

Mutual Savings Association Advisory Committee Meeting

May 9, 2017

Mutual Overview and Trends

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Mutual Overview and Trends

1. Portfolio Demographics

- Federal Savings Associations (FSAs) trends by form of organization, state, asset distribution, charter age.

2. Financial & Rating Metrics

- **Composite Rating, Capital** (including PCA categories), **Asset Quality** (including loan mix and loan growth), **Management, Earnings** (including efficiency ratio detail), **Liquidity, Sensitivity to Market Risk**, and **Specialty** areas. Some breakouts by mutual peer groups.

3. Other Supervisory Information

- Risk Assessment Information, Examination Cycle, Matters Requiring Attention (MRAs); Violations of Law (VOLs), Supervisory Rating Changes.

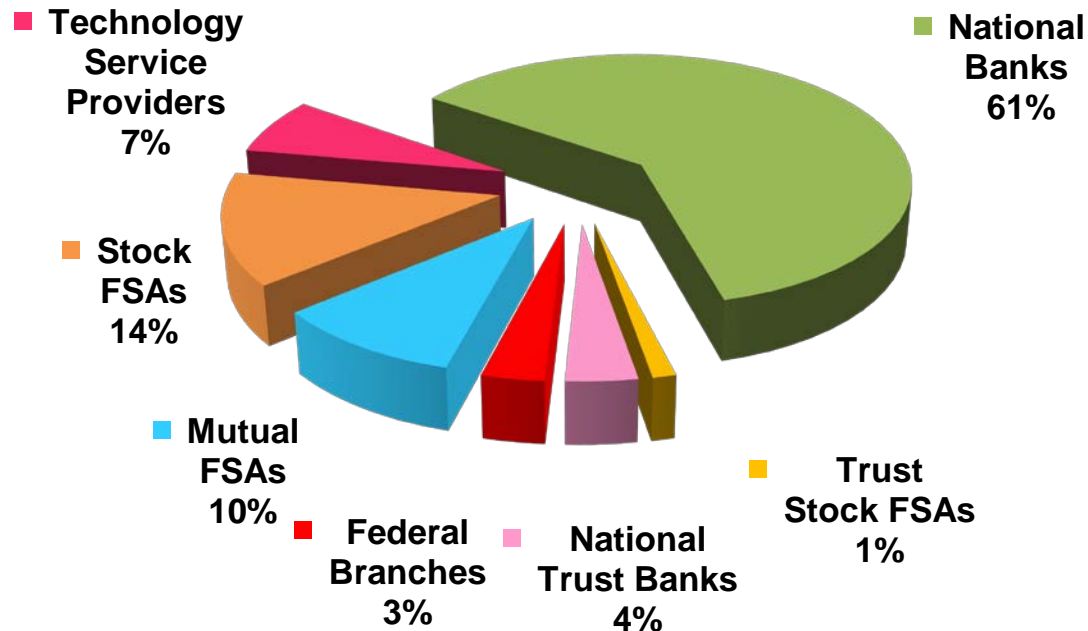
4. OCC Supervisory Tools

- Canary System Benchmarks, Thrift Analysis Report, Mutual Peer Bank Performance Report, Quarterly FSA Briefing Package.



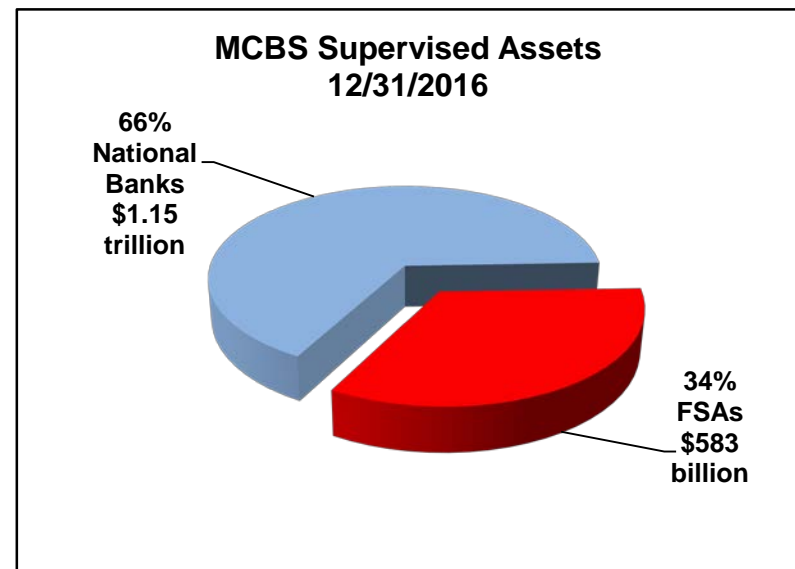
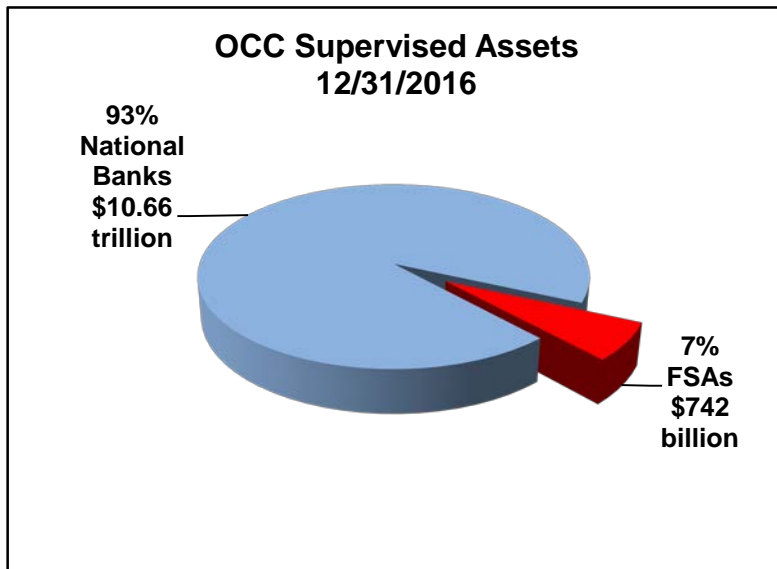
OCC Supervised Institutions by Type

OCC supervised 1,499 institutions as of December 31, 2016. Federal Savings Associations represent 25 percent of OCC charters.



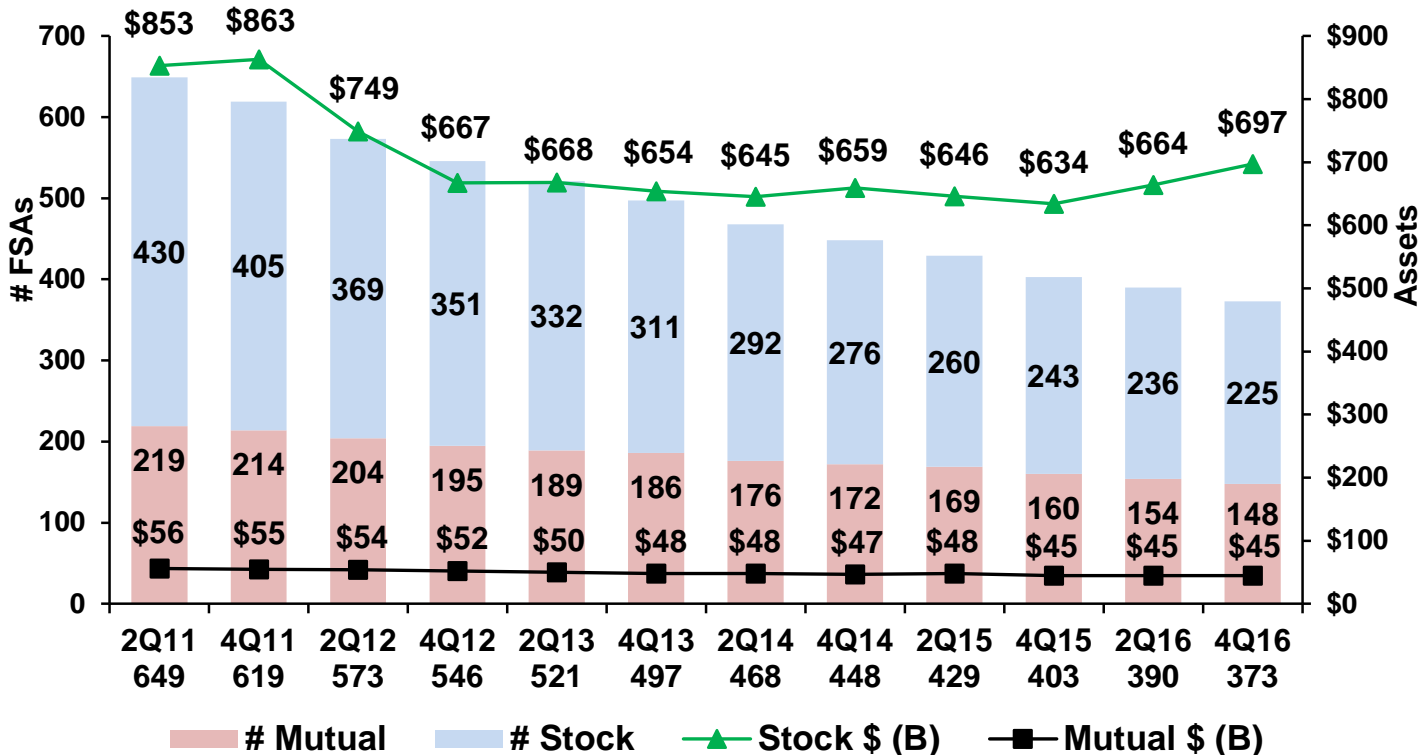
OCC and MCBS Supervised Assets

Federal Savings Associations (FSAs) represent 7 percent of OCC supervised assets and 34 percent of MCBS supervised assets. FSAs also represent 28 percent of both OCC and MCBS charters. All mutual FSAs are supervised by MCBS.



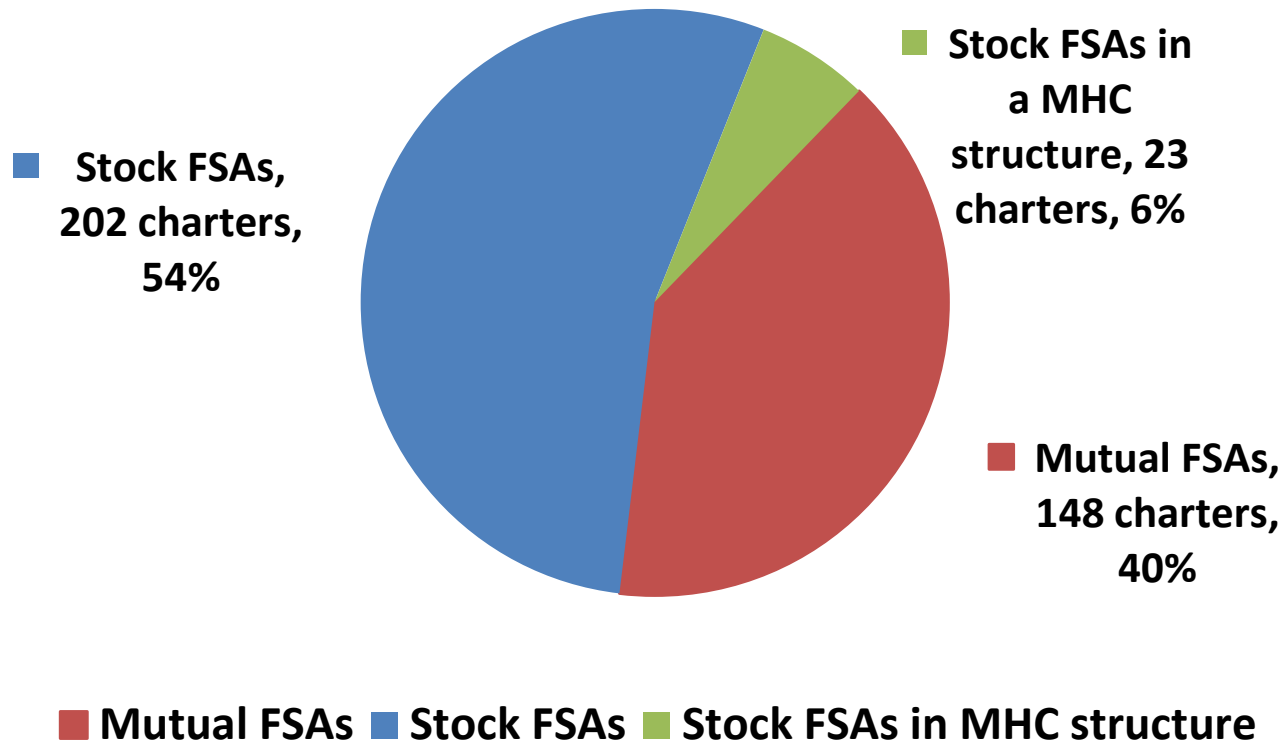
Trends in OCC Supervised FSAs

Mutual FSAs continue to decline but not as rapidly as stock FSAs. Aggregate assets held by mutual FSAs of \$45 billion remained fairly stable over the last year.



