

Mutual Savings Association Advisory Committee Meeting

July 23, 2014

Mutual Overview and Trends

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Mutual Overview and Trends

(not including stock FSAs in a Mutual Holding Company (MHC) structure)

1. Portfolio Statistics

- Asset trends, caseload and state distribution, asset size ranges, district demographics, charter age.

2. Financial Metrics

- Balance sheet, asset quality, earnings, capital and PCA categories, liquidity and sensitivity.

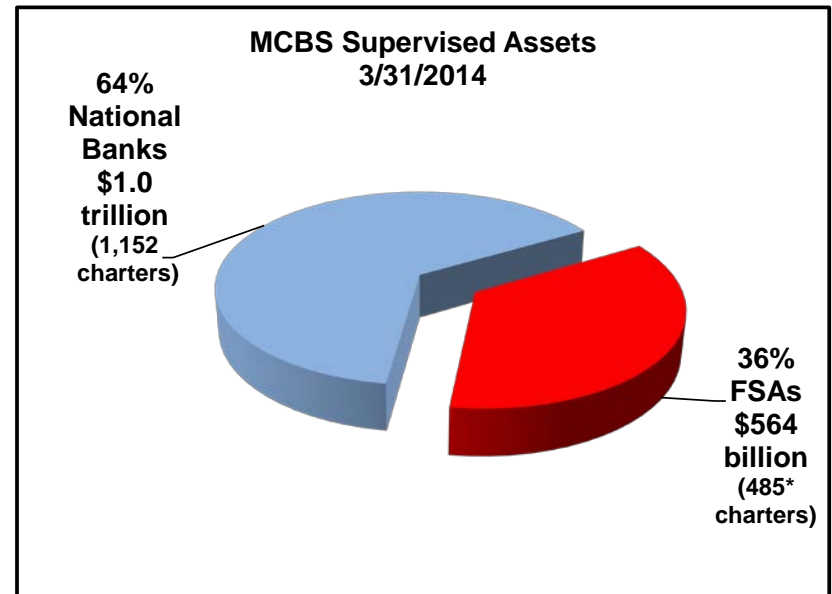
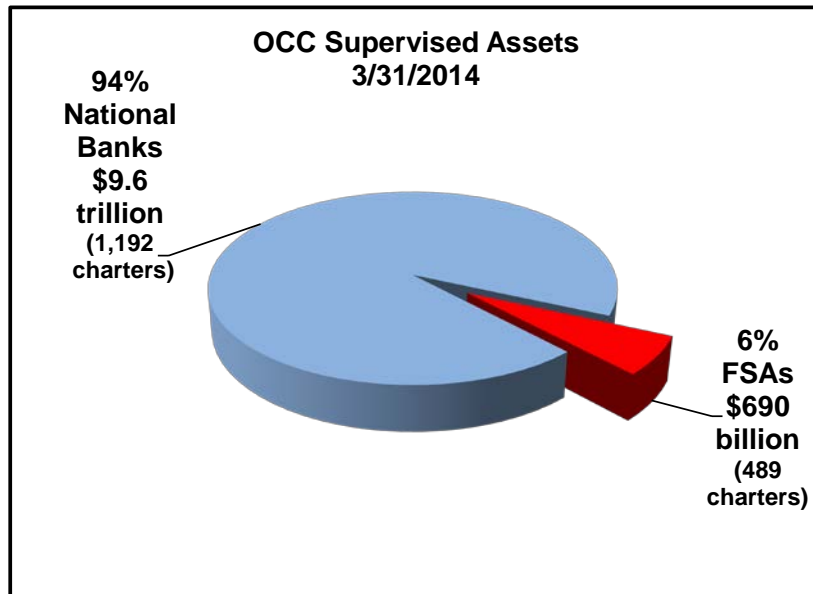
3. Supervisory Data

- Examination Cycle, Composite ratings, rating distributions and changes, aggregate risk, quality of risk management, direction of risk, Matters Requiring Attention (MRAs), Violations of Law (VOLs).

4. OCC Supervisory Tools

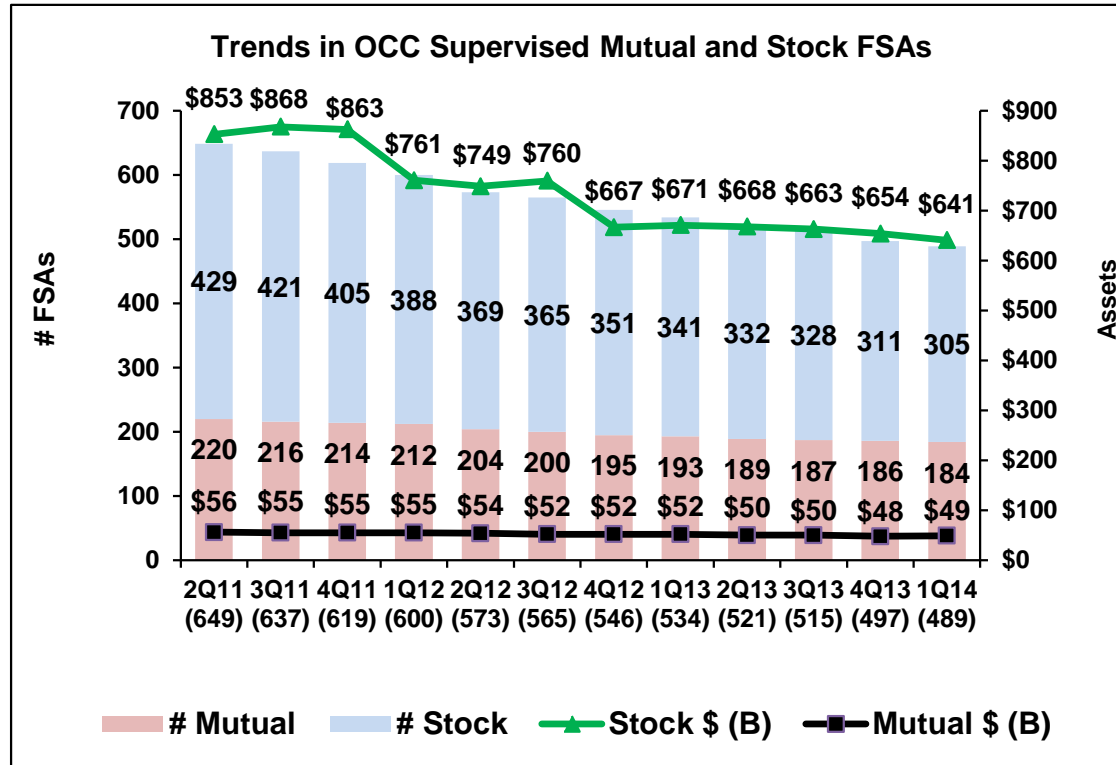
- Summary of key OCC Supervisory Tools – Canary System Benchmarks, Thrift Analysis Report, Custom Bank Performance Report, Quarterly Mutual FSA Analysis.

