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Special Supervision
Office of the Comptroller of the Currency
Correspondence #

July 19, 2016

Mr. Michael R. Brickman
Designated Federal Officer
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Mutual Savings Association Advisory Committee ("MSAAC")

Dear Mr. Brickman:

I respectfully request that the concerns expressed in this letter be shared with the MSAAC at its meeting on August 3, 2016 as it considers regulatory changes or other steps the Office of the Comptroller of the Currency ("OCC") may be able to take to ensure the continued health and viability of mutual savings associations and other issues of concern to mutual savings associations.

As you are aware, for over one hundred and fifty years depositors in mutual savings associations have relied upon their deposits in those organizations to earn an attractive and safe rate of return to better enable them to save for life events such as a home of their own, their children's education, their retirement, and other important objectives. In addition, many retirees have counted heavily on the ability to earn an adequate rate of return during their retirement years to supplement their other sources of retirement income.

Today's low interest rate environment has taken a heavy toll on the ability of depositors to reach their savings and retirement goals. While this problem is brought about by macro-economic forces over which the OCC has no control, there are many mutual savings banks which do not seem to be focused on the best interests of their depositors but instead are quietly more focused on the best interests of their entrenched senior management teams.

For example, First Federal Bank of Florida is a mutual savings bank with over \$1 billion in assets that is headquartered in Lake City, Florida. A review of their interest rates (posted as of July 12, 2016) reflects the highest interest rate offered on a 60 month certificate of deposit (for balances of less than \$10,000) is 0.83%. A twelve-month CD is offered for 0.30%. There are no special promotions offering any higher rates.

Another example, Watertown Savings Bank, a mutual savings bank with over \$1 billion in assets that is headquartered in Watertown, Massachusetts, currently offers the hefty sum of 0.2% interest on their 60 month CD. On its website, Watertown Savings Bank states that its purpose is "Neighborhood focus, world-class service." Also on its website, Watertown Savings Bank states

that “As a mutual bank, we do not answer to Wall Street, so we’re free to concentrate on serving our customers and neighbors in the best possible way.” Does anyone really believe that paying 0.2% interest on a 60 month certificate of deposit is “world-class service”, much less serving their depositors in the best possible way?

A review of bankrate.com reveals that depositors investing in a 60 month CD’s with less than \$10,000 can easily obtain interest rates of from 1.85% to 2.0%. The banks that pay these rates are names such as Goldman Sachs Bank, Discover Bank, Home Savings Bank, and eLoan. Each one of these banks paying these significantly higher rates are owned by shareholders. Each one of these banks allows depositors to open accounts by mail.

Mutual savings associations have long touted the mantra that they are owned by their depositors and that they put their depositors first. Many specifically boast that they “do not answer to Wall Street”. An obvious question is, if they do not have to answer to Wall Street, just who do they have to answer to?

As evidenced above, given that there are numerous banks that do have to answer to their shareholders and that are paying their depositors more than two times the amounts that First Federal Bank of Florida is paying its depositors (and ten times the amount Watertown Savings Bank is paying its depositors), maybe it wouldn’t be such a bad thing if many mutual banks had to answer to someone else.

The purpose of this letter is to request that the OCC address the concerns set forth above. That is, that there is little to no transparency on the part of many mutual savings banks and that the depositors of mutual savings banks are really unable to hold the CEO’s and Board of Directors of those organizations accountable for either their actions or their performance.

When the CEOs of mutual savings banks boast that because their organization is a mutual savings bank, they don’t have to answer to Wall Street, we’d like them to remember that they still need to answer to the bank’s owners. And that those owners are their depositors!

When many people think of mutual savings banks, they think of organizations such as the Bailey Building & Loan, with George Bailey (Jimmy Stewart) acting in a wise and benevolent manner in looking out for both the depositors and borrowers of the “Old Building & Loan”. As you consider the proposals set forth below, ask yourself this one simple question, “What would George Bailey think about this proposal?”

Disclosure of Executive Compensation Practices

As part of the process of making mutual savings banks more accountable to their depositors, I propose that the OCC put in place changes that would make mutual savings banks more transparent to their depositors.

If mutual savings banks really are owned by the depositors, it doesn’t seem unreasonable that the people who run those organizations should have to publicly disclose their compensation arrangements with the mutual savings bank. It is frankly shocking that members of senior management, who are supposed to have a fiduciary duty to the members of the mutual savings

bank, do not have to disclose their compensation arrangements to those members. Can you think of any other situations where the owners of the business are not allowed to know what the business is paying its management team?

