

Mutual Savings Association Advisory Committee Meeting

April 28, 2015

Mutual Overview and Trends

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Mutual Overview and Trends

1. Portfolio Statistics

- Asset trends, FSA charter type, state distribution, asset distribution, charter age.

2. Financial Metrics

- Asset quality, earnings, capital and PCA categories, liquidity and sensitivity, balance sheet composition.

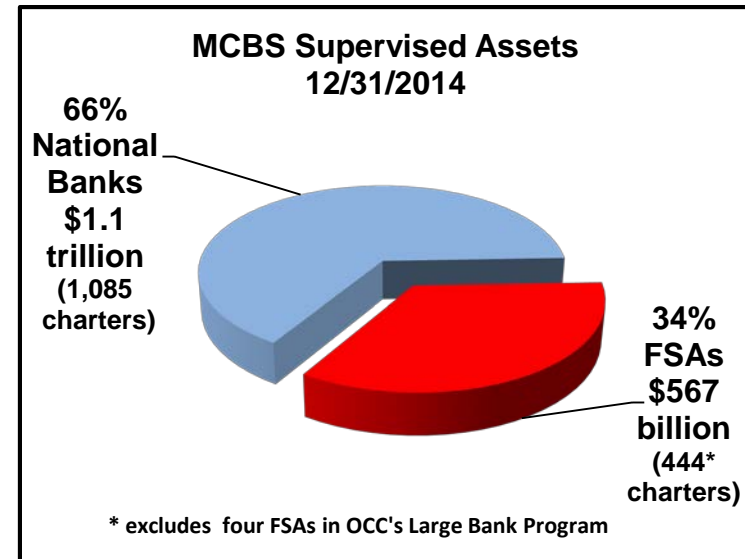
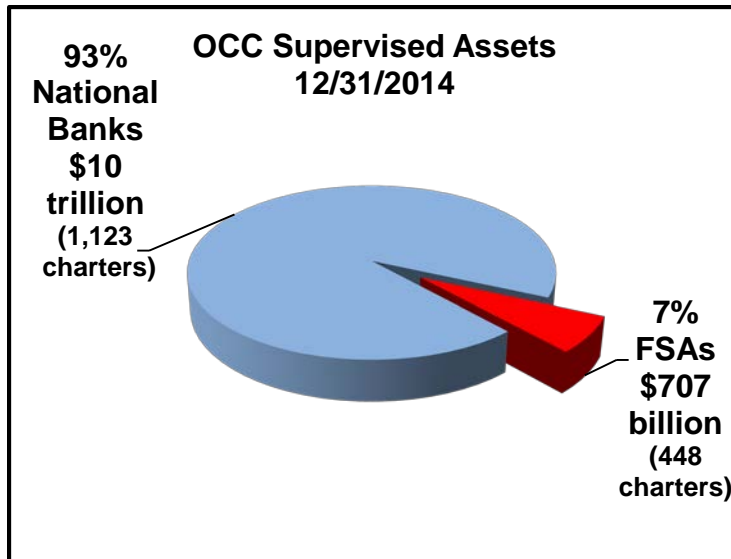
3. Supervisory Data

- Examination Cycle, composite ratings, rating distributions and changes, level of aggregate risk, quality of risk management, high or moderate and increasing risk, Matters Requiring Attention (MRAs), Violations of Law (VOLs).

4. OCC Supervisory Tools

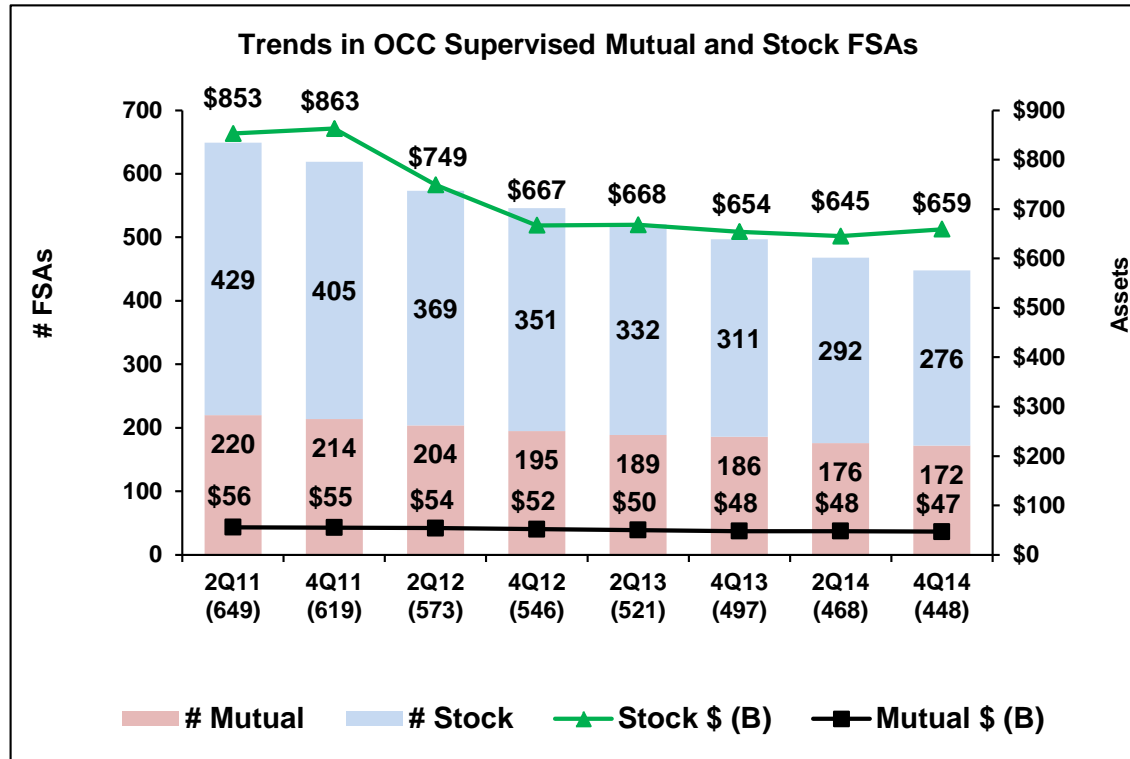
- Summary of key OCC Supervisory Tools – Canary System Benchmarks, Thrift Analysis Report, Custom Bank Performance Report, Quarterly Mutual FSA Analysis.

