of filing an application. This new pre-filing process is optional, but filers may find it particularly helpful if the application involves unique issues or if the filer is new to the Federal Reserve System. More details about the pre-filing process are available in SR 12-12 on the Federal Reserve's website.

A Committee member asked the panel several questions, including a one about voluntary mergers, another about how the OCC will look at hostile depositor conversion efforts, and a third about the OCC's position on a capital proposal submitted in writing by Americas Mutual Banks regarding alternative capital sources for mutual thrifts. The Committee members expressed an interest in learning about the OCC's projections for mutual conversions. It was noted that the number of de novo mutual applications since 1982 is small. Mutual to stock conversions are generally driven by market conditions and are attractive as a way to raise capital.

The Committee was asked if changes are needed to preserve mutuality. The committee responded that an additional tool is needed to help mutuals add to their capital base.

10:30 a.m. – Regulatory Update Panel

Margot Schwadron, OCC Capital Policy Senior Risk Expert, and Karen Solomon, Acting Chief Counsel, provided the Committee with an update on recent regulatory rulemakings. Ms. Solomon started the discussion by stating that the OCC will soon issue a massive rulemaking project to integrate national bank and federal savings association rules. She indicated that this project will not impact the specific rules applicable to mutual thrifts. Ms. Solomon also provided an overview of the functions reporting to her in the Legislative and Regulatory Affairs unit and her unit's current projects. Many of these projects involve Dodd-Frank Act joint interagency rulemaking activities.

Ms. Schwadron discussed work being done on capital regulations and provided a brief overview of the three Basel III rulemakings published for comment in 2012. The Committee members expressed concern over an issue unique to mutuals involving actuarial gains and losses on defined benefit plans. They also noted that mutuals can not have ESOPs. Concern was also

shared over rules involving equity investments. In some states, mutuals are permitted to hold equities as investments. The Committee mentioned the proposal for mutual investment certificates submitted by Americas Mutual Banks as an alternative way for mutuals to raise capital. The panelists indicated that this proposal would be reviewed by the OCC.

The Committee expressed interest in the OCC's view of the CFPB's recently issued QM rule and commented that it seems fairly broad. OCC staff mentioned that there was consultation with the CFPB and that the QM rule will help complete the QRM rulemaking.

The Committee provided other comments on the QM rule and discussed the safe harbor provisions in the rule.

11 a.m. – Supervision Panel

Jennifer Kelly opened the discussion with an overview of OCC's outreach efforts involving thrifts and mutual thrifts. She also provided an overview of OCC's examination process for thrifts and the examiner cross-credentialing process for leading examinations at thrifts and national banks. The goal of timely issuance of Reports of Examination was discussed along with the ability of banks to challenge examination results and the role of the OCC's Ombudsman.

Michael Finn discussed the role of the senior thrift advisor in each of OCC's four districts. Each advisor provides an experienced voice on thrift issues within the OCC.

Common issues seen since the OCC/OTS integration were reviewed. The OCC has greater documentation expectations for policies and procedures. Documenting the allowance for loan and lease loss methodology is one area where this is particularly true. The OCC also has more robust capital planning expectations, particularly with respect to adequately documenting the capital planning process. Other areas with elevated findings include contingency funding plans for liquidity management; understanding interest rate risk models; adequate internal controls; privacy protections; an independent internal audit, and compliance with flood and BSA/AML laws and regulations.

Mr. Finn noted that the OCC has maintained the OTS mutual thrift examination procedures for reference and use by OCC examiners.

Now that thrifts have had at least one examination conducted after the integration of the OCC and OTS examination teams, the Committee members expressed an interest in statistics on the number of CAMELS upgrades and downgrades. As this is sensitive examination data the OCC will explore ways to provide general information confidentially to the Committee members.

The Committee members asked whether mutual institutions are compared to peer mutuals, particularly with respect to earnings. Ms. Kelly and Mr. Finn noted that the OCC looks at each institution individually to see how the earnings and capital for that institution compare to the institution's risk profile.

