



Mutual Alert

OCC MSAAC Holds Quarterly Meeting: Nominations for Membership To Be Solicited

The OCC Mutual Savings Association Advisory Committee held a quarterly meeting this last Wednesday. The agenda was abbreviated because of the Joint FDIC/OCC Mutual meeting that was held the next day. The agenda covered BSA/AML compliance, loan underwriting examiner review tools and housekeeping matters for the renewal of the MSAAC charter by Treasury. The District Comptrollers were in attendance and each offered insight on their project responsibilities.

AML/BSA Compliance

Spencer Doak, OCC Director BSA/AML Compliance gave a presentation from the attached slides. He emphasized that qualification of BSA officers are a concern and focused on internal controls, CDD and SAR policies. He voiced preference for automated systems for larger banks. He cited the Panamanian law firm Mossack Fonseca's registration of 15,000 shell companies and ongoing investigation of the use of those shell companies. The District Comptrollers said the trend of violations is going down. Kay Kowitt, Western District Comptroller, confirmed the trend is down on violations in the West. Kris Kiefer, Northeast District said there are fewer compliance issues but more problems being handled by MRAs. She cited keeping good BSA officers with sufficient authority and respect internally as a continuing challenge.

Maggie Smith, FF Middleton, mentioned medical marijuana employees as problematic. Mr. Doak said that the OCC relies on DOJ and FINCEN but marijuana is still a controlled substance. Each bank must decide for itself and decide on an appropriate SARs policy. He said it is possible to provide banking services to marijuana dealers. OCC will not direct termination of accounts in general. Jeff Hyde, Evergreen Federal, spoke to the indirect customer relationships such as garden centers and agricultural suppliers caught in web. The OCC staff acknowledged that there is no ongoing push for guidance for handling customers who have indirect relationships with the marijuana trade.

Member Roundtable

The next segment was the Member Roundtable. Marty Connors, Rollstone Bank mentioned call report treatment of unrealized gains and losses on equity securities citing the grandfathered federals who

converted from state savings banks. OCC accountant, Jessie Oter, spoke to Marty's issue on unrealized on equity gains and losses but did not seem to appreciate the public perception issue.

Paul Macklin, Think Bank, spoke about fin tech saying his bank was studying risks and opportunities. The District Comptrollers acknowledged the need for banks to reach out to innovators but are very guarded as to partnerships with fin tech companies. Senior Deputy Comptroller, Toney Bland reminded the audience of the mutual advantages and how to marry them with fintech. Indeed Toney was one of the few presenters that made an effort to relate to the uniqueness of mutual banks Paul Macklin mentioned affordable housing and low inventory. Charles Timpa, FF bank Of Louisiana expressed concern regarding growth and relevance. Jeff Hyde addressed what he called the national mutual bank charter and implications to existing thrifts if it passed into law. He raised some interesting issues about the unintended consequences that might ensue, particularly to a thrift that desired to maintain its mortgage lending concentration. Comptroller Curry said an election to embrace national bank powers under the proposed Bill doesn't change thrift status. He did not address the FRB treatment under QTL test. He emphasized that the OCC is evolving toward one supervisory approach. He intimated that there is an expectation of more of a commercial bank mindset over time by supervisors. He volunteered that support for bill is positive. Toney Bland said the OCC has enough examiners qualified as a commercial bank examiners to handle an increase in examining demands. It is doubtful that with so few federals (approximately 200) and the small size of most this would ever be an issue. There was an emphasis that the Bill allows election without changing governance. Susan Ralston, Bank@LANTEC called for capital relief and has been persistent in that call. She said the lack of capital relief is the principal reason why her bank will merge with Dollar Bank in Pittsburg. Her merger was driven by difficulty of capital plan compliance without stock conversion. She complained about expense of maintaining 34 Act Compliance for 3 years for a small mutual converting. She also mentioned out of market deposits influencing stock conversion.

Tom Kemly, Columbia Bank said regulatory burdens are real even though Columbia is the second largest mutual. Ron Romig, Citizens Savings, addressed certain accounting for foreclosure. Maggie's Smith opposed one size fits all application of CECL in particular. 4th quarter 2021 is effective data for most mutuals Oter said but must prepare.

Blake Paulson, Deputy Comptroller Central Dist., commented on guide expectations. Dan Moore, Home Bank, cited regulation and the Durbin amendment effect of privacy breaches by retail merchants effecting his brand. Steve Swiontek, Gate City Bank, addressed fin tech and the underbanked. He expressed concerns about culture. He said regulation of compensation is a concern.

District Deputy Comptroller Roundtable

Gil Barker, Deputy Comptroller Sou Dist, addressed strategic risk of new products and services. He said they are a focus of examiners. He acknowledged that because of low earnings a good Fintech strategy is important. He mentioned credit risk, marketplace lenders, and commercial real estate. "Compliance risk is a particular mutual concern" but 97% of community banks have satisfactory ratings.

Kay Kowitt Deputy Comptroller, Western Dist., addressed Fintech. It appeared that the OCC is moving toward a special purpose charter for Fintech companies but no one in the room asked how that would impact mutual banks competitively if such charters are issued. The presentation slides are attached.

Kris Keifer, Deputy Comptroller Northeastern Dist., addressed a credit underwriting assessment tool to assist examiners in documenting and assessing bank lending. She said that the OCC had reviewed 95 banks 25 in each district. It looked at structure, collateral, internal controls compliance and risk rated on a 5 point scale. Each CEO will get a letter with results. There was a review of the quality of underwriting policy also.

It found a majority of banks had moderate lending practices 20% were liberal to moderate in internal controls, risk assessment and structure. They also had weak covenants, pricing and locale analysis. She further stated that they found increasing trends in policy exceptions and no MSSAC members were reviewed. The most common weakness found were repayment terms inappropriate for collateral, lack of guarantees or heavy reliance on secondary sources. Also, 2016 underwriting had 70% of loans unchanged. There was no business sector analysis or differentiation.

Blake Paulson briefed the meeting on new exam procedures regarding offsite exams. Ongoing communication when not onsite as to status of exam should not be lost, he stressed.

Committee Housekeeping and Governance

Charlotte Bain addressed governance of the committee. She explained there would be calls for nominations of new members. She also explained that the Committee Charter expires in November and would require renewal with Treasury approval which could be a lengthy process. The draft charter is now with Treasury. Members seeking AMBs endorsement for nomination should contact me.

The committee set its next meeting for Dec 8 is next meeting at 8:30am.