

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
May 9, 2017

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on May 9, 2017, at the Office of the Comptroller of the Currency (OCC), 400 Seventh Street S.W., Washington D.C. 20219.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 8:30 a.m. to 2:30 p.m.

Advisory Committee Members Present

J.R. Buckner, Tom Fraser, Jeff Hyde, Shirley Hughes, Jim McQuade, Dan Moore, James Wainwright, Bill White

OCC Staff Attending

Acting Comptroller of the Currency Keith Noreika, Charlotte Bahin, Toney Bland, Michael Brickman, Arnie Cohen, Kevin Corcoran, Jennifer Dickey, Mark Drafahl, Erica Flemantes, Ashley Hicks, Kris Kiefer, Beth Knickerbocker, Ernie Knott, Carrie Moore, Blake Paulson

Public Meeting

Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision, noted that this meeting is the first meeting with the new members. There are three returning members and six new members. The OCC will solicit nominations for a tenth member. Mr. Brickman welcomed the committee members and asked several OCC staff to introduce themselves. Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, welcomed the committee and noted that the contributions of the committee members have helped bolster the view of mutuality within the OCC in the policy and as well as the examination areas. He noted that he appreciates the candor of the group and encourages the new members to continue the dialogue. Kris Kiefer, Deputy Comptroller for the Northeastern District, and Blake Paulson, Deputy Comptroller for the Central District, each introduced themselves and remarked that each of them appreciates the feedback from the members on initiatives presented at committee meetings and the information the members bring to the OCC staff.

Mr. Brickman asked each of the committee members to introduce themselves and to provide some background about their institution. After the members had described their institutions, Mr. Brickman provided some information about the committee and where information can be found about committee activities.

Federal Advisory Committee Act Background and Requirements

Jennifer Dickey, Senior Counsel (Ethics), Administrative and Internal Law, OCC Chief Counsel's Office, provided background on the Federal Advisory Committee Act and the conduct of committees organized in accordance with the provisions of the Act. She explained that the meetings are a forum for the OCC to receive input and that the meetings are public. She reminded the members that the committee meetings are not an opportunity to discuss confidential supervisory information. Ms. Dickey also described the ethical requirements applicable to the members. She reminded the members that they are representatives of a segment of the industry.

Committee Activities

Mr. Brickman described a tracking chart that is used to identify the status of requests, ideas and issues that members raise at committee meetings is compiled and how it is accessed. He provided some background and responded to questions about several of the items. He explained that two of the items on the chart, the Federal Savings Association Charter Flexibility Act and the discussion of capital instruments for mutual institutions are topics that are discussed regularly. He pointed out that the OCC still supports charter flexibility and that OCC staff will continue to review proposals for capital instruments.

He then described the initiatives that had come out the committee discussions. He described the role the committee had in the development of guidance issued in 2014 and the white paper on collaboration issued in 2015. He also described the responsible innovation initiative at the OCC and how feedback from all community banks is useful. Mr. Brickman described the roundtable portion of the meeting and said that the roundtable is an important opportunity for committee members to share ideas and raise questions. He mentioned that the discussions during the roundtable portion of the meetings are helpful to the Comptroller and OCC staff in understanding the challenges facing federal mutual savings associations.

Financial Report

Ernie Knott, Financial Analyst in the Northeastern District, gave a financial presentation on Mutual Trends and Overview. Much of the data in the presentation is derived from the Call Report data for the year end December 31, 2016. The presentation covered four different areas: Portfolio demographics for federal savings associations generally; financial and rating metrics for mutuals; other aggregate supervisory information; and OCC supervisory tools. As Mr. Knott went through his presentation, the committee members asked questions about the financial data and about the trends that results show. Members of the committee asked questions about what the data show about the business model of mutuals. They asked about trends in credit risk, valuations and underwriting for their business model. Mr. Knott, Ms. Kiefer and Mr. Paulson each responded to questions about what the OCC Districts are seeing in the areas of credit risk and underwriting.

Mr. Knott mentioned that the trends in earnings for mutuals are generally lower. Mr. Brickman reminded the committee that earnings of mutuals has been discussed at previous meetings and

that the OCC guidance issued in 2014 provides information for examiners on how to look at earning, at mutuals. He also mentioned that a change was recently made to the supervisory information system to remind examiners to look at the guidance if they have questions.

Mr. Knott turned to other risks, including strategic risks and operational risks. A committee member asked a question about the level of Matters Requiring Attention (MRAs) for cybersecurity risk as a result of the use of the Cyber Security Assessment Tool (CAT). Mr. Paulson explained that MRAs may have been given but not as a result of the findings of the CAT. He explained that the MRAs were given because of factors in the FFIEC IT handbook. Ms. Kiefer said that there has been an increase in the sophistication and expertise at community banks in this area and that many of the flaws can be fixed. Mr. Paulson said that the response by the industry has been very good but that the CAT results are a baseline that will be used in future years.

Mr. Knott talked about the supervisory tools that are available at the OCC to help federal mutual savings associations. Some of the tools can be customized for each institution. Committee members also asked whether it is possible to get data that differentiate among the possible business models of mutuals. Mr. Brickman told the committee that that is something that the OCC staff can look at more closely and discuss at upcoming meetings. He mentioned that the OCC had looked at the operations of federal savings associations generally in the context of discussion about the Federal Savings Association Charter Flexibility Act. The presentation is in the meeting materials.