Mutual Overview: Portfolio Stats



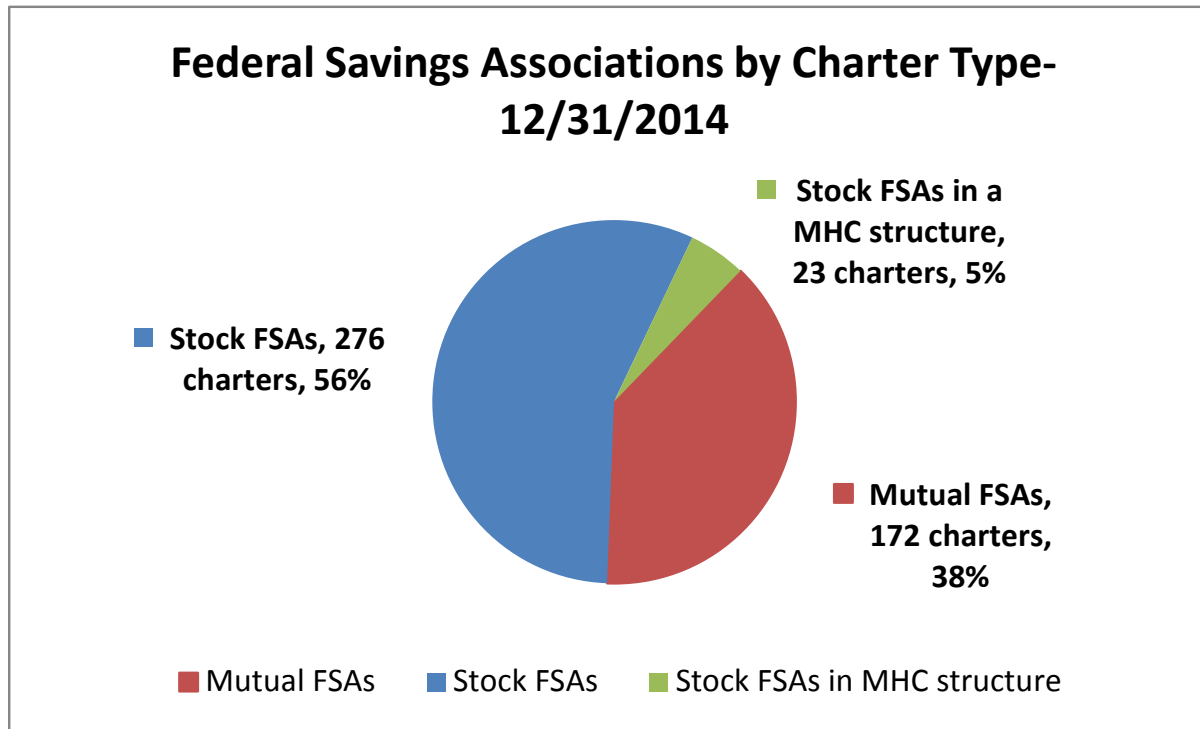
- OCC-regulated banks hold \$10.7 trillion in assets, including \$707 billion in FSAs.
- Total assets held by Midsize and Community Bank Supervision (MCBS) institutions were \$1.7 trillion or 15% of all OCC-supervised assets and the 1,529 MCBS charters were 97% of all OCC-supervised bank charters.
- FSA charters represent 29% of MCBS-supervised charters with \$567 billion in assets or 34% of all assets held by MCBS institutions.
- All mutual FSAs are supervised by MCBS.

Mutual Overview: Portfolio Stats



- Mutual FSAs are increasing relative to the total FSA population. As of 6/30/2011, mutual FSAs represented 33% of FSA charters. As of 12/31/2014, the proportion of mutual FSAs to total FSAs has grown to 38%.
- Aggregate assets held by mutual FSAs of \$47B have remained fairly stable.

Mutual Overview: Portfolio Stats



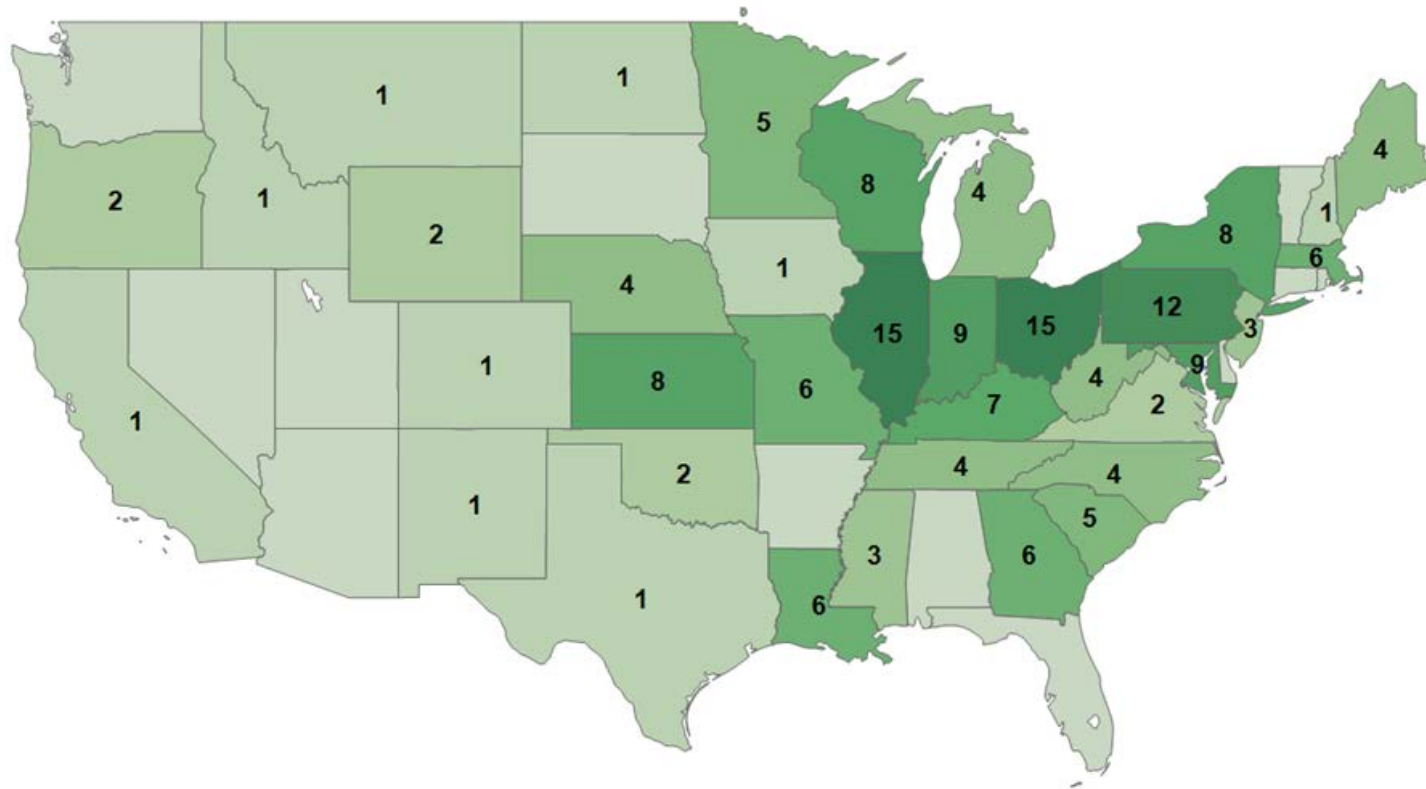
- There are 172 mutual FSAs, not including stock FSAs in a MHC (mutual holding company) structure.
- Mutual FSAs account for 38% of OCC-regulated FSAs as of 12/31/2014.
- Mutual FSAs and stock FSAs mutually-owned represent 43% of OCC-regulated FSAs.

