Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
June 24, 2024

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a virtual meeting at 1:30 p.m. on June 24, 2024.

In accordance with the provisions of the Federal Advisory Committee Act (Public Law 92-463), the meeting was open to the public from 1:30 p.m. to 4:30 p.m.

Advisory Committee Members Present

Peter Abt, David Barksdale, George Hermann, Thomas Newbern, David Reynolds, Thomas Rudzewick, Steven Sloup, Brian Smith and Samuel Wilkinson

OCC Staff Attending

Acting Comptroller Michale J. Hsu, Maria Adams, Jason Almonte, Charlotte Bahin, Julie Blake, Michael Brickman, Beverly Cole, Christopher Crawford, John Harootunian, Cristina Im, Ernie Knott, Mariya Komartsova, Danielle Mullins, Rachel Obermeier, Erica Onsager, Demetria Springs

Public Meeting
Introduction and General Remarks

Michael Brickman, Deputy Comptroller for Specialty Supervision welcomed the Mutual Savings Association Advisory Committee members and provided a summary of the agenda for the meeting. He explained that the meeting is shorter than usual because the OCC is hosting a Mutual Forum the next day. The agenda includes a Member Roundtable with Acting Comptroller Michael Hsu and MCBS Senior Deputy Comptroller Beverly Cole about issues that are important to the Advisory Committee members. After the Roundtable there will be an update on Covered Savings Associations and Advisory Committee updates. The Advisory Committee charter has been renewed for another two-year term. The renewal is evidence of the OCC's support for the mutual industry, but also the Treasury Department's support for this advisory committee and the practical and meaningful value it provides to the OCC as a regulator in being able to communicate directly with the mutual industry.

He said that we would describe the logistics of selecting the next group of committee members, as well as planning for the Mutual Forum[1] before the public comment portion of the meeting.

Member Roundtable

Mr. Brickman asked Acting Comptroller Hsu if he had any introductory remarks before the Roundtable. Mr. Hsu said that he has some questions if the Advisory Committee members do not have topics they wish to discuss. He said that he would like to hear what is on their minds.

[1] Agenda and other materials for the Mutual Forum are on the MSAAC page of OCC.gov

An Advisory Committee member commented on a recent speech of the Acting Comptroller about financial health. The June speech was at the Financial Health Network eMERGE conference and was about the inclusive economy and vital signs. The Advisory Committee member thought that the speech was very intriguing. He offered his support for the ideas and concepts in the Acting Comptroller's speech. He provided some information about what his institution does in the areas discussed in the speech, and he also highlighted what mutuals do in this area. He pointed out a few cautionary items to avoid any unintended consequences as the discussion continues.

He said that he believes that the banking industry as a whole, but in particular the mutual industry, supports an inclusive economy and that mutuals are at the forefront because of their ownership structure and community focus. He reiterated the three areas of vital signs raised by the Acting Comptroller, stability, resilience, and security.

The Advisory Committee member highlighted some things that his bank is doing. A bank-owned product, which is for the unbanked and underbanked, allows them to enter the banking system. He said that he thinks that many mutuals, have been offering the bank-owned product for a number of years. Secured credit products are another product type his bank offers. The bank has a homebuyer dream program that provides homebuyers that are getting down payment assistance special terms and rates. The bank also offers early pay access.

He said that many banks offer early pay access, alerts and reminders through outsourced online banking. Mutuals provide financial literacy training. His bank has a dedicated teammate whose job is financial literacy. He said that another Advisory Committee member's bank has worked with two majority-minority schools and furthered their financial literacy efforts to the point of putting branches in those schools. The key is how to measure action because what gets measured gets done.

The Advisory Committee member said that he would like to help continue the effort described in the speech, particularly around vital signs. He thinks that mutuals are uniquely positioned to do that. He offered three areas of caution.

The first is how to accomplish the goals without regulatory burden. When the bank moves to small-dollar loans based on transaction history versus credit score, that can potentially add risk, and examiners come in and ask bank staff for the credit scores for all of the loans. The bank has to be sure that the initiative and the effort, comes with the regulatory balance that allows the bank to do it without undue risk.

His bank recently launched loans and deposits for consumers who do not have social security numbers but have taxpayer identification numbers. This adds a level of risk, but the bank believes it is the right thing to do to be part of this inclusive economy. He said that they have to make sure that the bank is able to have these programs and comply with regulatory oversight from all of the agencies. The next item is cost effectiveness. There is a cost to the vital signs initiatives around cash flow, on-time payments and liquidity buffers.

He said that banks are getting ready to spend a lot of money on compliance with the rule issued to implement Section 1071 of Dodd Frank, which requires over 80 data fields that banks have to collect from their small business customers, many of whom do not want to provide banks with the information. The information collection will increase the cost of small business lending and is an unintended consequence of Section 1071.

The last area is that regulatory agencies, Congress and other areas of the Administration that talk about junk fees. As a banker, the Advisory Committee member considers that the bank provides a level of service to customers, and the market is going to dictate what the fee for the service is going to be, but not all fees are junk fees.

His bank does not make money on any of the programs - financial literacy, I-10 loans, homebuyer dream programs. Those are loss leaders for the bank, and they do not generate income for the bank or very much business. So on the one hand, the bank supports doing the programs, but on the other hand, it keeps getting criticized for generating fee income, and there will come a point when the bank has to think, is it financially feasible to do all of this great work when it is getting criticized from regulatory agencies as well as Congress on fees for legitimate services that it is providing.