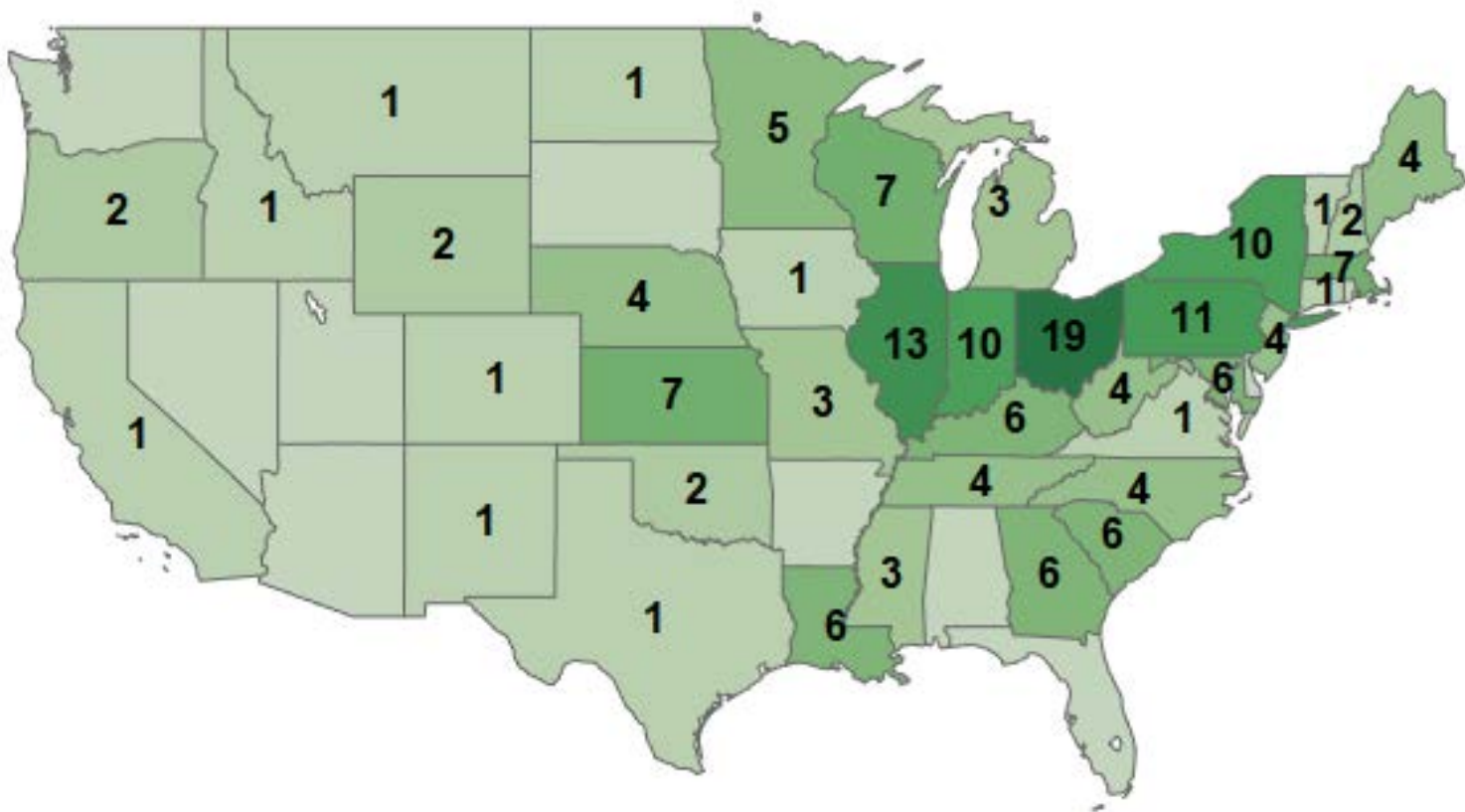
FSAs by Charter Type

Mutual FSAs and stock FSAs mutually-owned (that have not issued shares) represent 46 percent of OCC-regulated FSAs.



Mutual FSAs by State

Mutual FSAs are concentrated in the Midwest and Northeastern states. There are five states with 10 or more mutual FSAs: Ohio (19); Illinois (13); Pennsylvania (11); and Indiana and New York (10 each).



FSA by Asset Buckets

Mutual FSAs are typically smaller in size than their stock counterparts. 42 percent of mutual FSAs are less than \$100 million in size compared to only 20 percent for stock FSAs. Only 4 percent of mutual FSAs have total assets greater than \$1 billion versus 22 percent of stock FSAs.

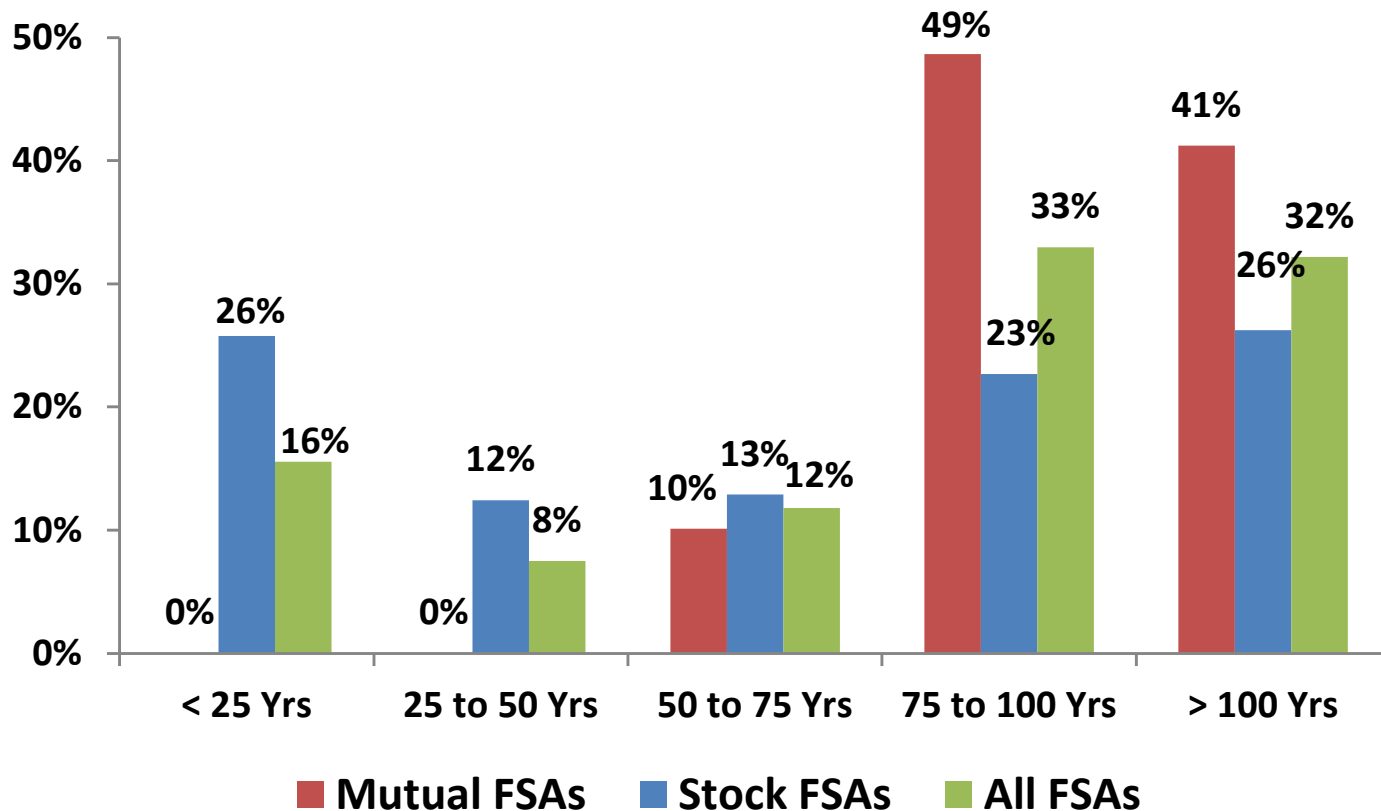
FSA Asset Distribution - 12/31/2016

Asset Size	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Less Than \$50MM	43	12%	26	18%	17	8%
\$50MM To \$100MM	62	17%	36	24%	26	12%
\$100MM To \$250MM	104	28%	40	27%	64	28%
\$250MM To \$500MM	68	18%	28	19%	40	18%
\$500MM To \$1B	41	11%	12	8%	29	13%
Greater Than \$1B	55	15%	6	4%	49	22%
Total	373	100%	148	100%	225	100%



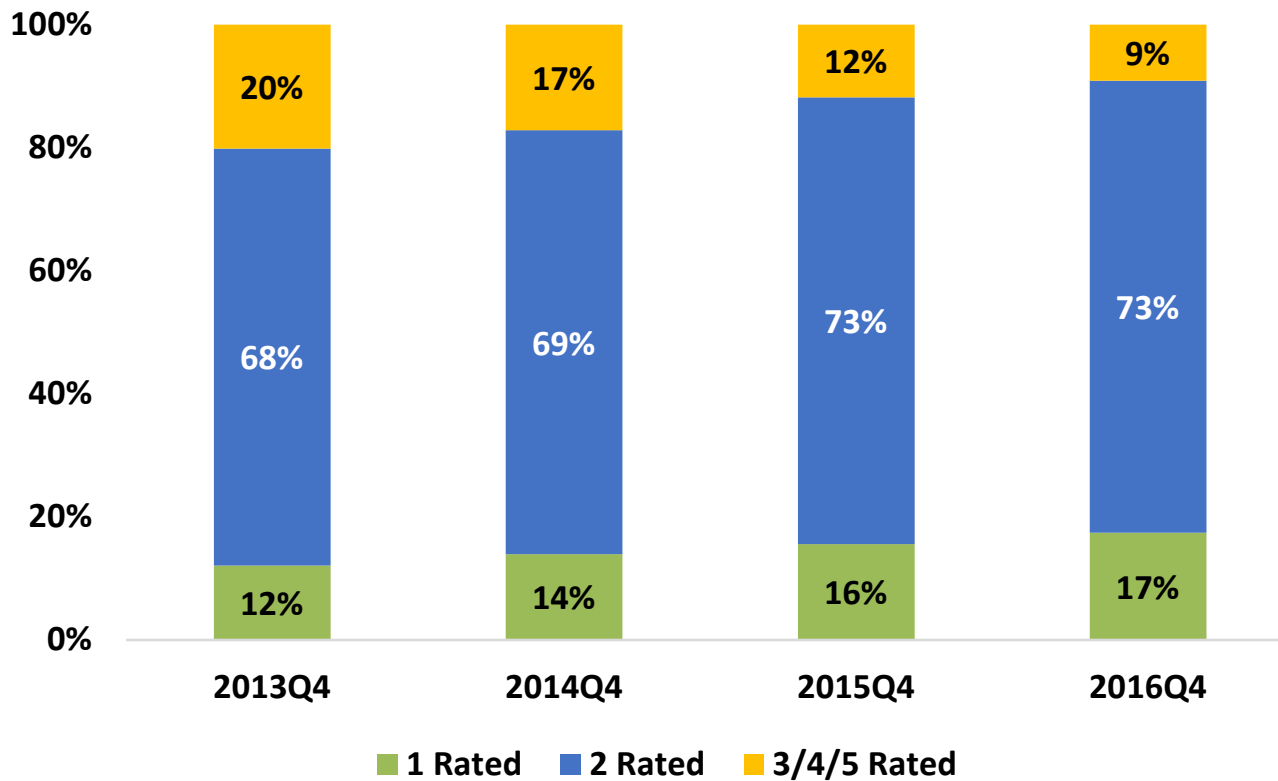
FSA Age Distribution

Mutual FSAs represent some of the oldest financial institutions in the United States. 41 percent of mutual FSAs were formed more than 100 years ago. 90 percent have operated for 75 years or more.



Mutual FSA Composite Ratings

Composite ratings at mutual FSAs improved since last year. 90 percent of all mutual FSAs are satisfactorily rated with a composite 1 or 2.



Mutual FSA Peer Groups

Mutual FSAs are placed into four supplemental peer groups based on quarterly average assets from the call report.

Supplemental Insured Savings Bank Peer Group

(Includes insured savings banks with the following characteristics)

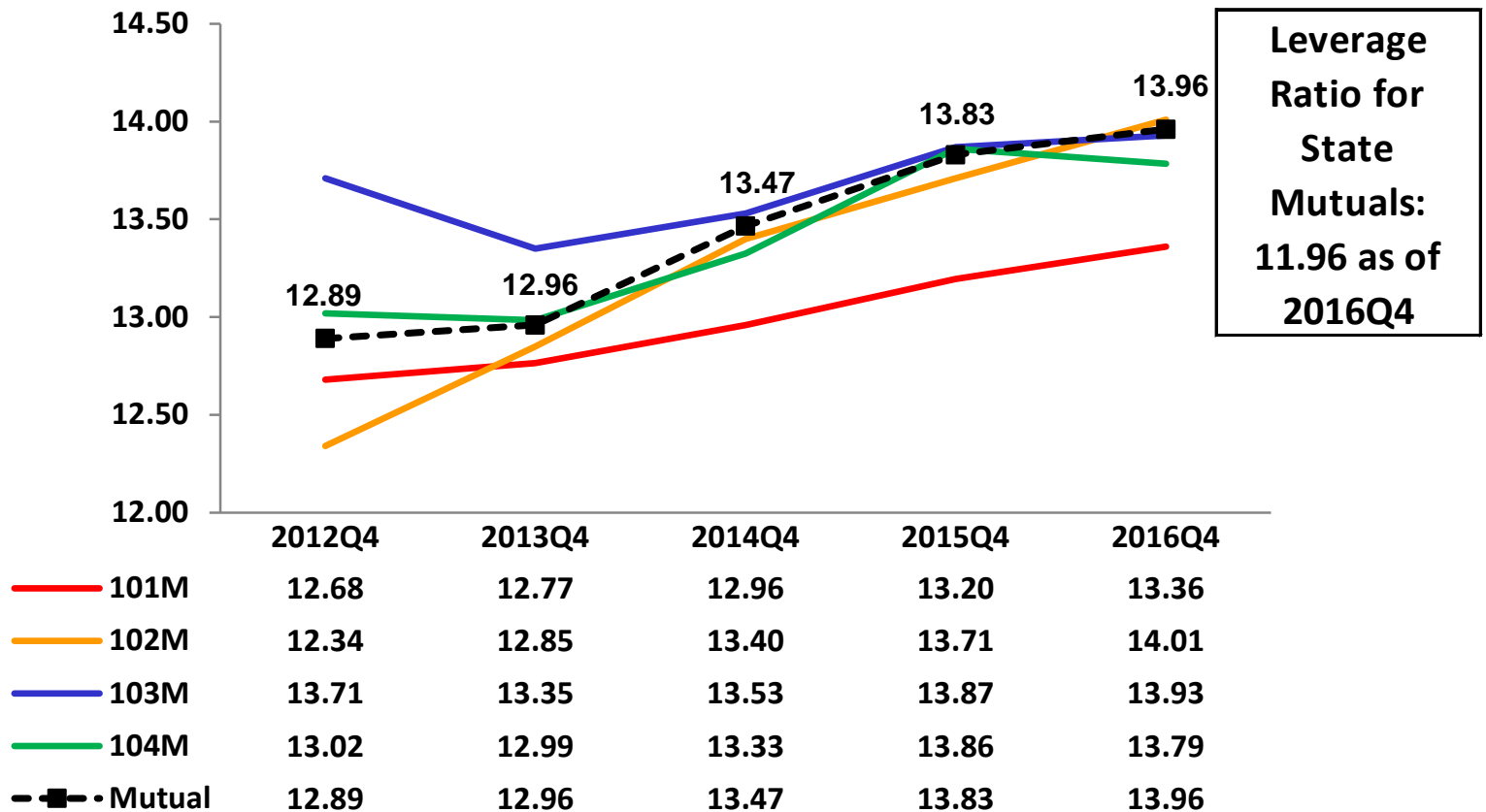
Peer Group Number	Ownership Type and Assets*
101M	Mutually-owned insured savings banks in excess of \$1 billion
102M	Mutually-owned insured savings banks between \$300 million and \$1 billion
103M	Mutually-owned insured savings banks between \$100 million and \$300 million
104M	Mutually-owned insured savings banks less than \$100 million