Mutual Overview: Portfolio Stats

Mutual FSAs by State									
> 10 highlighted					> \$1B highlighted				
State	# Mutual FSAs	% Mutual FSAs	Total Assets (2014Q4)	% of Mutual FSA Assets	State	# Mutual FSAs	% Mutual FSAs	Total Assets (2014Q4)	% of Mutual FSA Assets
CA	1	1%	173,614	1%	NC	4	2%	1,416,573	3%
CO	1	1%	253,782	2%	ND	1	1%	1,771,679	4%
GA	6	6%	979,400	6%	NE	4	2%	372,044	1%
IA	1	1%	8,672	0%	NH	1	1%	303,505	1%
ID	1	1%	547,047	3%	NJ	3	2%	473,388	1%
IL	15	16%	2,300,731	15%	NM	1	1%	38,587	0%
IN	9	10%	1,073,169	7%	NY	8	5%	4,021,546	8%
KS	8	9%	902,167	6%	OH	15	9%	3,520,312	7%
KY	7	8%	227,571	1%	OK	2	1%	135,066	0%
LA	6	6%	1,694,655	11%	OR	2	1%	744,002	2%
MA	6	6%	1,528,800	10%	PA	12	7%	10,338,884	22%
MD	9	10%	2,015,072	13%	SC	5	3%	534,600	1%
ME	4	4%	377,218	2%	TN	4	2%	2,678,227	6%
MI	4	4%	710,572	4%	TX	1	1%	113,527	0%
MN	5	5%	1,710,978	11%	VA	2	1%	152,159	0%
MO	6	6%	848,214	5%	WI	8	5%	3,555,894	7%
MS	3	3%	404,507	3%	WV	4	2%	958,150	2%
MT	1	1%	93,668	1%	WY	2	1%	451,850	1%

- States with more than 10 mutual FSAs or more than \$1 billion in mutual FSA assets are highlighted.
- Pennsylvania, at just over \$10 billion, followed by New York at \$ 4 billion and Wisconsin at \$3.6 billion are the top three states for mutual FSA Assets.

Mutual Overview: Portfolio Stats



- There are three states with 10 or more mutual FSAs: Illinois and Ohio (15 each) and Pennsylvania (12).
- Six other states have more than 6 mutual FSAs: Maryland and Indiana (9 each), Wisconsin, New York and Kansas (8 each) and Kentucky (7).

Mutual Overview: Portfolio Stats

FSA Asset Distribution - 12/31/2014

Asset Size	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Less Than \$50MM	53	12%	33	19%	20	7%
\$50MM To \$100MM	81	18%	45	26%	36	13%
\$100MM To \$250MM	129	29%	47	27%	82	30%
\$250MM To \$500MM	74	17%	30	17%	44	16%
\$500MM To \$1B	48	11%	10	6%	38	14%
Greater Than \$1B	63	14%	7	4%	56	20%
Total	448	100%	172	100%	276	100%

- Mutual FSAs are typically smaller in size than their stock counterparts.
- 90% of mutual FSAs are less than \$500 million in size compared to only 66% for stock FSAs.
- 19% of mutual FSAs have assets less than \$50 million versus only 7% for stock FSAs.

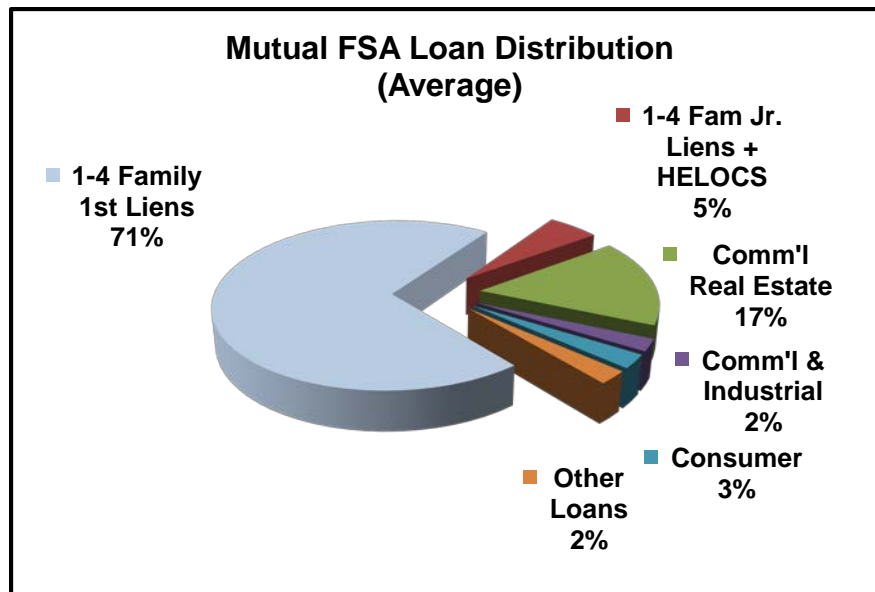
Mutual Overview: Portfolio Stats

FSA Age Distribution - 12/31/2014

Years	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
< 25 Yrs	67	15%	0	0%	67	24%
25 to 50	35	8%	1	1%	34	12%
50 to 75	53	12%	20	12%	33	12%
75 to 100	147	33%	78	45%	69	25%
> 100 Yrs	146	33%	73	42%	73	26%
Total	448	100%	172	100%	276	100%

- Mutual FSAs represent some of the oldest financial institutions in the United States.
- Seventy-three (73) mutual FSAs were formed more than **100** years ago.
- 87% of all mutual FSAs have operated for 75 years or more.

Mutual Overview: Financial Metrics



Loan Distribution by FSA Type-Straight Average							
Charter Type	\$ Loans (000's) 12/31/2014	% 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	32,254,103	71%	5%	17%	2%	3%	2%
Stock	383,089,969	49%	6%	29%	6%	6%	4%
All FSAs	415,344,072	57%	6%	24%	5%	5%	3%

- Loan portfolios held by mutual FSAs are focused, by far, in residential mortgage loans.
- Mutual FSAs held lower levels of Commercial RE, Commercial & Industrial and Consumer loans compared to stock FSAs.