The Advisory Committee member read the speech and the accompanying white paper, and he thinks mutuals are uniquely positioned to provide the programs, but he wants to be sure that the banks can do the work and avoid some of these unintended consequences and traps.

The Acting Comptroller said that he appreciated starting with that topic because it is important him, and to a lot of staff at the OCC. For those who did not read the speech or attend that eMERGE conference, he provided some background because the points the Advisory Committee member raised are excellent.

He said that part of the reason that he put a focus on vital signs is because it helps everyone to have the goal that what banks and regulators want customers to be leading is a healthy financial life. Banks often measure activities in terms of product or service. For example, how many bank account accounts do we open? While that is good, it does not necessarily track directly with the financial health of the consumer, and there are some other products where it works the other way. For example, overdraft is a classic example where some people would say that it is a bad product, but it is not a bad product for everybody. For some consumers, it is a lifesaver. Alternatively, some consumers, it can put them into a high-cost debt trap. The question is how do we assess whether a product of service is good or bad for somebody?

The idea of vital signs is to say maybe some metrics like heartbeat and respiration and others can be developed to quickly assess how the customer is doing relative to their individual or family's financial health, and the decisions about whether products and services are good or bad for them can be layered on. That is the thought process, and really the invitation provided by the paper was to say, start the process of trying to measure these things, because right now financial health is measured on an annual basis through surveys. That is the classic way.

Financial Health Network, the United Nations, and other organizations do snapshots. The Acting Comptroller would like to drive towards something that is basically more real-time and more granular and simpler. It does not have to cost a lot of money.

He said that it is something that bankers can already do with the information they have, and it is understood that the starting point of a new product is a simple version1.0. He said that it is not going to be fully usable as a version 5.0, but it is as starting point. He said that he appreciated the Advisory Committee member highlighting that as a mutual, they have a particular relationship with customers that may provide a unique perspective on projects like this.

The Acting Comptroller said that as different institutions roll out programs, the agency is in a research phase relative to vital signs, and experiences with a bank's customers and members would be fantastic information to have as the program is developed. He also noted that the point on unintended consequences is a good one.

The point of the early work is to find out how different institutions and groups will use the program and what is being measured and whether it is accurate. It does not have to be precise, but it does have to be an accurate reflection of how people are doing. Currently, the measurement is tied to products and services, for example how much of a particular product is a bank offering. He asked for additional thoughts on the program.

An Advisory Committee member said that he thinks the OCC has introduced a program or a concept that regulatory agencies and the banking industry can work on together. Many of the consumers that would be impacted by measuring the vital signs are consumers that either do not trust banks or do not use banks. As an alternative, they may use payday lending or no provider. Community banks and particularly mutuals are great resources and he congratulated the Acting Comptroller on developing the project.

An Advisory Committee member said that he looked forward to additional engagement on the program. He described the work that his mutual bank has done for years on financial literacy in high schools. The bank has two branches in majority minority high schools. At the beginning of the program, an employee of the bank went to each high school for a few hours each day, but the students ran the program. The bank did not receive CRA credit. It started as a financial literacy program, but the bank has hired 25 of those students, and for the majority of them, it is the first time anybody in their family has ever had a white-collar job. It is hard to quantify, but the program brought in customers who would not otherwise have come because they know someone who works there.

The Advisory Committee member said that as a mutual, they had conversations with the school and identified a need in the community. He said that it took a while to get the program organized. They worked with their state government and now a person cannot graduate from high school without participating in a financial literacy program or taking a class. The bank underwrites the financial literacy programs in the high schools in the bank's area. The big part of it was seeing that there was a need.

The Acting Comptroller thanked the Advisory Committee member for sharing the story. He said that it tracks with some other stories he has heard where community banks began a project with a charitable purpose and it turned into something more. He said that he has heard that involving underrepresented minority groups or immigrant groups can lead to an expansion of the customer base for the bank.

He said that it leads to a bigger issue that has been talked about in these meetings. The issue is who are the future customers of banks. He said that having a nexus in this project is quite powerful, because it is the right thing to do, and it can make good long-term business sense. A goal of the project is making sure everyone is working together. As an example, the Acting

Comptroller described the OCC high school internship program that had been started several years ago at the agency.

The Advisory Committee member followed up with a description of the interview and orientation process the bank developed for the students so they would understand all aspects of the job, including the handling of customer information. The bank asked the families to come in as well. He said that he was surprised that there were not a lot of traditional families, but there was somebody in that family who was a leader, whether it was an uncle, a grandmother, an aunt, a sister, somebody who attended. There was a sociological aspect that provided opportunities for the bank's staff and frontline people to learn about different groups that had settled in the community.

The Acting Comptroller said that he commended the Advisory Committee member and his institution for taking that step and being persistent and noted that it is not a one-and-done. It took a number of years of dedication, and he said that it speaks to the power of diversity within an organization, because when perspectives are added, they can accelerate the broadening of acculturation to engage with the community. As the demographics in the country change, there will more of a premium on that for institutions across the country.

Other Advisory Committee members described their financial literacy programs with churches, high schools and colleges. Some of the members worked with a HUD program.

An Advisory Committee member asked a question about the OCC's perspective on overdraft programs. The Acting Comptroller replied that the OCC issued guidance about a year ago that identified high-risk practices related to not sufficient funds or overdrafts. He said the guidance focused on representment, "authorize positive, settle negative," and listed activities that would be more positive for the consumer. That guidance reflects the OCC posture on overdraft. He said that space continues to evolve.

The Advisory Committee member said that his bank's income statement does not include a lot of fees but there are some community banks and large banks that rely on fee income.

