Minority Depository Institution Advisory Committee Minutes
September 19, 2019

The Minority Depository Institution Advisory Committee (MDIAC) convened for a meeting at 8:30a.m. on Thursday, September 19, 2019, at the Office of the Comptroller of the Currency (the OCC), Headquarters, Washington, DC. In accordance with the provisions of Public Law 92-463, the meeting was open to the public.

Advisory Committee Members Present
Natalie Abatemarco, Managing Director, Citi Community Development and Inclusive Finance; Jamie Bartholomew Aller, Director and General Counsel, The National Bank of Malvern, Malvern, PA; Jerome Brown, Senior Vice President and Director of Community Development, The First, A National Bank Association, Hattiesburg, MS; Lucilio (Louie) Couto, President and Chief Executive Officer, American Plus Bank, N.A., Arcadia, CA; Guillermo Diaz-Rousselot, President, Continental National Bank of Miami, Miami FL; John H. Hou, Chairman of the Board of Directors, president and Chief Executive, Asian Pacific National Bank, San Gabriel, CA; Jesse Jackson, Senior Vice President, Texas Capital Bank, N.A., Dallas TX;

OCC Participants Attending
Joseph Otting, Comptroller of the Currency; Toney M. Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision; Beverly F. Cole, Deputy Comptroller for Compliance Supervision Management and Designated Federal Officer; David Black, Community Development Expert, Compliance and Community Affairs; Glenda Cross, Director for Minority Outreach; Ralph DeLeon, Director for Banking Relations; Lissette Flores, Community Relations and Minority Affairs Specialist; Grovetta Gardineer, Senior Deputy Comptroller for Bank Supervision Policy; Jeffrey (Jeff) Geer, Associate Chief Accountant; William (Bill) Haas, Deputy Comptroller for Midsize Bank Supervision; Carlo Martinez, National Bank Examiner (Team Leader), Miami Field Office; Sydney Menefee, Deputy Comptroller for Accounting Policy; Andrew Moss, Outreach and External Relations Program Manager; Yoo Jin Na, Bank Examiner (Senior Licensing Specialist); Linda Nichols, National Bank Examiner, Midsize and Community Bank Supervision; Enice Thomas, Senior Advisor to the Senior Deputy Comptroller for Midsize and Community Bank Supervision; Steven Westenskow, Deputy Comptroller Analyst, Central District; Barry Wides, Deputy Comptroller for Community Affairs; Nida Zaman, Congressional Affairs Specialist

External Speakers
Shayne Kuhaneck, Acting Technical Director, Financial Accounting Standards Board (FASB)

Public Observers
Diana Banks, American Bankers Association, Washington, DC
Amanda Roberts, Federal Reserve Board, Washington, DC
Phillip Joseph Ross, Upward Mobility Initiative, Washington, DC
Betty Rudolph, Federal Deposit Insurance Corporation, Washington, DC
Bill Tiernay, Federal Reserve Board, Washington, DC
Carmen West, U. S. Department of Commerce, Washington, DC
Sharon Zimmerman, Woodforest National Bank, Washington, DC
Stephane LeBouder, The Honorable Gregory W. Meek's Office, Washington, DC

Call to Order and Welcome – Beverly Cole and Toney Bland
Beverly Cole opened the meeting at 8:30 a.m. and welcomed all in attendance. The meeting agenda was also reviewed. Attendees were reminded the meeting is open to the public and meeting minutes will be published on the Treasury Federal Advisory Committee Act (FACA) website.

SDC Bland thanked committee member Guillermo Diaz-Rousselot for his contributions to the committee during his tenure.

Conversation on CRA Modernization and Other Topics – Joseph M. Otting – Comptroller of the Currency
Comptroller Otting addressed the committee members on a few topics. First he provided an update on the CRA ANPR. He reported persons are working diligently to produce the NPR and while he wanted it completed a year ago, the current plan is to deliver the NPR to the FDIC and FRB by late October 2019. It will address four key areas. They are: (1) what counts – a list of what qualifies and give bankers an option to get a ruling on a proposed activity before the investment is made. This will help people think broader. (2) Where it qualifies – financial institutions support community with branches and online where they are taking deposits. Look at units and actual dollars and where online deposits are 5% or more treat as an assessment area. (3) How we measure? Measure units and dollars – key is create clarity and this will increase units and dollars. In 2017 CRA activity totaled $480 billion. If we create clarity another $50 billion could be accomplished. (4) Reporting.

In discussing BSA/AML Comptroller Otting reported that the agencies (OCC, FDIC, FRB, NCUA and FinCEN) have done a lot of work in this area. There are weekly working group meetings and the principles meet monthly. Also progress was made with small institutions being able to share resources, the OCC is open to financial institutions using more creative ideas, and the BSA Manual is being overhauled with a risk-based focus versus treating every institution the same, and encouraging more automated processes, such as placing data into a data warehouse so data can be seen across institutions. Overall there is a focus on being more efficient and effective.

Some key points from questions and answers included there is no requirement for financial institutions to “google” customers for know your customer or beneficial ownership, however OCC will hold institutions accountable for what they put in their policies. The bankers stated they are influenced by what examiners think and sometimes what other institutions are doing. And, when they see other institutions being assessed big penalties they become more conservative. The bankers indicated they would appreciate receiving more perspective on what they do not have to do to be compliant. SDC Bland indicated OCC is trying to define what does qualify in the supervisory process. And, bankers should focus on Matters Requiring Attention (MRAs) versus recommendations/observations. We have eliminated examiners including recommendations in reports of examination. A committee member indicated in some cases they don’t challenge examiners because they want a positive relationship with the regulators. SDC Bland stated that the path of least resistance is not the best. And we are trying to be clear with examiners that recommendations should not be in the report of examination.

Comptroller Otting also discussed some realignment of business units within the OCC for more efficiency and effectiveness. Also, that he decentralized the decision making process so decisions are made at the lowest level appropriate. Also reduced cost of operations by fifty million dollars with tougher negotiations with vendors, consolidating OCC operations into one building in Washington, DC including giving up three floors in the headquarter building. These changes mean reduced assessments for bankers. Also OCC is looking to improve internal technology platforms by moving to a single supervisory platform – similar to a bank's operating system – plan, resource allocation, data storage, etc. There is a substantial budget for this project.

He shared that the Dodd Frank Compensation Rule should be completed by year-end.

Additionally, he discussed some highlights on the five bus tours he participated in across the nation. He noted that in prior years the focus of these groups has been jobs, small business lending, and housing. Today the focus is housing, housing and housing. As an example, the average starter home in Queens, NY cost seven hundred thousand dollars and low-to-moderate income persons in the area make an average of fifty thousand dollars. To address the housing need a group purchased property in a light industrial area – big scaffolding and built three hundred housing units. There were sixty thousand applications for those three hundred units, which underscores the need for affordable housing.

Requirements for Current Expected Credit Losses (CECL) – Acting Technical Director Shayne Kuhaneck and Deputy Comptroller Sydney Menefee

Acting Technical Director, FASB stated he has been in the position since May, 2019 and is responsible for day-to-day operations of staff including research projects. His staff covers most accounting issues that affect the banking industry. FASB's current focus is community banks (smaller banks) CECL implementation. Through extensive outreach, the FASB has learned that smaller banks need more time and were still struggling to understand scalability. While FASB has always given smaller banks more time (at least a year) for implementation, they discovered a year is not sufficient for major accounting standard changes. He reported smaller banks can learn from missteps of the larger institutions and with extra time the transition from bank's current policies, processes, procedures, plans, etc. to what is required will be more robust and smoother. So, FASB is changing its philosophy with smaller banks and giving them until 2023 years to implement CECL.

Institutions are encouraged to use information and inputs relevant to their institution. There is not a need to forecast 30 years. And, it is better to use relevant information and inputs than nationally available data that is not relevant to your institution. FASB is participating in workshops for community banks on CECL implementation. However, a challenge is where to do the training and when to conduct the training.