Mutual Overview: Portfolio Stats



- OCC-regulated banks hold \$10.3 trillion in assets, including \$690 billion in FSAs.
- Total assets held by Midsize and Community Bank Supervision (MCBS) institutions were \$1.6 trillion or 15% of all OCC-supervised assets and the 1,637 MCBS charters were 97% of all OCC charters.
- FSA charters represent 30% of MCBS-supervised charters with \$564 billion in assets or 36% of all assets held by MCBS institutions.
- There are 184 mutual FSAs with \$49 billion in assets, not including stock FSAs in a MHC structure.

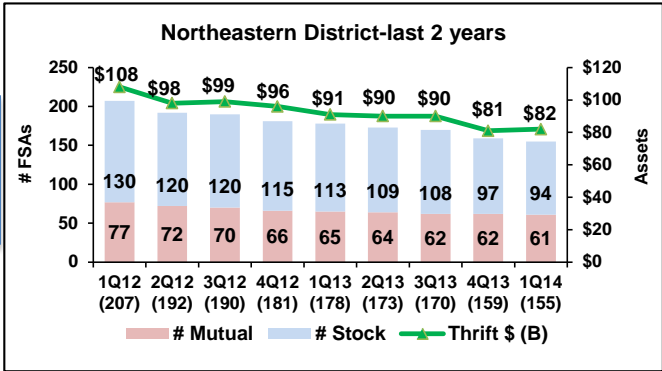
Mutual Overview: Portfolio Stats



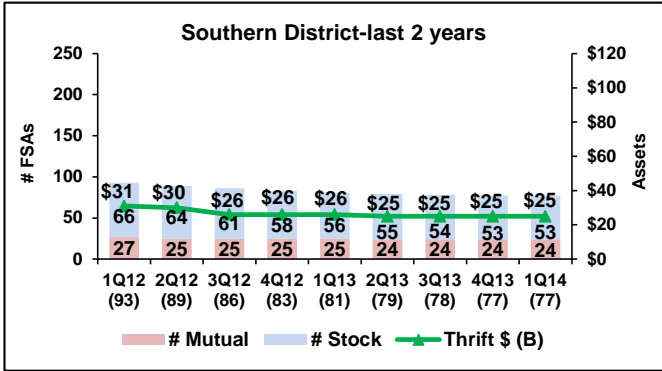
- Mutual FSAs account for 38% of OCC-regulated FSAs.
- Mutuals hold 7.1% of total FSA assets.
- The number of mutual charters has declined by 5% over the past year.
- Aggregate assets held by mutual FSAs of \$49B have remained fairly stable.

Mutual Overview: Portfolio Stats

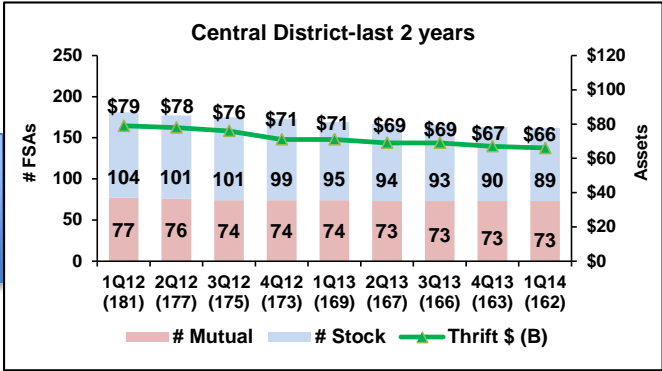
155 FSAs
61 mutuals
39% mutuals



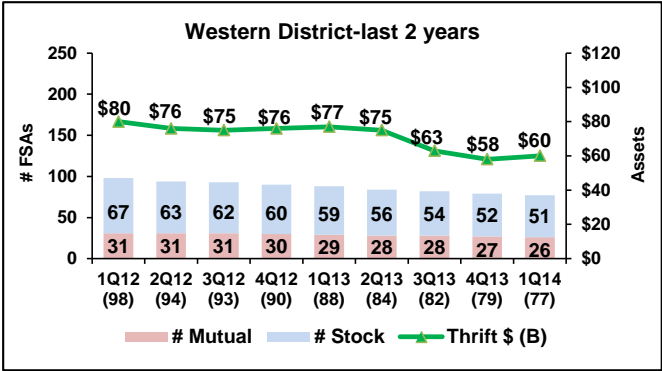
77 FSAs
24 mutuals
31% mutuals



162 FSAs
73 mutuals
45% mutuals



77 FSAs
26 mutuals
34% mutuals



- Mutual charters are concentrated in the OCC’s Central (73) and Northeastern (61) districts.
- There are four states with 10 or more mutuals (IL-16, OH-15, IN/PA-12).
- Ten other states have more than 5 mutuals (MD/NY/WI-9, KS-8, KY/GA-7, MA/LA/MO/SC-6).

