

Mutual Alert



OCC MSAAC MEETS TO DISCUSS LENDING, CECL AND MUTUAL COLLABORATION

The OCC Mutual Savings Association Advisory Committee met with senior Staff today to discuss a number of issues of interest to mutual banks. The Comptroller was not present.

The morning session was devoted to a discussion of lending and supervisory concerns of a potential spike in loan demand on a localized basis and how community banks are dealing with their locale lending markets. The OCC national credit expert shared his concerns of the diversity in risk in the different lending markets. There was an extended discussion of residential, construction, and small business loans. Generally, the Committee members did not report any incipient problems although the Staff did cite some potential trouble areas based on geography. There was some discussion of the dwindling numbers of independent appraisers and the difficulty that presents in loan underwriting. The general consensus was that examiners had a good sense of underwriting risk. AMB Chair, Tom Fraser, noted that the OCC had revised its handbook relating to concentrations. In general, the discussion produced little in the way of any particular concerns for mutual banks but was more in the nature of the information sharing on the state of the lending markets.

The OCC 's expert on CECL led a discussion on what the current practice is of the various committee members in preparing for implementation. There was concern expressed that early implementation was not wise but that a parallel system of preparation was more desirable. A number of Committee members raised concerns that the estimates be respected as unique to each institution. The Staff agreed that the one size fits all and inexact peer comparisons were not the preferred approach. Committee members expressed the desire that the estimates remain subjective. The Staff affirmed that the estimates under CECL are a "management chore" not an accounting one in response to concerns raised that accountants would look to the OCC for guidance.

Michael Brickman, who chairs the meeting for the OCC, inquired as to what the members were experiencing in deposit cost increases. There was a sense of the group that the costs were rising but that was mostly reflected in reduced balances of certain accounts. Tom Fraser speculated that the entry of Fintech alternative providers in the retail business, citing venmo's debit card may be bleeding off some deposits.

The next session was led by the OCC's Beverly Cole who shared the experience of the OCC in encouraging the minority bank group to seek more collaborative business opportunities. She explained that the principal obstacle was trust that business relationships would not be poached by larger competitors. She reported overcoming initial resistance and rising success. A proposal was discussed to attempt to have the OCC do the same for mutuals. After extensive discussion

it was agreed that the OCC could serve as a facilitator among mutual banks to encourage collaborative relationships opening opportunities to small mutual to new products. It was the sense of the group that instead of the OCC Forum held biannually that a collaboration meeting to encourage mutual banks to share relationships might be a better use of the time. The Staff reminded the audience that the OCC Office of Innovation will interface with banks between various specialists in the technology sector.

The final business session was devoted to the various service corporation powers and op sub powers that might be used for joint enterprises. Banks were encouraged to meet with the OCC licensing Office for vetting of proposals to utilize those powers.

There was some discussion of the OCC recent Flex Act regulatory proposal and a polling of interest. The reaction was mixed.

Finally the Staff explained that a number of slots with two year terms were opening on the Committee and the procedure for filling them. The estimate was given that final selections would not be made until close to the first MSAAC meeting in the Spring of 2019.