Another member of the Committee asked if the OCC has tried to spend more time with mutuals and other thrifts as opposed to other institutions in the OCC's portfolio. The OCC did

communicate extensively with mutuals and thrifts following the integration to provide as much information as possible and communicate OCC's expectations. The expectation is that examiners will communicate throughout the supervisory cycle. Jennifer Kelly asked the Committee members to talk with their Assistant Deputy Comptroller or District Deputy Comptroller if they feel that there is too much communication. The OCC is sensitive to disrupting institutions too much.

The members of the Committee mentioned that they would like early dialogue on interest rate risk issues. The members are interested in hearing about viable plans and best practices to better understand how to effectively manage this risk before rates rise. Mr. Finn acknowledged the Committee's desire for information and additional education on this subject and suggested that they look into the OCC's 2013 Bank Directors Workshops.

Mr. Finn summarized the OCC's risk radar focus on asset/liability management, compliance issues and operational risk. Ms. Kelly also mentioned the OCC's *Semiannual Risk Perspectives* report as a new OCC publication that provides information on emerging risks to banks and thrifts.

A Committee member inquired about the role of the Portfolio Manager. Ms. Kelly and Mr. Finn discussed this role and the continuity it provides with respect to communications throughout the supervisory cycle.

Another Committee member asked for comments on the differences between the OCC guidance and statutory thrift thresholds on commercial real estate concentrations. It was noted that there is a statutory threshold of 400% of capital for nonresidential real estate for thrifts. Jennifer Kelly and Michael Finn noted that commercial real estate concentrations are an interagency issue. The stress testing guidance does require institutions with higher concentrations to stress their portfolios.

Following up on the merger accounting question raised earlier in the meeting, Jeff Geer, OCC Deputy Chief Accountant and Gary Jeffers, OCC Legal Division, joined the meeting to describe the accounting issues that arise in a mutual-to-mutual merger. They addressed the question about whether there are accounting impediments to the merger of two mutual thrifts. Jeff Geer stated that he was not aware of any accounting impediments, although he did note that merger accounting is complicated. The Committee wanted to know if the capital of two merging mutuals could be combined. Geer discussed this issue and noted that this was the process under the pooling of interests method of accounting, however, he further noted that this is no longer the case under current accounting standards for business combinations, which require fair value accounting.

Following this, the Committee complimented the OCC on its thrift and mutual thrift outreach efforts.

Another member of the Committee member asked about the OCC's examination focus on home equity lines of credit. Mr. Finn explained that maturing/repricing interest only home equity loans are on the OCC's risk radar screen. A large bubble of resets is coming and the OCC is trying to have proactive dialogue with institutions that have significant concentrations of home equity lines about their plans for amortizing the outstanding balances.

A question was asked about troubled debt structures (TDRs) and whether there is any potential relief coming with respect to TDR accounting requirements. The Committee was informed for the present no relief from the current rules is foreseen.

12 Noon – The meeting adjourned for lunch and the Public Meeting resumed at 1 p.m.

1 p.m. – Congressional Update

Carrie Moore, Director, OCC Congressional Liaison Office, joined the meeting to provide an update on activities in the U.S. House of Representatives and Senate and an overview of the OCC's Congressional Liaison Office. She explained that her office provides education and technical assistance to the House and Senate and responds to Congressional inquiries. Ms. Moore then provided the members of the Committee information on the 113th Congress and some of the changes in leadership and membership for the House and Senate banking committees following the recent elections. Ms. Moore explained that House and Senate staff frequently invite the OCC to provide its views on potential legislation and to provide education on specific topics to House and Senate members and staff. She invited the members of the Committee to provide their views to the OCC on any legislative issues with potential impact to mutuals.

1:15 p.m. – Discussion on Future Meetings

Ms. Deale led a discussion on future Mutual Savings Association Advisory Committee meetings. Two or three meetings a year were proposed. Ms. Deale asked the Committee members to provide feedback on the timing of the meetings, and they suggested that late spring or early summer might be appropriate for the next meeting. Ms. Deale asked that the Committee members to provide her with topics and possible dates for future meetings.