Mutual Overview: Financial Metrics

Asset Quality (median values)

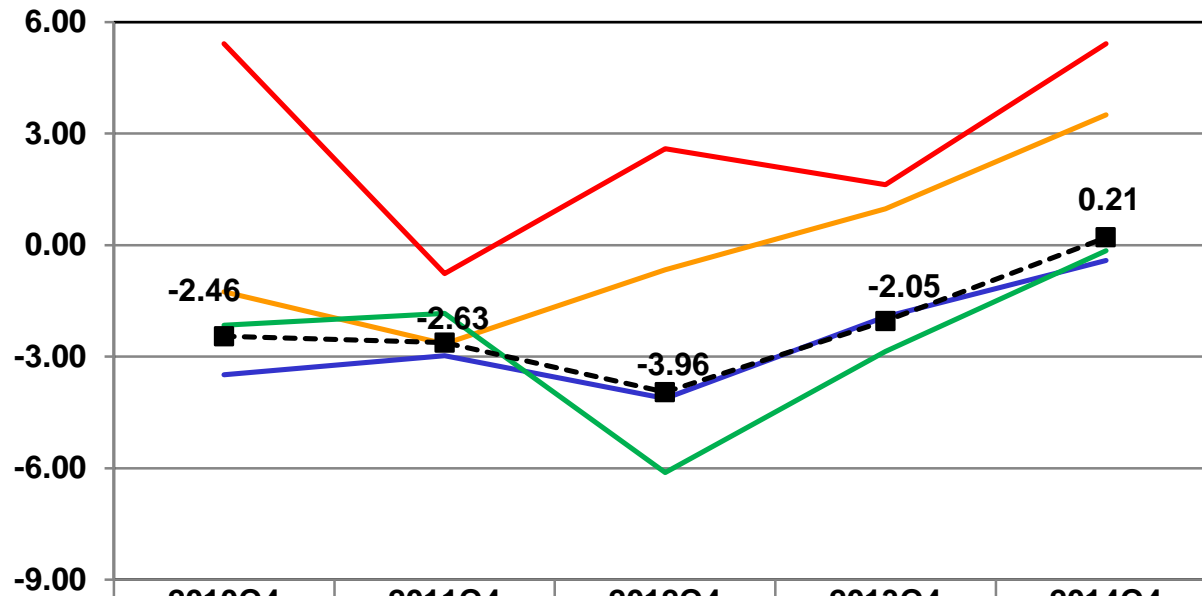
Financial Measure	12/31/2014			12/31/2013		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Special Mention /Tier 1 + ALLL	4.41	3.52	4.88	5.76	3.71	7.84
% Classified Assets /Tier 1+ALLL	18.45	15.78	21.89	23.15	17.76	29.67
Non-cur Lns&OREO/Lns&OREO	1.69	1.61	1.73	2.15	1.92	2.39
ALLL / Loan & Leases Not HFS	1.20	1.03	1.31	1.25	1.10	1.42
Net Loan & Lease Growth Rate	2.84	0.21	5.44	-0.56	-2.05	1.30
Net Loss / Avg Tot Lns & Ls	0.10	0.09	0.11	0.17	0.10	0.19

- Asset quality metrics at mutual FSAs improved year-over-year as of 12/31/2014.
- Classified assets to Tier 1 capital plus the ALLL improved to 16%.
- Non-current loans & OREO declined year-over-year to 1.61% for mutual FSAs.
- Mutual FSAs held ALLL levels representing 1.03% of portfolio loans.
- Apart from loan growth, mutual FSA asset quality indicators are outperforming stock metrics.

Mutual Overview: Financial Metrics

- After years of negative loan growth, mutual FSAs are showing improvement in 2014.

Net Loan & Lease Growth Rate - (median)



	2010Q4	2011Q4	2012Q4	2013Q4	2014Q4
101M	5.42	-0.77	2.60	1.63	5.42
102M	-1.26	-2.66	-0.66	0.98	3.51
103M	-3.49	-2.97	-4.13	-1.93	-0.42
104M	-2.16	-1.84	-6.12	-2.87	-0.15
Mutual	-2.46	-2.63	-3.96	-2.05	0.21

Mutual Overview: Financial Metrics

Earnings and Capital (median values)

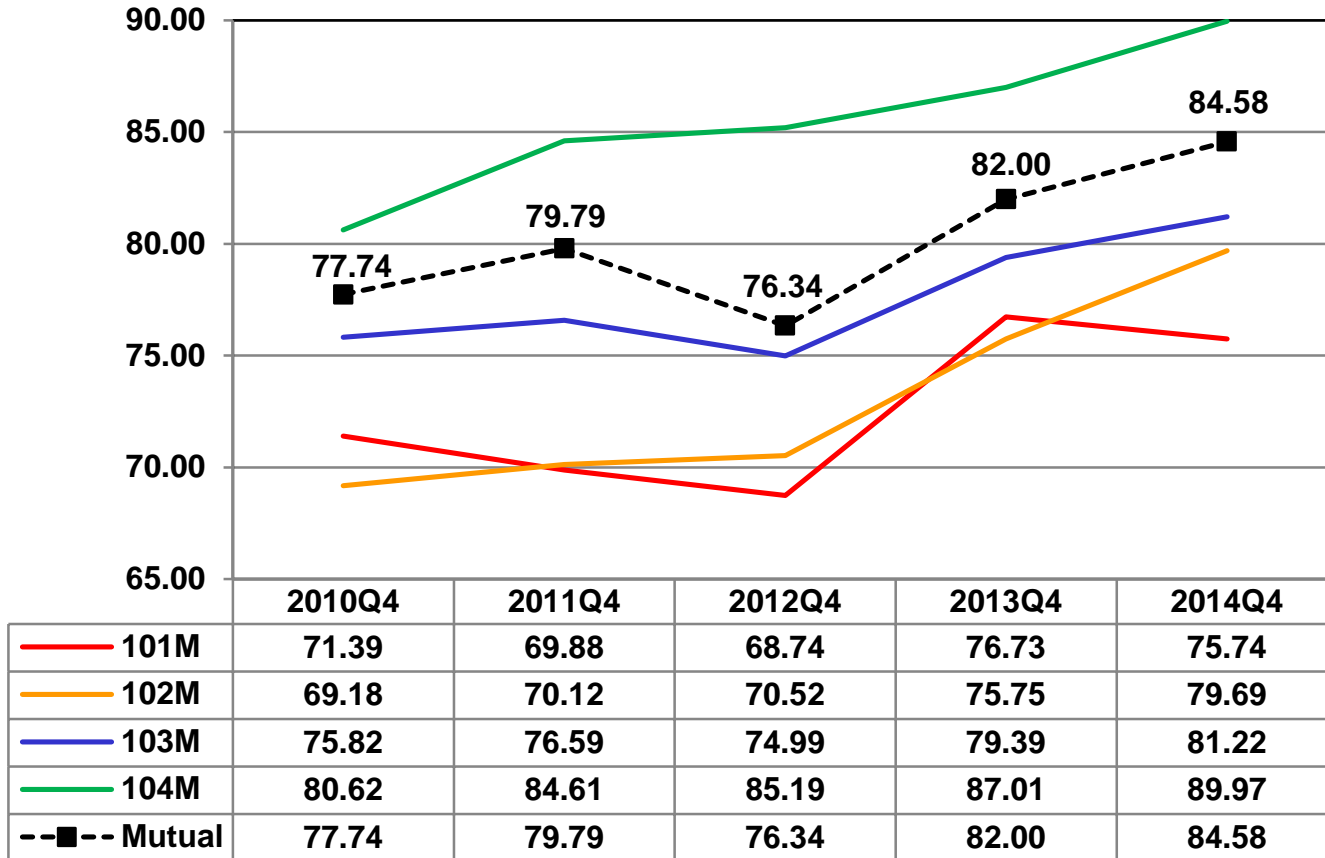
Financial Measure	12/31/2014			12/31/2013		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
ROAA Adj Sub S	0.45	0.30	0.55	0.43	0.36	0.56
Net Interest Margin (NIM)	3.30	3.18	3.39	3.29	3.14	3.44
Efficiency Ratio	81.73	84.58	79.69	80.77	82.00	79.73
T1 Leverage Capital	11.67	13.10	11.05	11.41	12.67	10.89
T1 RBC to Risk Wtg Assets	20.57	25.98	17.70	20.42	26.02	17.99
Total RBC to Risk-Wtg Assets	21.46	26.88	18.89	21.57	26.77	19.24

- ROAAs for mutual FSAs declined slightly year-over-year to 0.30%.
- NIMs for mutual FSAs rose four basis points to 3.18% as funding costs fell more than asset yields.
- Efficiency ratios remain high and worsened year-over-year for mutual FSAs as of 12/31/2014.
- Capital ratios at mutual FSAs remain strong as of 12/31/2014.