Mutual Overview: Portfolio Stats

Mutual FSAs by State									
> 10 highlighted					> \$1B highlighted				
State	# Mutuals	% Mutual FSAs	Total Assets (2014Q1)	% of Mutual FSA Assets	State	# Mutuals	% Mutual FSAs	Total Assets (2014Q1)	% of Mutual FSA Assets
CA	1	1%	174,787	0%	NC	4	2%	1,413,943	3%
CO	1	1%	251,441	1%	ND	1	1%	1,702,199	4%
FL	1	1%	201,412	0%	NE	4	2%	368,286	1%
GA	7	4%	1,142,905	2%	NH	1	1%	294,163	1%
IA	2	1%	47,820	0%	NJ	4	2%	581,814	1%
ID	1	1%	534,950	1%	NM	1	1%	38,986	0%
IL	16	9%	2,413,903	5%	NY	9	5%	4,133,438	9%
IN	12	7%	1,325,095	3%	OH	15	8%	3,505,712	7%
KS	8	4%	908,010	2%	OK	2	1%	138,770	0%
KY	7	4%	233,208	0%	OR	2	1%	739,526	2%
LA	6	3%	1,715,708	4%	PA	12	7%	10,153,923	21%
MA	6	3%	1,513,929	3%	SC	6	3%	898,929	2%
MD	9	5%	2,013,904	4%	TN	4	2%	2,659,037	5%
ME	4	2%	377,649	1%	TX	1	1%	113,343	0%
MI	5	3%	855,376	2%	VA	2	1%	146,721	0%
MN	5	3%	1,743,829	4%	WI	9	5%	3,585,522	7%
MO	6	3%	743,033	2%	WV	4	2%	957,508	2%
MS	3	2%	403,765	1%	WY	2	1%	442,908	1%
MT	1	1%	96,289	0%	Total	184	100%	48,571,741	100%

- States with more than 10 mutual FSAs or more than \$1 billion in mutual FSA assets are highlighted.
- Assets held by mutual FSAs by OCC district are distributed as follows:
 - NE \$23B CE \$16B SO \$6B WE \$4B

Mutual Overview: Portfolio Stats

Mutual FSA Distribution - 3/31/2014

Asset Size	All Mutuals		NE		CE		SO		WE	
	#	%	#	%	#	%	#	%	#	%
Less Than \$50MM	37	20%	9	15%	17	23%	4	17%	7	27%
\$50MM To \$100MM	44	24%	12	20%	19	26%	6	25%	7	27%
\$100MM To \$250MM	53	29%	15	25%	23	32%	8	33%	7	27%
\$250MM To \$500MM	32	17%	15	25%	9	12%	4	17%	4	15%
\$500MM To \$1B	11	6%	8	13%	1	1%	1	4%	1	4%
Greater Than \$1B	7	4%	2	3%	4	5%	1	4%	0	0%
Total	184	100%	61	100%	73	100%	24	100%	26	100%

- 90% of mutual FSAs have assets totaling less than \$500 million.
- 73% of mutual FSAs have less than \$250 million in assets.
- The NE district has the greatest percentage of larger mutuals (TA > \$250M), at 41%.

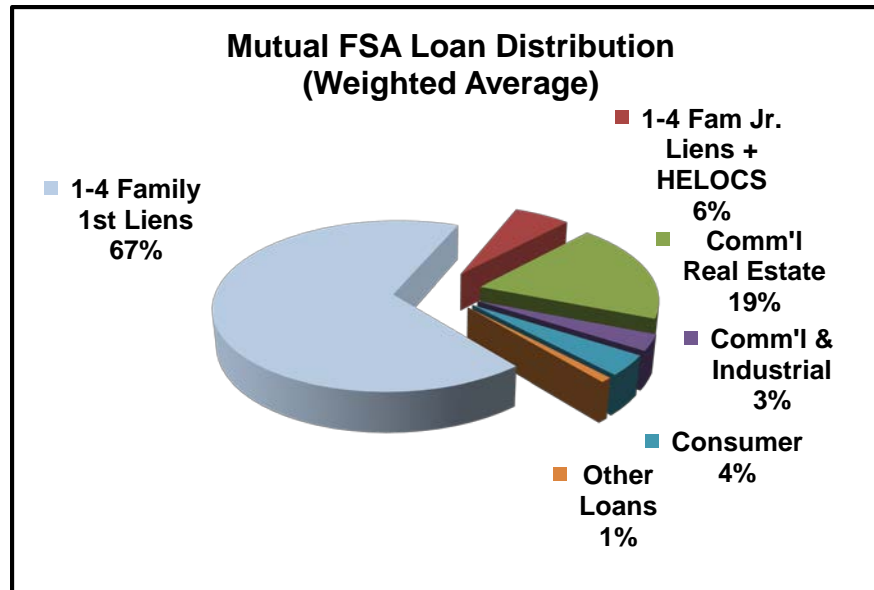
Mutual Overview: Portfolio Stats

Mutual FSA Age Distribution - 3/31/2014

Years	All Mutuals		NE		CE		SO		WE	
	#	%	#	%	#	%	#	%	#	%
< 25 Yrs	0	0%	0	0%	0	0%	0	0%	0	0%
25 to 50	1	1%	0	0%	1	1%	0	0%	0	0%
50 to 75	22	12%	9	15%	6	8%	5	21%	2	8%
75 to 100	84	46%	23	38%	32	44%	16	67%	13	50%
> 100 Yrs	77	42%	29	48%	34	47%	3	13%	11	42%
Total	184	100%	61	100%	73	100%	24	100%	26	100%

- Seventy-seven (77) mutual FSAs were formed more than **100** years ago.
- 88% of all current FSAs have operated for 75 years or more.
- There is only one mutual FSA that was formed in the last 50 years.

Mutual Overview: Financial Metrics



Loan Distribution by FSA Type							
Charter Type	\$ Loans (000's) 3/31/2014	% of Total Loans					
		1-4 Family 1st Liens	1-4 Fam Jr. Liens + HELOCS	Comm'l Real Estate	Comm'l & Industrial	Consumer	Other Loans
Mutual	32,179,555	67%	6%	19%	3%	4%	1%
Stock	363,722,328	36%	7%	17%	10%	26%	5%
All FSAs	395,901,883	39%	7%	17%	9%	24%	4%

- Loan portfolios held by mutual FSAs are focused in residential mortgage loans with 73% of all loans.
- Mutual FSAs held similar levels of Commercial RE loans as compared to stock FSAs.
- Loan portfolios held by mutual FSAs are less concentrated in C&I and consumer loans vs stock FSAs.