* Asset figure used is latest quarterly average assets (from FFIEC Call Report Schedule RC-K)



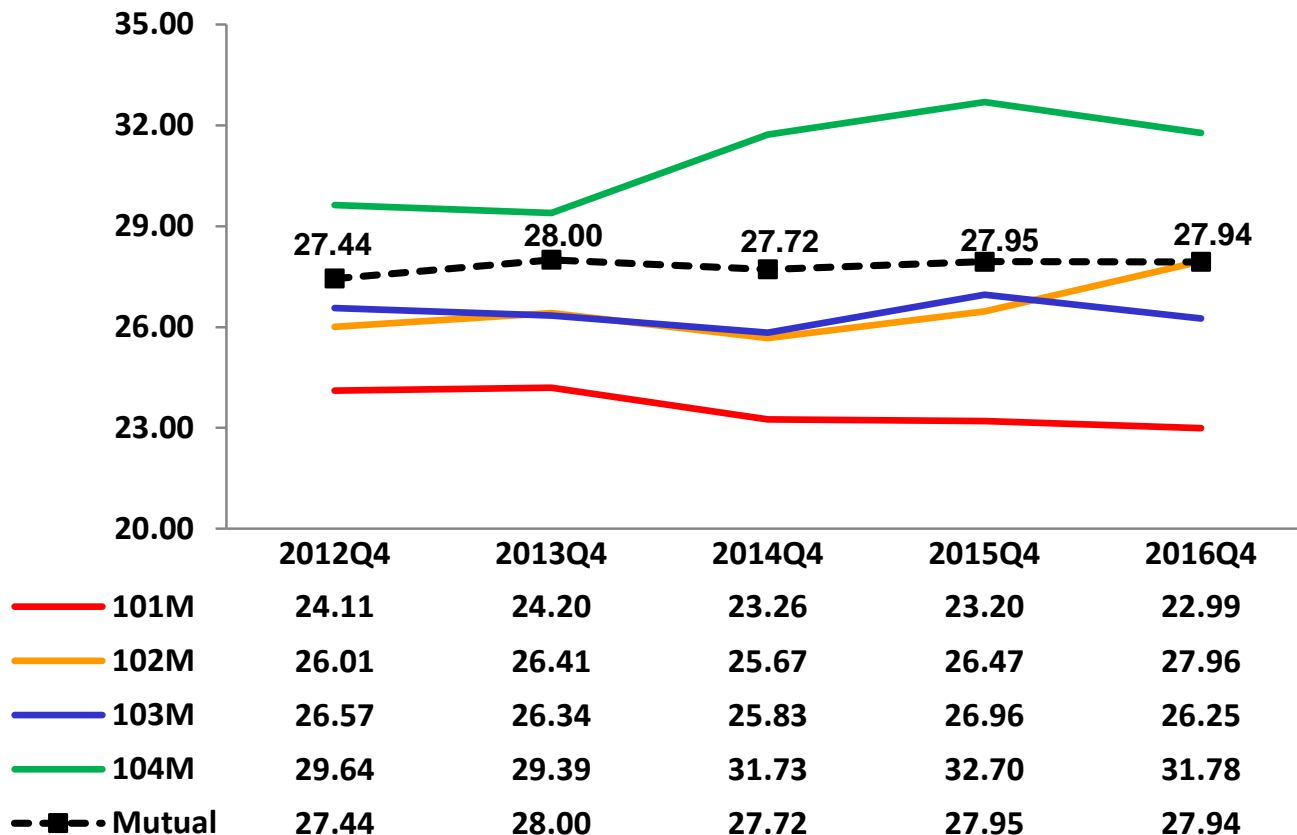
Tier 1 Leverage Capital Ratio

Mutual tier 1 capital levels continue on an upward trajectory under OCC supervision.



Total Risk-based Capital Ratio

Mutual total risk-based capital levels remain strong and stable, hovering around 28 percent.



FSA PCA Categories

99 percent of all mutual FSAs are “well-capitalized” per the Prompt Corrective Action (PCA) provisions of FDICIA.

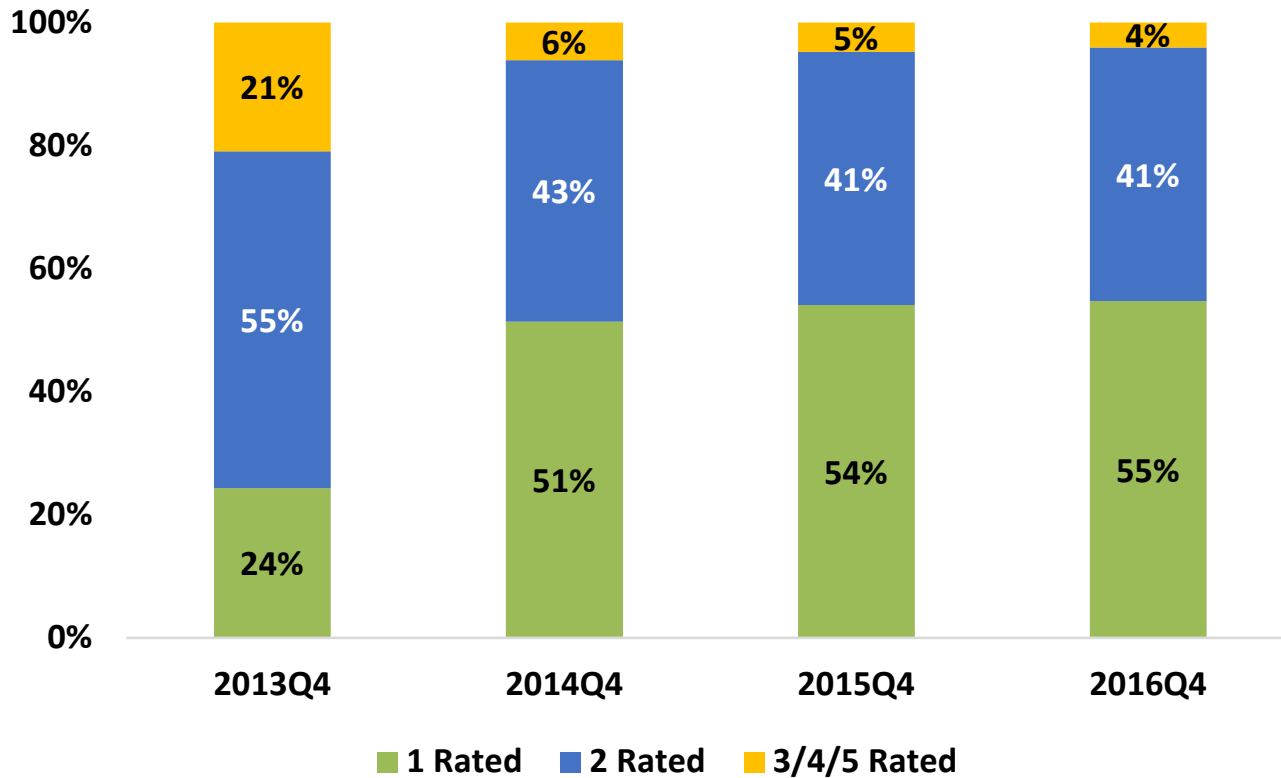
FSA PCA Categories - 12/31/2016

Category	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Well	356	95%	146	99%	210	93%
Adequate	15	4%	2	1%	13	6%
Under	0	0%	0	0%	0	0%
Sig Under	2	1%	0	0%	2	1%
Critically Under	0	0%	0	0%	0	0%
Not Assigned	0	0%	0	0%	0	0%
Total	373	100%	148	100%	225	100%



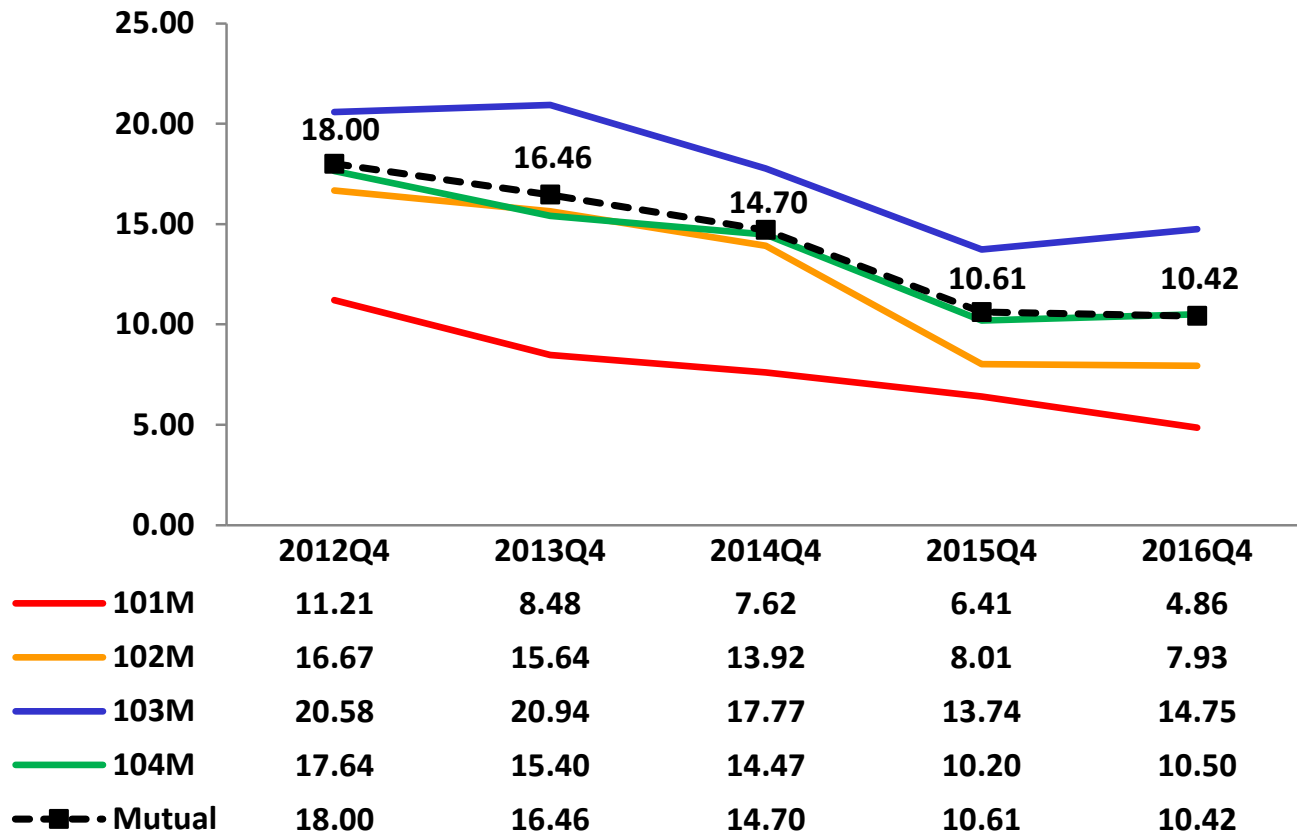
Mutual FSA Capital Ratings

Mutual FSA capital ratings improved in 2016. 96 percent of mutual FSAs are rated 1 or 2 for capital.



