



Mutual Alert

Light June MSAAC Agenda Touches on Risk

The OCC's June MSAAC meeting had a short agenda ahead of the Mutual Forum on June 28. Much of the discussion focused on economic trends, risk – particularly cyber risk – and an update on the MSAAC Charter Renewal.

Economic Trends

Both OCC staff and committee members discussed the high chances of a recession. Despite high inflation and rate rises, loan making remained at high levels. However, many committee members expect a slowdown in all loans within the next 6-12 months as the economic situation worsens. Commercial and construction pipelines are beginning to dry up, and many construction businesses are still experiencing supply issues. Homeowners insurance has skyrocketed in price leading to some affordability and asset quality concerns.

Liquidity remains higher than pre-pandemic level, but sustained inflation will bring down liquidity levels in the near term. High capital ratios are the norm for mutuals, and several members suggested the OCC continue to inform examiners of this. Members also asked the OCC to consider some form of credit for institutions that maintain high capital ratios and liquidity.

Examinations and Realignment

Acting Comptroller Hsu and Deputy Comptroller Brickman noted that the hybrid examination structure will continue. While some institutions are satisfied with this model, others discussed a need for better communication between the on and offsite teams to ensure no duplication of efforts and increased workload on banks. One member suggested implementing a digital questionnaire to gauge the digital capabilities of examined institutions to help calibrate individual exams.

While OCC realignment was a main topic of the April MSAAC meeting, there has been a consistent lack of detail on this issue. Acting Comptroller Hsu said that the creation of thematic cohorts would limit information handoffs that had become frequent in the geographic based system. However, it is still unclear the practical changes and possible effects the realignment will have. Combined with recent leadership changes, expect more upheaval at the OCC.

Risk

OCC Staff gave an overview of potential risks facing mutual banks, including but not limited to:

- Competitive employment market
- Inflation and rising rate environment
 - Most mutuals have a good liquidity base and are asset sensitive and could benefit
- M&A activity expected to slow especially for smaller and mid-size institutions
- Retail investment, loan pipeline, and commercial activities expected to contract in the short term

Aside from credit risks, the OCC spent a significant amount of time discussing cyber risk. This has been the main focus of the last two years and will continue to be a key focus moving forward. Ransomware and other cyber-attack risks remain elevated, and OCC staff gave several suggestions and best practices for mitigating these risks.

- Patch management of 0 day vulnerabilities remains one of the best ways to avoid cyber threats
- Increased firewall lockdown including limiting traffic to non-U.S. domains
- Implementing 3 Factor Authentication (user password, one-time VPN password, unique device password)
- Use of Off Network Encrypted Backups which limits scope and available data to potential attackers
- Cyber insurance is important for reducing costs during and after a cyber-event

Mutuals should aggressively invest in technology, to limit cyber risk exposure; upgrade products and services; and attract a younger depositor base. Committee members urged the OCC to offer Information Technology resources to mutuals to help close the technology gap between mutual, and commercial institutions.

Charter Renewal and Next Meeting

Deputy Comptroller Brickman announced that the MSAAC Charter renewal has been approved by the Department of Treasury for another two years. Nominations for committee membership will open in July and run through the summer. Members are eligible to serve two consecutive terms of two years (4 years total) before cycling off the committee.

The next MSAAC meeting will be held on September 20th, 2022 and will be in hybrid format.

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