Mutual Overview: Financial Metrics

Asset Quality (median values)

Financial Measure	3/31/2014			3/31/2013		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Special Mention /Tier 1 + ALLL	5.44	3.94	6.48	6.55	3.95	7.95
% Classified Assets /Tier 1+ALLL	21.29	17.05	26.86	25.76	19.76	31.75
Non-cur Lns&OREO/Lns&OREO	2.09	1.80	2.36	2.61	2.33	3.06
ALLL / Loan & Leases Not HFS	1.25	1.07	1.41	1.34	1.13	1.48
Net Loan & Lease Growth Rate	0.87	-0.06	2.55	-1.68	-3.52	-0.71
Net Loss / Avg Tot Lns & Ls	0.04	0.03	0.05	0.11	0.02	0.16

- Asset quality at mutual FSAs has improved year-over-year at 3/31/2014.
- Classified assets declined slightly to 17% of Tier 1 capital plus the Allowance for Loan and Lease Losses (ALLL).
- Noncurrent loans and OREO were also down year-over-year at 1.80%.
- Mutual FSAs held ALLLs representing 1.07% of portfolio loans.
- Mutual asset quality indicators are outperforming stock metrics.

Mutual Overview: Financial Metrics

Earnings and Capital (median values)

Financial Measure	3/31/2014			3/31/2013		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
ROAA Adj Sub S	0.45	0.30	0.55	0.48	0.38	0.62
Net Interest Margin (NIM)	3.25	3.18	3.32	3.23	3.14	3.33
Efficiency Ratio	81.89	86.46	79.31	78.96	80.26	78.57
T1 Leverage Capital	11.47	12.73	10.90	11.30	12.33	10.69
T1 RBC to Risk Wtg Assets	20.55	26.15	18.28	20.48	25.36	18.66
Total RBC to Risk-Wtg Assets	21.80	26.95	19.53	21.55	26.57	19.71

- Earnings at mutual FSAs declined slightly year-over-year with an ROAA of 0.30%.
- Margins rose four basis points as funding costs fell more than asset yields.
- Capital measures at mutual FSAs continue to show strength and each PCA measure improved.
- Efficiency ratios worsened for both mutual and stock FSAs as of 3/31/2014.

Mutual Overview: Financial Metrics

FSA PCA Categories - 3/31/2014

Category	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Well	443	91%	175	95%	268	88%
Adeq With	39	8%	7	4%	32	10%
Adeq Without	0	0%	0	0%	0	0%
Under	2	0%	1	1%	1	0%
Sig Under	5	1%	1	1%	4	1%
Critically Under	0	0%	0	0%	0	0%
Not Assigned	0	0%	0	0%	0	0%
Total	489	100%	184	100%	305	100%

- 95% of all mutual FSAs are well-capitalized per the Prompt Corrective Action (PCA) provisions of FDICIA.
- Of the 7 mutual FSAs designated as “Adequately Capitalized”, only 1 is below the minimum capital levels outlined in PCA.
- Only 2 mutual FSAs are designated less than “Adequately Capitalized”.
- Mutual FSAs tend to have higher capital levels than stock FSAs.

Mutual Overview: Financial Metrics

Liquidity and Sensitivity to Market Risk (median values)

Financial Measure	3/31/2014			3/31/2013		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Non-Core Funding Dependence	-0.60	-5.72	2.85	-1.97	-8.32	2.00
% Reliance on Whole. Funding	4.60	1.37	7.63	4.29	1.23	7.55
Loan to Deposit	79.71	79.44	79.99	78.63	78.12	78.83
% LT Assets /Total Assets	44.44	50.41	40.81	42.74	48.07	39.15
% Res Real Estate /Total Assets	51.45	61.42	44.98	51.61	60.47	45.98
Non-Mat Deposits/Long Assets	78.03	65.90	86.50	80.11	68.54	86.76

- Funding at mutual FSAs is derived predominantly (95%) from retail deposits.
- Loan to deposit levels remain high (79%) even with low loan origination levels.
- Half of the assets at mutual FSAs are long-term as defined in the Uniform Bank Performance Report (UBPR).
- Residential real estate loans represent 61.4% of all assets at mutual FSAs.
- Non-maturity deposits declined slightly in 2014.