The Acting Comptroller said that it is a good way to circle back to the vital signs concept, because there are some situations where consumers need liquidity. They need short-term liquidity, and an overdraft is potentially a suitable product for that particular need. For example, their rent is due, and their paycheck is not due until later, they need to bridge that gap. That is different than the cases where consumers properly need credit. The terms of that credit become key. Where an overnight product suddenly gets rolled over and over with lots of fees, then the more appropriate product is a small-dollar loan. In which case, the bank and the consumer have to approach the situation differently. He said that he thinks that banks and consumers agree conceptually. The hard part is how to operationalize it and how is it supervised. He said that it is something everyone needs to continue to work on.

An Advisory Committee member said that his bank has recently completed an examination and he noticed a shift in emphasis on liquidity levels and loan review. He said that those are critically important, but sometimes the message of what mutuality means and the capital levels that mutuals hold gets lost in translation. He asked whether there is a new trend in supervision and how conservative does the OCC expect community banks to be.

The Acting Comptroller noted that the reactions to the failures of the prior year and the lessons learned are focused on the larger banks, because those institutions were large. SVB was a $200 billion bank and Signature was a $200 billion bank. Some of the reforms that have been discussed are focused on the larger bank population, the banks that have gotten the most headlines. Otherwise, he thinks it is more about where the economy is in the cycle.

He said that he looked at the economics update that will be presented at the Mutual Forum and the rate outlook has changed significantly since earlier this year or late last year. In general, the market has been overly sanguine about the rate outlook and whether the Fed is going to cut rates. While it can help, what happens, if they do not. Part of the possible conservativeness around credit, interest rate risk and liquidity is prudent. It is hope for the best, prepare for the worst. If the economy is in an elevated rate environment for an extended period of time where the yield curve is flat or inverted, that will hurt. That will have consequences for a bank's credit book and for the net interest margin. The bank will be prepared, the OCC is in the business of no surprises.

He said that the OCC understands that banks have got to take risks, banks have to do their business, but the agency does not want surprises. To the extent that examiners are asking questions about the liquidity risk profile, interest rate risk management and credit and provisioning, it is because of where the economy is in the cycle. He said that he has talked about complacency before and the work of examiners is an example of guarding against complacency. The market went through a very long period of zero interest rates. There is a generation of bankers and supervisors who have not been in an elevated rate environment for a while or at all.

He said that the OCC is making sure that all of those muscles are firing and that there are no surprises. He said that he understands that mutuals are in a different position. The agency wants to make sure that it is being mindful about mutuals and how they are supervised. He asked for feedback or if there are suggested improvements.

An Advisory Committee member referred to the community programs and what happens when financial pressures emerge. It is the programs needed the most that get cut. There are good programs, but they have risks that have to be recognized.

An Advisory Committee member said that the OCC can play a role with mutuals and community banks in general. He described an outreach meeting held in the Southern Region for small banks up to $12 billion in assets to look at unique things that the examination staff were worried about or wanted bankers to be aware of. He said that 2008 is a long time ago for many bank staff and they do not understand the work that is involved in a workout. Similar outreach can help community banks and mutual banks focus in on some key issues that the OCC staff is worried about or at least is thinking about.

The Acting Comptroller reminded the Advisory Committee members of the OCC mantra - local presence, national perspective. The agency tries to get that balance, because what is relevant locally may or may not be relevant in other regions. At the same time, the OCC wants to be able to step back, zoom out, and bring that national perspective to bear locally. He said that the agency has a structure, within MCBS under Senior Deputy Comptroller Beverly Cole, where the ADCs, the portfolio managers, are trying to achieve the balance because they are getting a lot of intelligence within the bank portfolios. At the same time, there is information which is really more national in scope.

An Advisory Committee member raised a concern about the acquisition of banks by credit unions and asked who to talk to.

The Acting Comptroller suggested talking to the elected officials at both the both state and federal levels. Some states have taken actions on applications at the state level because there is a loss of tax revenue. This activity is starting gain interest in Congress. They have the most ability to do something about the transactions. The Acting Comptroller said that he hears about this from bankers, and he has regular communication with his counterpart at NCUA.

An Advisory Committee member said that so far they have not gotten much attention but they are starting to hear a little bit more clamor about what is happening with the tax bases. He thinks there is more interest in understanding what credit union models are. He said that what concerns him in this economy is their supervision.

The Acting Comptroller said that the Chairman of the NCUA has done some things to level the playing field. An example of changes is in the reporting requirement for over drafts.

An Advisory Committee member asked a question about preemption and what the OCC's stance is. He said that the federal charter is a very valuable and helpful tool, but banks pay for it. He said that as a small bank he sees state efforts to limit federal preemption and the bank cannot afford to litigate any changes. He said that if there is a state requirement that is good public policy, the bank will support it. But there are other actions that would limit the bank's ability to do its business that they would not support. He said that he wants to make sure the OCC supports the bank's preemption when a state imposes restrictive requirements.

The Acting Comptroller said that it might not surprise the group to hear that the OCC is paying very close attention to this topic. There are a number of states that are taking various actions that the OCC is monitoring and tracking quite closely. There is also action in the courts. He talked about the two recently considered Supreme Court cases. The important details of the cases are different. He asked the Advisory Committee members to let the OCC know if any of the actions impact their bank's operations. The OCC tracks what is happening issue by issue. He said that when it gets to the level of the bank having to do something differently or change a product, activity or process because of a state action, let the OCC know as soon as possible, because that helps the agency understand what is going on and how it needs to respond. Because federal bank's preemption is in the law, the OCC will carry out and faithfully execute the law. The details do matter. There are interesting efforts in several states and small institutions are not able to fight against passage or to pay to comply with some of the proposed requirements.