Mutual Overview: Financial Metrics

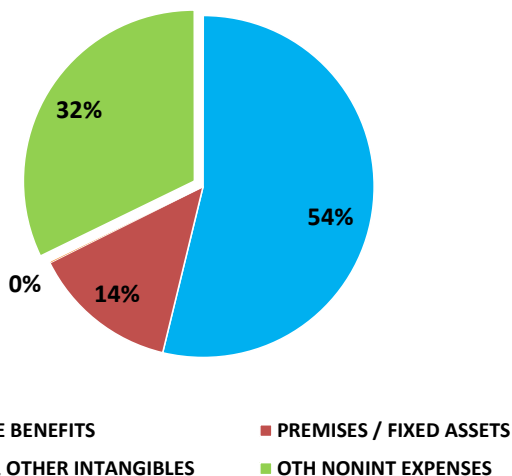
- There is a direct correlation in asset size and the efficiency ratio.

Efficiency Ratio - (median)



Mutual Overview: Financial Metrics

Non-interest Expense Components



Top Ten Other Non-Interest Expenses

Expense Item	Total \$	% of Total Other Non-Interest Expenses
Data Processing Expenses	60,779	15.30%
Advertising & Marketing Expenses	35,978	9.05%
FDIC Insurance Assessments	31,777	8.00%
Director Fees	20,960	5.27%
Printing and Postage Expenses	20,674	5.20%
ATM & Interchange Expenses	20,393	5.13%
Accounting & Auditing Expenses	16,799	4.23%
Consulting & Advisory Expenses	14,259	3.59%
Telecommunication Expenses	13,279	3.34%
OREO Expenses	10,257	2.58%
TOTAL	245,155	61.70%

- We analyzed noninterest expenses of mutual FSAs based on information you submitted on Schedule RI-E of the Call Report.
- Apart from the standard categories, we also considered write-in expenses: items 2.l., 2.m., 2.n., to arrive at a “Top 10 List”. These are expenses greater than \$25,000 that exceed 3% of total other non-interest expense (Schedule RI, item 7d).
- Data Processing Expenses were, by far, the number one non-interest expense and OREO was the only “write-in” that made the top 10 list.

Mutual Overview: Financial Metrics

FSA PCA Categories - 12/31/2014						
Category	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Well	412	92%	165	96%	247	89%
Adeq With	31	7%	7	4%	24	9%
Adeq Without	1	0%	0	0%	1	0%
Under	1	0%	0	0%	1	0%
Sig Under	2	0%	0	0%	2	1%
Critically Under	1	0%	0	0%	1	0%
Not Assigned	0	0%	0	0%	0	0%
Total	448	100%	172	100%	276	100%

- 96% 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 2 have capital levels below the PCA minimums.
- No 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	12/31/2014			12/31/2013		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Non-Core Funding Dependence	1.48	-4.34	5.56	0.33	-4.96	4.12
% Reliance on Whole. Funding	5.73	1.33	8.95	4.85	1.25	8.27
Loan to Deposit	85.53	81.89	87.01	81.44	79.69	81.91
% LT Assets /Total Assets	45.54	52.19	40.75	43.85	51.82	40.23
% Res Real Estate /Total Assets	52.85	61.80	45.86	53.05	60.91	46.88
Non-Mat Deposits/Long Assets	77.60	67.21	87.79	77.14	67.13	85.78

- Funding at mutual FSAs is derived predominantly (94%) from retail deposits.
- Loan to deposit levels remain high (82%) 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 61.8% of all assets at mutual FSAs.
- Non-maturity deposits remain stable in 2014.

