

MSAAC Meeting

October 3, 2023



State of Mutual FSAs

Financial Information as of June 30, 2023

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Agenda

This presentation will focus on:

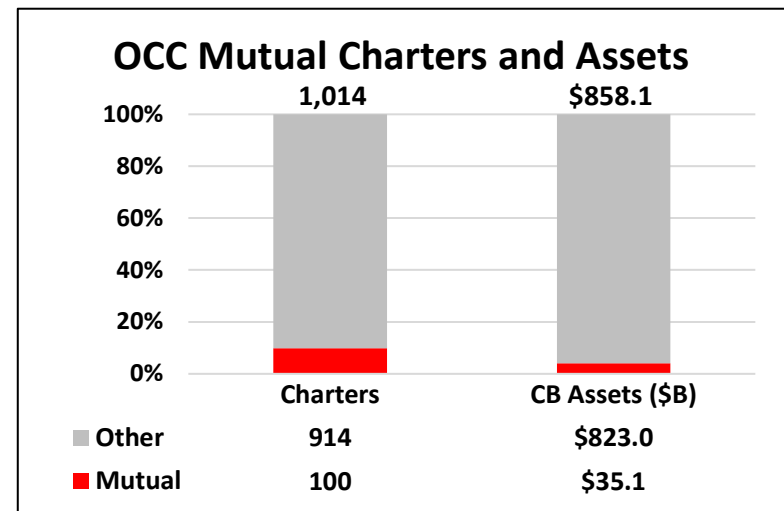
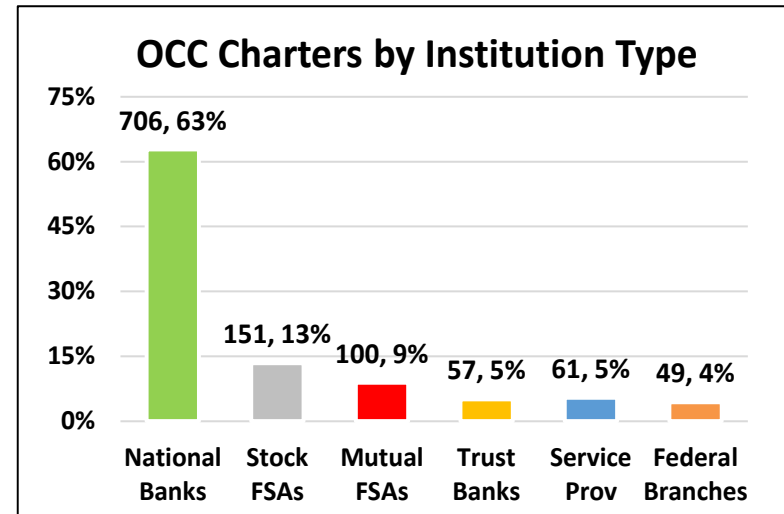
- **Portfolio Demographics**
- **Supervisory Information**
- **Financial Performance**
- **Economic Challenges**

Preface: The current mutual population as of June 30, 2023, is “held constant” for financial analysis. Federal savings associations (FSAs) began filing the Consolidated Reports of Condition and Income in 2012 unless they early adopted. Some charts use the median and others weighted averages. The OCC created “unified” calculations for certain ratios which allows us to provide trend data back to 2007 for FSAs when the former Thrift Financial Report contained the necessary elements.



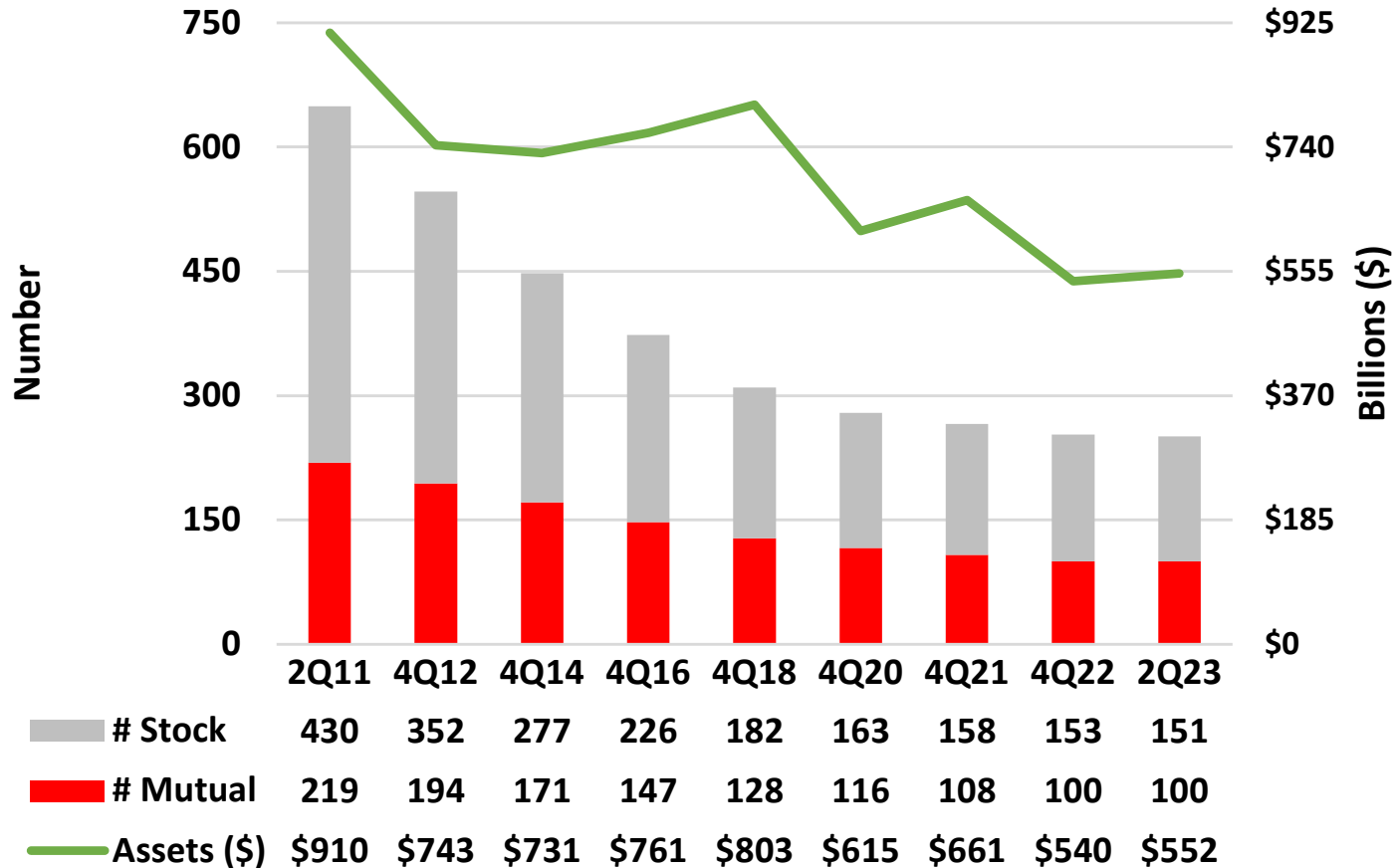
OCC Supervised Assets

- OCC supervised 1,124 total institutions or 1,014 bank charters (first 4 columns) as of June 30, 2023. Mutual Federal Savings Associations (FSAs) represent 9 percent of OCC total charters.
- Mutual FSAs represent 10 percent of OCC-supervised bank charters and \$35.1 billion or 4.1 percent of OCC-supervised community bank assets as of June 30, 2023. No mutual FSA is supervised by OCC's Midsize or Large Bank Unit.



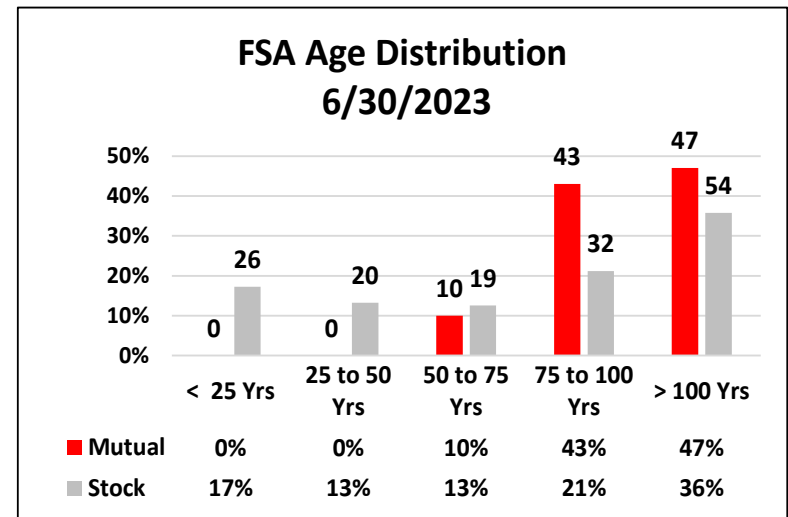
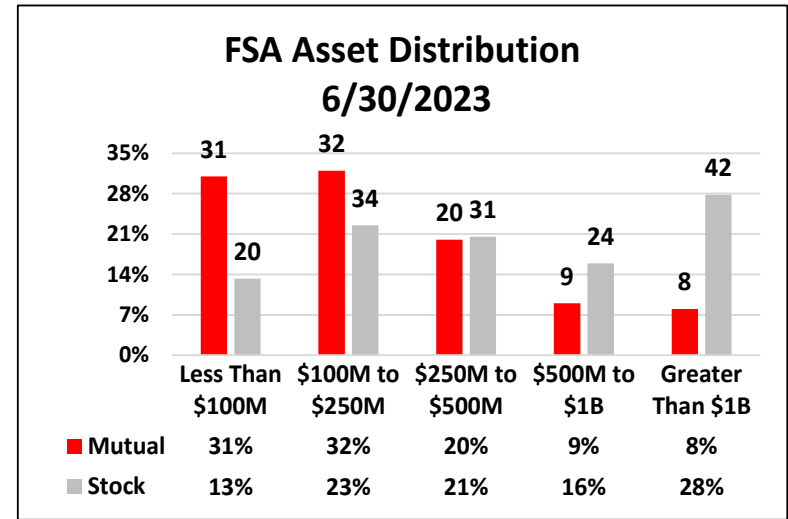
FSA Charter Trends

The number of mutual FSAs continues to decline but not as rapidly as stock FSAs. The mutual population has held stable this year.



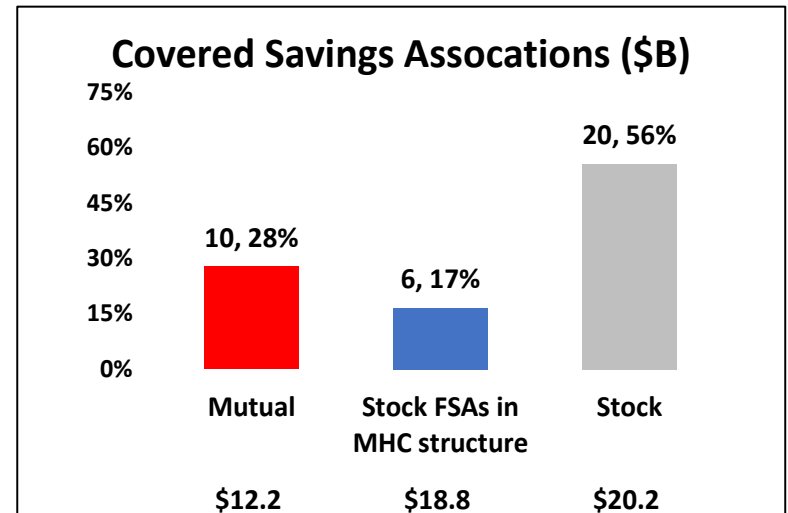
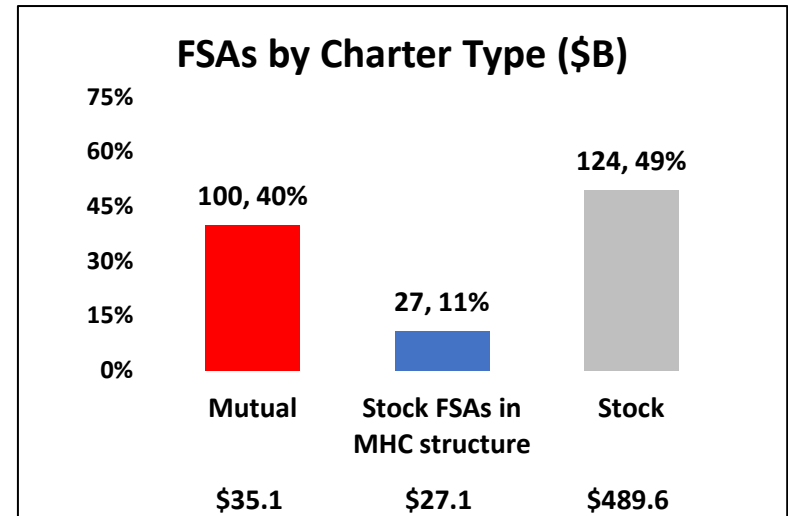
FSA Asset Size and Age

- Mutual FSAs are typically smaller in size than their stock counterparts. Only 8 percent of mutual FSAs have total assets greater than \$1 billion versus 28 percent of stock FSAs.
- Mutual FSAs represent some of the oldest financial institutions in the United States. Forty-seven percent of mutual FSAs were formed more than 100 years ago.



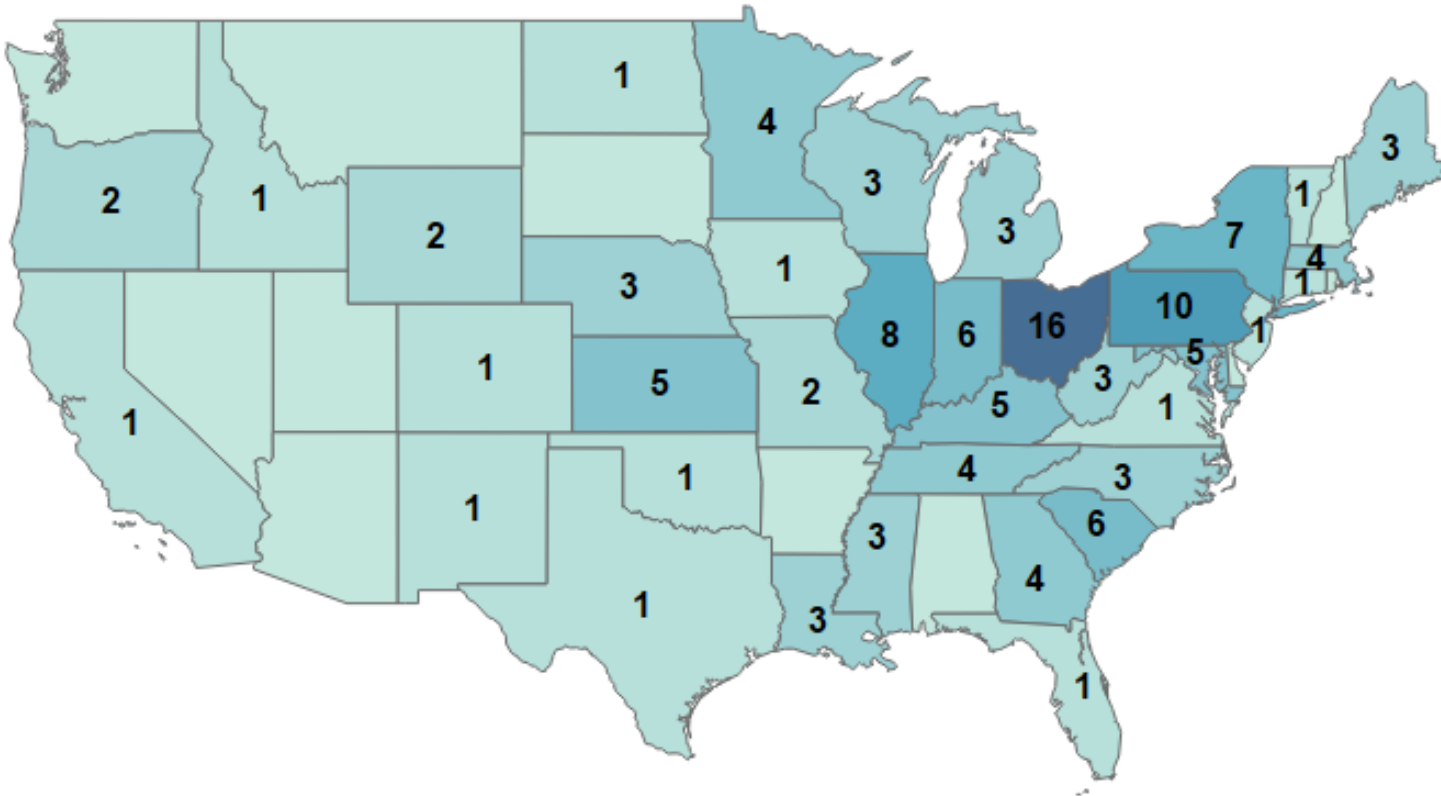
FSAs by Type

- Mutual FSAs and stock FSAs in MHCs (no shares issued) represent 51 percent of OCC-supervised FSAs.
