Joint Mutual Forum
July 25, 2018

Below is a summary of the presentations CBM attended at the forum held on July 25 in Washington D.C. The information provided is for the benefit of Michigan mutuals, and all community banks.

Remarks by **Joseph M. Otting**, Comptroller of the Currency, Office of the Comptroller of the Currency

> Joseph Otting focused in several areas including keeping the budget flat for the OCC in 2018 and projected to do so again for 2019. He shared 3 areas of focus specific to the Community Reinvestment Act. Simplify scoring for banks, expand list of CRA eligible loans and re-empower examiners, and decentralize the process as it was years earlier. He estimated recommended changes for CRA will be shared in August and encouraged all to provide feedback during the comment period.
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> Banks should not be written up on guidelines, only when banks are not adhering to regulations. If banks are not relying on provided guidelines, solid procedures must be in place. He encouraged any examples of guideline write ups to be shared so they can continuously improve regulator education.

Remarks by **Jelena McWilliams**, Chairman, Federal Deposit Insurance Corporation

> Given she is new to the position, and this is her first presentation, she is focused in the short term on soliciting feedback from staff and bankers and challenging processes. The FDIC will become more transparent and she fully understands the need to regulate community banks differently than large institutions. She has not reviewed or had any discussions on changes to the amount of FDIC insurance but understands the issue bankers have shared with customers keeping funds at a number of banks to stay under current insurance caps.
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> When questioned on branch market areas, she shared there must be complete transparency on all issues, concerns, or questions from the FDIC, and banks should only take on a Reasonably Expected Market Area (REMA). She requested any specific issues be directed to her personally as she understands this is a critical issue for bankers today.
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> Both Otting and McWilliams shared their goals of ensuring positive changes for community banks during their tenure.

Remarks by **Doreen R. Eberley**, Director, Division of Risk Management Supervision, FDIC and **Robert Phelps**, Deputy Comptroller for Supervision Risk Management, OCC

> It was shared that the "worst loans are made in the best economy". They see the biggest risk being bankers becoming complacent. Bankers must ensure strong underwriting processes to avoid downstream issues when the economy turns again.
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> Those banks listed as problem banks have now rebounded back to "normal" levels of 1-2% banks nationwide. This is a testament to all bankers who had strong processes and management to survive and thrive post downturn.

Mutual bank specific areas they are focusing on include enterprise governance, bank information technology, business continuity, and underwriting.

Areas they are closely watching include:

housing loans – pushing towards higher DIR/LTV's,
strategic risk and policies,
procedures surrounding underwriting.

Panel discussion on **What being a Mutual means in Today's Financial Services Environment?**

Bankers differentiate themselves in the community; encourage employee community involvement. All panelists agreed they do not leverage mutuality enough in the community with marketing and even with employees. It is essential when hiring employees to make sure they have a community focused mindset.

Their biggest advantage is a lack of stockholder pressure. Member benefits and inclusion in community events is the most common marketing strategy with deposit growth being the largest issue for the foreseeable future.

Panel discussion on **Strategic Thinking: Liquidity and Interest Rate Risk Management** including Michigan's own **William R. White**, Chairman and President, Dearborn Federal Savings Bank, Dearborn, Michigan.

Audience feedback revealed the majority rely on organic deposit growth for funding sources. Panel agreed default for them is to rely on organic growth, but must focus on alternative funding sources including Federal Home Loan Banks to sustain growth and not curtail lending. None of the panel bankers have experienced deposit run off as a result of rising interest rates, but all continue to monitor in preparation.

Remarks on Cybersecurity by **William H. Henley Jr**., Associate Director, Information Technology Supervision Branch, FDIC and **Patrick Kelly**, Director for Critical Infrastructure Policy, OCC

Numerous recommendations shared during the discussion including the need for all banks to subscribe to a reputable cyber analysis company for cyber related updates. Banks must ensure they have testing and procedures in place in the event of a breach and IT security can scan computers and vendor IP addresses for risks and exposure. Ensure vendors used have cyber analysis reviews, including testing.

Cyber insurance does not replace poor processes, and bankers must ensure they understand the coverage they have. The most common source of breaches – employees! Their errors and inadvertent exposure via websites, email links, are by far the number one portal for hackers to infiltrate financial service organizations.

Remarks by **Jonathan Miller**, Deputy Director, Division of Depositors and Consumer Protection, FDIC and **Donna M. Murphy**, Deputy Comptroller, Compliance Risk Policy, OCC

An update was provided on some of the anticipated changes as a result of the passage of S. 2155 for qualified mortgages, escrow and HMDA, however the timing of the implementation has not yet been determined. BSA/AML beneficial ownership customer due diligence changes were discussed including the understanding of banker impact. Regulators recognize the need to ensure they assist banks with processes if needed. They stressed the importance that screening systems in use are up to date.

Remarks by **Doreen Eberly**, Director, Risk Management Supervision, FDIC, **Mark Pearce**, Director, Division of Depositor and Consumer Protection, FDIC, and **James Watkins**, Senior Deputy Director, Risk Management Supervision, FDIC

Bankers should feel comfortable contacting regulators to inquire about products, or process changes and obtain clarification without concerns. Ensuring strong processes and underwriting soundness critical given the strong economy today and it will turn again, we just don't know when.   The success of community banks is essential to the overall economy.