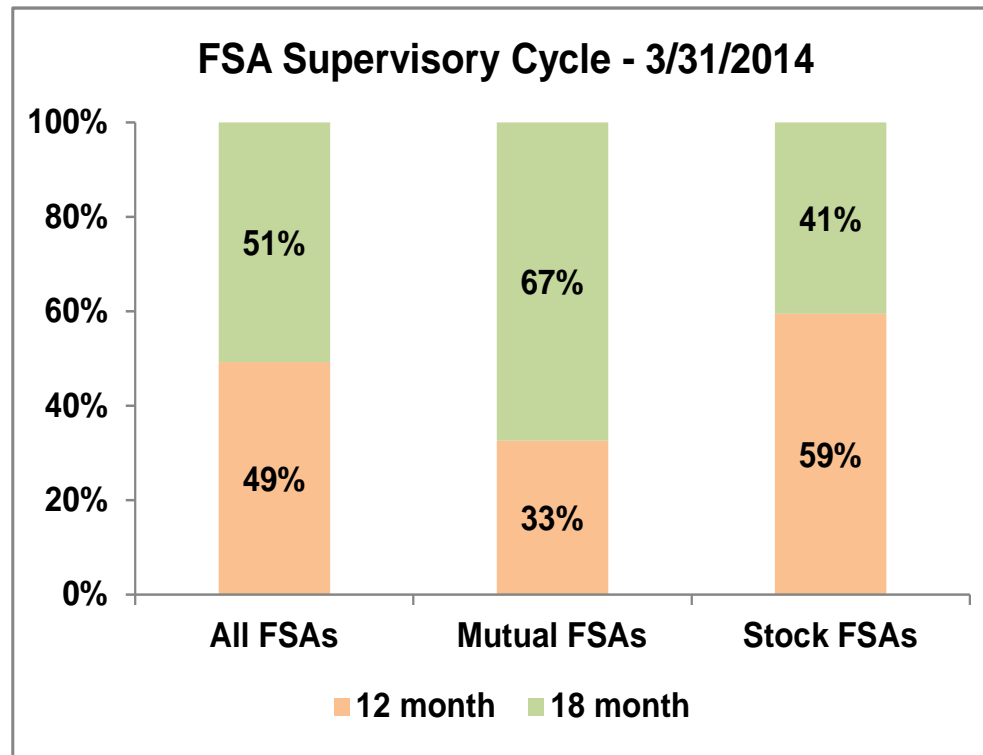
Mutual Overview: Financial Metrics

Mutual FSA Consolidated Balance Sheet vs Stock - 3/31/2014

Mutual FSA Assets	Mutual \$	Mutual %	Stock %	Liability + Capital	Mutual \$	Mutual %	Stock %
Loans Held For Sale	63,139			Demand Deposits	2,276,433	5%	4%
Loans Not HFS	32,165,686			All Now and ATS	3,261,266	7%	5%
ALLL	323,561			Money Market	4,888,167	10%	34%
Net Loans & Leases	31,905,264	66%	56%	Other Savings	12,818,203	26%	17%
US Treasury Securities	8,280,316	17%	20%	Time Deps Below Ins Limit	14,384,821	30%	16%
Municipal Securities	704,308	1%	1%	Fully Insured Brok Deps	124,556	0%	11%
Other Securities	814,941	2%	11%	Core Deposits	37,504,334	77%	64%
Int Bearing Bank Bals	3,881,602	8%	8%	Deps in For Offices	0	0%	0%
FF Sold & Resales	189,619	0%	0%	Fully Insured Brok Deps	124,556	0%	11%
Trading Account Assets	6,853	0%	0%	Time Deps Above Ins Limit	1,652,845	3%	2%
Nonint Cash & Due From	573,667	1%	1%	FF Pur & Repos	316,495	1%	3%
Premises, Fixed Assets	823,151	2%	1%	FHLB Borrowings	1,669,467	3%	5%
Other Real Estate Owned	198,132	0%	0%	Other Borrowings	17,443	0%	1%
Dir & Indir Inv RE Ventures	0	0%	0%	Accept & Other Liab	367,607	1%	2%
Invest in Uncons Subs	11,154	0%	0%	Sub Notes & Deb	0	0%	0%
Acceptance & Other Assets	1,182,734	2%	4%	Common & Pref Stock	6,918,994	14%	11%
Total Assets	48,571,741	100%	100%	Total Lia & Capital	48,571,741	100%	100%

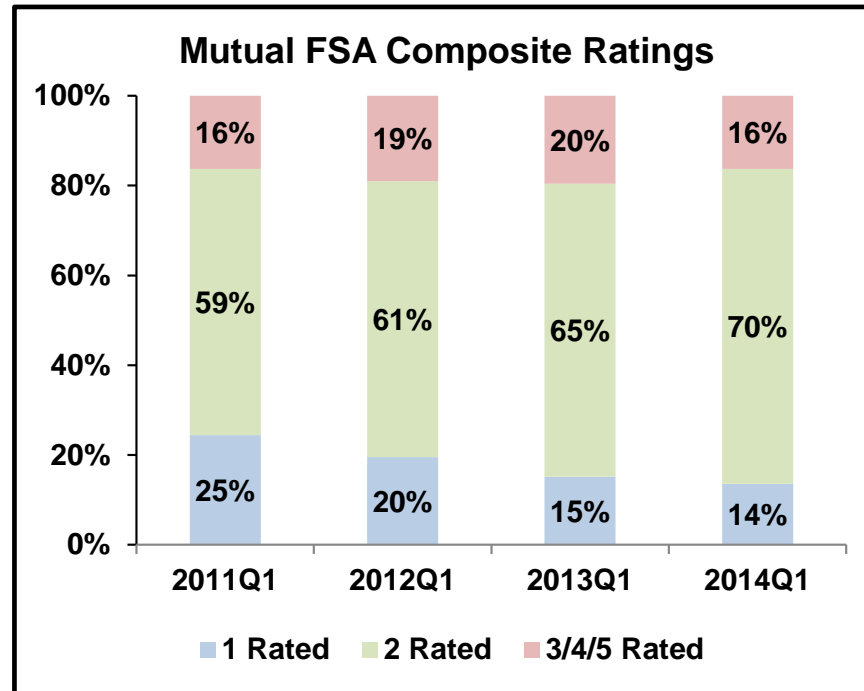
- Mutual FSAs have lower risk balance sheets than stock FSAs.
- Assets-Mutual FSAs have more loans and stock FSAs have more “other securities”.
- Liabilities-Mutual FSAs have more core deposits and fewer fully insured brokered deposits.

Mutual Overview: Supervisory Data



- Even though mutual FSAs are typically smaller in size than their stock counterparts, mutual FSAs also possess lower risk characteristics in general and 67% are on the 18 month examination cycle versus only 41% for stock institutions.

Mutual Overview: Supervisory Data



- Composite ratings at mutual FSAs worsened in 2012Q1, but improved in 2014Q1.
- Eighty four percent of all mutuals remain satisfactorily rated with a Composite 1 or 2.
- The level of 1-rated mutual FSAs declined as the 2-rated category has grown.
- For comparison, stock FSA ratings at 2014Q1 were: 1 – 9%, 2 – 66%, 3/4/5 – 25%.