Possible 2017 Mutual Forum

Mr. Brickman asked the committee members if they had any preferences about whether to have a single Forum in Washington or elsewhere in 2017 or whether to try to have a series of smaller Forums in different geographic areas. He said that OCC staff would send an email with suggested dates and locations and ask that the members of the committee provide feed back on their preferences.

Responsible Innovation/ OCC's Office of Innovation

Beth Knickerbocker, the OCC's Chief Innovation Officer described the background of the OCC's Responsible Innovation initiative. She described how the initiative started in 2015 and how the framework that was made public in October 2016 was developed. The Responsible Innovation team members spoke to many external groups to find out what banks, technology companies, consumer groups and others meant or thinking about when they talk about "innovation." She described what seems to be driving "innovation": The evolution of technology and changing customer expectations. Millennials have different expectations and customers more generally have different expectations after the financial crisis.

The OCC is looking at "innovation" that is aligned with a bank's strategy and is done in a safe and sound manner. The agency is looking at different products that banks are offering but also looking a different processes used to deliver products and to do the business of banks. The

agency is thinking about how banks serve the whole community and how innovation can result in a broader spectrum of products delivered to more customers.

The Office of Innovation has developed an agency-wide framework with five components. One of the goals is to change the culture across the agency so that examiners and other staff are more educated about developments and what “innovation” means to banks of all sizes. Another component is the development of a research library of information and articles for OCC staff to use. A website has been set up that provides a one-stop shop about Responsible Innovation and examiners are receiving enhanced training on the topic. Ms. Knickerbocker also said that the background of examiners is being considered. For example, consideration is being given to whether it makes sense to hire examiners with an engineering background in addition to those with more traditional business and accounting backgrounds. She also talked out the outreach that is being done with banks and technology companies.

The Office of Innovation is a place where companies and banks can ask questions outside of the supervisory process. It is holding office hours where banks and technology companies meet with OCC staff and ask questions and the OCC can provide input on ideas. The OCC is looking at collaborations and partnerships that may work for smaller banks and technology companies. The Office of Innovation also is providing technical assistance to companies that do not have any bank regulatory experience or expertise.

Members of the committee asked questions about the types of partnerships or how partnerships can be structured that are available to federal savings associations. Committee members also talked about what “innovation” is to them and how the concept has evolved. Committee members pointed out that mutuals are able to take the long view and to look at investments in technology or with technology companies more strategically. A committee member asked whether best practices will be published and Ms. Knickerbocker replied that a success story publication that will highlight lessons learned is being considered.

A committee member asked about whether any guidance about risk management is being contemplated. Ms. Knickerbocker noted the third party guidance and the questions and answers have been updated. She also said that research is being fed into the supervisory and the policy side so that everyone at the OCC is involved.

Congressional Update

Carrie Moore, Director of Congressional Liaison, described the activities of the Office of Congressional Liaison. She provided an introduction to the office and what it does during the year. She reported on the composition of Congress and the leadership of the U.S. House Financial Services Committee and the U.S. Senate Banking Committee. Ms. Moore indicated that there is a more of a chance of bipartisanship given the breakdown of the numbers of members.

Ms. Moore described the Choice Act as introduced by House Financial Services Committee Chairman Hensarling. The bill contains a number of provisions including the text of HR 1426 – the Federal Savings Associations Charter Flexibility Act. She also mentioned that the bill has

been introduced in the Senate as well. She mentioned that Senate Banking Committee Chairman Crapo is interested in regulatory burden reduction for community banks.

Committee members asked questions about what areas of Dodd Frank are being targeted for repeal. Committee members asked whether any action on the Federal Savings Association Charter Flexibility Act will take place in the House first and then move to the Senate and whether they should contact their members of congress and senators. Ms. Moore suggested that contacts be made. Ms. Moore said that several priorities of the Chairman of the House Financial Services Committee are the reauthorization of flood insurance and GSE Reform.

She said that the Senate Banking Committee's time will be taken up with confirmation hearings, but that Chairman Crapo and Ranking Member Brown are looking for ways to generate economic growth. She also said that Fintech is of interest.

Member Roundtable

Acting Comptroller Keith Noreika joined the meeting and gave prepared welcoming remarks. He welcomed and thanked the members of the OCC's Mutual Savings Association Advisory Committee for attending the meeting. He noted that the meeting is early in his time at the OCC. He said that he believes in the values and mission of the OCC and he is honored to be the Acting Comptroller.

He said that he is looking forward to learning more about what the OCC can do to ensure federal mutual savings associations remain a vibrant part of the banking industry. He mentioned the discussions the advisory committee has had about a legislative initiative that would provide more flexibility for mutual federal savings associations to adapt the business models to meet the changing needs of the customers without the expense of changing charters. He said that he was looking forward to learning about this and other initiatives that will help mutuals thrive in today's evolving financial services environment. He also said that he understands the need for regulatory relief where it makes sense and welcomed any comments or suggestions that committee members have to further the OCC's efforts on that front.

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

- Possible changes to the capital rules to increase servicing asset limits
- Regulatory burden
- Compliance with new mortgage rules
- Status of the mutual institution segment of the industry
- How to help mutuals
- Capital concerns for mutual institutions
- Technology and services of the future
- FSA flexibility legislation
- CRA

Public Statements, Wrap up and Adjournment

A member of the public asked that the committee spend more time talking about capital instruments of mutual. He also asked that the committee consider topics that are of interest to mutual institutions specifically and not community banks more generally.

Mr. Brickman adjourned the meeting at 2:30 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer