

Office of the Comptroller of the Currency  
Minutes of the Meeting of the  
Mutual Savings Association Advisory Committee  
August 3, 2016

The Mutual Savings Association Advisory Committee (MSAAC) was convened for a meeting at 1:00 p.m. on August 3, 2016, at the Office of the Comptroller of the Currency (OCC), 400 Seventh Street S.W., Washington D.C. 20219.

In accordance with the provisions of Public Law 92-463, the meeting was open to the public from 1:00 p.m. to 4:00 p.m.

**Advisory Committee Members Present**

Martin Connors, Jeff Hyde, Thomas Kemly, Paul Mackin, Dan Moore, Susan Ralston, Ron Romig, Margaret Smith, Steven Swiontek, Charles Timpa

**OCC Staff Attending**

Comptroller of the Currency Thomas J. Curry, Charlotte Bahin, Gil Barker, Toney Bland, Michael Brickman, Linda Brown, Arnie Cohen, Kevin Corcoran, Ralph DeLeon, Spencer Doak, Don Dwyer, Jeffrey Geer, Kris Kiefer, Kay Kowitt, Blake Paulson, Enice Thomas

**Public Meeting**

Comptroller Curry, Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, and Michael Brickman, Deputy Comptroller for Thrift Supervision and Special Supervision each welcomed the committee members and thanked them for their service.

Comptroller Curry remarked how valuable the committee meetings are in getting input from the members. Mr. Brickman provided an overview of the meeting agenda including that each of the District Deputy Comptrollers attended the meeting and had a roundtable discussion to highlight topics that each is seeing in his or her respective District.

**BSA Update**

Spencer Doak, Director BSA/AML Compliance, provided an update of recent changes and a reminder of important compliance challenges in the Bank Secrecy/Anti Money Laundering area. Mr. Doak reminded the committee members about the importance of having a culture of compliance at each bank and for senior management to establish the tone at the top. Leadership must establish a BSA/AML program that is commensurate with the risk at the bank. A Bank Secrecy Officer must be designated and must be granted sufficient authority, have sufficient knowledgeable staff and have expertise to be able to do the job required. Independent testing must be done regularly and leadership and staff must know and understand the risk appetite at the institution.

Mr. Doak described the new Customer Due Diligence requirements issued by FinCEN that will be effective in May 2018. The rule requires a customer risk profile and ongoing monitoring. The rule includes four elements: identification and verification of customers; identification and verification of beneficial owners of legal entity customers; understand the nature and purpose of customer relationships; and conducting ongoing monitoring for reporting suspicious transactions and on a risk basis, maintaining and updating customer information. Mr. Doak described the evolution of the Customer Identification Program (CIP) requirement. The new requirement is trying to get at the beneficial owner behind the customer. A form is part of the rule and he discussed how to obtain the required information from customers to ensure compliance. This requirement is being separated from the internal controls requirement and becoming a fifth pillar.

Mr. Doak then described interagency guidance that was issued in March 2016 for banks issuing prepaid cards. The guidance clarifies that CIP requirements are applicable to general purpose prepaid cards that provide the cardholder with the ability to reload funds or access to credit or overdraft features. He described the AML issues that may arise in the Fintech context. He reminded the committee members that risks must be identified and that the entity must have robust internal controls.

He then turned to a discussion of BSA program expectations. Mr. Doak listed several important areas that the OCC looks at, including: BSA staff is up to date with developments; the bank has a succession plan in this area; and that internal controls and monitoring systems are in line with the risk tolerance. He explained that that the bank should use a combination of automated and manual systems. He also mentioned that the audit of BSA programs be independent and take the risk assessment of the bank into account. The risk assessment must be updated to include new products, services and customers when necessary.

Mr. Doak concluded his remarks with a discussion of BSA “Hot Topics.” These include a reminder to reevaluate risk and to have controls in place. He reminded the committee that it is not the OCC’s responsibility to open, maintain or close accounts - that responsibility resides solely with institutions. He also discussed the Panama Papers and the exposure of the clients of the law firm involved. Finally, he reminded the committee members of the three important takeaways from the update. First, a bank’s operations and controls must keep pace with the institution’s size, complexity and risk profile. A regular review of the bank’s process to review and approve products and services must be accomplished. Finally, he reminded the committee members of the importance of the tone at the top and that sound governance is critical to assure ongoing compliance.

The members of the Committee remarked that they think that community banks generally are doing a good job with BSA compliance. Mr. Doak described the evolution of the requirements from the 1970’s and favorably compared the numbers of enforcement actions to the numbers of banks. He reminded the committee members that banks are an important component of law enforcement efforts. Mr. Bland asked the District Deputy Comptrollers to talk about their experience with BSA compliance.

Blake Paulson, the Deputy Comptroller for the Central District, reported that a few of the 400 banks in the Central District are high risk and that examiners have focused efforts on the

management and boards where risk has been identified. Gil Barker, Deputy Comptroller for the Southern District, said that the Southern District includes Florida and Texas and that there are high risk banks in the District but that the number of BSA-related enforcement actions and Matters Requiring Attention (MRA) have decreased. He pointed out that BSA compliance is not a “one and done” exercise. Banks must remain vigilant and have systems and controls in place. Kay Kowitt, Deputy Comptroller for the Western District, said that the emphasis in the Western District has been on risk management. She said that the trends are positive but that it is important to remain focused. Kris Kiefer, Deputy Comptroller for the Northeastern District, said that the Northeastern District does not have as many high risk banks as the Southern District but there are some. She agreed that the number of enforcement actions has decreased but there are a number of MRAs. She mentioned that keeping good BSA officers is a challenge.

