

March 23, 2011

Acting Comptroller John Walsh
Office of the Comptroller of the Currency
Administrator of National Banks
250 E Street SW
Washington, DC 20219

Dear Acting Comptroller Walsh:

I want to thank you for your efforts and outreach to savings associations as the implementation of the Dodd-Frank Act goes forward and wish to bring to your attention the federal mutual savings association charter. Our goal is to highlight the unique concerns of mutual charters to ensure that they are not placed at a regulatory disadvantage vis-à-vis stock institutions.

The mutual savings association and its state-chartered sister mutual bank have a long and storied history as integral parts of their communities and the lives of their depositors. Many of the state chartered institutions received their charters directly from their state legislatures because there was no state infrastructure to issue charters when they first opened their doors. All federal savings associations, at one time, were organized as mutuals, and about half remain in that form. Mutuals have evolved in many ways, including organizing as mutual holding companies, and continue to be vital, active participants in the economic life of their depositors, borrowers and community organizations.

One of the great attributes of the mutual charter is its ability to remain the hometown bank. In fact, mutuals have the ability to invest in their communities for the long term because they do not pay dividends to stockholders and, as a result, do not need to focus so intently on quarterly returns. Mutuality allows the community to have an independent institution that will stay year after year, decade after decade, contributing to the vibrant life of the community. This commitment and independence does have a trade-off – for the mutual charter the effort to raise capital, to incent employees, to grow and to add lines of business is a more complicated process. Mutuals do not have stock to award or use to acquire businesses, though some have relied heavily on subordinated instruments to strengthen capital.

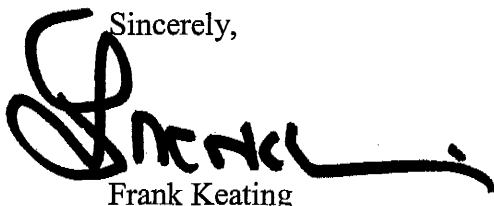
The very attributes that make mutual banks economic cornerstones in the localities and towns they serve may seem foreign to national bank examiners steeped in the ways of stock institutions. Yet these differences should not be allowed to negatively influence supervisory considerations. Mutuals depend even more fundamentally on retained earnings and growth management to maintain prudential standards than do stock institutions, and should not be disadvantaged just because they lack shareholders. As our Mutual Institution Council members often say, they compete head-to-head and successfully with their stock brethren, and they want to keep the landscape competitive and level.

Our mutuals were heartened by the participation of Senior Deputy Comptroller Jennifer Kelly at the annual Mutual Community Bank Conference on March 14. Of the many transition issues discussed, she responded to the question of how OCC will rate mutual institutions, their quality of earnings, and peer comparisons by first confirming that at least the first examination of mutual institutions following the agency integration will be headed by former OTS examiners. She indicated that these examinations generally will apply substantially the same criteria and standards as current OTS procedures, and counseled bankers not to expect “landslide changes.”

She also acknowledged that consideration of a bank’s business model is fundamental to the examination process. We wish to emphasize that point. Because mutuals often manage their capital and earnings toward different purposes than stock banks, comparison of performance to other mutual peers is important, in addition to any other prudential standards that may be appropriate. For this reason, we strongly urge that the UTPR gathered from information in the Thrift Financial Report be maintained in the future to facilitate peer comparisons among mutual associations.

The unique attributes of mutuality are strengths, not weaknesses, and we encourage a continued dialogue that aids examiner and supervisory understanding of these historic institutions. We also welcome your decision to maintain the OTS Mutual Savings Association Advisory Committee at the OCC. That is an important step toward the type of constructive relationship between OCC and mutuals that many communities will need on their road to economic recovery.

Sincerely,

A handwritten signature in black ink, appearing to read 'Frank Keating', with a stylized flourish at the end.

Frank Keating