Ms. Cole said that the bankers will not always see what the OCC is doing, but in this area, there is a lot of work being done.

An Advisory Committee member said that is what he wanted to hear. Because there are so many state and local proposals that may impact a bank's operations and banks do not know when they are going to come to the surface. It is positive as long as OCC is aware of it and that the agency and bankers are on the same page with what is happening.

An Advisory Committee member asked a question about liquidity. He said his bank is back to pre-pandemic levels. He noted that as a group, mutuals, keep a lot of liquidity because mutuals do not chase yields. He said that banks went from liquidity, what is liquidity, to where banks are managing it. He said that he is concerned that from a regulatory perspective that the pendulum might have swung a little bit too far. He said that ideally the bank wants to be fully invested and between the Federal Reserve, the Federal Home Loan Bank and other sources, the bank has liquidity to meet short-term obligations.

He said that especially with lending opportunities, he said that there is a lot of discussion about lending programs and borrowings. There is also discussion with the FHFA's review of Federal Home Loan Bank System and that regulators are getting a little bit more cautious about what type of lending that a bank may be doing to serve the community. Another Advisory Committee member commented that there was a lot of COVID stimulus money available.

The Acting Comptroller said that if banks look back to when everyone was talking about surge deposits, leverage ratios, and how they would manage funds. Now there is a more normalized environment and he thinks that on the liquidity topic, the events of last year have been instructive in a couple of different ways. Again, most of that focus is still aimed at the largest banks but he thinks that lessons around the stickiness or lack of stickiness of uninsured deposits depends on each bank, but what was apparent was that there was an under appreciation for how quickly some of those uninsured deposits could run and the contagion effect it could have on some others.

The other issue is in terms of the bank’s funding profile in stress relative to the FHLBs or to the Fed and how that is going to hold up under different scenarios. Banks have to do the work to run the scenario.

Ms. Cole said that some cases, the OCC found through supervisory activities that there were a lot of positive assumptions built into the review which could lead to a nasty surprise in some scenarios and those have to be adjusted. This situation requires a case-by- case review and to the extent that banks are sensing some conservative thinking from the OCC, the agency is taking the appropriate lessons from recent developments and is trying to apply the lessons in different situations.

An Advisory Committee member said that one of the lessons they learned is that not every Federal Home Loan Bank reacts in the same way to the situation. Each FHLBank has different reactions and different requirements. Ms. Cole said that some of the institutions the OCC supervises have been surprised. He said that is why the banks may be having a dialogue from their on-site examiners.

An Advisory Committee member said that banks are in a better place with the Federal Reserve, especially after the Bank Term Funding Program came out and banks were able to take advantage of the program. He said that one thing that is important for examiners to remember when they examine mutual institutions is that mutuals have access to a type of funding that not very bank has. They have legacy deposits and they have been operating for a long time. There are some third or fourth generation depositors at some mutuals.

An Advisory Committee member said that mutuals do not chase hot money. He said that he met with the Federal Home Loan Bank and his bank had “minor haircuts,” as they call it. The FHLB mentioned that there were several member banks that were basically negative that owed money and the FHLB cut the members' available balance so low that they were in negotiation on how to fix that.

An Advisory Committee member said that his examination is coming up in a few months. He has attended several conferences, including some hosted by the OCC and has talked to other mutuals in his area of similar size and they told him to expect the liquidity rating to be downgraded by one. He said that is what he heard is the trend not what he expects. He said that he leaves the meetings and looks at his operations to see what is missing.

He said that he thinks the younger examiners look at the uninsured deposits and they compare them to other banks. He said that he thinks that the OCC does a good job of looking at the issues. It is hard to get out of the mindset when looking at the direction and everyone knows where it is headed and that everyone has to be careful with it. The BTFP program went a long way to opening mutuals up to using the Fed as another alternative funding source. He said that he learned that his bank can pledge their securities here and they can pledge their loans here. Even the Federal Home Loan Bank is telling him to pledge with both.

The Advisory Committee member said that on the lending side because of the scrutiny they have to be more careful in certain asset classes and in certain economic geographies. He said it is in the details of whether they have stress tested or whether the annual reviews were done.

The Acting Comptroller said these are all fair points. As examiners look at something, it may prompt certain questions. They must have seen this somewhere else and want to have a conversation. The bank may need to take a second look to see whether the value, the appraisals for the LTV are right. The bank can ask when was the last time that was reviewed. It is these kinds of things that when examiners see them, they ask questions, and it is a benefit being in national agencies. We can take those lessons and train examiners. He said that examiners are seeing both strengths and weaknesses, and having an informed the exam process. There is more richness in this information now than in the recent past.

An Advisory Committee member said that with the Federal Reserve discount window borrowings, there were institutions that were Fed members so they could use the discount window and that was their contingency plan, but they had never used it. They did not have any loans lined up. They did not know their capacity and borrowing at the Fed discount window takes time if the bank does not have of those things lined up. Some banks were surprised by that. There were one or two institutions that were not even sure which Fed they should be talking to for borrowing. It is lessons learned.

Ms. Cole the agency tries to make sure that all institutions that the OCC supervises are aware of that so if for any reason they need the Fed, and they need it with some urgency that all the initial steps have already taken place. From the credit standpoint, examiners still look at credit by credit. If the bank says that the source of repayment is the guarantor, in most cases that is already a secondary source of repayment. So that is potentially a problem. If that secondary source is the guarantor, does the bank have the financial information on the guarantor. Do you have global cash flows. Because some of those guarantors that the agency has seen in the larger institutions, they may have 20 plus projects, and they are the guarantor for all 20. When the examiner looks at that financial statement, they cannot support all 20.