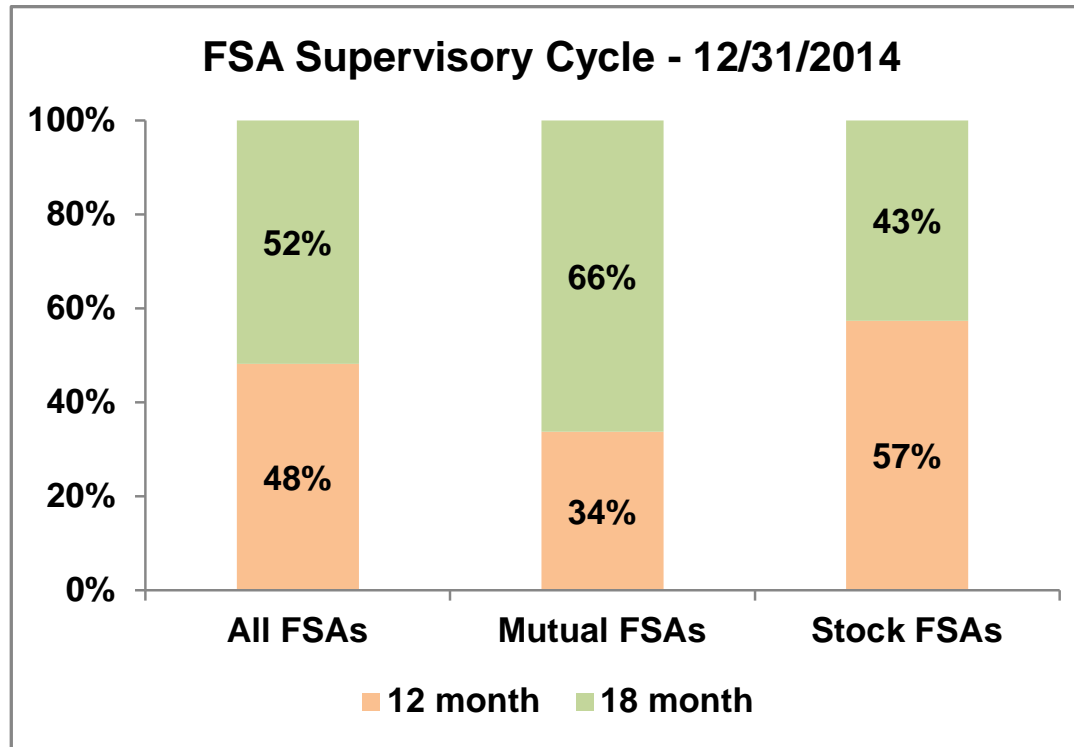
Mutual Overview: Financial Metrics

Mutual FSA Consolidated Balance Sheet - 12/31/2014

Assets	Mutual \$	Mutual %	Stock %	Liabilities + Capital	Mutual \$	Mutual %	Stock %
Loans Held For Sale	133,993			Demand Deposits	2,482,957	5%	4%
Loans Not HFS	32,178,601			All Now and ATS	3,084,060	7%	4%
ALLL	307,347			Money Market	4,839,891	10%	35%
Net Loans & Leases	32,005,247	67%	57%	Other Savings	12,682,764	27%	16%
US Treasury Securities	7,798,764	16%	18%	Time Deps Below Ins Limit	13,089,778	28%	16%
Municipal Securities	744,678	2%	1%	Fully Insured Brok Deps	146,775	0%	11%
Other Securities	811,869	2%	12%	Core Deposits	36,032,675	76%	64%
Int Bearing Bank Bals	3,146,171	7%	7%	Depos in For Offices	-	0%	0%
FF Sold & Resales	208,004	0%	0%	Fully Insured Brok Deps	146,775	0%	11%
Trading Account Assets	3,542	0%	0%	Time Deps Above Ins Limit	1,658,634	3%	2%
Nonint Cash & Due From	560,058	1%	1%	FF Pur & Repos	344,724	1%	2%
Premises, Fixed Assets	798,703	2%	0%	FHLB Borrowings	1,937,902	4%	6%
Other Real Estate Owned	152,586	0%	0%	Other Borrowings	18,696	0%	1%
Dir & Indir Inv RE Ventures	-	0%	0%	Accept & Other Liab	383,335	1%	2%
Invest in Uncons Subs	11,634	0%	0%	Sub Notes & Deb	-	0%	0%
Acceptance & Other Assets	1,188,574	3%	4%	Common & Pref Stock	6,907,089	15%	11%
Total Assets	47,429,830	100%	100%	Total Liabilities & Capital	47,429,830	100%	100%

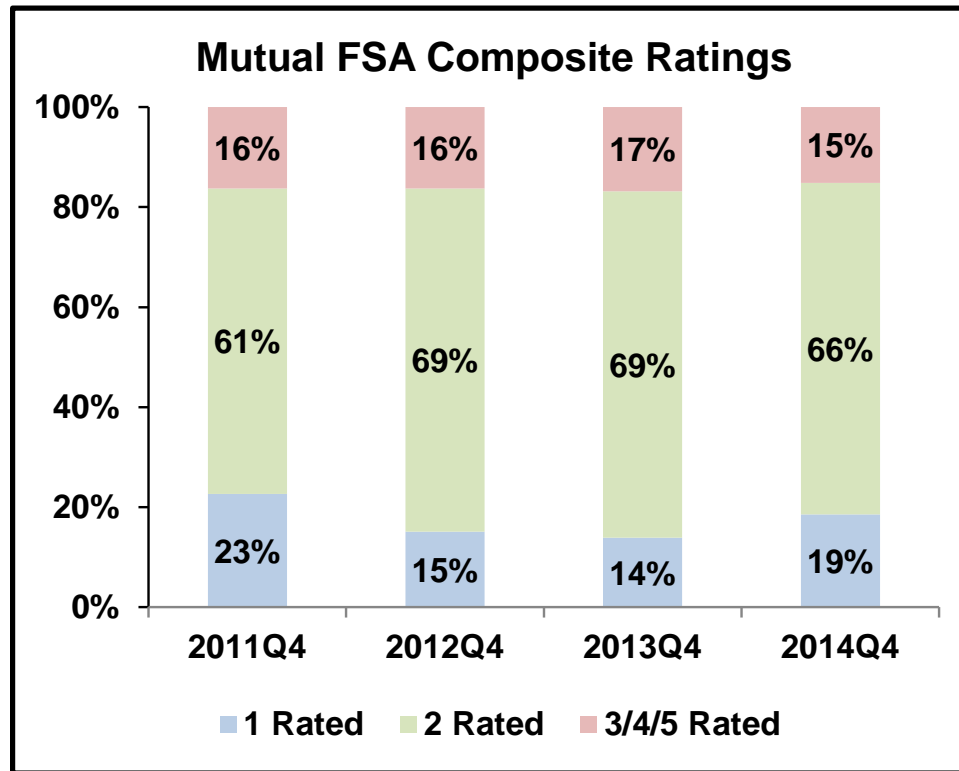
- Yellow highlights show significant balance sheet differences for FSA charter types.
- Mutual FSAs have lower risk balance sheets than stock FSAs.
- Assets-Mutual FSAs have more loans and stock FSAs have more “other securities”.
- Liabilities-Mutual FSAs have more core deposits and less “brokered deposits”.

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 66% are on the 18 month examination cycle versus only 43% for stock institutions.

Mutual Overview: Supervisory Data



- Composite ratings at mutual FSAs improved over the last year.
- 85% of all mutuals remain satisfactorily rated with a Composite 1 or 2.
- The level of 1-rated mutual FSAs increased as other categories decreased.
- For comparison, stock FSA ratings at 2014Q4 were: 1 – 9%, 2 – 70%, 3/4/5 – 21%.

Mutual Overview: Supervisory Data

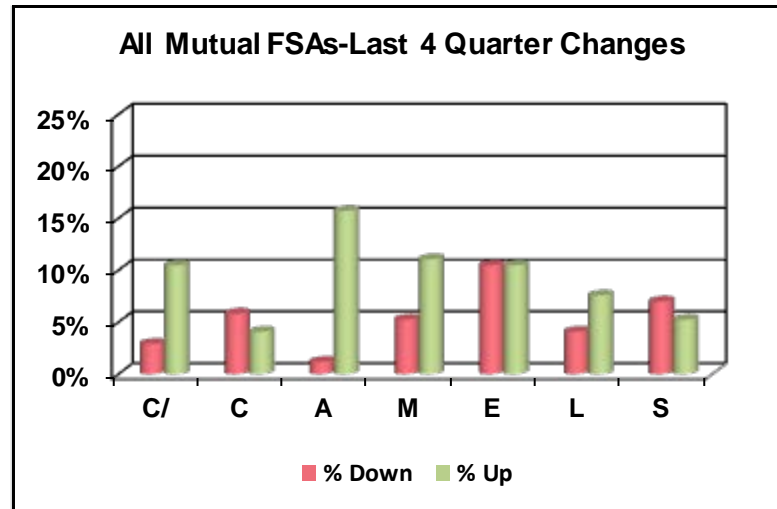
FSA Supervisory Ratings (%) - 12/31/2014

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	19%	66%	15%	9%	66%	21%
Capital	47%	45%	8%	27%	58%	15%
Asset Quality	29%	53%	18%	22%	58%	20%
Management	19%	64%	17%	7%	71%	22%
Earnings	12%	48%	40%	18%	46%	36%
Liquidity	52%	47%	1%	36%	56%	8%
Sensitivity	19%	73%	8%	22%	66%	12%
Info Tech	14%	79%	7%	12%	84%	4%
Asset Mgmt	17%	67%	17%	26%	72%	2%
Consumer	24%	73%	3%	17%	76%	7%
CRA	30%	69%	1%	19%	74%	1%

- Mutual FSAs were often assigned a strong Capital (47%) and/or Liquidity (52%) rating.
- Earnings ratings were the lowest with 40% of mutual FSAs assigned 3, 4 or 5 ratings.
- Asset quality also showed some stress with 18% of mutual FSAs rated 3, 4 or 5.
- Mutual FSAs show much stronger ratings in Capital and Liquidity than stock FSAs.
- Community Reinvestment Act ratings are outstanding for 30% of mutual FSAs.