The disclosures that should be made should be similar to those required of publicly traded entities. It is the ultimate in hypocrisy that mutual bank CEOs can decry the evils of banks that “have to answer to Wall Street” when those very CEOs do not seem willing to answer to the mutual savings bank’s depositors with respect to their own compensation. (Would George Bailey really have a problem with disclosing his compensation arrangement with the bank?)

As part of the compensation related disclosures to its depositors, it would be worthwhile for mutual savings banks to clearly and concisely explain to their depositors any arrangements involving non-qualified retirement, post-retiree medical and other benefits including all perks.

Many mutual savings banks own a significant amount of corporate owned life-insurance policies, which appear to be connected to executive benefit programs. For example, accordingly to its 2015 financial statements, First Federal of Florida owned life insurance policies having a cash surrender value of approximately \$28,183,000 at the end of 2015. This represents 18.6% of its \$151,041,000 of retained earnings. The footnotes to the financial statements, which are very vague about these corporate-owned life insurance policies, appear to indicate that policies are connected with benefits provided to senior bank executives. Is the CEO and other executives of a bank who pays its depositors a paltry 0.83% interest rate on a 60 month CD really worth these kind of benefits? Just who is supposed to own this bank anyway?

George Bailey, please explain to the depositors why “their” Building & Loan needs to own over \$28 million of life insurance covering the lives of the officers of the bank? Did Mr. Potter get you to do this with those promises of an expense account and an occasional business trip to Europe? Where are the CEO’s altruistic motives on this one?

Pardon me, but just who the hell approved these kinds of arrangements with the depositor’s money? Who is inside the Board of Director’s that is looking out for the best interests of the depositors? Where is the person on the Board who stands up and says hell no!

It doesn’t seem unreasonable for a mutual savings bank to be required to clearly and concisely explain to its depositors all of the sorted details of its long-term compensation programs with its senior executives including why it is necessary to invest 18.6% of the mutual savings bank’s retained earnings in corporate-owned life insurance policies.

With 18.6% of its net worth invested in corporate-owned life insurance, it makes one seriously question on whose behalf this mutual savings bank is being operated.

Board of Director Participation and Oversight

A second area of improved transparency is to require mutual savings banks to solicit and accept nominations for its board of directors from its depositors without restriction or limitation (and without interference). As it is now, concerned depositors are not only not currently permitted to vote on any relevant matters brought before the Board of Directors, there is virtually no way for

them to be elected to the Board of Directors unless they are part of the existing “Good Ole Boy (and Girl) Network” at the bank.

First Federal Bank of Florida began in 1962 with the father-in-law of the current CEO leading the company. The current CEO has held that position since 1980. This past year, one of the current CEO’s son’s was appointed to the Board of Directors. This sounds more like a family business than a mutual savings bank.

It is difficult to imagine how any mutual savings bank having a CEO who has been in place for 20 or 30 years can possibly have an independent board of directors that will adequately evaluate the compensation package for that CEO while acting in a fiduciary manner on behalf of the depositors.

Warren Buffett, who is known for being outspoken about the issue of excessive CEO compensation, was once asked, so why didn’t you put a stop to outrageous compensation practices at Coca-Cola (since he was a member of its Board of Directors). Mr. Buffett responded with something to the effect of “that there are only so many times that you can belch at the dinner table and be invited back”. This is clearly the issue faced by mutual bank directors who are picked from within the Good Ole Boy Network. In order to survive long into the 21st Century, mutual savings banks need people on their Boards who are truly independent (and not afraid to “belch at the table” when it is needed to look out for the best interests of the depositors). This includes independent directors to evaluate the compensation package of the CEO.

On its website, Watertown Savings Bank states that “And, unlike the many local banks that have merged or been acquired in the past several years, we’re committed to staying independent.” What they are really saying is that we (the senior management of the bank) like this cozy gig we have here with our compensation package that includes all of its perks and we don’t want to do anything to change this.

Many mutual savings banks place significant restrictions in the nomination process and for all practical purposes, there is virtually no opportunity for someone who is not connected with the current governing group to be nominated (much less elected) for the Board. These restrictions should be prohibited and all depositors should be provided the opportunity to nominate (and elect) directors. Executive compensation should need to be approved by at least two independent directors who meet certain minimum standards for financial and business knowledge. To ensure the independence of these directors who oversee compensation, such directors might be limited to terms totaling six years over their lifetime. Hopefully, the fear of getting sued for inadequately looking out for the best interest of the depositors would outweigh any fear of retribution from current management for belching at the table.

