



**MINUTES OF
AMERICA'S MUTUAL BANKS**

JUNE 5, 2017 MEETING

Chairman Boulier chaired the meeting and called it to order at 1:04 pm ET. The following institutions and persons were in attendance:

Locke Lord LLP

- Doug Faucette
- Dan Weitzel

Institutions and Representatives

- Ion Bank—Chuck Boulier
- First Shore Federal—Marty Neat
- First Federal—Paul Simmons
- Raymond Federal—John Marvin

Topics of Discussion

1. Approval of the May 15, 2017 Meeting Minutes

Chairman Boulier asked for comments regarding the draft minutes of the May 15, 2017 meeting. A motion was made to approve the minutes, the motion was seconded and all voted in favor. The minutes were approved.

2. Introduction of Bipartisan Senate Bill S. 1284 by Sens. Hatch, Nelson and King to Raise Small Bank HC Capital Exemption To \$5 Billion

Mr. Faucette stated that, because Senator Orrin Hatch is the senior member of the Senate and has a great deal of influence, the Bill has a greater chance of success because of his

sponsorship. The Bill has the sponsorship of a Republican, a Democrat and an Independent. The Bill is an integral step in moving bank reform forward in the Senate. However, it still needs additional cosponsors. Other Senators may be more inclined to support the Bill because of Sen. Hatch's influence.

3. Introduction of Amendment No. 4 By Cong. Faso (R. NY) To CHOICE Act To Repeal MHC Dividend Waiver Restriction

Mr. Faucette stated that the Amendment is actually No. 4 (not No. 9).

Mr. Faucette stated that because of this restriction many mutual banks are avoiding the MHC form and view their choice as either staying in mutual form or doing a full stock conversion. The Amendment would restore the choice of an MHC as a more viable option. Amendment No. 4 would likely give a significant boost to the value of mutual holding company stocks. Since Dodd-Frank, the number of mutual holding companies with minority stock offerings has dwindled to a handful. There have only been two federally chartered mutual banks to do this since 2008. There is now a third one in process. Mr. Faucette stated that Congress and the FRB don't understand how to deal with matters involving thrifts. Their statutory, regulatory and policy guidance schemes are designed for stock commercial banks, not mutual thrift institutions.

Chairman Boulter asked if there has always been a bias.

Mr. Faucette stated that it has been going on for quite a while. There is a theory the FRB has a certain contempt for MHCs because the industry historically chose to be treated as thrift holding companies and not bank holding companies; choosing the OTS over the FRB. As such, the FRB staff sensed that the OTS was facilitating an evasion of the FRB's rules and policies. The industry preferred to be regulated by the OTS.

Chairman Boulter stated that prior to Dodd-Frank mutuals were given a choice. Most all chose to be regulated by the OTS. However, all holding companies are now regulated by the FRB.

Mr. Faucette stated that if mutual S&Ls try to convert to Bank Holding Companies, there are regulations in place now that are designed to keep them as second class citizens and they will always be treated as such. The regulatory scheme was not designed with thrifts in mind.

4. House To Vote On CHOICE Act Week of June 5

Mr. Faucette stated that the vote is scheduled for Wednesday, June 7th. The Republicans, by adding more and more provisions and reaching farther, may unintentionally derail it in the Senate. There are many Democratic amendments as well which are intended to slow it down or make it unpalatable. Mr. Faucette believes that the Bill will pass quickly this week. He also stated that it will go to the Senate and the MHC dividend waiver repeal will only have life if there is an independent Bill; there is presently no independent House Bill on the dividend waiver repeal. The CHOICE Act will be whittled down considerably because there is a lot that Republicans will have to concede to get it past the Democrats. It is very unlikely that everything

in the Bill will pass on the Senate side. Sens. Crapo and Brown will make a good faith effort to develop an acceptable compromise version but it may be called something entirely different.

Chairman Boulter asked if there is any chance of getting a separate bill in the Senate for the MHC dividend waiver.

Mr. Faucette stated that there are only a few people supporting it and no one is paying to lobby for it. The ICBA is receptive to it, but the ABA has been disinterested in it.

5. Regulatory Fall Out from FDIC Liquidation of Guaranty Bank MHC

Mr. Faucette stated he believes that Guaranty's supermarket branches are a prime factor in bringing the bank down. An investor group was proposing to recapitalize the bank, but decided to pull out. Tom Fraser's Lakewood Federal adopted a number of bylaws and charter provisions which create super majority voting intended to preserve mutuality, making it more difficult for outsiders to force a conversion of the mutual holding company. That worked well with the FRB until the recent failure of Guaranty. It is now becoming more difficult to raise capital through a minority offering in an MHC reorganization with super majority voting. The FRB is beginning to reconsider its policies and appears to be condescending towards mutual holding company stocks. There will be continued difficulties with the FRB regarding these transactions. It may be necessary for AMB to do an endorsement letter to Rep. Faso on the elimination of the mutual holding company dividend restriction because it would preserve a meaningful choice for mutuals who don't want to do full conversions.

Mr. Faucette stated that there are a lot of questions one can ask as to how the liquidation could have happened but there has been very little national press on the matter. Mr. Faucette mentioned that it is very unusual that the bank went down so fast when only a minority of its ownership was in public hands. The bank could have been saved by doing a supervisory conversion of the MHC, cutting out the depositors and awarding the bank to new owners for book value. Currently, there aren't enough mutual holding company minority shareholders to have any political influence.

6. RP Financial Small Bank Analysis on S. 1284

Mr. Faucette stated that, RP Financial did an analysis that was updated for S. 1284. The study shows that community banks disproportionately support small business lending compared to the large banks. Increasing the small bank capital exemption is designed to provide community banks with the means to grow their businesses. More than 80% of community banks would be covered by this exemption yet they hold a small percentage of total banking assets.

7. Recent Mutual Transactions: MHC Acquisition and Opposition of Hometown Bancorp

Mr. Faucette stated that a mutual holding company in New York is trying to acquire another mutual holding company and it is offering approximately \$3.25 per share for the minority shares. One of the minority shareholders attempted to make his own offer because he believed that the price per share being offered was undervalued. The mutual holding company doing the acquisition has an advantage because it gains control of the entire target bank even

though it is only paying for the minority interest. The shareholder has not yet sued and the regulators are still open to approving this transaction even amid protests.

8. Report on JPM Presentation Urging Community Banks To Sell Out Before FRB Causes Deposit Drain

Mr. Faucette stated that a JP Morgan speaker at a recent JP Morgan correspondent bank conference forecast that the policies of the FRB are likely to cause a drain on deposits and mutual and community banks should find merger partners. JP Morgan does not have a particular motive. The FRB policies would affect credit unions as well. The ICBA was offended. The speaker told the audience to merge while they still can. Deposit returns are very low today and if rates start moving, there may be big outflows.

9. Next Meeting Schedule

Mr. Faucette suggested that there be a summer hiatus after the next meeting.

The next AMB meeting was set for Monday, June 19, 2017, at 1:00 pm ET.

Chairman Boulier asked if there was anything else to discuss. Hearing no comments, he called for a motion to adjourn. A motion was made and seconded and passed unanimously.

The meeting was adjourned at 1:50 pm.