Mutual Overview: Supervisory Data

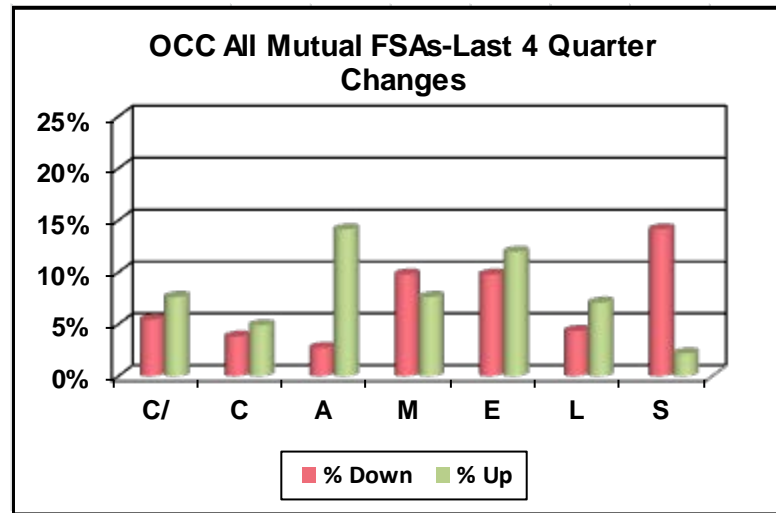
FSA Ratings (%) - 3/31/2014

1-ratings > 30% highlighted in green and 3/4/5 ratings > 30% highlighted in red

Rating Category	All Mutual FSAs			All Stock FSAs		
	1-rated	2-rated	3/4/5-rated	1-rated	2-rated	3/4/5-rated
Composite	14%	70%	16%	9%	66%	25%
Capital	49%	41%	10%	26%	55%	19%
Asset Quality	23%	53%	23%	19%	51%	30%
Management	13%	70%	17%	7%	68%	25%
Earnings	11%	51%	38%	16%	45%	39%
Liquidity	49%	48%	3%	34%	55%	11%
Sensitivity	20%	71%	9%	20%	70%	10%
Info Tech	11%	81%	8%	12%	81%	7%
Asset Mgmt	17%	67%	17%	29%	67%	4%
Consumer	22%	74%	4%	19%	74%	7%
CRA	28%	70%	2%	20%	73%	1%

- Mutual FSAs were often assigned a strong Capital (49%) and/or Liquidity (49%) rating.
- Earnings ratings were the lowest with 38% of mutual FSAs assigned 3, 4 or 5 ratings.
- Asset quality also showed some stress with 23% of mutual FSAs rated 3, 4 or 5.
- Mutual FSAs show much stronger ratings in Capital and Liquidity than stock FSAs.
- Even the challenging mutual Earnings and Asset Quality ratings remain slightly better than stock FSA Earnings and Asset Quality ratings.

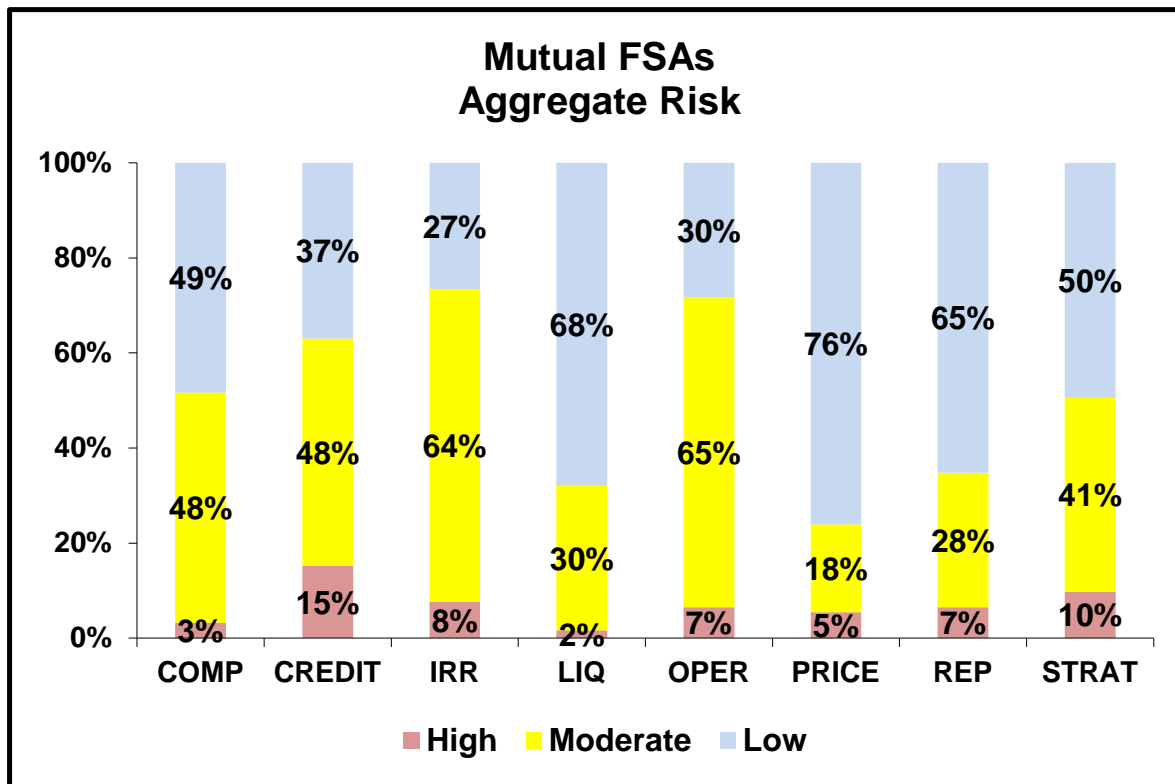
Mutual Overview: Supervisory Data



Rating Changes	C/	C	A	M	E	L	S
Downgrades	10	7	5	18	18	8	26
Upgrades	14	9	26	14	22	13	4
% Down	5%	4%	3%	10%	10%	4%	14%
% Up	8%	5%	14%	8%	12%	7%	2%
# of Instit.	184	184	184	184	184	184	184

- Composite rating upgrades are outpacing downgrades for the 12 months ended 3/31/2014.
- Asset quality, followed by Earnings, has the most upgrades as of 3/31/2014.
- Sensitivity has, by far, the most downgrades—mainly from the 1 to 2 category.
- Capital, Asset Quality, Earnings and Liquidity have upgrades exceeding downgrades.