Deputy Comptroller Menefee reported OCC is looking for themes from the questions received and will use these to determine what might be most helpful to both bankers and examiners. Also there will be being Train-the-Trainer sessions for OCC examiners on CECL in early 2020 and train all examiners by 2023.

Also, a point was made that there is a difference between a bank having low credit losses and not having loss data (i.e. limited data). Acting Technical Director Kuhaneck stated one of the hurdles is banks do not have the needed data. And, therefore pushing the timeline out is another advantage and opportunity so bankers can get more data before implementation.

Several committee members had very technical questions specific to their individual institutions. Those questions were deferred for one-on-one responses outside of this venue.

DC Menefee shared some feedback from OCC monitoring activities. She noted that third parties are moving to the discounted cash flow versus loss methodology, financial institutions are further along including awareness and plans than other industries, and more banks decided to use a third party in some capacity – 60% of banks including midsize banks. Also she reported that the Call Report forms have been updated and published. And, the glossary will be updated and published in the coming months. FASB is willing to conduct workshops and usually sends three persons to assist.

MDI Collaboration Update – Deputy Comptroller for Midsize Bank Supervision Bill Haas
Next DC Bill Haas provided an update and overview on the agency's MDI Collaboration efforts for FY2019 and requested ideas for FY2020. In FY2019 OCC completed three regional MDI Collaboration meetings. These meetings were held concurrently with three BSA/AML Technical Assistance workshops targeted specifically to MDIs. In addition, OCC co-sponsored the Bi-annual MDI Interagency Conference with FDIC and FRB. And, we shared our platform for MDI Collaboration meetings with FDIC as well as discussed our platform with Congressional staffers. Also, Comptroller Otting and other OCC senior managers were engaged with five bus tours with community leaders.

Some current statistics on participation include:

- Of 48 OCC supervised MDIs, 25 attended one or more MDI Collaboration activities
- 20 OCC supervised midsize banks participated (80%), along with 5 large community banks
- 2 OCC supervised Large banks participated (most notable was Citibank, N.A.'s participation with active engagement from Natalie Abatemarco, Managing Director, Citi Community Development and Inclusive Finance, New York, NY)

DC Haas asked the membership if there was more OCC could do to engage those not participating and keep those participating engaged. Members stated that they too have reached out to some MDIs not participating in the OCC-sponsored collaboration initiatives, and report that these banks are satisfied with what they are already doing and do not want to engage further. Also, some MDIs are geographically challenged – based in locations not easy to travel from to central meeting locations.

DC Haas also indicated the information shared by banks (both MDIs and larger institutions) with OCC to document collaboration interests and activities will soon reside on BankNet. Committee members noted no concern that reporting on successful collaboration efforts would be assessable to other bankers. Such reporting is voluntary; there is also no obligation for any bank to report the information in this manner.

There was a discussion regarding deposits and the concern some banks have raised regarding their ability to attract and maintain stable low cost funding. Larger banks reportedly are investing heavily in technology and focusing on tech savvy customers. J D Powers reports that the customer base for smaller institutions is growing older but that for larger institutions is growing younger. Following the 2018 Collaboration Roundtables, where deposit funding was a key theme, MDIs have reported good success in getting new deposit relationships, approximately two-thirds report they have successfully partnered with larger banks for deposit accounts.

DC Haas reminded the group that over the past three years, the collaboration initiative started with a focus on relationship building between MDIs and larger institutions. The second year, deposits was a primary areas of focus, and most recently, the 2019 roundtables focused on technical assistance opportunities (time and people investment). The group then discussed focal points for 2020 roundtables. Members agreed the current format for the MDI Collaboration sessions is working – they encouraged OCC to maintain the dialogue and format. One member suggested the OCC could have more visibility in the markets if there were people dedicated full time to this work. Another member stated OCC should get other bank leadership involved – perhaps including OCC outreach that reemphasizes all types of technical assistance and other means of support for MDIs that count for CRA credit.