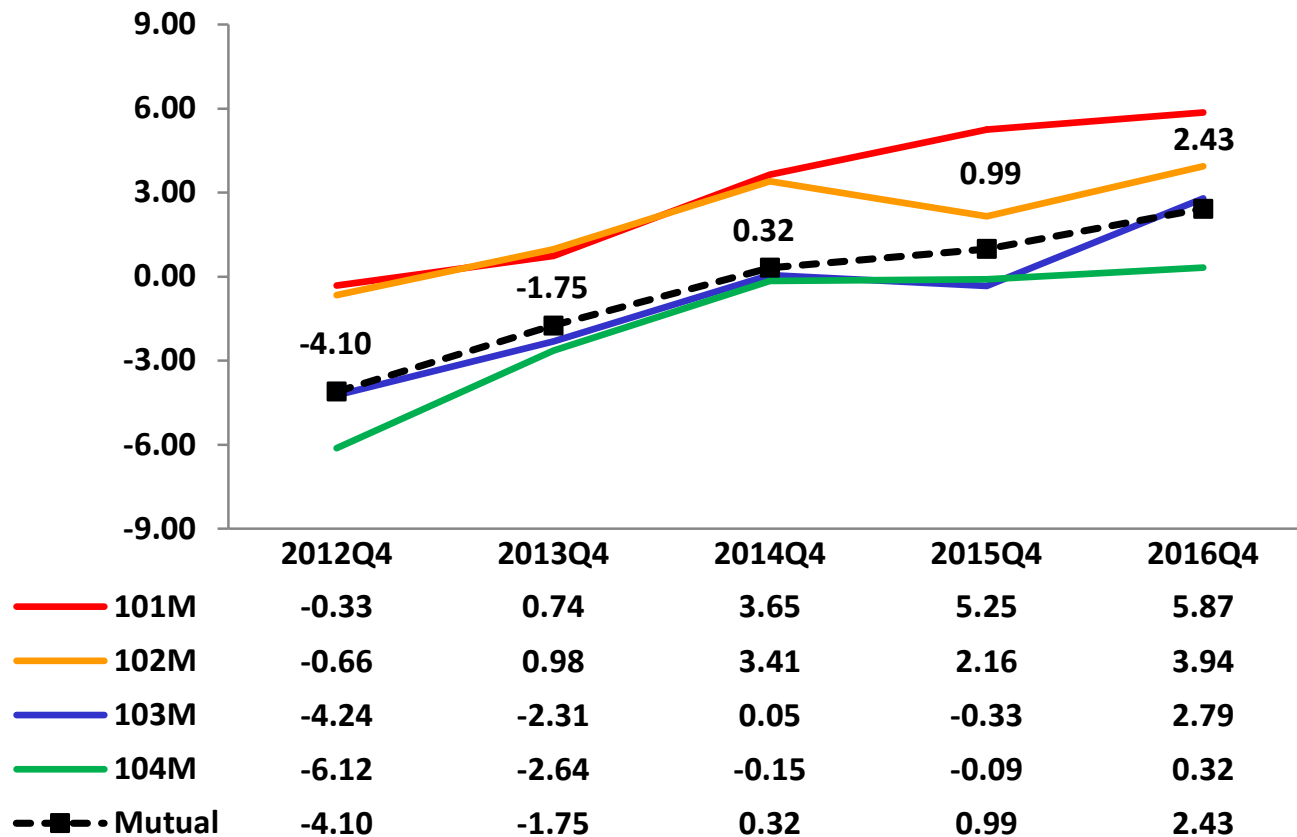
Classified Assets to Tier 1 Capital + ALLL

Classified levels continue to decline for mutual FSAs but the rate of improvement is slowing.



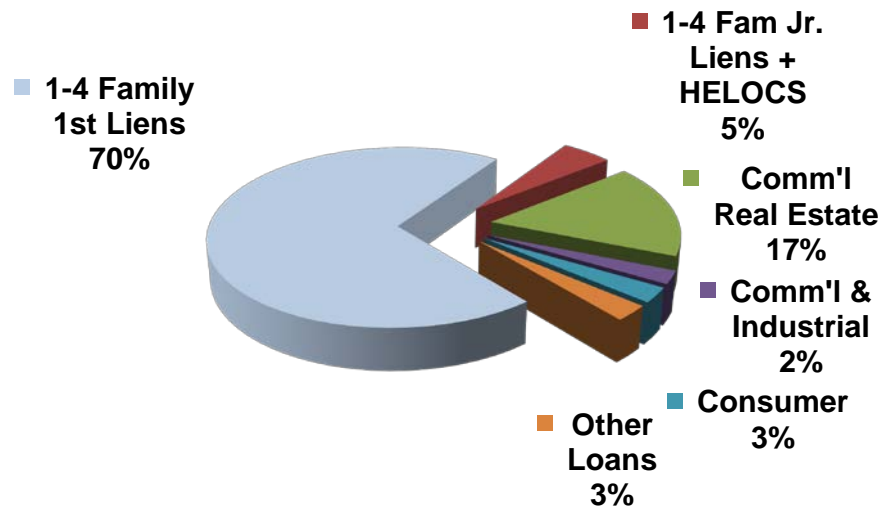
Net Loans & Leases - 1 Year Growth Rate

Mutual FSA loan growth continues to be slow but in positive territory for 2016. Loan growth is stronger for the larger mutual FSAs.



Mutual FSA Loan Distribution

Loan portfolios held by mutual FSAs are heavily concentrated in residential mortgages.



Loan Distribution by FSA Type-Straight Average						
Charter Type	% 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	70%	5%	17%	2%	3%	3%
Stock	50%	6%	29%	6%	6%	4%



Mutual Growth Rates by Loan Category

The highest loan growth for mutual FSAs has been in the commercial real estate, auto loans, and commercial & industrial loan categories.

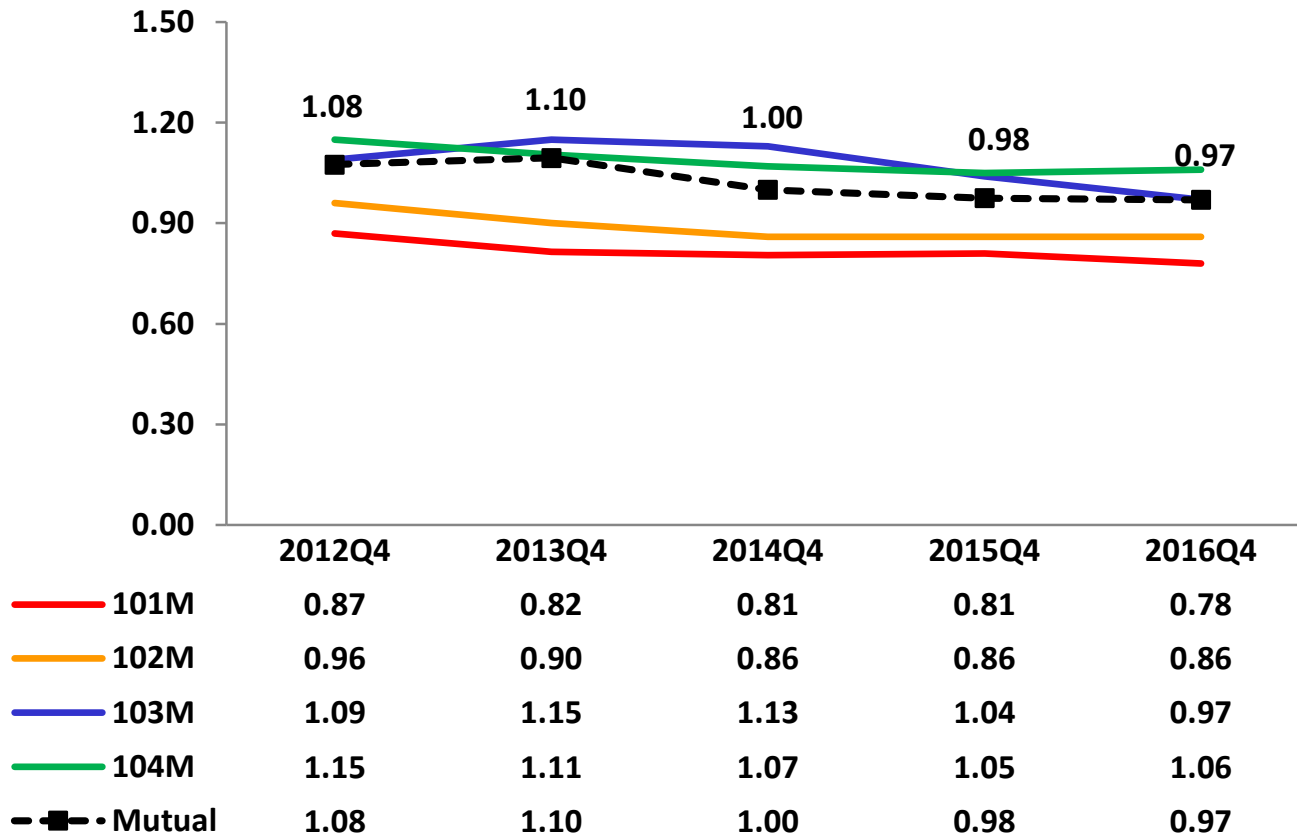
Loan Category	% of Total Loans	# of Mutu-als That Offer Product	% of Mutu-als That Offer Product	# with growth rates > 10% (a)	Median Year-over-year Growth Rate (a)
1-4 Family 1st Lien Loans	70%	171	100%	24	1.03
1-4 Family Jr Lien Loans	5%	149	87%	7	-5.63
Home Equity Lines of Credit		142	83%	30	3.70
CRE: Multifamily Loans	17%	136	80%	32	7.03
CRE: Land & Development Loans		150	88%	47	16.69
CRE: NonFarm Nonresi Loans		162	95%	44	3.17
Commercial & Industrial Loans	2%	104	61%	28	10.26
Lns to Indivs: Other Revolving	3%	46	27%	0	--
Lns to Indivs: Other Consumer Loans		161	94%	10	7.41
Lns to Indivs: Auto Loans		115	67%	12	10.48
Lns to Indivs: Credit Cards		14	8%	0	-4.20
Other: Lns to Finance Ag Production	3%	31	18%	5	9.76
Other: Lns Secured by Farmland		76	44%	10	2.94
Other: Other Loans in Domestic Offices		75	44%	2	17.43

(a) - for mutual FSAs that have exposure to capital > 10% for the loan category



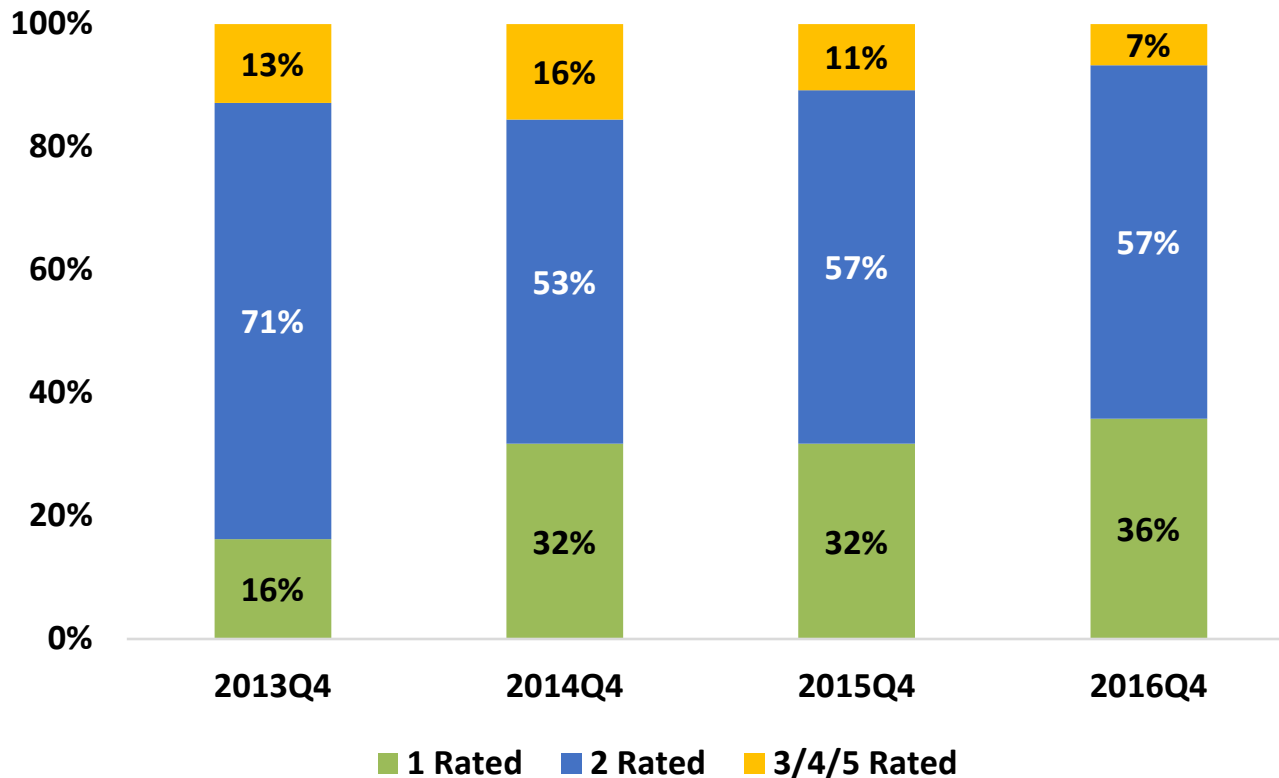
Allowance for Loan and Lease Losses

ALLL levels for mutual FSAs have been falling since 2013 and now represent 0.97 percent of total loans.



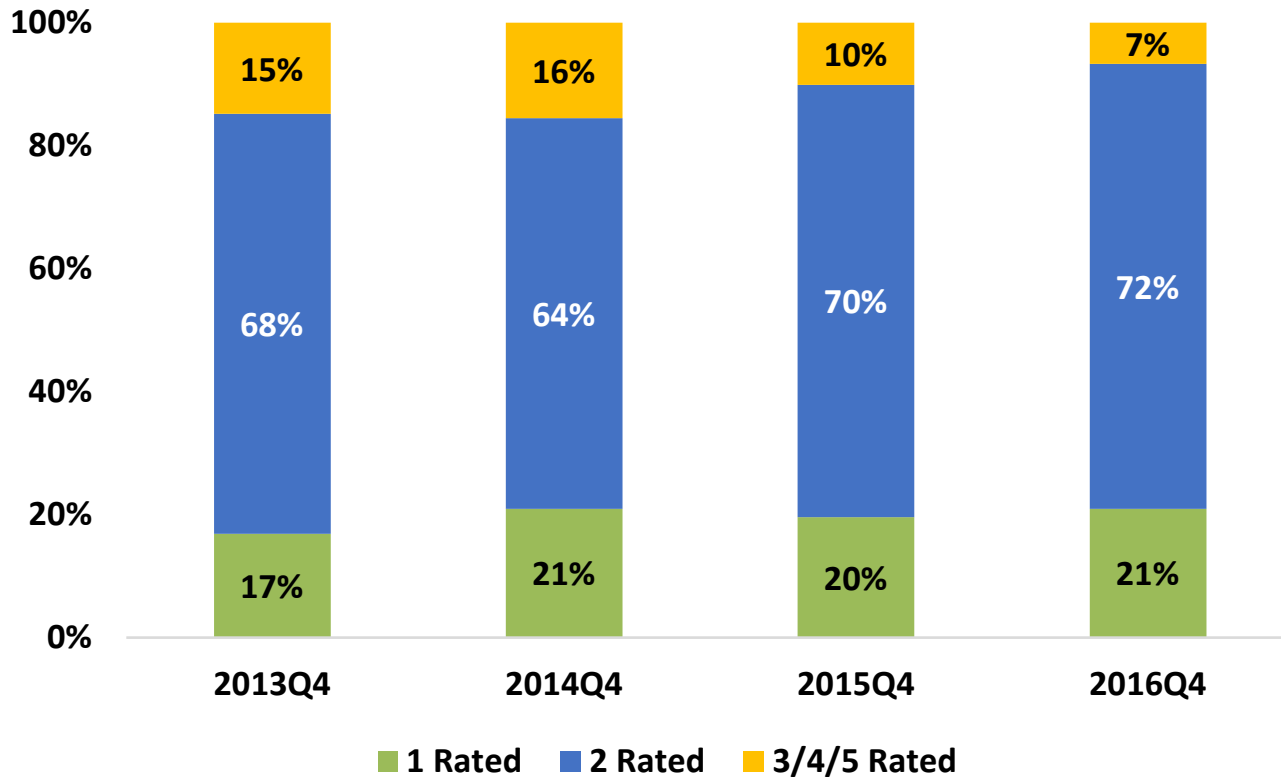
Mutual FSA Asset Quality Ratings

Asset quality ratings continue to improve for mutual FSAs. 93 percent are rated 1 or 2 for asset quality.



