AMERICA'S MUTUAL BANKS
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Mutual Alert

The FDIC/OCC Joint Mutual Forum Signifies Mutual Bank Progress But Uncertainties Remain With The Forthcoming Change In The Administration.

The Joint Mutual Forum was held at the FDIC Seidman Center in Arlington Va. yesterday August 4, 2016. Both Comptroller Curry and Chairman Gruenberg welcomed the attendees. There were 78 bankers in attendance 21 of which were federally chartered. Included in the total are a handful of mutual holding companies with minority stockholders who were also in attendance. The next largest portion of the audience was composed of regulatory staff from the FDIC, OCC and FRB. There were several trade groups including AMB in attendance. There were multiple opportunities to talk to senior staff on a one on one basis.

Economic Outlook

The meeting began with a presentation, a copy of which is attached, on the economic outlook which was general in nature. The OCC gave a more mutual specific overview of its risk assessment system (RAS) findings which demonstrated the relatively low risk profile of mutual federal banks in all risk categories. The OCC presentation also addressed the most prevalent concerns based on matters requiring attention (MRA) reported in examinations. The FDIC did not have similar metrics to share publicly but generally stated its experience with state chartered mutual as being similar.

Strategic planning

The Economic Outlook was followed by a mutual CEO panel on strategic planning which gave a diverse set of perspectives. Robert Rivers, COO Eastern Bank, the nation's largest mutual bank shared his experience in developing Fintech. Much of the discussion involved the use of Fintech to alleviate business and regulatory burdens.

Cyber Security

The next session addressed cyber security from the perspective of two mutual bankers. Most of the comments were typical of the experience of most community bankers particularly the customer fall out when a retail merchant breach causes the bank to issue new cards. There was no mention of the special vulnerability of mutuals of a breach in the privacy of member information.

Breakout Sessions

During lunch the meeting was divided into three breakout sessions mutual holding companies(MHC) , Operations and Accounting . The session devoted to mutual holding companies was led by a panel from the FRB. The staff revealed that the Fed will soon adopt a final Reg MM governing mutual holding companies. When queried whether any consideration had been given to reopening the comment period or republishing the regulation as a proposal. The FRB staff indicated the regulation would be adopted soon even though it has been five years since it was adopted effective immediately without notice or comment. There were several questions from the audience questioning the wisdom of not reopening the rule to comment but the staff expressed confidence that it had the experience it needed without further public input. A few CEOs also questioned whether the FRB would consider the frequency of member vote approvals for dividend waivers to less frequent than annual.

Don Dwyer of the OCC indicated that the OCC would soon propose a regulation to streamline mutual mergers between federal and state chartered banks eliminating a step conversion to a state charter. This should significantly reduce the expense and delay of chartering an interim stock bank as a step in merging a mutual into a MHC stock subsidiary. It is a welcome change for mutual banks with MHCs seeking to structure mergers.

The operations panel was composed of FDIC staff and the Chairman. It focused on mutual specific metrics. A number of bankers asked that the definition of mutuals be refined to exclude MHCs with minority shareholders as a separate group. Jim Watkins FDIC Supervision volunteered that mutual banks present a superior risk profile to stock banks. Diane Ellis, FDIC Div. of Insurance and Research expressed surprise that mutuals had half the failure rate than stock companies. She explained given mutual bank concentration in mortgage lending and the unprecedented collapse of the mortgage market she expected a higher rate of failure. She did not mention the de minimis size of the total assets of failed mutual banks as compared with commercial or thrift stock banks. Chairman Gruenberg closed the meeting with general praise for the mutual bankers and observed that the FDIC has worked to acclimate the staff and agency operations and policies to mutual banks. He cited the addition of two mutual members to the FDIC Community Bank Advisory Committee.

In general there was not a lot of new information that would be of special interest to mutual banks compared to a community banks. However, there were a series of questions posed to a joint banker regulator panel by mutual ceos which sensitized the staff as to the work to be done. There was also ample access to the staff for bankers to express their own experiences with particular regulations or examiners. It appeared that most bankers took advantage of this opportunity. The FRB staff was asked to consider the extension of the frequency of proxy solicitations of dividend waiver member approvals. Several bankers suggested changes to call report peer comparisons.

Joint Regulator/Banker Compliance Panel

The conference closed with a joint regulator/ banker panel on compliance led by David Cotney, the Commissioner of the Massachusetts Division of Banks. There were suggestions on collaboration and on cost sharing. There was further suggestion by the Commissioner that mutuals be able to collaborate and share management talent. He cited a case in his state where a CEO passed away and another bank temporarily managed the bank. Most of the discussion was anecdotal but had a common theme that compliance is a bigger burden for smaller banks.

The Forum was an excellent opportunity for both the regulator and the regulated to learn. More importantly, it signifies how far mutual banks have come since AMB first began to press for more mutual specific communication six years ago. Great credit should be given to Chairman Gruenberg and his staff for employing the resources of his agency to facilitate this outreach. Similar thanks should go to Comptroller Curry who has devoted hundreds of hours to assuring that both the OCC and Federal mutuals share an understanding of each other's priorities and peculiarities. We are apprehensive with the change in administration and the inevitable appointment of new agency heads and senior officials. We will need to do much work to preserve the progress of the past six years and move forward. Your involvement in America's Mutual Banks will be particularly critical during the next two years.