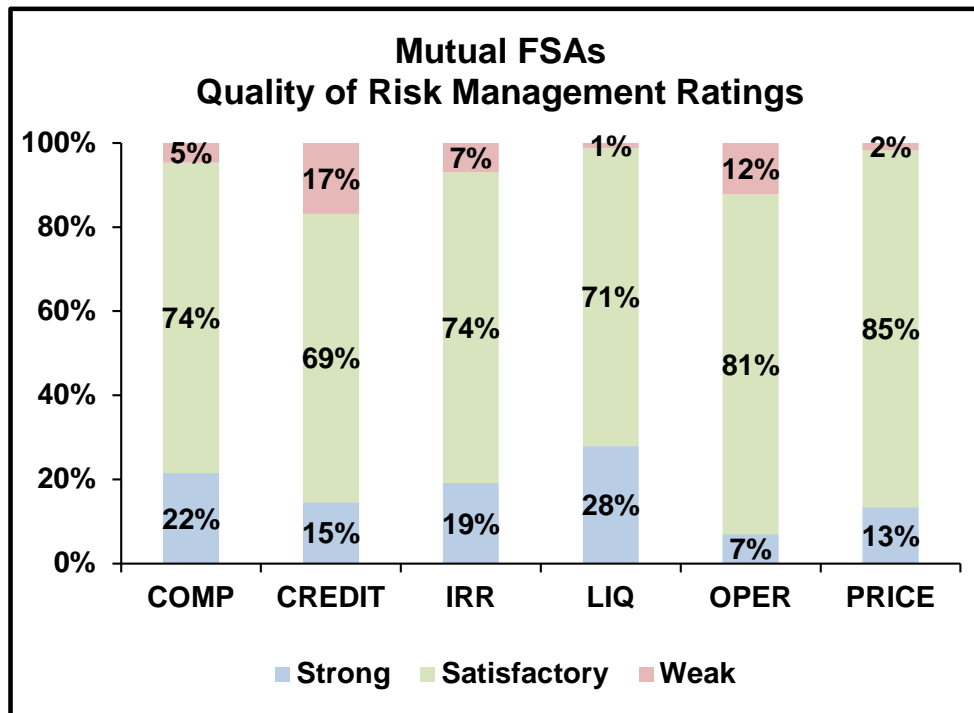
Mutual Overview: Supervisory Data



Rating Changes	C/	C	A	M	E	L	S
Downgrades	5	10	2	9	18	7	12
Upgrades	18	7	27	19	18	13	9
% Down	3%	6%	1%	5%	10%	4%	7%
% Up	10%	4%	16%	11%	10%	8%	5%
# of Instit.	172	172	172	172	172	172	172

- Composite rating upgrades have greatly outpaced downgrades for the 12 months ended 12/31/2014.
- Asset quality, followed by Management, had the most upgrades as of 12/31/2014.
- Earnings had, by far, the most downgrades—but the volume is equal to upgrades.
- Capital and Sensitivity downgrades exceeded upgrades in 2014.

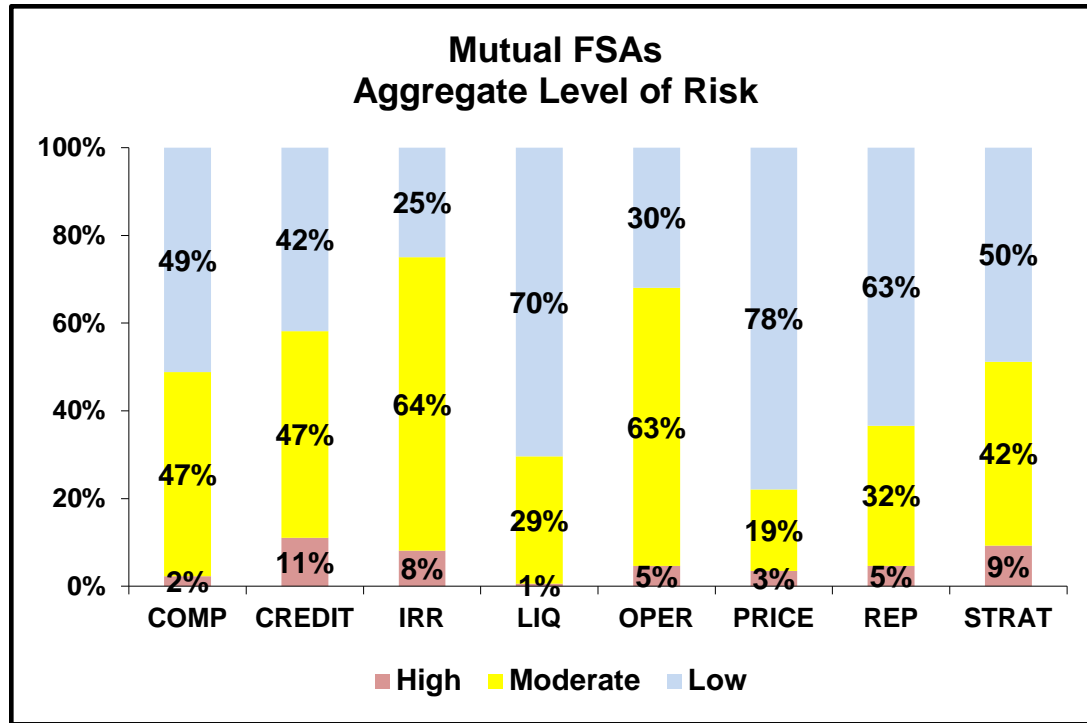
Mutual Overview: Supervisory Data



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

- Across all RAS factors, the quality of risk management was designated as Strong or Satisfactory 93% of the time.
- 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 17%, followed by Operational Risk with 12% 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.