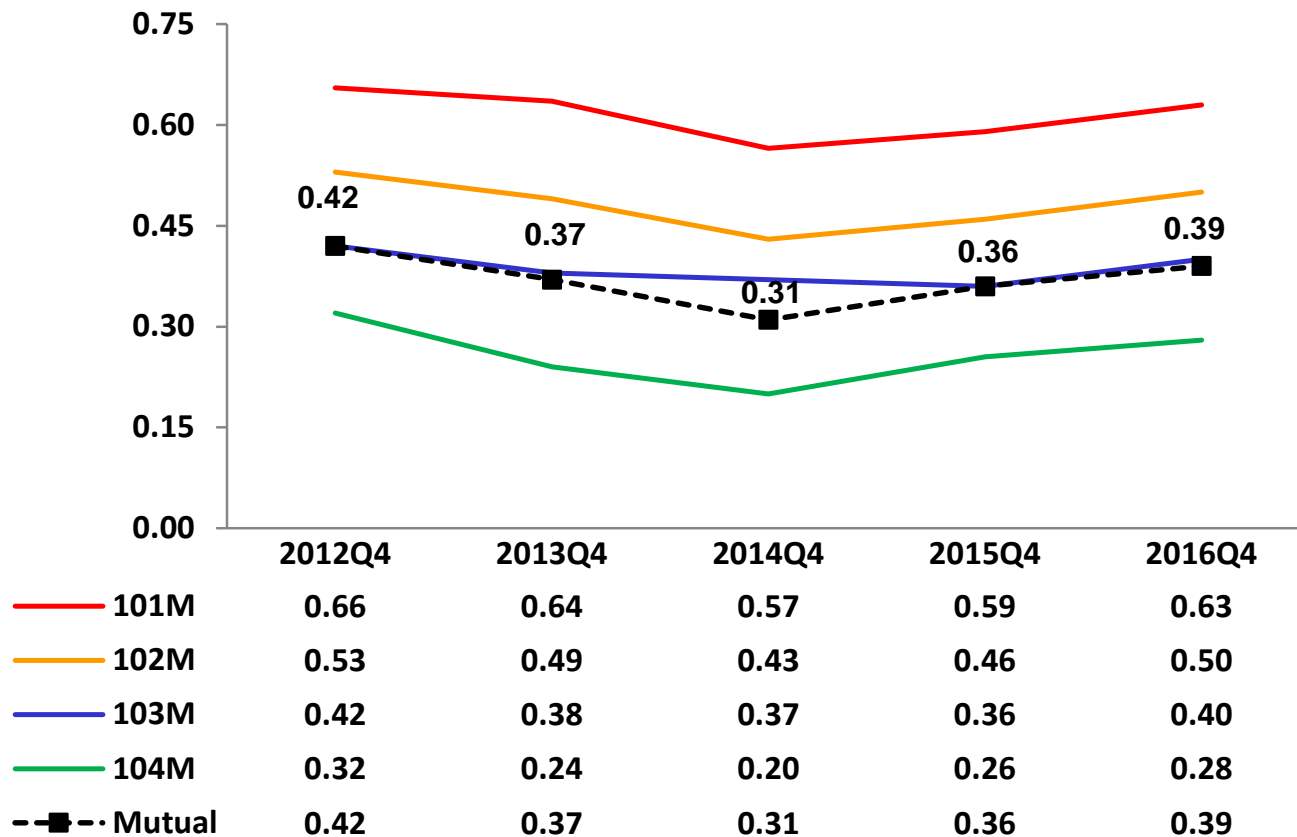
Mutual FSA Management Ratings

Management ratings continue to improve as well; 93 percent of mutual FSAs are rated 1 or 2.



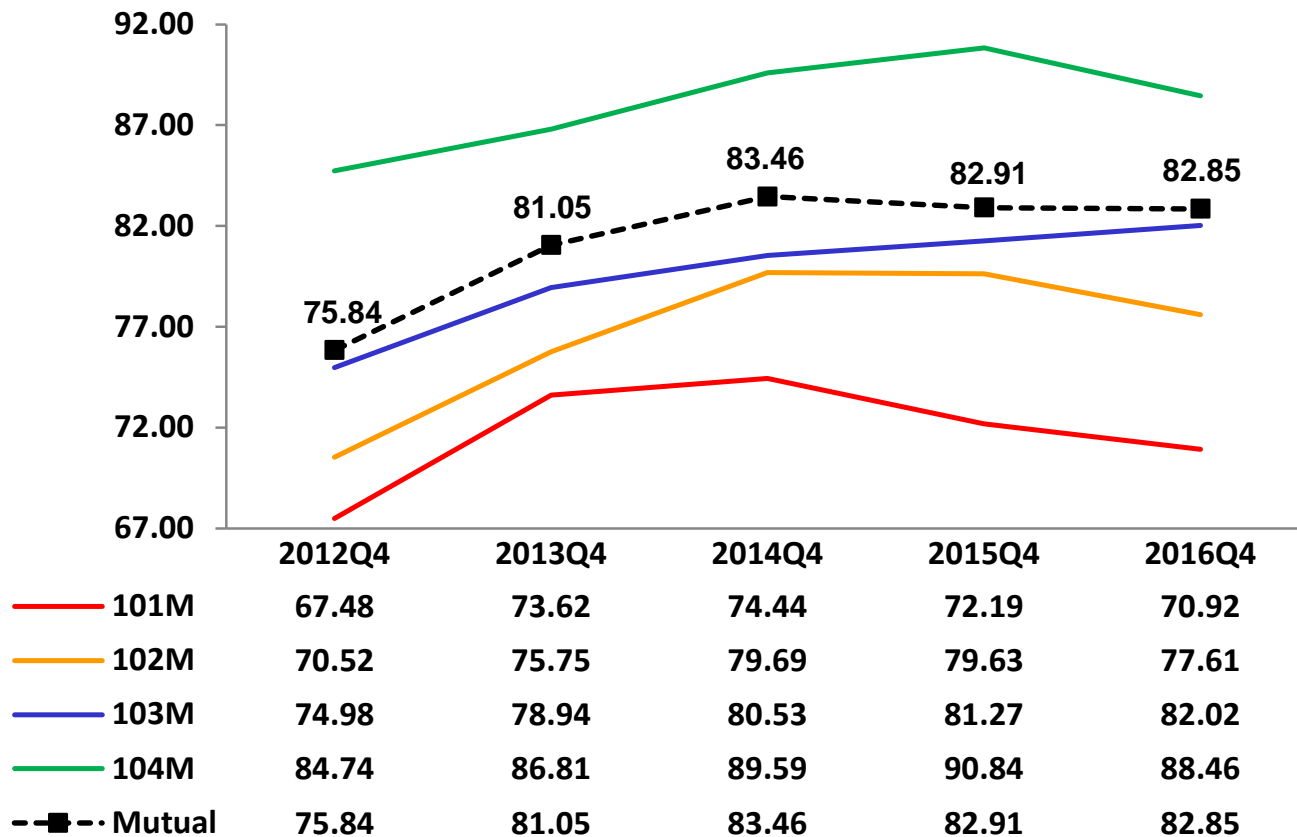
Return on Average Assets

Mutual earnings continue to edge higher. The larger the mutual, the better the ROAA.



Efficiency Ratio

Mutual efficiency ratios remain elevated, hovering around 83 percent since 2014. The larger the mutual, the better the efficiency ratio.



Efficiency Ratio Breakdown

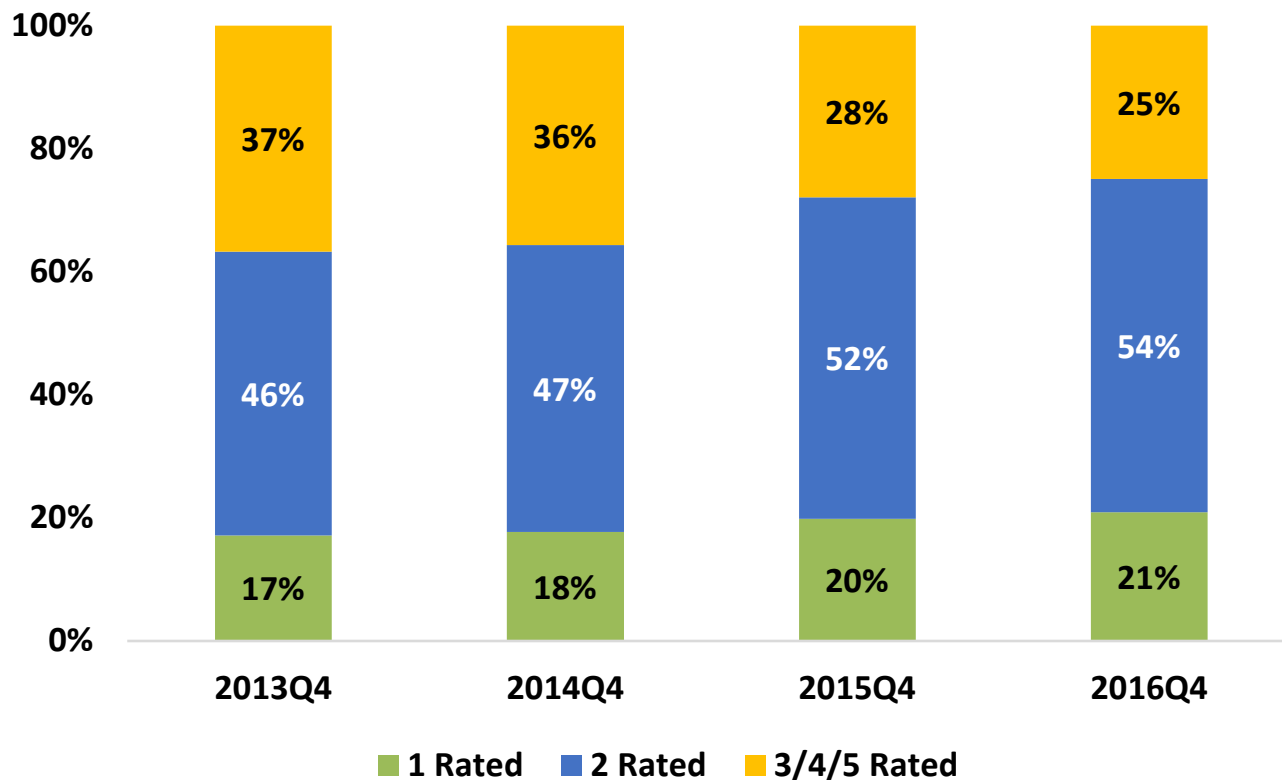
The below table provides a breakdown of the efficiency ratio by component parts for mutual FSAs above and below \$300 million in total assets. Green shaded cells indicate the most favorable components in relation to assets.

Efficiency Component	101M & 102M Peer Groups			103M & 104M Peer Groups			Efficiency Component
	\$	YOY Δ	% of AA	\$	YOY Δ	% of AA	
NONINT EXPENSE	1,059,383	4.73	2.57	422,449	4.79	3.03	NONINT EXPENSE
NONINT INCOME	244,952	7.89	0.56	65,551	15.19	0.41	NONINT INCOME
NET INT INCOME (TE)	1,205,025	3.45	2.84	428,676	1.77	2.99	NET INT INCOME (TE)
Efficiency Ratio	73.06			85.48			Efficiency Ratio



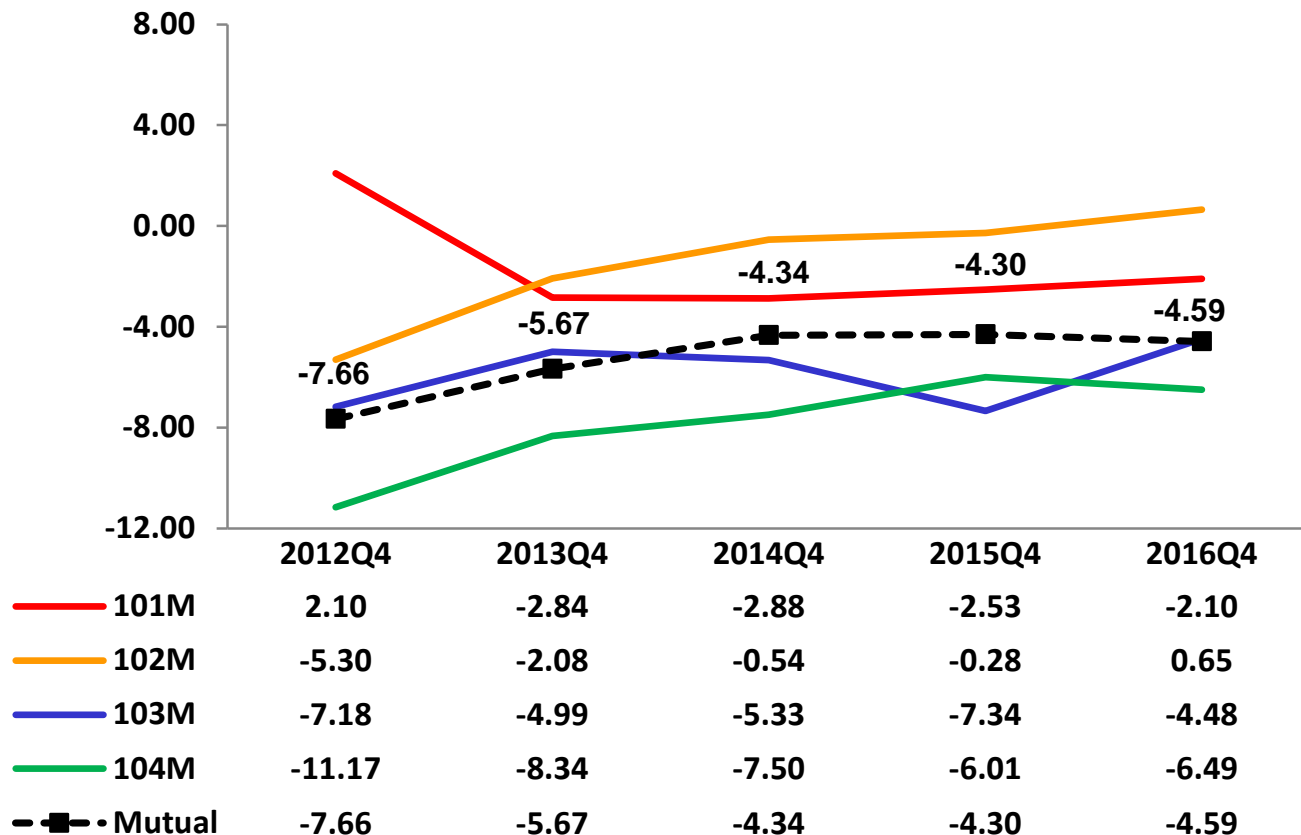
Mutual FSA Earnings Ratings

Earnings ratings continue to improve but lag ratings in other safety and soundness areas. Only 75 percent of mutual FSAs are rated 1 or 2 for earnings.



