



## Mutual Alert

### **OCC Holds First MSAAC Meeting Under Acting Comptroller Noreika**

The OCC held its first MSAAC meeting since Comptroller Curry's departure. The recently appointed Acting Comptroller was not in attendance during the morning session but appeared shortly before lunch. The meeting began with Deputy Comptroller Mike Brickman welcoming the new members and general remarks by senior staff concerning Committee operations and ethics requirements for the new members. Eight of 9 members attended. One slot still remains of the maximum 10 to be filled.

Ernie Knott, OCC Financial Analyst Northeastern District, led off the program with his usual enthusiasm for data trends for mutuals. Notable among the data bytes is that 7% of OCC supervised assets are held by mutuals and all Federals represent 25% of OCC supervised banks. Mutuals represent 46% of all OCC regulated Federal Savings Associations. There are 23 MHCs and 148 mutual banks and 90% of mutual Federals are rated CAMEL 1 or 2. *With the current merger and conversion to state charter trends that number will soon have mutual banks in the majority of federal associations.*

Beth Knickerbocker, OCC Chief Innovation Officer, addressed innovation. She explained the exploratory process. She discussed change driven by technology and the underbanked and distinguished innovation from technology. She affirmed that the key to responsible innovation are adherence to various principles such as outreach, communications with other agencies and training of examiners as to technology innovation. She also discussed that the OCC had developed a channel to non-banks.

Members welcomed innovation support but were tentative with the OCC program. Beth discussed API automated program interface. Tom Fraser of FF of Lakewood explained the different issues for mutuals and investment collaboration in technology. Jim McQuade, Dollar Bank, said he was not sure what innovation is. He pointed out that millennials love mutuals but they also want technology. Tom Fraser said that mutuals need to connect to millennials on their terms. Kevin Corcoran OCC Chief Counsel's Office said there are legal methods for collaboration such as service corporations. Dan Moore, Home Bank SB, asked whether

innovation will have a systemic effect on performance. Shirley Hughes Elizabethton FS&LA said she listens to her customers for guidance on new products.

Carrie Moore, OCC Director of Congressional Liaison, addressed legislative issues. She discussed general conditions on the Hill, recent hearings and the progress of the CHOICE Act in the House. She mentioned a floor vote is due soon. She noted the Rothfus Bill expanding investment powers is a stand-alone and can be passed separately. She also said that the bipartisan nature is a plus. There was very little else mentioned regarding the multiple legislative proposals or their prospects. She mentioned that the Senate Banking Committee will be preoccupied with the confirmation process of 30 vacancies. She sees reform of DFA as a secondary priority; flood control is priority. She said the Senate is focused on proposals that will foster economic growth.. Bipartisan bills have a better chance and said the 25 Dems up for reelection may be more open minded to community banks. She mentioned CFPB reform but said the OCC is “agnostic”.

*Acting Comptroller Keith Noreika joined the meeting around noon and welcomed the committee.* He addressed mutuals as the “quintessential community bank”. he expressed pleasure that the US Treasury had renewed the MSAAC charter. He remained for a seated lunch and for the rest of the afternoon session.

The meeting reconvened with a member Roundtable discussion. Dan Moore discussed innovation. He said he didn't know what he didn't know and explained that he built infrastructure and has a capacity to become larger. Growth is a problem because there is no level playing field. Shadow bank and credit union competition are a challenge. He said staff creativity was lessened because of its focus on working thru the crisis.

Shirley Hughes, Elizabethton Fed, discussed different products and inherent risk involved. Each market is different but her bank does what they know best. Normally they wait for technology that has a track record. Brickman asked where competition is from. Mrs. Hughes said credit unions. Dan Moore said credit unions on commercial loans and mortgage bankers on residential. Deputy Comptroller Brickman asked what would help such as the Rothfus charter flex Bill. Shirley Hughes it would not help much that competition is the problem. Dan Moore mentioned a no closing cost loan program that resulted in a check paid to borrowers because of a missed estimate on TRID. Senior Deputy Comptroller Tony Bland said the OCC wants to hear these examples.

Tom Fraser thanked OCC for regulatory relief merger rules facilitating reorganizations. He suggested allowing the conversion of credit unions to mutual banks and innovation collaboration as priorities for mutuals. He mentioned an investment in a virtual bank jointly owned by mutual. He emphasized that mutuals need capital to grow and endorsed alternative instruments for capital. He also said Basel 3 needs revising as to servicing right risk weightings for servicing over the 15% cap. The Acting Comptroller was very interested and said that's was why he was there to identify unnecessary burdens.

Deputy Comptroller Brickman said that OTS precedents are relevant for collaborative deals and capital instruments. Acting Comptroller Noreika asked about the CHOICE Act . Mr. McQuade said it would solve some problems and praised communications between regulators and banks as most important. He cited the FFIEC rules as vague and confusing. He said that the thrift charter needs expanded investment authority and capital. He believes mutuals are the purest form of community bank. He said competition by credit unions is an example of the unfair

playing field. He agreed it should be easier to become mutual thrift and also criticized the Durbin amendment threshold of \$10 billion.

Bill White, Dearborn Federal Savings Bank, mentioned the growing level of TDR complexity as an issue. He said it deters modification and foreclosure. He said also that CRA is still a concern because of comparative judgment, and portfolio lending is more burdensome. He stated a fear of CECL. He said the accounting process is too subjective and range of values wide. Deputy Comptroller Brickman says the OCC is planning to be proactive on judging CECL and banks don't need to outsource expensive models. Deputy Comptroller, Blake Paulson, responded that the OCC is concerned. Tony Bland says it is training examiners and cited an industry webinar and robust examiner training program.

J R Buckner, FF Bank of Kansas City said right size products for his bank is his focus. CRA needs to be reconsidered in light of servicing. Mortgage servicing rights are becoming an issue on capital. He cited a recent merger with another mutual last May and disclosed that the bank has a depositor or shareholder suit and that the OCC and the ABA is filing an amicus in support of the bank's defense. He thanked the OCC for its support.

Jim Wainwright, Freehold Savings Bank, explained his bank's reinvention and shift from single family loans. He discussed his shift to commercial real estate lending and allowed he had made such loans up to 100% of his capital in one year. He said he needs charter flexibility. He explained further he only has 19 full time employees but OCC used 15 examiners as a training exercise. He said the opportunity of having a training team having bright young people was refreshing.

At the conclusion of the meeting public statements were made by a number in attendance. However, the Acting Comptroller had to depart the meeting beforehand. I welcomed the new members and pointed out the special opportunity that service on the MSAAC represented. I urged the members not to waste that opportunity discussing issues not peculiar to mutual banks. I noted the decline in the number of OCC regulated mutuals as startling, the need to address the absence of de novo mutual formation, conversion to state charter and the absence of a path for credit unions to convert to banks. I urged the OCC to address its shrinking assessment base lest it fall victim to "regulatory capture."