Hold Harmless Agreements

It is believed that most, if not all, CEOs and members of the board of directors at mutual savings banks of any size have negotiated agreements where the mutual savings bank will hold them harmless in any litigation brought about by depositors for inappropriate acts. This is the ultimate in hypocrisy! The depositors will have to pay for any damages caused by the CEOs and members of the board of directors who are supposed to be looking out for them. Does anyone

really believe that the depositors were adequately represented when these kinds of provisions were negotiated?

Query: In *It's A Wonderful Life*, did they cut out the scenes where George Bailey negotiated his hold harmless agreement with Uncle Billy with respect to the Bank? Probably not, since I distinctly remember the part in the movie when Jimmy Stewart was worried about "scandal, bankruptcy and ruin" resulting from Uncle Billy losing the bank's money.

Disclosure of Performance Measures that are Relevant to Depositors

A third area for improved transparency is to require each mutual savings bank to make disclosures to their depositors with respect to how good a job the mutual savings bank is doing. The area most important to depositors who are investing their hard earned money in the mutual savings association is not the rate of growth in the bank's deposits but instead is the rate of return they are earning.

Many depositors of mutual savings banks are fairly unsophisticated financially. It is a tremendous disservice to these individuals for a mutual savings bank offering substandard deposit rates to tout all of the so-called advantages of mutual savings banks as the reason to remain with the bank. Think about it, would you like your own dear Aunt Betty to keep her money at a bank paying 0.20% for a 60-month certificate of deposit when she is going to need that money to last her for the rest of her life. Wouldn't it be worthwhile to have some kind of objective system of measures that she could look to and be alerted as to whether her mutual savings bank is paying a fair rate of interest on her deposits?

We propose that a system be developed that would require each mutual savings bank to report to its depositors on how well it is doing in accomplishing its objective of providing its depositors with rates of interest that are at least above the average for similar deposits.

Think about it. Exactly how would the CEO of a mutual savings bank that is paying interest rates to its depositors that is in the worst 20% of comparable banks explain this one to its depositors. If we are truly looking out for the best interests of the depositors of the mutual savings bank, should Aunt Betty really keep her CD money in a bank like this? Retirees who are having to adjust their lifestyles because of this substandard performance on the part of their mutual savings bank should be alerted to this! The fact that such substandard interest rates are creating the profits to fund the generous compensation packages for senior leadership of such an institution makes it all the more egregious.

Mutual savings bank CEOs can talk all they want about "Neighborhood focus and world-class service". I suspect most depositors view it as important to know whether they are getting a fair rate of return on their investment compared with what they could obtain, at the same level of risk, elsewhere.

Conclusion

As can be gathered from the discussion above, mutual savings banks have served an important purpose for well over 150 years. Mutual savings banks operated by the George Bailey's of the world will continue to have an important place in their communities for many, many more years.

However, mutual savings banks are only worthwhile if they can continue to provide value to their depositors when those depositors cannot find an equal or greater amount of value elsewhere. Being mutual is not a virtue in and of itself. Being a mutual savings bank is only an advantage to depositors if it provides a competitive advantage for the depositor that they cannot obtain elsewhere. Wasn't this the reason mutual savings banks were created in the first place?

A great many CEOs of mutual savings banks spout off about the inherent virtues of being a "mutual". Unfortunately, under the tenure of certain mutual savings bank CEOs and the tenures of their predecessors, these organizations have become nothing more than a secret society in which they do things the way they see fit without the need to either report to or consult with the true owners of the mutual – i.e. the depositors. Think about it, when is the last time you've ever heard of many mutual savings bank inviting its depositors to its annual meeting.

If the depositors can see no benefit to them for the organization being mutual, it is unlikely that most mutual savings banks will survive far into the future. Frankly, there is not much special about whether an organization that is mutually owned if there is no real benefit to the people who are supposed to be the ones who own it.

The ideas set forth above are intended to get certain mutual savings banks back to the ideas that they were originally formed to accomplish. We respectfully submit that the ideas set forth above are reasonable and hopefully, in some form, can be adopted. As asked in the beginning of this letter, ask yourself whether George Bailey would be in favor of these provisions.

For fear of retribution from those who might be adversely affected by some or all of the above changes, I have decided to remain anonymous. I hope that you will favorably consider the items discussed above.

Sincerely,