She said that it is basics, back to the basics 101. There are also institutions that as rates went down or as rates went up were betting on when the Fed was going to take rates back down.

They were not making adjustments to their balance sheet, which is a management decision. It cost them. A bank's management team and board have the right to make that decision. But at what point is there a trigger to do something different.

The events of March of last year really brought home for the agency how fast deposits disappear, even in some banks that were not impacted. But their customers were more savvy than they thought. Some of those legacy deposits disappeared. Because people were not sure that everybody else was moving deposits. The agency was actually keeping track with some of banks on just what deposits they were losing and was there a reason.

Some were scheduled to go out the door anyway, but some were a big surprise to the banks. As examiners learn things, they try to share them. Maybe the way examiners share is not phrased the right way, or the discussion is not the right way. If the agency needs to work on that, it will. But the intent is that banks do not have any surprises and the OCC does not have any surprises.

An Advisory Committee member said that technology has provided customers a much easier path to move money and communicate with each other. He understands that, and his board understands that. All of us are heavily involved now with technology to be able to compete with some of the larger institutions, but also to understand where the liquidity can move rapidly.

An Advisory Committee member said especially if the economy takes a turn, banks look at interest rates and everyone thought rates would go down faster than they did, and they might stay higher for longer. That is where the funding needs to be, there need to be multiple avenues, channels, and ability for banks to accredit for those actions that are coming forward, because he is concerned more about that than following the cash flows and managing the balance sheet. That is a daily event. But if the economy does go south faster than anybody anticipated at this point, as banks expected it to a year and a half ago, 70 percent of economists thought the economy was headed into a recession.

Events happen so much faster than they used to. That is the real concern is that liquidity is 15 percent in day one to two percent in a short period of time. In a mutual because money does not run that fast, even though it is capable. It does not tend to. But it can be an accelerated process in the very near future. The FHFA report has put a spotlight on the Federal Home Loan Banks has added a little bit of tightening to them, which makes banks nervous, banks have to make sure that they have multiple avenues available.

The Acting Comptroller said that the Advisory Committee member had hit the nail on the head by saying it is good to have options. That is the core of risk management. It is good to have options. Banks do not want to get stuck in a particular path where all they can do is have a fire sale, where all the bank can do is take a loss. But to ensure that the bank has those options, it constantly needs to go through that exercise of what if, what if, what if.

He said that the point is right, a year and a half ago, there were some really doomsdayers on recession. Part of what makes him worried is that when that does not happen, when people take their foot off the gas and say, that did not happen, so let's not do anything.

The Acting Comptroller mentioned his concern about complacency and making sure that banks are vigilant and options do exist. Several Advisory Committee members asked about proposals or reports that have been issued by other agencies. They said that they are overwhelmed by new regulatory requirements and changes and gave examples of several that concern them, including any changes to the FHLB System, CRA revisions and the implementation of the rule required by section 1071 of Dodd Frank. He said that the industry needs time to absorb and implement the new requirements and rules.

An Advisory Committee member said that tailoring the rules is important. It is good to see a rule that is issued that is applied to banks with $100 billion of assets and above. Community banks can ignore it and focus on other changes. Mr. Brickman said that the agency does that on purpose. It is conscious about burden on institutions of different sizes and trying to make sure that it is getting the juice worth the squeeze in terms of that regulation. He also referred to the EGRPRA review of regulations that is ongoing now. He said that comments are being requested and there are public opportunities to provide comments. He urged the Advisory Committee members to be specific in any comments provided.

An Advisory Committee member noted that when the agencies look at tailoring in drafting regulations or requirements, in addition to looking at size differences, they should also look at charter type – mutual and stock – as they look different from each other.

An Advisory Committee member asked whether there is anything new to talk about with check fraud. He said that his sense is that fraud has increased across the board in every aspect, in mail fraud, romance scams, check fraud, and online account openings. Mr. Brickman said the good news is that technology seems to be catching up in some areas. There are products that the agency hopes will mitigate some of the different types of fraud. The important examples that are the most worrisome are wire fraud and the electronic fraud.

An Advisory Committee member said that check fraud becoming more common. His bank is working closely with the Postal Attorney General and some congressional members as well to try to mitigate the incidences. In some cases, the mailbox lockbox key is being stolen from mail carriers. Those transfer boxes contain a lot of checks. The bank is trying to educate customers about that as well. Online account openings are being used for fraud and there is a tremendous exposure to customers that are trying to cash money through bill pay.

An Advisory Committee member added that with the wire fraud and with the other frauds, the fraudulent activity moved from the bank level to the consumer level. It is more a consumer issue, but it affects banks because it costs them money to have to deal with each incident. In cases in which the consumer took money out of the bank to try to get a better rate at another entity, but they lost the money through a fraud, they come back to the bank and ask for help.

He said that the bank has staff members looking at specific accounts just to look at whether there is anything out of the ordinary. He gave the example of his small bank in a rural community with a customer who is in San Antonio and opened an account at his bank. His bank contacted the Texas bank and asked whether the check used to open the account was good, and it was fraudulent. Banks have to look carefully at transactions.

An Advisory Committee member said that he does not think it is unusual for mutuals and community banks to hold the hands of their customers, both individuals and commercial customers. They provide education and help customers resolve possible problems before they happen by paying attention to transactions out of the ordinary.

