

# Mutual Alert



## The OCC Holds Last MSAAC Meeting of The Year: Focus is on Fintech, Innovation and Collaboration

The OCC Held its last MSAAC Meeting of 2016 and perhaps the last MSAAC meeting that Comptroller Curry will participate in. Comptroller Curry welcomed the committee and but left to attend to other business. The meeting was not very well attended by the public nor did the Committee members have any special items on the agenda.

In response to the prodding over the last few meetings by Susan Ralston soon to be an executive at Dollar Bank with her year-end merger, the meeting did produce something in the nature of a status chart prepared by the staff covering the two year period since the Committee was re- chartered by Treasury. I have attached a copy of the chart which was discussed by Michael Brickman, Acting Deputy Comptroller for the Southern District and Joe Meinhardt, the new Acting Deputy for Thrift Supervision and Deputy Comptroller for Special Supervision. The chart does not show many significant accomplishments. The greatest accomplishment perhaps is the Comptroller's continued support of the Committee. Unfortunately, that support does not seem to have been appreciated to the fullest extent as the members themselves have not taken the initiative to shape the agenda. Moreover, attendance seems to be waning. Surprisingly, one of the members questioned the need for any special consideration of mutual banks wondering if all OCC banks shouldn't be treated the same. This caused a great deal of private discussion during the break among some of the attendees.

There was a detailed presentation on the state of the Federal Thrift charter which shows a steady decline in numbers.

Paul Maloney, the OCC's lead economic expert in the International Analysis and Banking Condition Division presented an analysis of mutual bank earnings, efficiency and growth as compared to pre-crisis levels. Not surprisingly all three lagged behind pre- crisis levels. Steve Swiontek pointed out that MHCs were not included in the OCC data base a source of continuing embarrassment to the OCC which still has trouble defining mutuals for empirical analysis.

Mike Brickman introduced the collaboration topic. Steven Lybarger, Deputy Comptroller for Licensing, shared his mutual credit union board member background as a segway into a discussion of mutual fintech collaboration and licensing. He recommended prior discussions regarding fin tech collaboration with OCC as preferable. Jeff Hyde noted the intimidating risk of fintech for small bank early adopters. The OCC staff gave general acknowledgement of risk and

stressed 3rd party relationship review and due diligence. Outsourcing due diligence was mentioned as an solution. Dan Moore asked whether a virtual branch raised new issues. The staff did allow that some states have treated virtual branches as branches if there is a physical presence connected to it. They mentioned virtual currency as carrying special issues.

There was further exploration of what is fintech and Dan Moore cited First Internet Bank as an example. Steve Lybarger confirmed it is an fintech company in a traditional sense but didn't offer a range of definitions. Dan Moore also noted the high capital need and mutual constraints on capital access. Steve Swinotek discussed the burden of OCC regulation on fintech companies but thinks many companies think it's a burden they can shoulder confusing it with their current experiences with state regulation. Blake Paulson, Deputy Comptroller Central District, touted the newly created OCC Office of Innovation. Mike Brickman encouraged contact with that Office for any innovation even if not strictly technical which seemed like mission creep. Lazaro Barreiro, Director Governance/Operational Risk Policy, who is a former OTS Atlanta field manager, solicited questions on collaboration. He asked Dan Moore to explain difficulty of innovation. Dan said product development often conflicts with new laws and questioned how do you safely innovate?

Tony Bland, Senior Deputy Comptroller, gave examples of collaboration he has witnessed such as sharing compliance officers even though the banks had different regulators. Maggie Smith said her small mutual had tried it but it didn't work on allocating cost with banks of disparate sizes. Mr. Brickman introduced the topic of traditional de novo activity and said he expects new applications for de novos. Someone asked if any were for mutual which was greeted with amusement. Counsel Kevin Corcoran mentioned most interest is for uninsured activity. Mike Brickman encouraged negotiation consortiums for third party services. Charles Timpa said he joined a group of banks to leverage bargaining power to bring consistency to service bureaus contracts. There was further discussion of fintech. Mr. Brickman says he doesn't know yet what context assessment of regulatory risks will be made in. The question was raised what if a special purpose charter fails? Who bears the cost?

He asked for reactions from a competitive perspective. Jeff Hyde said what is responsibility if one fails. Mr. Brickman said fintech bank may need to have a resolution plan but the OCC is still thinking it over.

The conversation continued on the worst case scenarios for example what are assessments and who pays for receivership. Mr. Brickman reported the OCC has seen a broad spectrum of interest in special purpose charters. He cited multiple contacts by serious prospects. Toney Bland cited a number of prospective applicants who advised him they were ready to file who he met during the Comptroller's fintech speech at Georgetown Law. Blake Paulson said the business plan will be the challenge. Toney Bland called the Innovation Office a key testing station.

Toney Bland asked whether any members have an arrangement to develop incubators like the one he observed in Atlanta. Tom Kemly said he tried it but had no success because of resource demands. Charles Timpa said his group established a committee for innovation to explore efficiencies. Mr. Kemly shared an anecdote about his bank selecting a group of millennial employees to make marketing recommendations that produced some benefits.

Mr. Brick discussed the next mutual forum as an OCC only event. He called the attendance this last August disappointing but did not mention the short notice or the undesirable August date as a factor. He asked is there any value in hosting it as an annual event. He offered a regional

meeting instead. The committee members seemed to express little preference one way or the other. He read the Committee as supporting a regional series of meetings and no one contradicted him. He did state that the OCC is still committed to a biannual joint forum with the FDIC.

The Comptroller did join the Meeting for lunch and remained for part of the roundtable discussion which was abbreviated because several members left early.

*Copies of any of the handouts are available in electronic form if you email [june.cartoon@lockelord.com](mailto:june.cartoon@lockelord.com) and request that she send you them.*