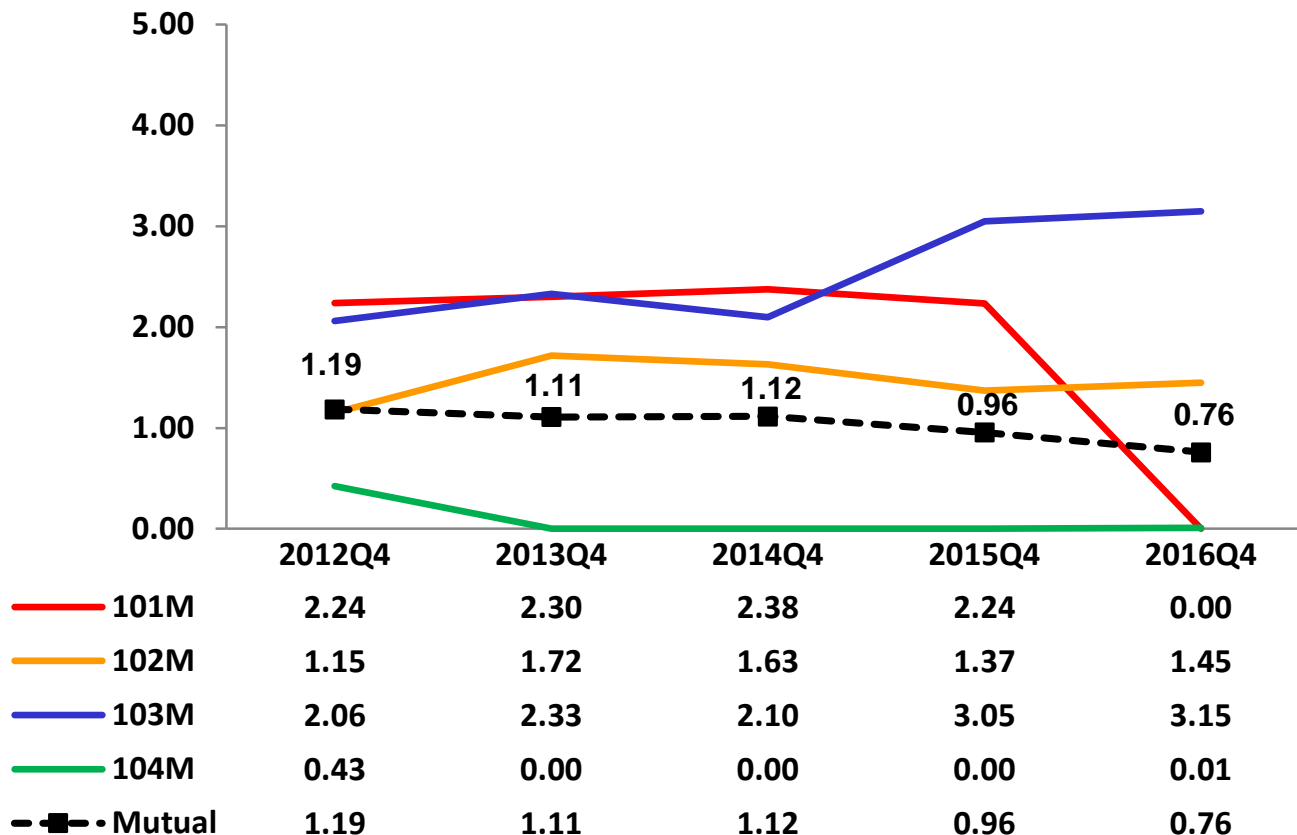
Net Non-core Funding Dependence Ratio

Levels of net non-core funding dependence remain low and stable for mutual FSAs.



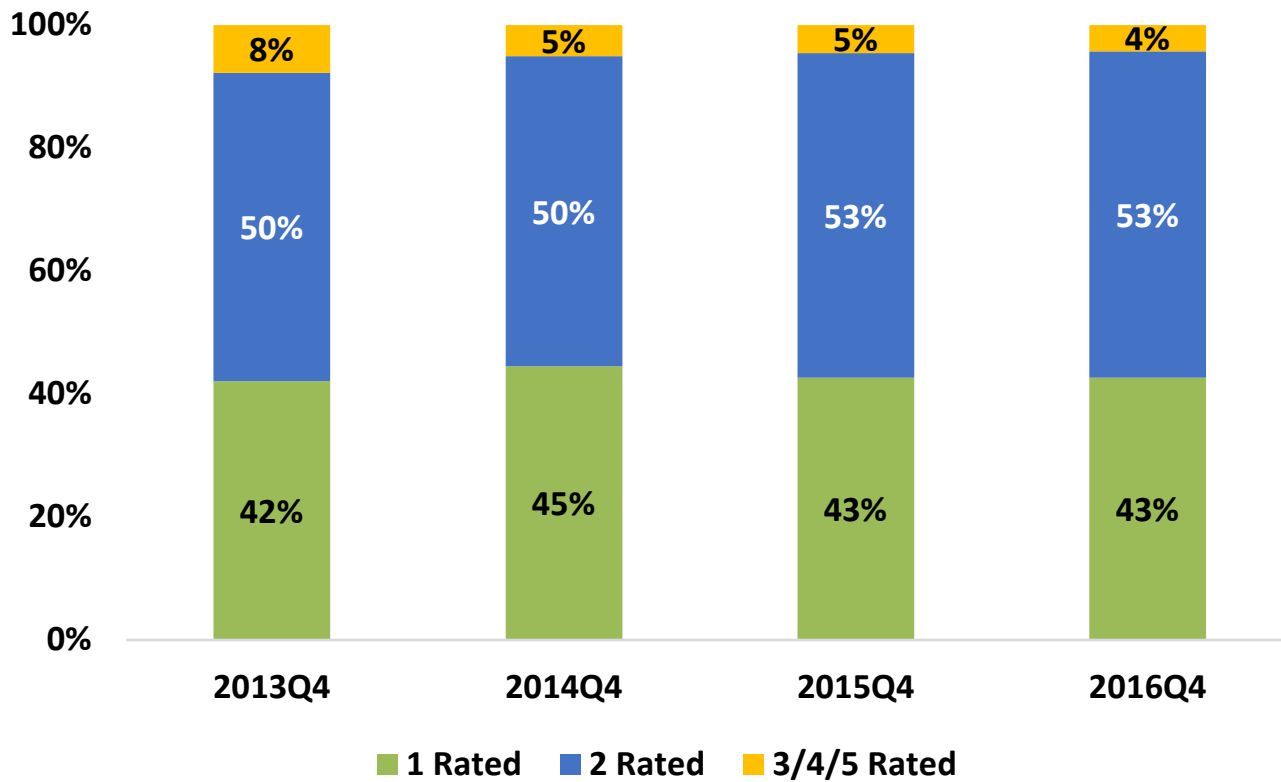
Reliance on Wholesale Funding Ratio

Reliance on wholesale funding remains low and decreasing for mutual FSAs.



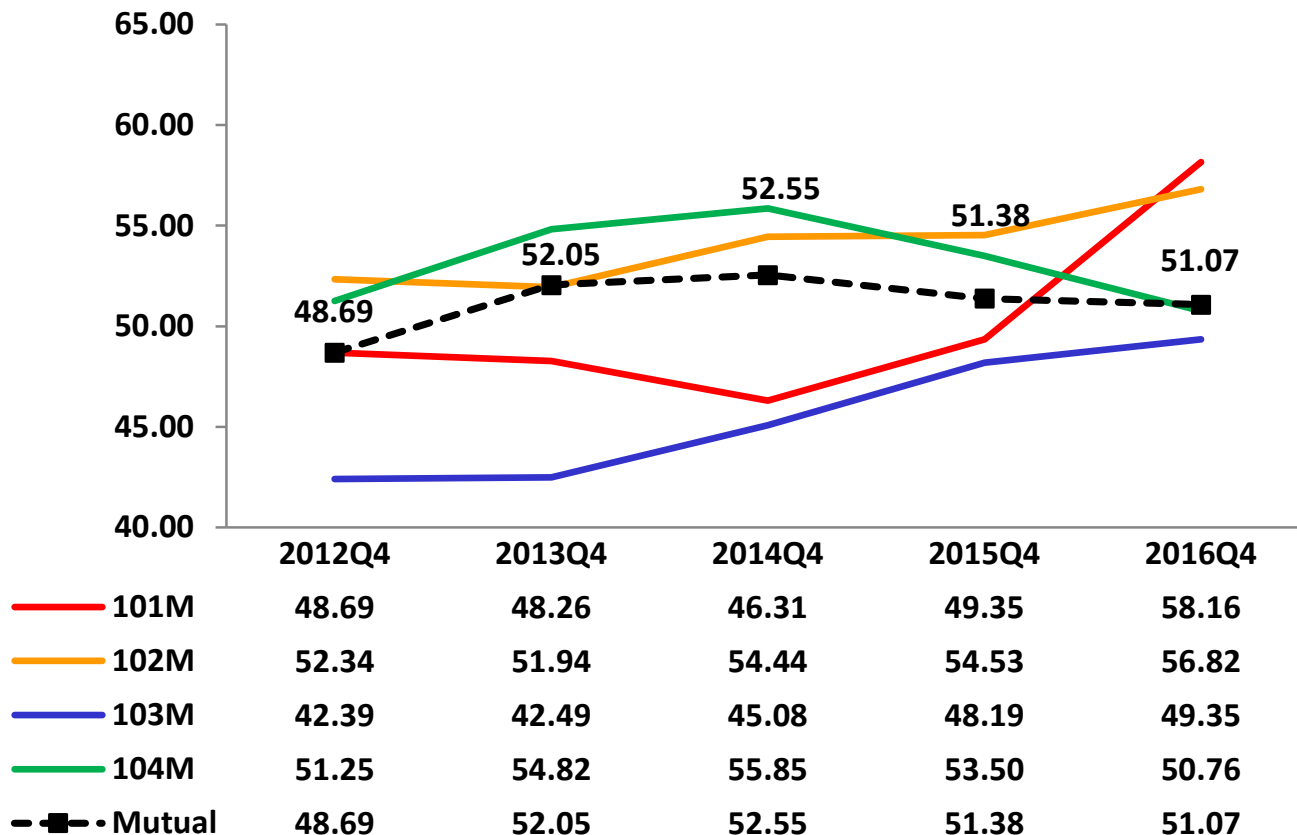
Mutual FSA Liquidity Ratings

Liquidity ratings for mutual FSAs improved in 2016; 96 percent are rated 1 or 2.



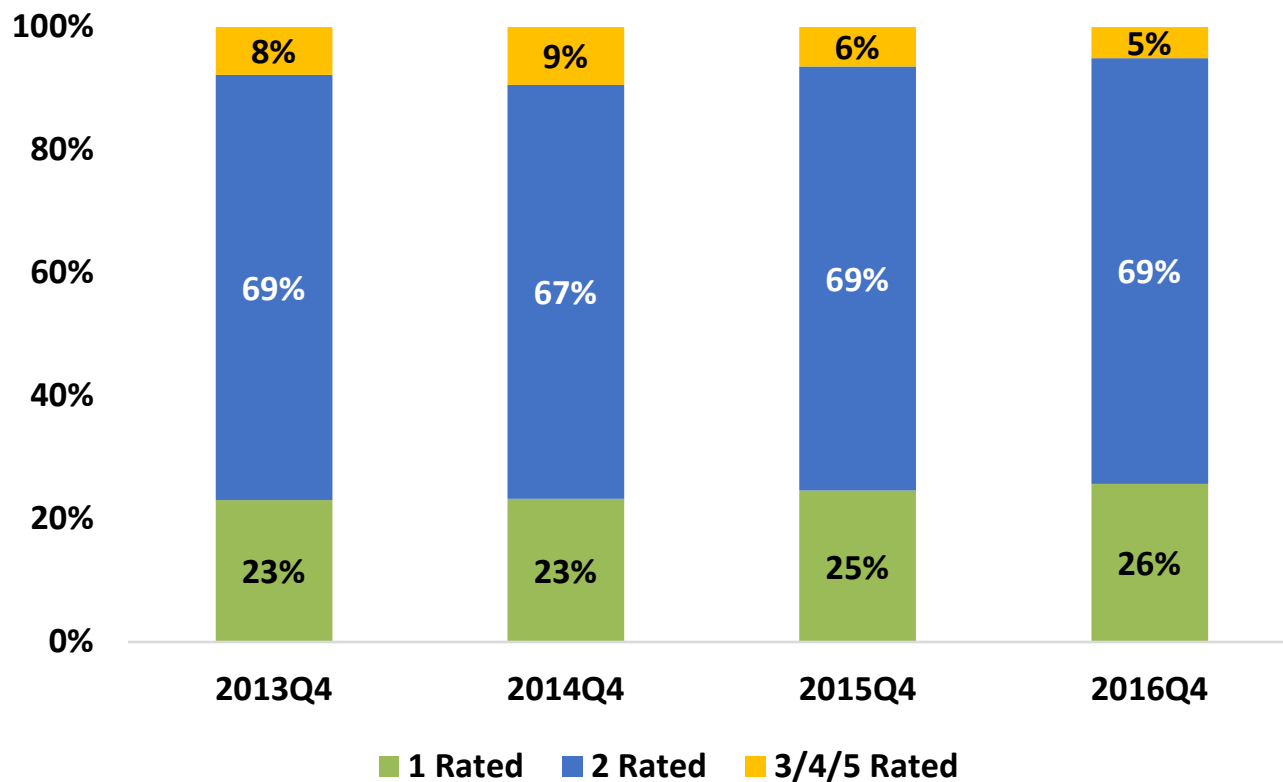
Long-term Assets to Total Assets Ratio

Long-term assets for some mutual peer groups are increasing. Half of mutual FSA assets are considered long-term.