An Advisory Committee member said that his bank has seen lot of elder fraud. He said that his staff monitors accounts daily. The bank belongs to a local BSA board and all of the financial institutions in the area talk to each other about what type of fraud is going on in their bank on a daily basis.

The Acting Comptroller that the collective efforts are how the problem is going to get dealt with more effectively. It is similar to cyber where banks said there is strength in numbers, there is safety in numbers, and they began information sharing. It is essentially collective defense. He said that it is good to hear that there are already efforts that are bearing some fruit locally.

An Advisory Committee member said that as technology was developed, everyone wanted everything to be seamless. Convenience was the premium. Consumers wanted one click, read my mind, send the money. He said that is changing. There have been some interesting surveys that have shown among younger folks, they want friction. They welcome being asked multiple times whether it is really them because they are afraid about getting ripped off. He thinks that is helpful because he had the sense that there was a competitive pressure to not put those steps in. Now there is a broader recognition among the public that it is for their own safety, especially if it is a wire, because that is the entire account. It is not just that amount, it is the entire bank account.

Mr. Brickman said that to the extent that the regulators can help get that message and get banks to level that playing field for safety minimums the OCC is here to listen and work on that.

An Advisory Committee member asked whether the OCC is looking at how to protect the victims. The Acting Comptroller said that it is a tough issue. The agency has to unpack it, because for different types of fraud, there are different responsibilities, different roles that get played. One interesting data point, he was in the UK and the payments regulator passed a law that for all authorized push payments, there is a 50-50 liability for giving and receiving banks, period, by law. The bankers were unhappy about the change.

The regulator said that banks have the liability, and they have to fix it. They are working through it and that is what is interesting is that now that they have liability, some of the banks are saying we need to fix this. They are coming up with a lot of technological steps to try to put some friction into the system, it is similar to Card Act.

After Card Act, a lot of that fraud got dealt with through technological advances with groups collectively working together. He thinks there is some hope that that would happen here as well. The wrinkle, at least in the UK, is that almost all of that online fraud takes place through a social media platform. There are some real questions as to what the liability for social media platforms and telecom should be. That is part of the discussion, because part of the argument is that part of the solution lies there as well. It is not just up to banks to solve, but it is all these mechanisms by which people are getting scammed.

An Advisory Committee member said that the ABA has set up a database of the fraud staff in each institution. He does not know how it is working. An Advisory Committee member said that his bank doubled its fraud staff. His bank is primarily commercial and they do not open any substantial deposit accounts without positive pay.

Covered Savings Association Update

Mr. Brickman said that he would provide an update on covered savings association, reflecting on the trends that have formed during the past five years since the rule was finalized. He described the presentation[2] and said that it provides aggregate data for the 32 federal savings associations who have made the election to operate as covered savings associations, but it excludes at least four trust-only charters or credit card charters, which are excluded from the analysis because the balance sheets are not comparable enough to make it meaningful, and they actually would skew the results because they are very different in terms of how their balance sheets look and how they are structured. Also, there have been a handful of institutions that have made the election and then decided that they wanted to change their strategy and the election was no longer necessary, so they elected to go back in the other direction to federal savings association.

He said that the slide shows a couple of high-level takeaways in terms of what the OCC looked at with the data. In general, the federal savings associations that made the election to operate as covered savings associations tend to be larger in asset size relative to the entirety of the federal savings association population. That is not unexpected, but it is something that was clear in the data and the results.

While residential real estate has been a concentration area for federal savings associations because of their business model, it has remained a significant portion of covered savings association's balance sheet. The shift between residential versus commercial lending has been gradual. He said that he would provide specific data that shows the year-over-year trend in that direction.

He said that what the data show, as expected, is that federal savings associations, which are traditional and conservative in their business models, are changing their balance sheet incrementally and not all at once. The shift has happened gradually towards more commercial and a more diversified balance sheet structure. The one thing that has not emerged is a clear differentiation in terms of financial performance. FSAs versus CSAs are not performing better from an earnings or a capital perspective.

He said that he does not think it is surprising because typically when a bank goes through balance sheet adjustments, it takes time for them to take hold. The more profitable assets taken on in the commercial segment may not have had a material impact on the overall balance sheet at this point. He said that he would expect there to be a little bit of a divergence over time as the balance sheet continues to shift more towards potentially the higher performing assets.

He said that over time, the OCC will continue to do analysis year-over-year to see if there are any emerging patterns. At least for the time being, CSAs and FSAs look comparable in terms of earnings performance, net interest margin, capital accretion, and topics that are shown on the next couple of slides.

The third slide provides a general breakdown of federal savings associations versus covered savings associations versus national banks. The top is the asset distribution. The covered

[2] The CSA Presentation is on the MSAAC page of OCC.gov

savings association population favors the billion dollar plus category and the $300 million to $1 billion category far more than either the FSA or the national bank population.

He said that to make the election it takes a little bit of consideration. Onboarding the staff that understands the new lending opportunities is something that is easier for a larger bank to do. It is not surprising that the adopters have been the larger federal savings associations. The median asset size for CSAs is also considerably higher. The median asset size for a covered savings association is just under $1 billion at $825 million compared to the average asset size of a federal savings association, which is less at $262 million.

When compared to national bank charters-their average asset size are about $385 million. Covered savings associations tend to be the more well-established and larger of the federal savings associations. He said what he found interesting is that the CSA was created for mutuals that cannot convert to national bank charters, but the data show, in the sample size of 32 charters, 16 of them are stock federal savings associations, and the other 16 are mutuals.

Mutuals are underperforming in making the decision to elect to become a covered savings association. But, again, it is marginally different -it is very close-50-50 to 56-44.