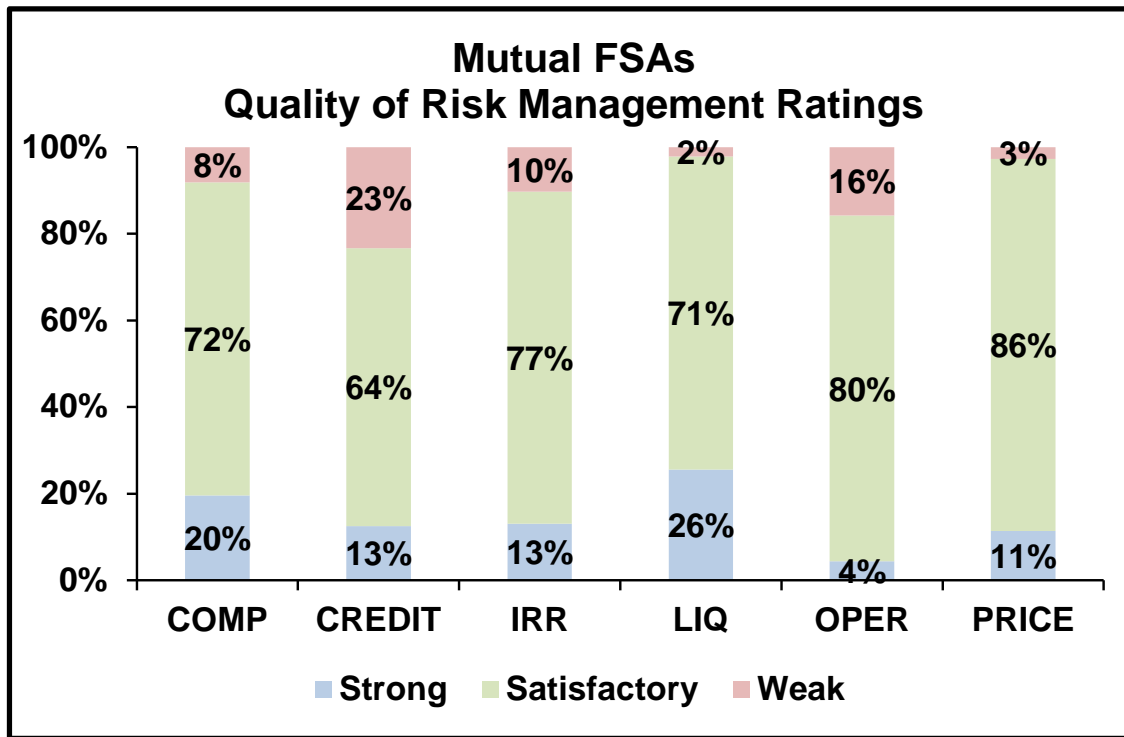
Mutual Overview: Supervisory Data



- Mutual Aggregate Risk ratings measured using Risk Assessment System (RAS)
- Aggregate Risk takes into account both the Quantity of risk and Quality of risk management

- Aggregate Risk is low to moderate in nearly all RAS categories.
- The largest Aggregate exposure was Credit Risk with 15% of mutual FSAs rated High.
- More than 50% of mutual FSAs have Low RAS ratings in Liquidity, Price, Reputation and Strategic.
- Price risk was most often rated low followed by Liquidity and Reputation.
- RAS ratings at mutual FSAs, in general, are markedly better than those at stock FSAs.

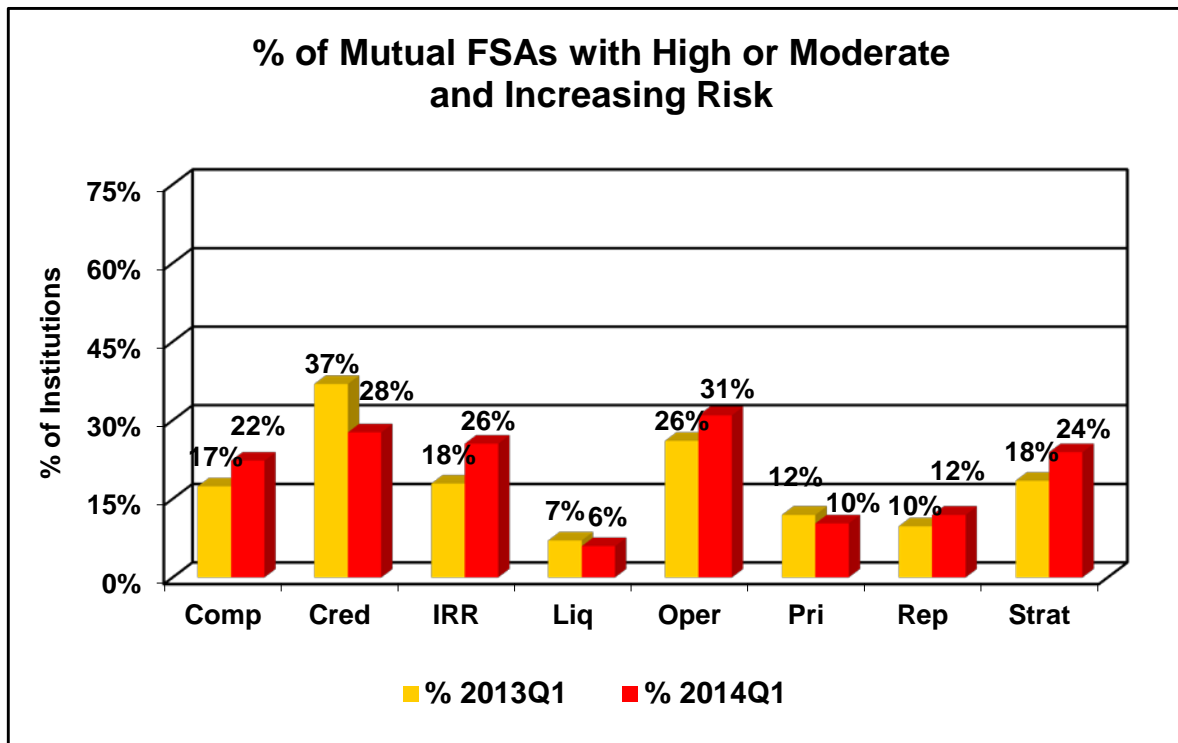
Mutual Overview: Supervisory Data



The Quality of Risk Management is how well risks are identified, measured, controlled, and monitored and is rated as strong, satisfactory, or weak

- The Quality of Risk Management RAS factor was Strong or Satisfactory for at least 77% of mutuals across all RAS factors.
- For many risks (Compliance, IRR, Liquidity & Price), the level of Weak ratings was 10% or under.
- Credit risk at mutual FSAs showed the highest level of Weak ratings at 23%, followed by Operational Risk with 16% of mutuals rated Weak (both metrics declined year over year).
- Liquidity and Compliance had the highest level of Strong ratings for Quality of Risk Management.