DC Haas shared that he is leading an initiative within OCC for OCC staff regarding preparedness for a future downturn (e.g. timely recognition of emerging problem credits).. He noted there could be an opportunity to attach this training to a future MDI Collaboration activity. The membership agreed these factors should be included and suggested inclusion of triggers for credit quality deterioration and to have the local ADC communicate the program with their respective banks.

DC Haas reported on the recent CRA Officer Roundtable for Midsize Banks, during which he led a similar discussion and feedback session on the MDI collaboration initiative. Midsize banks remain interested and engaged. Several are interested in technical assistance, but some noted concern regarding potential legal liability should they provide technical assistance to an MDI and something goes wrong –. To help address this concern, OCC attorneys are looking to draft a hold harmless agreement that would help address this concern. One member institution developed an advisory agreement for MDIs to address this potential litigation concern and offered to share the document as a model.

DC Haas then noted that he had shared with the OCC team working on CRA Modernization several suggestions raised during the recent collaboration roundtables. One such suggestion relates to how a deposit investment into a MDI is counted for CRA credit, with a suggestion that a longer –term deposit (e.g. a three year deposit vs. one year or less) should receive full credit over the entire term of the investment in order to encourage longer-term financial commitments.

Also OCC representatives Barry Wides and Andrew Moss are going to assist in writing an article that provides perspective on MDI Collaboration. The article will address key factors for successful collaboration and partnership. These factors include:

- Building relationships – focus on establishing relationship versus transactions.
- Mutual trust – achieved with open and candid dialogue and a view that collaboration is mutually beneficial to both parties
- Tone at the top – collaboration established as an institutional priority Empowerment – empowered executive(s) leading the collaboration mission
- Perseverance – repeated efforts when necessary to seek out collaboration partners

The committee members added a sixth factor – continued involvement/leadership from the OCC, including continued participation by the Comptroller.

SDC Gardineer encouraged everyone to focus on the list of things that count and is supportive of providing certainty in this area. Committee member Abatemarco stated thus she has not received many inquiries from midsize banks on how to replicate the Citibank program (ATM) but she is willing to speak with any interested party.

MDIAC Roundtable

Most topics were covered in the earlier discussions. However, those items not covered earlier are highlighted below.

- Request to make CECL workshops less high level and more in-depth training
- Consider a venue on concentrations – hard to find other institutions when you have concentrations – MDIs

- Upcoming Conferences
    - NBA – October 3, 2019 at Conrad Hilton in D.C.
    - ABA for Community Banks in February
- Comment that MDIs do not receive 2.5X book value when sold so MDIs may not be an attractive investment which will result in fewer MDIs in the future. The result may be some communities will be underserved and harmed as a result.
- MDIAC Membership – it was reported that Robert Klamp resigned from the committee and some former members were not invited back to the committee in an effort to provide opportunities for others to join the committee and provide diversity of thought and experiences.

Public Observer Comments
Ms. Cole opened the meeting to public observers and welcomed their comments.

Amanda Roberts, Federal Reserve Board, Washington, DC – informed the group that the Federal Reserve Board, St. Louis, MO was holding a conference focused on leadership potential and how one could advance their career
Bill Tiernay, Federal Reserve Board, Washington, DC – stated that he echoed prior OCC comments and Federal Reserve examiners where also encouraged not to place recommendations and observations in their Reports of Examination.
Betty Rudolph, Federal Deposit Insurance Corporation, Washington, DC – informed the group the FDIC issued a research study in June 2019 on transitioned the discussion to how to move forward the OCC's MDI Collaboration Events to next steps, citing successes with the event that came about based on direct feedback from the MDIAC members. Ms. Cole noted that in response to MDIAC members wanting large banks at the table MDIAC members Jesse Jackson of Texas Capital Bank, N.A. (Dallas, TX) remains on the committee and Natalie Abatemarco of Citibank, N.A. (New York, NY) was added to the committee.

Adjournment
The meeting was adjourned at 2:00 p.m.

The minutes are an accurate representation of the meeting.
/s/ Beverly F. Cole