Ms. Deale noted that the OCC is considering a conference for federally chartered mutual savings associations either immediately before or after a future advisory committee meeting and solicited member views. While the members were generally supportive, they cautioned that time and travel costs could be an issue for small mutual institutions. Members suggested holding such outreach meetings in regional locations.

The Committee recommended that the OCC set meeting dates as soon as possible. The OCC agreed to send out a tentative advisory committee meeting schedule and possible topics to the members and provide the requested statistics on mutuals to the members.

1:30 p.m. – Roundtable

Ms. Deale opened up the roundtable session and asked the members to mention any concerns or challenges.

Members of the Committee were encouraged by the integration process and thought it went well. They thought the OCC provided good information in a transparent fashion. Members indicated they would like more granularity from the OCC regarding the risks that the OCC is focusing on.

Members of the Committee identified the following areas of concern to explore in future meetings:

- Uniqueness of mutual model,
- Hostile depositors situations and possibility of stronger anti-takeover provisions in bylaws,
- Alternative capital instruments/mutual investment certificates, and
- Other provisions introduced in the Grimm bill (H.R. 4217).

Members of the Committee discussed regulatory burden and compliance costs, and specifically noted issues related to Bank Secrecy Act/Anti-Money Laundering systems and training, Community Reinvestment Act exams, mortgage lending and Qualifying Mortgage rule, commercial real estate thresholds, statutory asset limitations, and troubled debt restructurings.

Several members discussed economic issues affecting their particular geographic location. Members also discussed concerns about rising interest rates and the current, long running low rate environment, low net interest margins, weak lending activity and strategic risk. Succession planning and staffing challenges were also noted as a concern, as was competition from credit unions.

2:30 p.m. – Public Comments

There were three written public statements received. The members of the public who attended in person were provided an opportunity to speak at the meeting. However, no one chose to speak at the meeting.

2:35 p.m. – Adjournment

Comptroller Curry provided closing remarks and stated that he found the dialogue meaningful. Ms. Kelly thanked everyone for their participation and Ms. Deale adjourned the meeting.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Donna M. Deale

Designated Federal Official

APPENDICES

1. E-mail from Reyno A. Giallongo, Chairman and CEO of First County Bank
2. E-mail from Charles J. Boulier, III, President and CEO of Naugatuck Savings Bank
3. Letter from America's Mutual Banks

From: Giallongo, Reyno [mailto:rgiallongo@firstcountybank.com]
Sent: Friday, December 28, 2012 1:44 PM
To: MSAAC
Cc: Doug Faucette
Subject: Mutual Savings Association Advisory Committee

As CEO of a 161 year old Mutual in Stamford CT., I'd like to request discussion at your January meeting that the Grimm Bill HR. 4217 be considered. Access to capital is critical to all banks but as a Mutual, our options are limited to Retained Earnings. The opportunity afforded in the Grimm Bill presents my industry with a much needed option.

Thank you and Happy New Year.

Reyno A. Giallongo
Chairman & CEO
First County Bank
100 Prospect Street
Stamford, CT. 06901

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www.firstcountybank.com

From: Charles.Boulier@nutmegfinancial.com [mailto:Charles.Boulier@nutmegfinancial.com]
Sent: Friday, December 28, 2012 3:41 PM
To: MSAAC
Subject: Agenda item for the OCC Mutual Savings Association Advisory Committee Meeting

Please include on the agenda that the Grimm Bill HR. 4217 be considered at the meeting noted below.