Mutual Overview: Supervisory Data

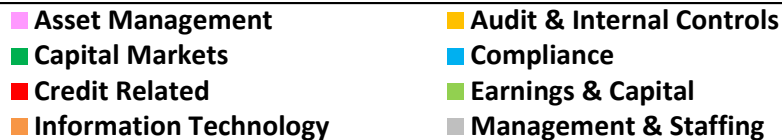
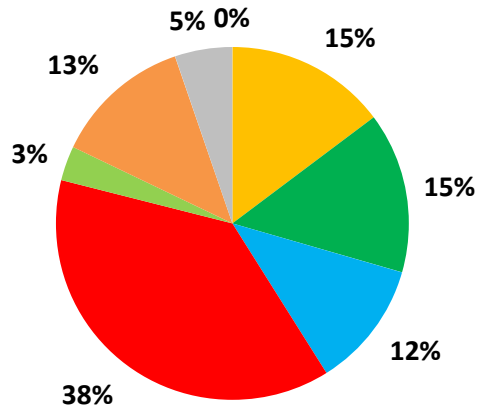


RAS Ratings of High Aggregate or Moderate & Increasing (H/MI) requires management focus and can lead to supervisory concerns if not properly managed.

- Operational risk reflected the highest level of H/MI RAS ratings, followed by Credit, IRR and Strategic.
- Liquidity and Price Risks had the lowest level of H/MI RAS ratings at 6% and 10%.
- The H/MI RAS risk ratings distributions are consistent with many of the OCC's recent Risk Perspectives.

Mutual Overview: Supervisory Data

MRAs cited at Mutual FSAs in 2014



Matters Requiring Attention are practices that:

- Deviate from sound governance, internal control, and risk management principles, which may adversely impact the bank's earnings or capital, risk profile, or reputation, if not addressed; or
- Result in substantive noncompliance with laws and regulations, internal policies or processes, supervisory guidance, or conditions imposed in writing.

- The most often cited MRA category in 2014 was Credit Related.
- Capital Markets and Audit & Internal Controls were the next highest cited MRA categories at 15% each.
- Management & Staffing, Earnings & Capital and Asset Management MRA issues were less frequently cited so far in 2014 .

Mutual Overview: Supervisory Data

Year over Year Comparison of MRAs at Mutual FSAs

MRA CATEGORY	2014 - 3 mos		2013 - 3 mos		Yr to Yr Δ	
	#	%	#	%	#	%
Asset Management	0	0%	0	0%	0	-
Audit & Internal Controls	14	15%	16	8%	-2	-13%
Capital Markets	14	15%	33	17%	-19	-58%
Compliance	11	12%	18	9%	-7	-39%
Credit Related	36	38%	72	38%	-36	-50%
Earnings & Capital	3	3%	7	4%	-4	-57%
Information Technology	12	13%	31	16%	-19	-61%
Management & Staffing	5	5%	14	7%	-9	-64%
Total	95	100%	191	100%	-96	-50%
Repeat MRAs in Above	18	19%	56	29%	-38	-68%

- The volume of MRAs for the first 3 months of 2014 is down greatly compared to 2013.
- Repeat MRAs are also down considerably in 2014.
- The MRA mix has changed slightly with the percentage of Audit & Internal Control MRAs and compliance MRAs increasing relative to other categories but they did not increase in absolute volume.

Mutual Overview: Supervisory Data

Top 10 Violations of Law cited at Mutual FSAs in 2013

Rank	Law or Regulation Violated	#
1	Loans in Areas Having Flood Hazards	50
2	Real Estate Lending and Appraisals	48
3	Regulatory Reports	24
4	Real Estate Settlement Procedures Act	18
5	Truth in Lending (Reg Z)	17
6	Information Security Standards	15
7	Funds Availability/Check Collection (Reg CC)	14
8	Equal Credit Opportunity Act (Reg B)	8
9	BSA/AML/USA PATRIOT Act	5
10	Loans to Insiders (Reg O)	4
Top 10 Violations of Law Total		203

- It is too early to draw conclusions about 2014 violations, but we have noted the volume is down. Therefore, we provided the top 10 violations cited in 2013.
- The top 10 represents 203, or 84%, of violations cited at mutual FSAs.
- The most frequently cited violation for mutual FSAs was “Loans in Areas Having Flood Hazards” (consumer category) followed by “Real estate lending and appraisal violations” (commercial category).

Mutual Overview: Other Data

- **Other available data not in this Overview**
 - Trust powers, assets under administration
 - Texas ratio, CRE concentrations
 - Problem banks, watch list
 - Past due loan trends
 - Foreclosure, Other Real Estate Owned (OREO) trends
 - Mortgage banking activity

Mutual Overview: OCC Supervisory Tools

- **Canary** - Credit, Interest Rate Risk and Liquidity Benchmarks. Developed new FSA benchmarks to acknowledge difference in FSAs. Available on OCC BankNet. (Available to FSA)
- **Thrift Analysis Report Tool** - Provides a Financial Overview of the Institution, Ratings Summary, Risk Assessment Summary, Ratings Comparison, Graphs and MRA detail. (Available to FSA via Examiners)
- **Uniform Bank Performance Report Custom Peer** - OCC built a custom BPR to allow examiners to compare mutuals to other mutuals based on the standard asset size peer groups or other attributes. (Available to FSA via Examiners)
- **Quarterly Mutual FSA Briefing Package** - Prepared to allow our Managers to stay abreast of emerging issues and trends in the Mutual FSA population. (Internal OCC document: not available to FSA)

Presentation Summary

- OCC continues to closely monitor and analyze trends in the FSA portfolio by form of organization: mutual or stock.
- We continue to prepare a quarterly MIS package on the Mutual FSA population for internal use.
- OCC has numerous tools and a myriad of MIS products to evaluate performance at mutual FSAs.
- Ongoing projects will add to these resources.
- We welcome feedback and input on needs at mutual FSAs.

Mutual Savings Association Advisory Committee Meeting

July 23, 2014

Mutual Overview and Trends

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