

Office of the Comptroller of the Currency
Minutes of the Meeting of the
Mutual Savings Association Advisory Committee
December 8, 2016

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 8:30 a.m. on December 8, 2016, 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 1:50 p.m.

Advisory Committee Members Present

Martin Connors, Jeff Hyde, Thomas Kemly, Dan Moore, Susan Ralston, Margaret Smith, Steven Swiontek, Charles Timpa

OCC Staff Attending

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Lazaro Barreiro, Toney Bland, Michael Brickman, Arnie Cohen, Kevin Corcoran, Ralph DeLeon, Steven Lybarger, Paul Moloney, Joseph Meinhardt, Carrie Moore, Blake Paulson

Public Meeting

Michael Brickman, Acting Deputy Comptroller for the Southern District, introduced Joseph Meinhardt, the Acting Deputy Comptroller for Thrift Supervision and Special Supervision, and each welcomed the committee members. Comptroller Curry noted that this meeting is the last meeting with this group of members and thanked them for their input and service on the committee. Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, added his welcome and thanks to the committee members for their contributions. He observed that the contributions help to shape the work of the OCC in the policy and as well as the examinations areas.

Congressional Update

Carrie Moore, Director of Congressional Liaison, reported on the composition of Congress after the election and described some of the activities that she expects to continue in the new Congress. The leadership of the House Financial Services Committee will remain the same, but the subcommittees will change. The Senate Banking Committee Chairman will be Senator Crapo (R-Id) and Senator Brown (D-Ohio) will be the Ranking Member. Ms. Moore indicated that there is 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 Hensarling (R-Tx). The bill contains a number of provisions including the text of HR 1660 – the Federal Savings Associations Charter Flexibility Act. She said that there is a chance the

provisions will be in the version of the Choice Act likely to be introduced in the next Congress given that the bill has bipartisan support, is not controversial and reduces burden. She mentioned that Senator 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 and why there might be more bipartisanship in the new Congress. The expectation is that the provisions affecting large banks are examples of what might be reviewed. The leadership styles of the Committee Chair and Ranking Member are more likely to result in agreement and compromise. Committee members asked whether 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 as the bill will have to be reintroduced in the next Congress. She also suggested that committee members become resources for their Members of Congress. A committee member asked about tax reform and whether there will be an opportunity to push the credit union issue. Ms. Moore replied that the OCC is not involved with any tax discussion. She remarked that tax reform typically takes the involvement of a whole Congress.

Other questions included a discussion of the nomination process and which other committees have jurisdiction over any aspect of financial services. Ralph DeLeon, Acting Director of Banking Relations, mentioned that the OCC holds briefings for congressional staff to help them understand what the agency does and who the OCC supervises.

Committee Activities and Accomplishments

Mr. Brickman described the issues chart prepared to follow the progress of requests made by committee members over the years. A committee member drafted the chart and noted where resolution of several issues had been requested. Committee members commented on the issues reflected in the chart and suggested additions to the items listed. Requested additions included the activities related to the discussions about mutual capital instruments and the charter flexibility legislation.

Mr. Brickman noted that the collaboration white paper was a starting point for the discussion on innovation and the collaboration discussion began with the advisory committees. He also described the communication involved with ensuring that examiners understood the earnings guidance for mutuals. Several members highlighted areas of interest that they had raised over the past two years. For example, several Call Report items and corporate governance questions were discussed.

The committee members suggested that new members of the committee be provided with the chart and that it be used for the basis for planning and developing additional issues.

Mutuals, Saving Costs, Planning for Change

This discussion was a roundtable facilitated by several OCC staff to highlight a number of strategic and operational alternatives available for mutuals, including the use of third parties and collaboration.

Paul Moloney, Lead Economic Expert, International Analysis and Banking Condition, provided context for the discussion. He highlighted the current performance of mutuals compared to performance prior to the banking crisis. He described the difference in performance for smaller banks and noted that as size increases, results are better. Committee members noted that for smaller banks, the competition from noninsured entities is very stiff. Other members remarked that the interest rate environment has had an impact on loan growth and the types of loans that banks will originate. Mr. Brickman pointed out that options for mutual institutions to gain efficiencies and prepare for change might involve looking at partnerships and collaboration.