Charles J Boulier III

President & CEO

Naugatuck Savings Bank

By this notice, the OCC is announcing that the OCC MSAAC will convene a meeting on Wednesday, January 16, 2013, at the OCC's headquarters at 400 7th Street SW., Washington, DC 20219. The OCC will hold a short administrative session from 8:00 a.m. to 8:30 a.m. EST. The meeting will begin and will be open to the public at 8:30 a.m. EST. Agenda items include a discussion of the status of the mutual savings association industry and current topics of interest to the industry. The purpose of the meeting is for the MSAAC to advise the OCC on the regulatory changes or other steps the OCC may be able to take to ensure the continued health and viability of mutual savings associations, and other issues of concern to the existing mutual savings associations. Members of the public may submit written statements to the MSAAC by any one of the following methods: Show citation box

- *Email to:* MSAAC@occ.treas.gov

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January 3, 2013

Ms. Donna Deale
Designated Federal Official
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Re: Mutual Savings Associations Advisory Committee

Dear Ms. Deale:

America's Mutual Banks ("AMB") welcomes the opportunity to submit this statement in connection with the Office of the Comptroller of the Currency's (the "OCC") renewal of the charter of the Mutual Savings Associations Advisory Committee (the "Committee") and in anticipation of the Committee's first meeting to be held on January 16, 2013. AMB is an unincorporated association whose membership consists entirely of banking institutions organized under the mutual form of ownership. AMB would like to briefly reinforce the importance of the mutual form of organization and highlight several of the significant issues currently facing mutual institutions.

As you are aware, mutual institutions are virtually all community based and dedicated to serving their communities and fostering the economic growth of those communities. Community based, mutual form institutions are historically a vital part of the fabric of their communities and their future viability must be protected and enhanced. Recent statistics indicate that mutual form institutions hold approximately \$209 billion in assets, represent approximately 8.9% of community banks and account for approximately 8.4% of the assets held by community banks (24% of assets held by community banks with assets under \$500 million). Moreover, mutual form institutions enjoy some of the highest capital ratios in the industry. Clearly, mutual form institutions are still an important part of the banking industry generally and especially in many smaller communities throughout the country.

AMB hopes that, with the help of the Committee, the OCC will consider the mutual form of organization in light of its unique structure. The Committee is the only organization of its kind and as such is the sole government sponsored source of input for mutual institutions to influence policies and regulations as applied to their unique form. If the OCC is to understand that a one-size-fits all approach will in all likelihood have a damaging effect on mutual institutions, it is important that it maximize its input from the Committee to focus exclusively on issues of particular concern to them. We are hopeful that this invaluable opportunity be fully utilized and not devolve into a venting of concerns facing all community banks. There are ample sources of input available to the OCC on issues affecting community banks of general concern but only one

Ms. Donna Deale

January 3, 2013

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association of banks whose concerns are driven by the mutual form of ownership. It is critical that the Committee restrict its agenda to issues unique to mutual institutions and not subsume mutual issues under a community bank agenda.

Among other things, AMB would ask that the Committee consider the importance to mutual banks of the following proposals which have recently been the subject of discussion and proposed legislation:

1. Grant the OCC authority to charter mutual national banks (through de novo chartering or conversion from other types of banks), thereby preserving the institution's right to choose the form of charter that best suits the needs of its community;

2. Authorize mutual institutions to issue investment certificates which will be attractive investments, be included in Tier 1 capital and be in compliance with a revised definition of Common Equity Tier 1 Capital included in the final Basel III proposals;

3. Permit the board of directors of a mutual institution to adopt bylaws to assure the institution's commitment to its community and deter outside influences from dominating the Board for purposes inconsistent with its core values; and

4. Permit mutual banks to seek equitable relief to enjoin attempts by companies to unlawfully acquire control of the bank.

AMB's members are dedicated to the preservation and enhancement of the mutual form of institution and, in turn, the economic growth of their communities and the people who live and work in those communities. AMB would welcome the opportunity to work with the Committee to enhance the OCC's understanding of the value mutual institutions bring to their communities and the unique issues which confront them. AMB stands ready to act as a resource for the Committee and the OCC.

AMB applauds the OCC's renewal of the Committee's charter and believes that the establishment of a continuing dialogue regarding the mutual form of organization will be in the best interest of all concerned.

Very truly yours,



Martin T. Neat

Chairman

America's Mutual Banks