A committee member described the process used to change responsibility for BSA compliance from having an outsourced arrangement to doing BSA compliance in house. Management worked with the District office to manage the transition. A member asked how the OCC views banking medical marijuana business. Mr. Doak responded that given the growing number of states that have legalized the sale of marijuana to some extent, each institution has to think about whether engaging in business with those customers is worth it. He referenced the Department of Justice memo and the FinCEN guidance. He said that it is possible to provide banking services if the right controls are in place. Enice Thomas, the Assistant Deputy Comptroller in the Seattle Field Office, reminded the committee members that they should call their respective ADC if they have questions about banking this business. He said that the banking industry has raised the bar.

A committee member pointed out that a bank must look behind the customer to related businesses. Ms. Kowitt said that banks should look at the collateral of the loan. A member pointed out that property can be seized. Another member referred to the indirect affiliations that can arise in these situations.

## **Member Roundtable**

Each of the committee members shared thoughts on issues faced by mutual institutions and community banks in general. Common themes included the following:

- Regulatory burden and the EGRPRA review
- Compliance with new mortgage rules
- Strategic planning
- Status of the mutual institution segment of the industry
- Shift in customers’ expectations
- Capital concerns for mutual institutions
- Succession planning
- Risk appetite and risk management
- Accounting issues and implementation of CECL
- Fintech and financial innovation
- Unique affordable housing projects
- Branches of the future
- FSA flexibility legislation

## **District Deputy Comptroller Roundtable**

Mr. Barker began the District Deputy Comptroller Roundtable by providing an overview of the recently issued Semiannual Risk Perspective. He described the general risk themes found by the OCC's National Risk Committee and reported in the document issued for spring 2016. He described four major issues highlighted in the report that are important for all community banks and then he described two issues that are of particular interest to mutuals. The four more general risk themes are: strategic risk, credit risk, operational risk (which includes cyber risk) and compliance risk. The two risk themes he identified as being of particular importance for mutuals are interest rate risk and interaction and communication with examiners. With regard to interest rate risk, Mr. Barker mentioned that interest rate risk is not more of a risk concern for mutuals but that they need to have a process in place. Mutuals should focus on funding as core deposits are critical to operations. He reminded the committee members that communication with examiners is important and reminded the committee of the local resources available.

Ms. Kowitt described the Responsible Innovation project that she has been leading. The working group issued a white paper identifying eight principles, solicited comment and held a Forum to generate comments and ideas. Ms. Kowitt discussed the definition of "responsible innovation" and described the functions and objectives of the working group. She described the common themes of the comments received at the Forum and through the solicitation of comments on the white paper. She highlighted the consideration of developing a federal charter tailored to Fintech. She listed the areas that would need to be addressed if such a charter were developed. These include legal, licensing and policy issues. She told the committee that the working group would make recommendations to the OCC's Executive Committee and the Comptroller this fall.

Ms. Kiefer described the credit underwriting tool and the horizontal examination using the tool that recently concluded. The review consisted of a horizontal examination of 25 banks in each District. The purpose of the development and use of the tool was to assess industry standards in a uniform way. The five key factors reviewed as part of the credit underwriting tool are: structure, collateral, internal controls, compliance with policy and risk assessment and selection. The trends of each factor were rated. The conclusions of the review were sent to bank CEOs. Generally, the findings indicate that the majority of banks have moderate underwriting practices. Additional information about the credit underwriting tool is available on OCC BankNet for OCC-supervised national banks and federal savings associations.

Mr. Paulson described the OCC's examination efficiencies initiative. The goal is to do more of the work of an examination off site and better use an examiner's time. Less time spent travelling to examinations and doing more of the work offsite can result in a more efficient use of the time spent working on the examination. The two keys to success with this initiative are planning and communication. Examinations must be planned and documents available off site. Examiners and bankers still must have the ability to have regular face to face interactions. No one wants to lose

the lessons learned as part of onsite examinations. Examiners will still be in the banks for meetings, for example board meetings and meetings with management. Mr. Paulson noted that this is a learning process and a challenge. Mr. Bland added that one of the factors in the initiative is that the request letter will be customized so that the information that is requested is appropriate for the bank. One of the committee members said that he was apprehensive about the initiative and that it makes the examination process sound more clinical. Mr. Bland reiterated that the goal is not to lose what has been gained and that face to face communications will still be important. Ms. Kowitt said that it would not be all onsite or all off site and Mr. Paulson said that it the time on and off site would be determined bank by bank. Comptroller Curry added that the program is being evaluated and Mr. Bland described the metrics that are being used measure the initiative. A member of the committee remarked that his views of the initiative are not negative, but that the program is just different.

### **Mutual Forum Discussion and Committee Planning**

Charlotte Bahin, Senior Advisor for Thrift Supervision briefly described the agenda for the OCC/FDIC Joint Mutual Forum held on August 4 at the FDIC's Seidman Center. She asked the committee members what topics they would like to have discussed at future meetings. She also described the nomination process and the charter renewal process that had just begun.

### **Public Statements, Wrap up and Adjournment**

A member of the public asked that the committee spend more time talking about capital instruments of mutual. He also asked that the committee consider topics that are of interest to mutual institutions specifically and not community banks more generally.

Mr. Brickman adjourned the meeting at 4:03 p.m.

Certification

/s/ Michael R. Brickman

Michael R. Brickman  
Designated Federal Officer