Stephen Lybarger, Deputy Comptroller for Licensing, provided an overview of the Licensing area at the OCC. He described the types of transactions and applications that staff in Licensing review. Mr. Lybarger urged the committee members to consult with the District Licensing staff when a transaction is being contemplated in advance of signing an agreement, particularly if it is the first time the bank has contemplated a transaction. OCC staff may have seen a particular type of transaction previously and can help with questions and concerns.

Committee members asked questions about partnerships and third party arrangements in the fintech area and how the OCC would view types of transactions. Mr. Lybarger noted that currently there is risk in relationships with fintech companies and that it may make sense for other companies to explore what are the pros and cons before acquiring or affiliating with the companies. For this reason a partnership may make more sense. Other companies may have done due diligence that would be useful. When working with third parties, he advised the committee members to ask many questions and take advantage of other companies research.

Several committee members asked questions about legal structures that are available to federal savings associations seeking to enter into partnerships. Other members asked questions about what types of companies Mr. Lybarger is talking about when talking about fintech companies. He agreed that the term can mean different things. For example, it can be a company that provides a virtual branch, digital currency or other technology-based services. Other members pointed out that the inability to raise capital constrains a mutual institution's ability to enter into some partnerships.

A committee member asked about the Innovation Forum held by the OCC and the lessons learned. Mr. Lybarger pointed out that the white paper issued by the OCC does not contemplate a light regulatory or supervisory touch on any company that wishes to apply to the OCC. Blake Paulson, the Deputy Comptroller for the Central District, described the plans for an Office of Innovation as a place where fintech companies can go to ask the OCC questions and get feedback about what will be required. The discussions will be conducted in a safe place outside of the supervisory process. Mr. Brickman further described the office hours contemplated by the Office of Innovation and mentioned that Beth Knickerbocker is the Acting Chief Innovation Officer. He explained that the OCC is educating itself and taking advantage of resources to learn what it can about fintech companies.

Lazaro Barreiro, Director Governance, Operational Risk Policy, described how important it is for banks to look at third-party relationships and for those companies to work with the banks.

he explained that the OCC understands how important collaboration is in this area and talked about relationships with technology companies and other third parties. He also talked about the challenges that develop when working with companies that are not regulated and supervised to the extent that banks are. Mr. Brickman said that the OCC is not trying to fence in innovation.

A committee member asked whether there are examples of collaboration that have developed since the issuance of the White Paper in 2015. Mr. Paulson said that many banks have asked about it and talked about it with their peers but they need to get over some competitive and operational hurdles. Some possible examples of activities that can be accomplished through collaborative relationships include loan review, compliance oversight and IT. Several members provided examples of state trade organizations that have promoted partnerships.

Committee members described how collaborative relations in some operational areas can help solve succession planning concerns. Gaps in staffing can be filled in high turn over areas of the operations. A question about third party service provider examination reports and the due diligence process was asked. Mr. Barreiro talked about the OCC's Third Party Guidance and contractual arrangements with service providers. A committee member observed that it is hard to get consistency in the contracts and that groups are forming with that in mind.

A committee member asked how a limited purpose bank with no deposits will be assessed. Mr. Brickman pointed out that there are a number of logistical questions that need to be considered before any applications are taken. For example, what kind of business plan does the company have, what are the capital levels that should be required, what kind of scrutiny will be necessary going forward, and how to balance the agency priorities. The Office of Innovation will be a critical component of the process.

Several Committee members talked about how they are looking at innovation that their banks. Several are forming Innovation Committees made up of all levels of employees. Others are forming groups to reach out to millennial customers and employees to determine the product and service expectations of the groups. Others are asking employees for product and marketing ideas.

Possible Mutual Forum Discussion

Mr. Brickman described the OCC's pattern for hosting a Forum for Mutuals. In alternate years, the OCC and the FDIC holds a Joint Forum for Mutuals and 2017 is the year that the OCC hosts a Forum without the FDIC. He asked whether the committee members have an interest in having more geographically focused roundtable meetings rather than a larger meeting in Washington. Mr. Brickman suggested that existing OCC outreach meetings could be leveraged. The committee members had mixed views. Several thought that having regional meetings in locations where there are a number of mutuals would be a good idea. Others were ambivalent about the locations of a Forum and would attend no matter the location.

Member Roundtable

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

- Regulatory and supervisory burden
- Examination efficiencies
- Compliance with mortgage rules
- Possible appraisal reform
- Status of the mutual institution segment of the industry
- Capital concerns for mutual institutions
- Depositor dividends
- The future of the advisory committee
- FSA flexibility legislation

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 1:50 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman
Designated Federal Officer