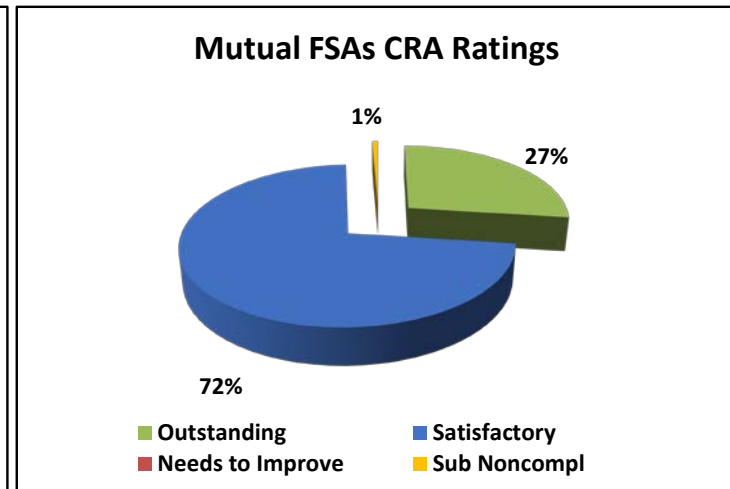
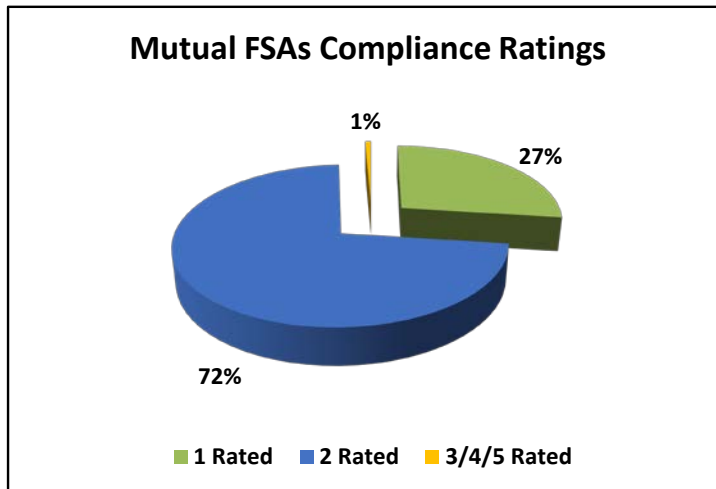
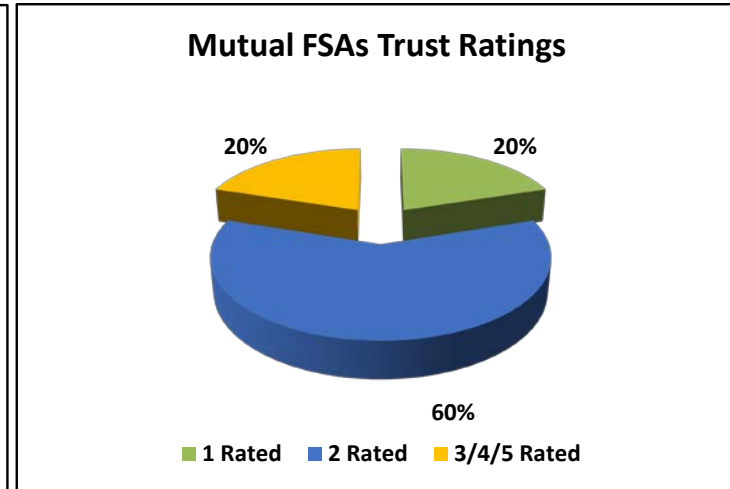
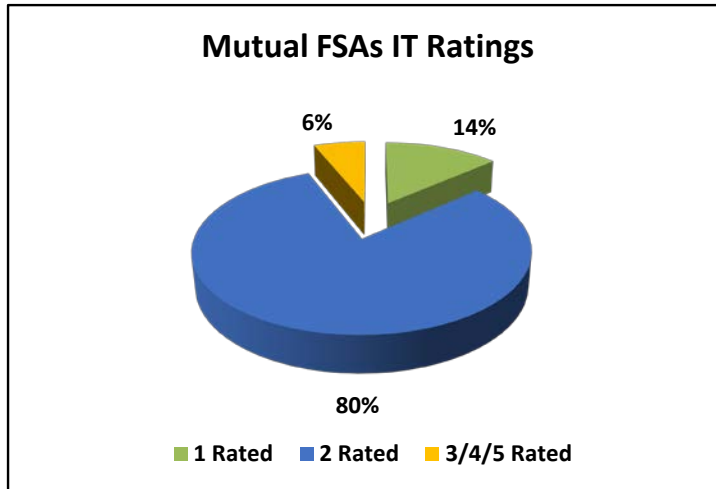
Sensitivity to Market Risk Ratings

Sensitivity to market risk ratings for mutual FSAs improved in 2016; 95 percent are rated 1 or 2.



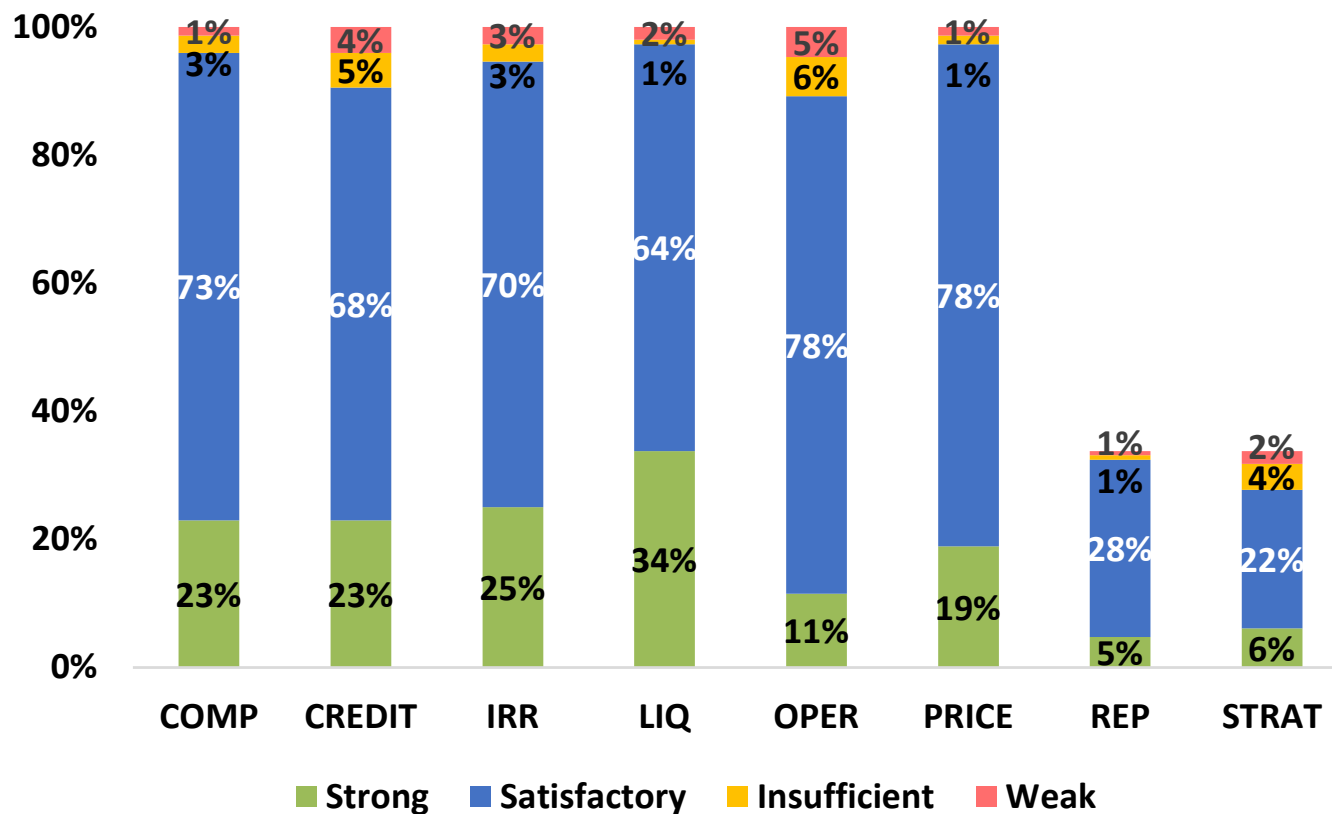
Mutual FSA Specialty Ratings

Specialty ratings are good. Only 5 mutual FSAs have trust powers.



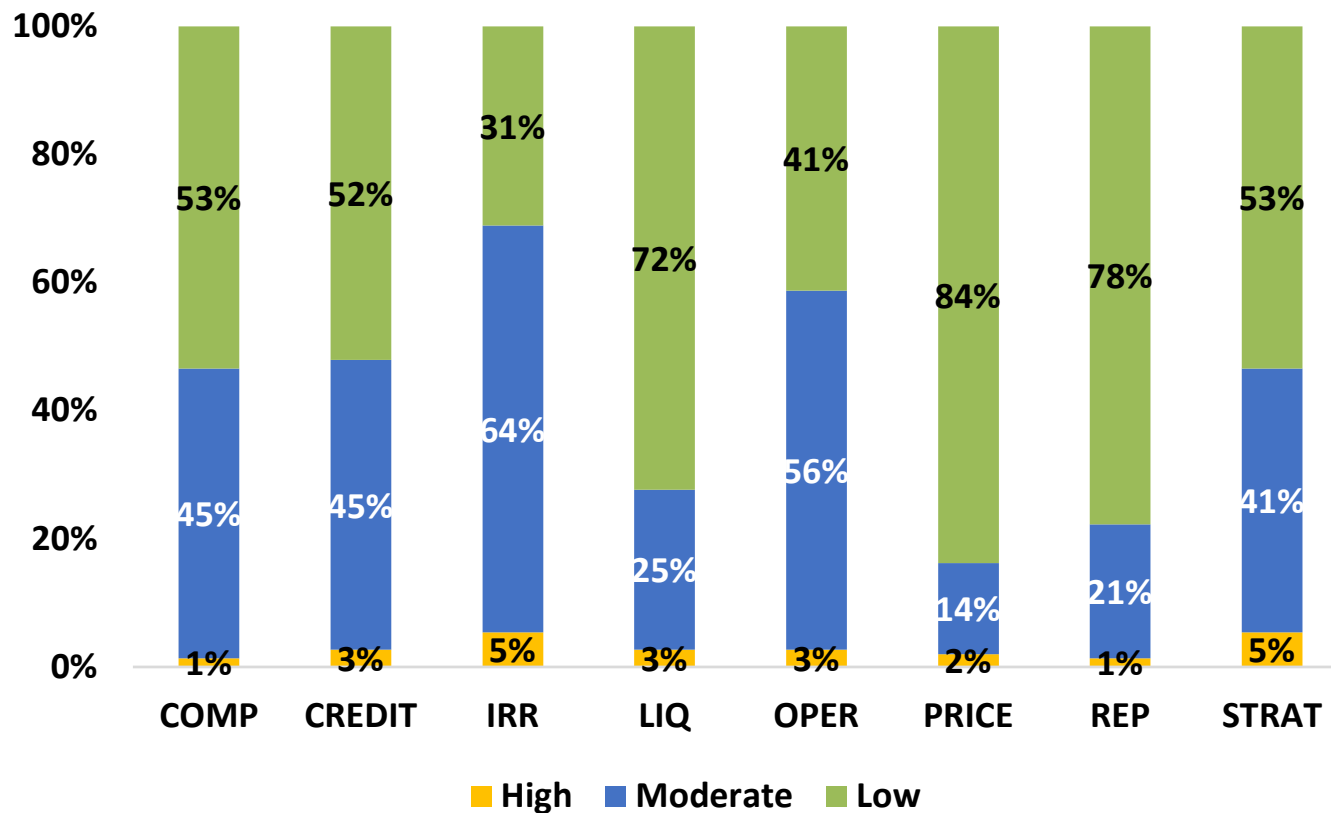
Mutual FSAs Quality of Risk Management

Liquidity and Interest rate have the most Strong ratings at 34 percent and 25 percent, respectively. Operational and Credit have the most Insufficient/Weak ratings at 11 percent and nine percent, respectively.



