AMERICA'S MUTUAL BANKS
7018th STREET NW SUITE 700, WASHINGTON, D.C. 20001

Mutual Alert

AMB MEETS WITH GOVERNOR ELIZABETH DUKE AT FEDERAL RESERVE BOARD OFFICES IN WASHINGTON D.C.

On Feb. 14 -- Yesterday AMB members Pete Boger, Chuck Boulier, Jay Ford and Jim Vaccaro along, with counsel Doug Faucette, met with Federal Reserve Board Governor Elizabeth Duke in Washington D.C. The purpose of the meeting was to compliment Governor Duke who is a former community banker on her public statements about curing and mitigating the effect of the one size all fits approach on community banks. The theme of our presentation is that without discriminating regulatory policy mutual banks are greater victims of the big bank regulatory mindset than stock community banks.

Governor Duke was very gracious in receiving our delegation. She empathized with the plight of mutual banks, as a sector of the industry, in that they have received even less attention than most by the agencies fashioning tailored regulation. She acknowledged that the FRB has much to learn about mutuals as it has had little experience in the past, dealing mostly with MHCs with no stockholders.

From the left Jim Vaccaro, Chuck Boulier, Doug Faucette, Pete Boger and Jay Ford

Jay Ford explained the dilemma that the failure to account for differences between the thrift and mutual thrift industry and commercial banks has cause his mutual holding company which has no public stockholders. In the case of his bank he explained the MHC borrowed money collateralized with bank stock to downstream to the bank as capital to support growth in the community. As his bank is under $500 million in assets, the MHC would be exempt from consolidated capital requirements if his bank were chartered as a stock commercial bank rather than a mutual s&l. Because of a failure to recognize thrifts in the Collins amendment the FRB has taken the position that its hands are tied and it must apply the consolidated requirements to S&L HCs. Governor Duke was impressed with this example and recognized that Congress must address the problem in the statute. The staff also suggested that there might be some alternative interpretations that would provide a path to the exemption through conversion to a bank HC.

Chuck Boulier gave a brief lesson on the culture of his bank and the commitment it has to the community for over a hundred years. he discussed the sense among the board members that they are an institution not just a business and have a higher calling than just making profits. He explained some of the problems that the Basel III proposal would cause for his bank particularly the OTTI deduction from capital for funded pension costs. He explained that if adopted the requirement would eliminate a significant sum from capital. The staff present acknowledged the concerns with some of the variable factors in the proposal as creating uncertainty for mutuals.

The conversation moved to the need for mutuals to have outside sources of capital without sacrificing their core principles or safety and soundness. Chuck Boulier, Jay Ford and Jim Vaccaro emphasized the growth opportunities in their markets and the opportunities for acquisitions for merger that would be enhanced with a capital instrument. In attendance was the Feds senior manager for Capital Policy who seems to have briefly reviewed our comment letters and the summary of terms for the MIC. Chuck Boulier and others present emphasized how much of a disadvantage that the proposed approach would place mutuals at, as they would have no tier one capital instrument that would be salable under the current proposal.

The discussion focused on the terms of the MIC and whether it was debt or equity which was an initial impression voiced by the staff. AMB members made it clear that it was equity, Chuck Boulier citing an opinion he obtained from his accountants in support of that assertion. The focus then moved to whether the terms would disqualify it as tier one capital under the Basel III proposal . Mr. Faucette stated he believed the only disqualifying feature was that it could be cumulative which did not comply with the proposal. A discussion ensued as to the relevance of cumulation to a mutual since it has no common stockholders who could pressure the bank to take imprudent action to pay the dividends in arrears. Mr. Faucette cited the recent approval by the Bank of England of a similar instrument as tier 1 capital under Basel III as an example of the flexibility demonstrated by foreign bank regulators. Governor Duke acknowledged the importance of developing a tier one capital instrument for mutuals that did not sacrifice safety and soundness concerns. She suggested that it would be appropriate for the inter-agency task force to take this matter under consideration and for us to work with them. We enthusiastically agreed .

Jim Vaccaro discussed his experience recently becoming the CEO of a mutual after selling a community commercial bank and the fundamental difference between the two. He pointed out that unlike stock owned companies his Board and the customers have a common interest with no private constituency seeking a profit from the customers causing any tension or conflict in that relationship. The discussion then focused on the small degree of representation that mutuals have on the FDIC, CFPB and FRB Advisory Boards. The members urged that a working group of mutuals might be beneficial to the FRB. Various other topics were discussed including some praise for the professionalism of the regional FRB staff, the unnecessary reporting for simple MHCs and the overall learning curve both regulator and bank have been experiencing since Dodd-Frank.

The meeting was a great success in that it was a real working session rather than a pure ceremonial meet and greet. It highlighted many of the problems that mutuals perceive with today's regulatory policies and gave a member of the Board who was herself a small banker real insight into the problems facing mutual banks.

ADDITIONAL COMMENTS ON AMB MEETING WITH GOVERNOR DUKE

A number of you have asked what the Fed's position will be on promoting mutuality in its discourse on implementing the various Dodd-Frank regulations. I can tell you very clearly that Governor Duke who is the Fed's eyes and ears with respect to the operations of community banks understands the need to differentiate between different charter types in regulatory rule making. However as she emphasized at our meeting, the agencies have limited resources and are not always able to do micro reviews of the effect of policies and regulations on smaller segments of the industry. What wasn't said however is that the agencies do not see their mission as promoting any industry. This is different from the OTS and its predecessor the FHLBB which had a statutory mandate to promote "local thrift and economical home finance".

This is no surprise to me but emphasizes why America's Mutual banks exits if we can't advocate on our own behalf who will?

L to R Ford, Vaccaro Boulier Governor Duke, Boger and Faucette