The fourth slide shows the break down the of the different loan types of the populations of banks. National banks are on top, covered savings association in the middle, and federal savings associations on the bottom of this chart. Covered savings associations fall right in between in terms of having started to gradually get into more commercial lending compared to their FSA peers, but they have not become comparable to national banks in terms of the actual balance sheet composition at this point.

He said that it is a slow, steady evolution to becoming a little bit more diversified. There have been upticks in both the commercial real estate as well as the commercial lending. Even some of the smaller categories of construction and consumer lending have started to shift upward in that direction when looking at the covered savings association population.

Slide five is where the year-over-year difference in behavior is evident. It shows the year-over-year evolution. Every year it has been a gradual shift towards more commercial real estate, more commercial lending. Nothing that has been a dramatic shift.

Mr. Brickman reminded those who were involved in the creation of the regulation and advocating for it as well as working with the OCC on putting together the guidance on the transition from being a federal savings association to a covered savings association, one of the biggest concerns was that the agency was going to somehow create a supercharter that had all the powers of a national bank and that the wheels would come off and there would be high risk-taking activity. The date show that the risk-taking has been deliberate. It has been thoughtful. It has been gradual over time.

He said that he thinks it supports the notion that this charter type, the election to a covered savings association, has been impactful in allowing savings associations, particularly mutual savings associations, to better serve their communities by expanding the products and services that are available to offer to the communities that they operate in. Slide six shows the comparison across a series of different financial performance metrics on how federal savings associations are doing relative to CSAs and relative to national banks. There is not a discernible emergence of difference in terms of performance.

He said that because the asset size is skewed towards those larger companies, some of these comparisons are actually true of larger institutions in terms of the leverage ratio being a little bit lower in terms of the comparison of overhead expenses. Some of the differences and similarities are natural based on the size and the profile of the banks involved. He said that he expects that over time that there will start to be some divergence.

He focused on the ROA, for example, that is really a rounding error difference between the 0.38 percent ROA for federal savings associations, the 0.4 percent for covered savings associations. National banks, on average, have a much stronger ROA. He said that he would expect to see the CSA numbers start to diverge if the trend towards the higher performing commercial assets continues to increase and only time will tell.

He said that he understands that about half of the committee has made the election to operate as a covered savings association, the others remained federal savings associations, he wanted to get a sense of how, for those of you who made the election, how has it worked out. Has the guidance been helpful? Have there been points of contention or concern over how clear it is to understand the powers of a covered savings association?

He asked whether there have been any setbacks or challenges that are within the control of what the OCC has managed in the transition when banks make the election? And then secondary to that, he asked those members who have not made an election, if there is something that you have ever drawn on, to take a refresher or look at the powers and authorities of the different charter types, whether it is the national bank, the federal savings association, or this covered savings association charter to help inform business decisions about the types of activities that the bank is engaged in.

An Advisory Committee member said that his bank submitted its notice of election immediately after the effective date as it was important to them. His bank would not be able to continue to be an FSA because the commercial side of the business had grown to almost 70 percent of the loan portfolio. The process was painless. The guidance was fine. The biggest concern through the whole process was the unknown with the Federal Reserve and the holding company. For his bank the election has allowed the bank to grow and focus and because they were transitioning, they had no option. It has taken over ten years to transition.

Mr. Brickman said that he is asking about the process itself and the OCC is getting ready to update the parallel guidance on what it means to have national bank powers versus covered savings association versus the federal savings association charter. He said that the agency wanted to make sure it was able to digest anything that was problematic or concerning. The agency knows there are things that have happened naturally through new rules that have been issued, whether related to integration or whether related to just the evolution of bank regulation.

He said that if there are references within those side-by-side comparisons that have gone stale, banks should let OCC staff know. OCC wants to make sure it is capturing everything and making sure it is making it as clear as practical. Because fundamentally the guidance serves as a valuable tool in preserving the legacy of what these powers are, what they mean, what factors into the decision in making an election or in deciding which charter a bank wants to have for its primary business model as a federal charter under the OCC supervision.

An Advisory Committee member said that the process was seamless, and the guidance was good. It allows the bank to grow its portfolio on the commercial side of the house. The only issue related to trust powers because the bank inherited IRAs where the bank was trustee, not custodian in a merger. OCC staff was helpful in sorting out a solution.

Mr. Brickman said that early feedback when the rule was just published included questions about whether the OCC would deny an election. He said that the OCC has been trying to be as consistent as possible that the election is the sole discretion of the federal savings association. The only thing that would preclude an FSA from making the election is if it were not eligible, and there were specific dates and asset sizes that would have precluded it in terms of when the charter came into existence, as well as how many assets the bank had at a specific date and time, but aside from that, the election itself is fairly rudimentary.

Even if the bank were a problem bank with a 4 or 5 rating, technically, the OCC would accept the election if a bank made that choice. Again, it comes down to the strategic plan and whether the agency would approve the strategic plan associated with the election, but there are a handful of charters showing that lot of the covered savings associations actually still technically would be able to comply with QTL. They really have not changed their balance sheet in a significant enough way that it would preclude them from continuing to be a federal savings association, it is an interesting element of the population of banks that had made the election.

An Advisory Committee member said that some CSAs do not intend to become like a national bank. They wanted to have to not worry so much about the quarterly monitoring of QTL compliance and have the opportunity to move forward if the business opportunity presented itself for enhanced commercial lending in their community, that they could take it upon themselves to do that without having to worry about falling out of compliance. He asked what the asset threshold was.