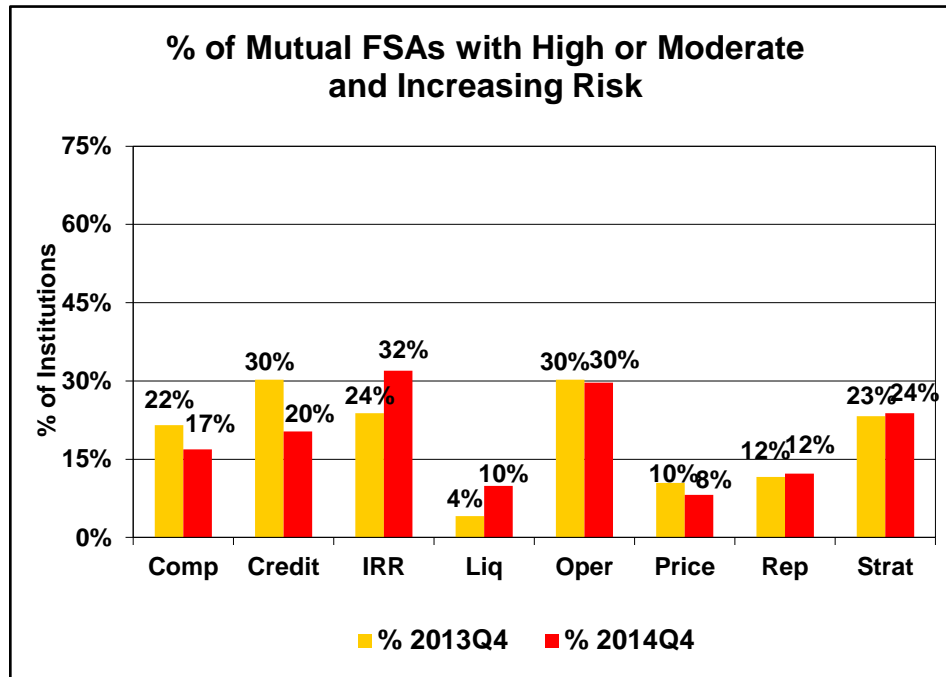
Mutual Overview: Supervisory Data



- 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 11% of mutual FSAs rated High.
- More than 50% of mutual FSAs have low RAS ratings in Liquidity, Price and Reputation.
- 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

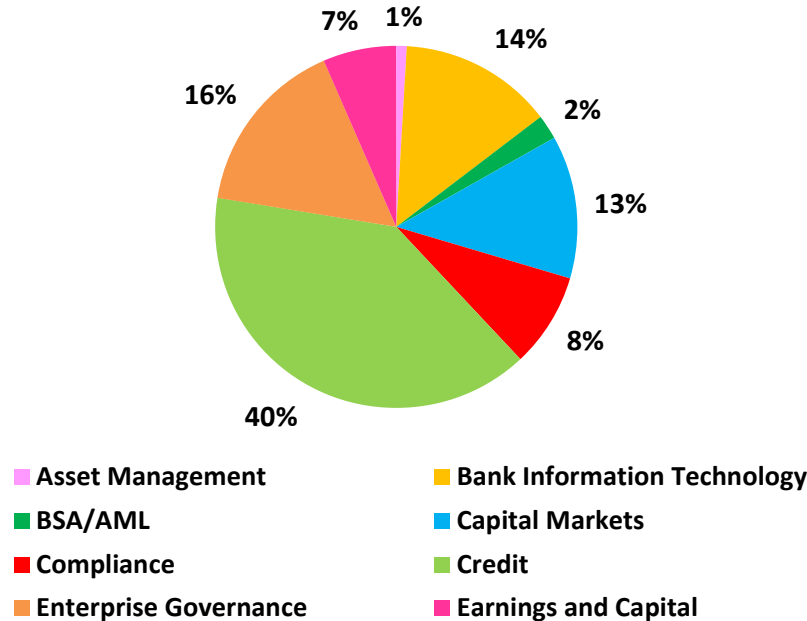


RAS Ratings of High Aggregate or Moderate & Increasing (H/MI) requires management focus and can lead to supervisory concerns if not properly managed.

- IRR reflected the highest, and increasing level, of H/MI RAS ratings, followed by Operational and Strategic.
- Price and Liquidity Risks had the lowest level of H/MI RAS ratings at 8% and 10%.
- Three risks—IRR, Liquidity, Strategic —show a clear year-over-year increase in risk levels.
- The H/MI RAS risk ratings distributions are consistent with many of OCC's recent Risk Perspectives.

Mutual Overview: Supervisory Data

Mutual FSA MRA Concerns Cited in 2014



An MRA describes practices that:

- deviate from sound governance, internal control, or risk management principles, and have the potential to adversely affect the bank's condition, *including its financial performance or risk profile*, if not addressed; or
- result in substantive noncompliance with laws and regulations, enforcement actions, supervisory guidance, or conditions imposed in writing in connection with the approval of any application or other request by the bank.

- The most often cited MRA examination area of concern in 2014 was Credit.
- Enterprise Governance and Bank Information Technology were the next highest cited MRA area of concerns at 16% and 14%, respectively.
- Capital Markets was in fourth position with 13% of total MRAs cited in 2014.

Mutual Overview: Supervisory Data

Year over Year Mutual FSA MRA Comparison

MRA EXAM AREA	2014 - 12 mos		2013 - 12 mos		Yr to Yr Δ	
	#	%	#	%	#	%
Asset Management	3	1%	3	1%	0	0%
Bank Information Technology	44	14%	61	12%	-17	-28%
BSA/AML	7	2%	4	1%	3	75%
Capital Markets	41	13%	64	13%	-23	-36%
Compliance	27	8%	46	9%	-19	-41%
Credit	127	40%	219	43%	-92	-42%
Enterprise Governance	51	16%	92	18%	-41	-45%
Earnings and Capital	21	7%	19	4%	2	11%
Total	321	100%	508	100%	-187	-37%

- The volume of MRAs for 2014 decreased by 187, or 37%, compared to 2013.
- The MRA mix has changed slightly in 2014. The percentage of Bank Information Technology MRAs increased relative to other categories but not in absolute volume.
- BSA/AML and Earnings and Capital MRAs increased in absolute volume during 2014.

Mutual Overview: Supervisory Data

Mutual FSAs Top 10 Violations of Law cited in 2014

Rank	Law or Regulation Violated	#	%
1	Loans in Areas Having Flood Hazards	22	25%
2	Real Estate Lending and Appraisals	16	18%
3	Real Estate Settlement Procedures Act	10	11%
4	Regulatory Reports	9	10%
5	Information Security Standards	8	9%
6	Truth in Lending (Reg Z)	5	6%
7	Funds Availability/Check Collection (Reg CC)	5	6%
8	Home Mortgage Disclosure Act (Reg C)	5	6%
9	BSA/AML/USA PATRIOT Act	4	5%
10	Servicemembers Civil Relief Act	4	5%
Top 10 Violations of Law cited in 2014		88	100%

- OCC cited 114 violations of law at mutual FSAs in 2014, which is down 35% compared to the 175 violations of law cited in 2013.
- The top 10 represents 88, or 77%, of violations cited at mutual FSAs in 2014.
- 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: OCC Supervisory Tools

- **Canary** - Credit, Interest Rate Risk and Liquidity Benchmarks. There are both Bank and FSA benchmarks to acknowledge the difference in performance metrics by institution type. (Available on OCC BankNet)
- **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)
- **Mutual Peer Uniform Bank Performance Report** – We have UBPRs to allow examiners to compare mutuals to other mutuals based on the standard asset size peer groups or other attributes. (Available to FSAs via the www.ffiec.gov website)
- **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 FSAs)

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.
- OCC continues to look at ways to help community banks and FSAs by proposing to eliminate or streamline regulations that are needlessly burdensome.
- We welcome feedback and input on needs at mutual FSAs.

Mutual Savings Association Advisory Committee Meeting

April 28, 2015

Mutual Overview and Trends

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