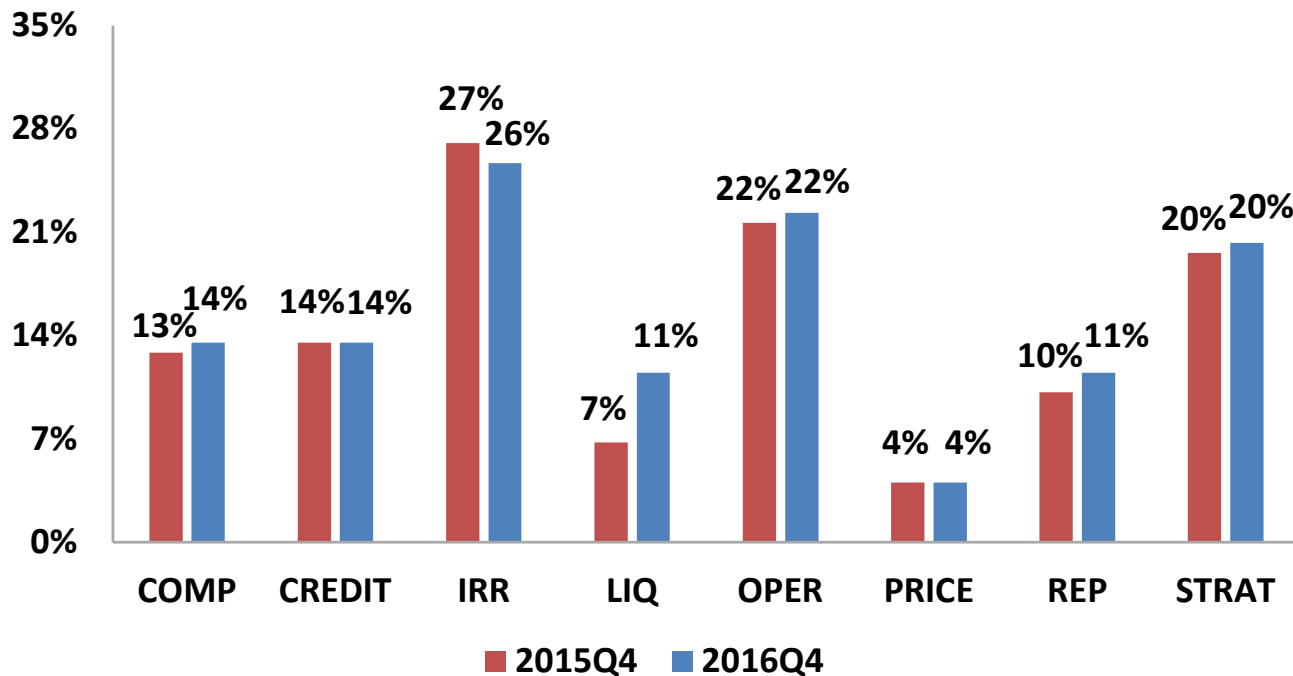
Mutual FSAs Aggregate Level of Risk

The Interest Rate and Strategic categories have the most mutual FSAs designated with high risk. Six risks are predominately rated as low.



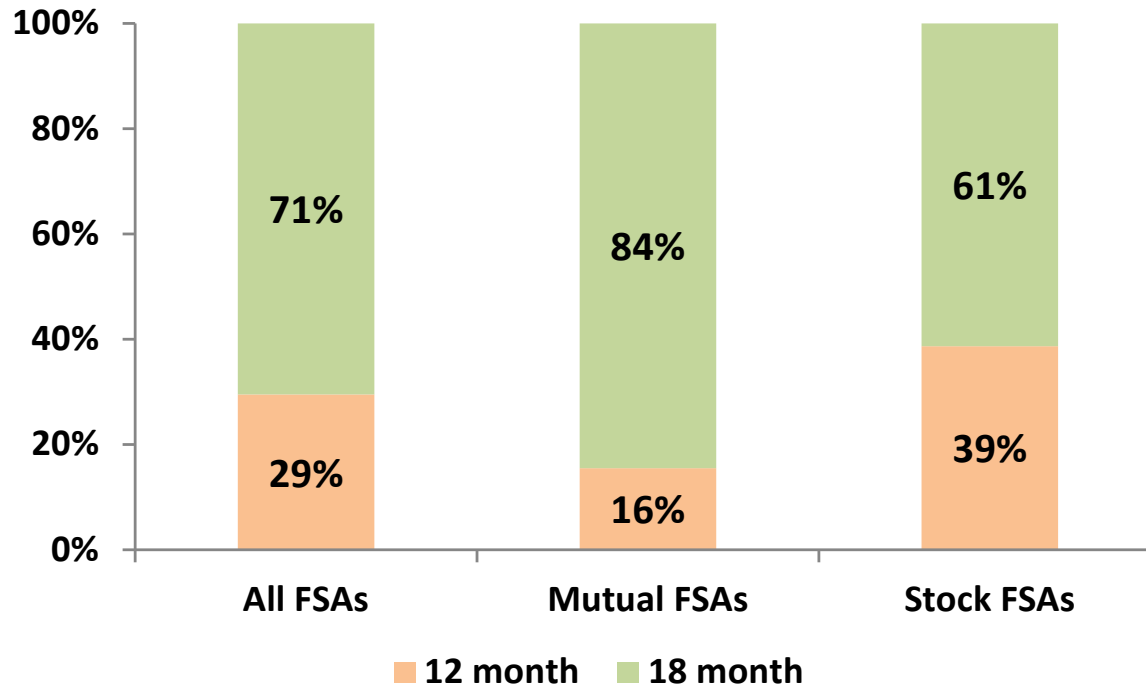
Mutual FSAs Risk Ratings

Below are the percent of mutual FSAs with High or Moderate and Increasing risk. The top three risks are Interest Rate, Operational, and Strategic.



Supervisory Cycle for FSAs

A new 2016 rule makes qualifying 1- and 2-rated banks with less than \$1 billion in total assets eligible for an 18-month (rather than a 12-month) examination cycle.



Mutual FSA Year-over-Year MRAs

The volume of MRAs cited in 2016 increased by five, or two percent, compared to 2015. The sharp increase in the number of Bank Information Technology MRAs was the driving factor for the total year-over-year increase.

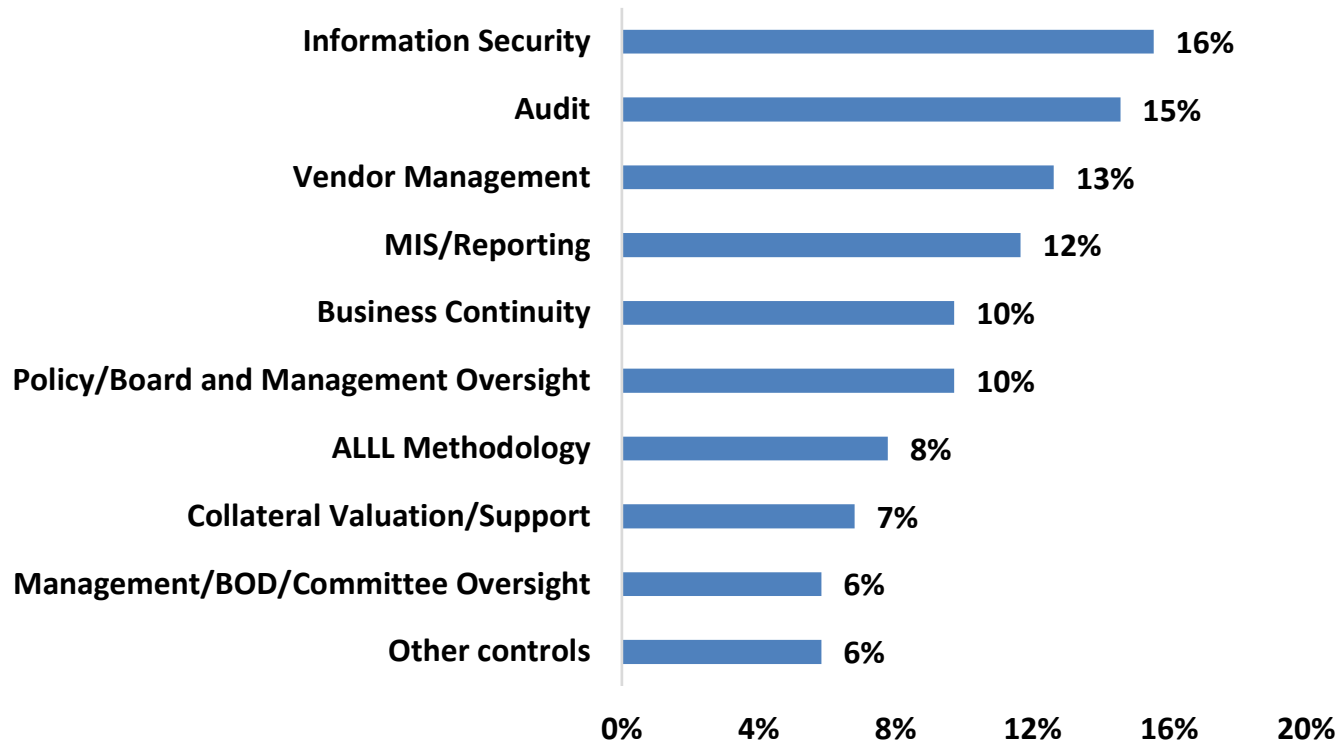
Year-over-Year Mutual FSA MRA Comparison

MRA EXAM AREA	2016 - 12 months		2015 - 12 months		Yr to Yr Δ	
	#	%	#	%	#	%
Asset Management	1	0%	1	0%	0	0%
Bank Information Technology	70	32%	30	14%	40	133%
BSA/AML	7	3%	23	11%	-16	-70%
Capital Markets	17	8%	18	8%	-1	-6%
Compliance	17	8%	8	4%	9	113%
Credit	65	30%	86	40%	-21	-24%
Enterprise Governance	36	16%	37	17%	-1	-3%
Earnings and Capital	6	3%	11	5%	-5	-45%
Total	219	100%	214	100%	5	2%



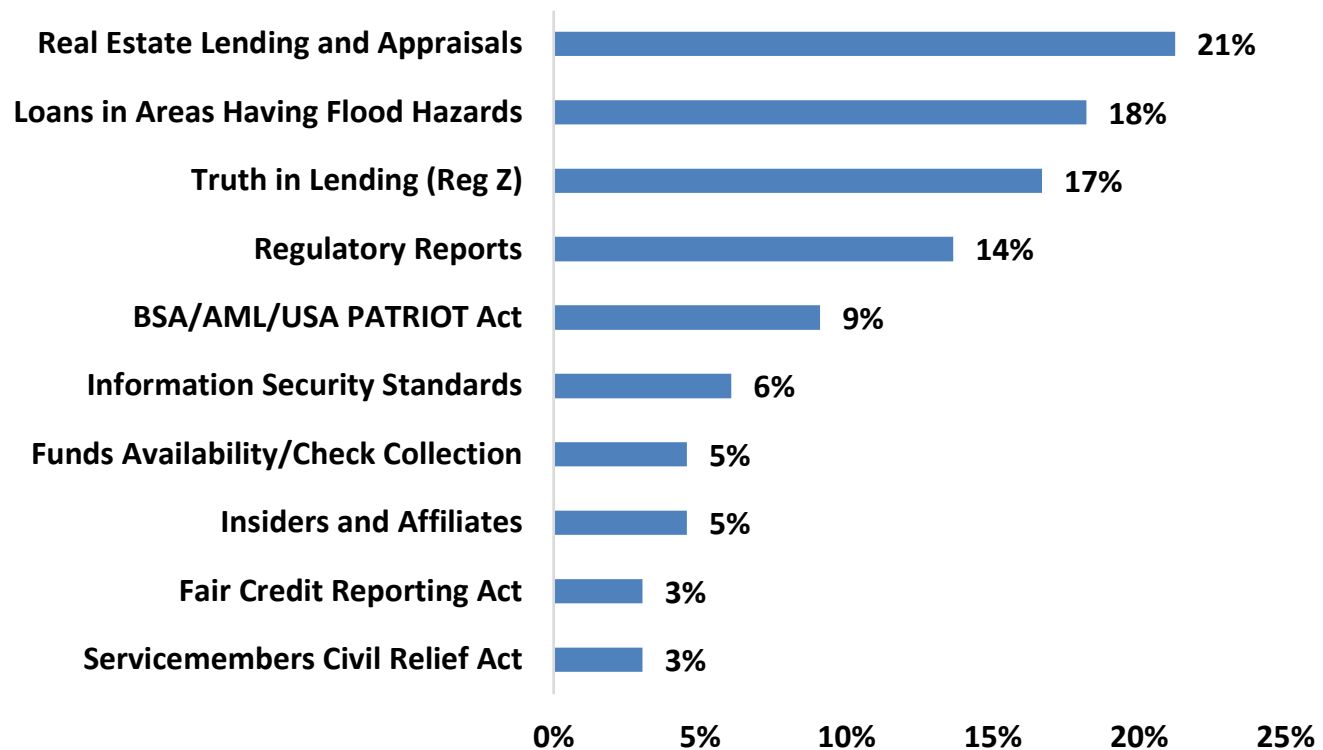
Top 10 Specific Mutual MRA Concerns

The most frequently cited specific mutual concern was Information Security, followed by Audit, and Vendor Management.



Top 10 Specific Mutual Violations of Law

The most frequently cited violation of law at mutual FSAs was Real Estate Lending and Appraisals, followed by Flood Insurance and Truth in Lending (Regulation Z).



Mutual Rating Changes from OCC Exams

Rating upgrades greatly exceed downgrades in 2017. There were 50 net upgrades during the current examination of mutual FSAs and mutually-owned FSAs.

Rating Category	Upgrade	Downgrade	No Change	Net # of Changes	Total
Composite	12	3	156	9	171
Capital	4	2	165	2	171
Asset Quality	18	7	146	11	171
Management	14	4	153	10	171
Earnings	19	11	141	8	171
Liquidity	5	4	162	1	171
Sensitivity to Market Risk	9	2	160	7	171
Information Technology	9	13	149	-4	171
Trust	2	0	169	2	171
Compliance	7	2	162	5	171
CRA	11	12	148	-1	171

OCC Supervisory Tools/Products

- Canary System Benchmarks
- Thrift Analysis Report
- Mutual Peer Bank Performance Report
- Quarterly FSA Briefing Package
- Customized Mutual Q Book



Questions ?