Mr. Brickman said that it was $20 billion as of December 31, 2017. It was $20 billion at that date, so if one of the institutions was under $20 billion at that date but grew, they could still make an election. It was not a growth restriction. He said that he does not think there were any mutuals over that dollar threshold at the time, but there were stocks.

He said that the one thing the OCC has told state bankers, is that if they want to merge with the federal charter and keep the federal charter, that federal charter inherits the rights of what existed, so they could make the election if they want to be a federal savings association by collectively merging with an FSA and keeping the federal charter.

An Advisory Committee member said that he did not make an election at the beginning, but the bank was conceptually in the category just described. The election could benefit the bank long-term. Commercial lending over the last 20 years has had some growth and continues to, and the bank thinks it is well positioned in the community, and the bank did not want some of the ratios to be out of compliance with QTL or the lending limits 10 years down the road. The bank had two subsidiaries, and there were some nuances about how that worked in the mechanics, and the OCC helped with that. He said that within the first year of being able to do a covered savings association, the OCC was working out some things, too, at that time, but the bank was glad to be a part of it and have not really experienced any problems with that.

Mr. Brickman said that there were very unique subsidiary or other structures that came to light subsequent to the rule being issued, and he said that the agency legal team have done some good research on very specific issues and come to logical and rational conclusions for how things should be resolved, whether they could be permissible. So much of what exists under the federal savings association umbrella is unique based on the legacy of how that charter is operated and the powers that have existed, so it really has challenged the agency to dust off some of those kind of legal analysis and thought process on a lot of those issues.

He said that it has better prepared the agency's legal staff to understand the nuances of both charters, which serves the purpose of them providing just as strong a support for someone who does not make the election, who nonetheless has kind of a complex operating structure under the federal savings association charter, because that awareness goes a long way in terms of being able to give a timely and concise answer to a question about a power or authority that has been used in a subsidiary or some other entity that may not be as commonplace in the industry.

An Advisory Committee member said that they had taken a close look at it, but the bank is not near the QTL levels, so it was not something that they had to do. They consulted legal counsel and then the board and did not feel it made sense at this time to make a change that may not be absolutely necessary. They were concerned about the bank's membership would view it as some sort of issue that the bank might be having or any of the activists that all have accounts might be saying, that the bank might be trying to take away any voting rights. He said they left it as is.

Mr. Brickman said that the OCC does not view the covered savings association election to be private or confidential. Anyone can pick up a call report and figure out whether the bank is operating as a CSA. The list is not published on the website, but usually when people request it, they get it. He said that the other piece is that the Federal Reserve is slowly but surely changing a piece of their data reporting that is publicly available. As CSAs are becoming members of the Federal Reserve System, they are disclosed. It is not a complete list, but a person could find out what a particular group of CSAs is.

An Advisory Committee member said that the application to become a member of the Federal Reserve took a day because they were drawing the money out for the stock immediately. There was no question. There was no debate.

Committee Updates

Mr. Brickman said that the Mutual Savings Association Advisory Committee Charter was renewed Treasury on June 20, 2024. There will be a notice in the Federal Register Notice in the coming days. The other Federal Register Notice that will be published in the coming days will be the notification for the nomination period for the next term of the members of Mutual Savings Association Advisory Committee. The committee membership is on a two-year cycle. The OCC will select a new membership for the 2025-2026 committee. There will be a 45-day nomination period from the date of publication in the Federal Register. Nominations can come from anyone. It could be self-nomination, a nomination by a peer, a nomination by a banker's group.

He reminded the Advisory Committee members about the required membership balance and diversity plan for membership. The OCC tries to balance the geographic proximity of the banks, the rough asset size of the banks to make sure the membership is good cross-section of the mutual population.

For the 2025-2026 group, the agency is going to push hard to bring some gender diversity to the committee. There were previously female CEOs on the Advisory Committee, but none were nominated in the last term. He said that if the Advisory Committee members have peers in mind that they would consider sharing their experience and encouraging them to either nominate themselves or if they would be willing to nominate them, the OCC would really appreciate it. The way that this traditionally works is that members can serve two consecutive terms. If a member is in his first term as a member of the advisory committee, the member can be re-nominated for a second two-year term.

Mr. Brickman said that the agency does not turn away people if they are interested and willing to continue serving for that entire of four years. For those who have already been on the Advisory Committee for four years, they are asked to step down for at least a two-year period before being re-nominated so there can be some fresh perspective and give others a chance to represent their banks and their communities on the committee for that time period. Roughly half of the committee will turn over because they reached that four-year mark.

He said that the OCC will engage with the members eligible to roll over to confirm that they are interested in re-upping for another two-year commitment. We would love to have you back if you're interested. He said that historically, the agency has had a good success rate in having people come back, but there may be instances where if timing does not work out, if there is another reason that a person may not be interested, they are welcome to let the OCC know at that time that they are not able to continue.

An Advisory Committee member said that he would not be able to attend the last meeting of the term and he wanted to say how much he appreciated being on the Advisory Committee. Mr. Brickman and Ms. Cole thanked the Advisory Committee members for their participation and candor during the meetings and their commitment to providing a voice for mutuals.

OCC Mutual Forum

Mr. Brickman provided an overview of the OCC Mutual Forum program and thanked the Advisory Committee members of their input and their willingness to serve as panelists on the program. He provided additional details about the program and the logistics for day.
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Mr. Brickman asked whether any members of the public who were attending either in person or virtually would like to make a comment.

There were no public comments.

Mr. Brickman adjourned the meeting at 4:30 p.m.

Certification
/s/
Michael R. Brickman
Designated Federal Officer