- FSAs with total assets of \$20 billion or less as of December 31, 2017, may elect to operate as covered savings associations (CSAs). CSAs represented 36 or 14.3 percent of FSA charters and \$51.2 billion or 9.3 percent of FSA assets as of June 30, 2023.



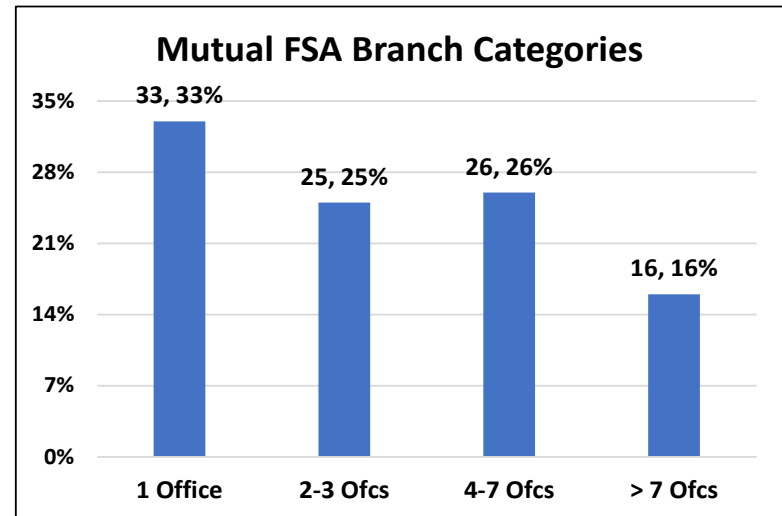
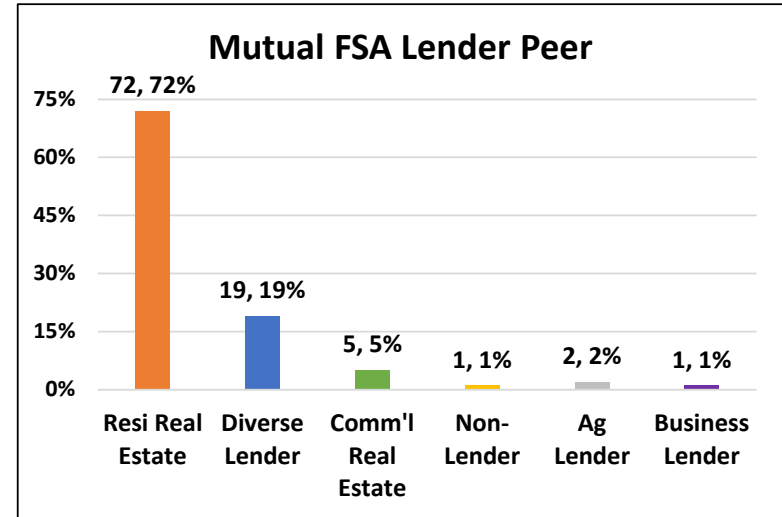
Mutual FSAs by State

Mutual FSAs are concentrated in the Midwest and Northeast. Two states are home to 10 or more mutual FSAs: Ohio (16) and Pennsylvania (10).



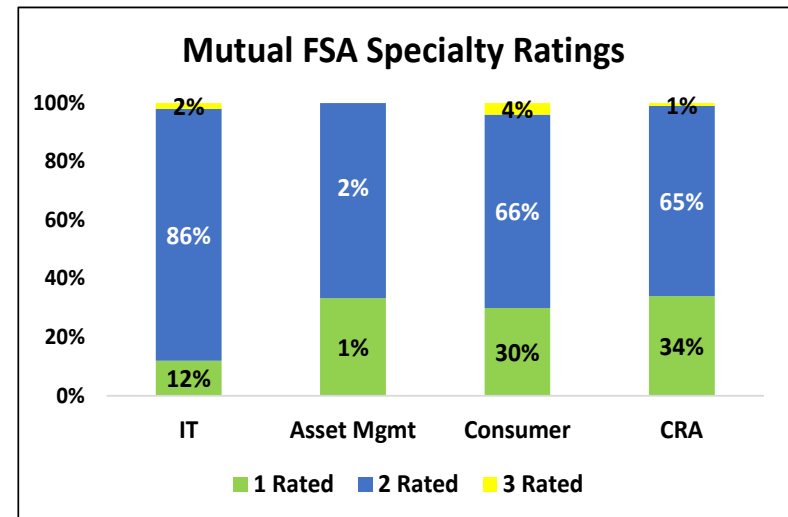
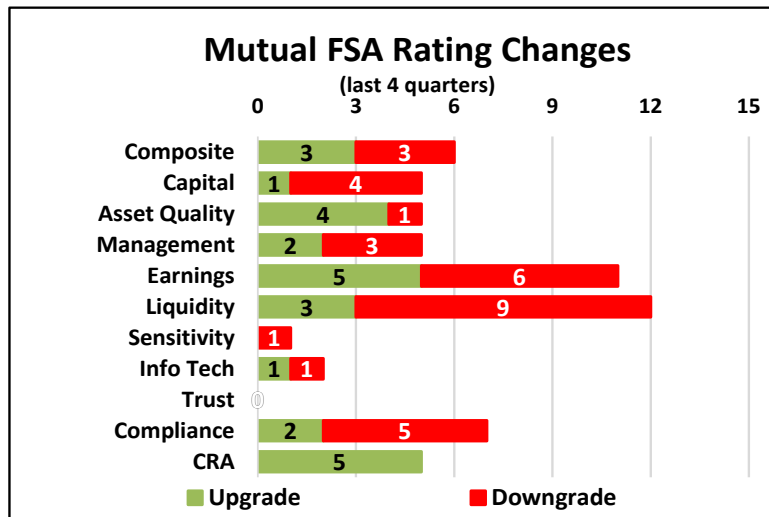
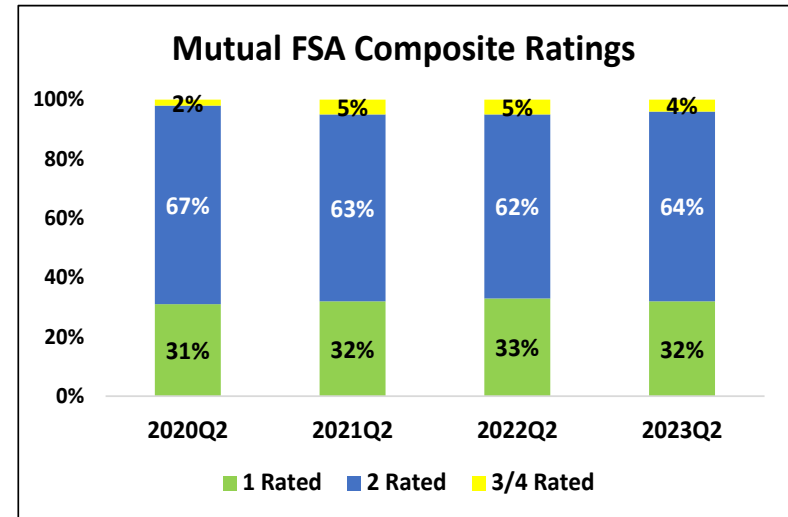
Lender Peer and Branch Network

- Most mutual FSAs or 91 percent are classified as residential real estate or diversified lenders.
- Fifty-eight percent of mutual FSAs operate from three locations or less. The number of pure mutual FSA locations in the United States increased by one this year to 437.



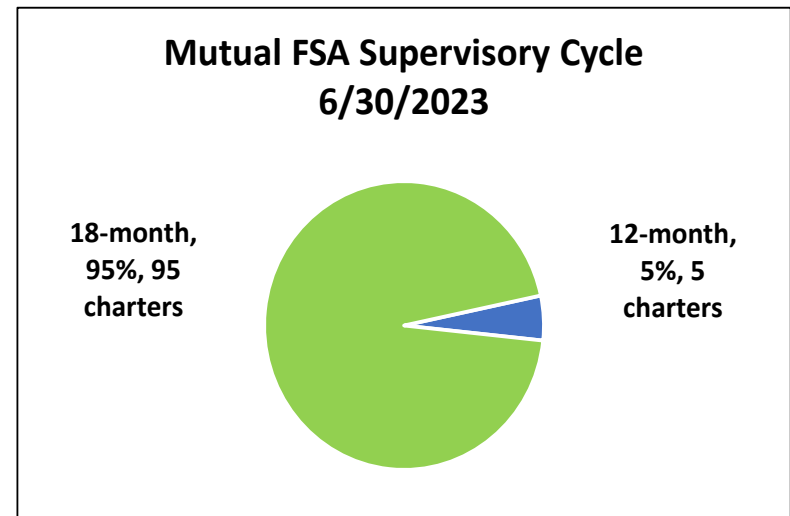
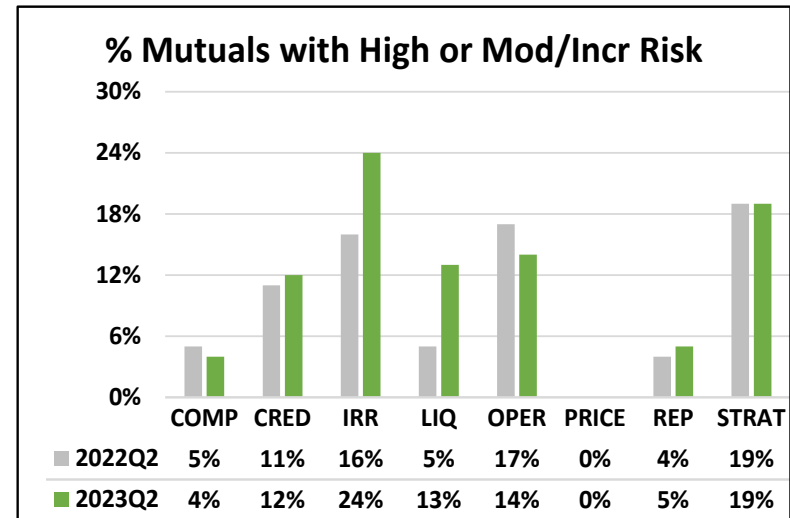
Composite and Specialty Ratings

- Composite ratings are satisfactory; 96 percent of mutual FSAs are rated composite 1 or 2. Specialty ratings are solid. Liquidity was the most frequently downgraded rating component during the last four quarters.



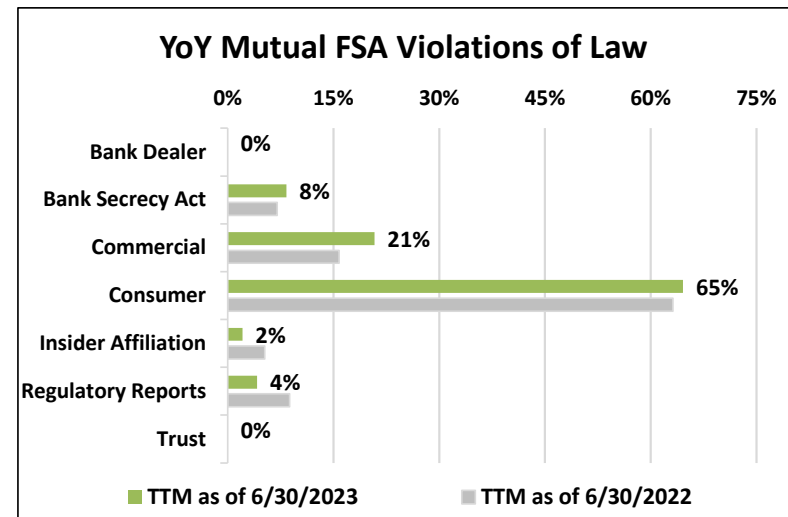
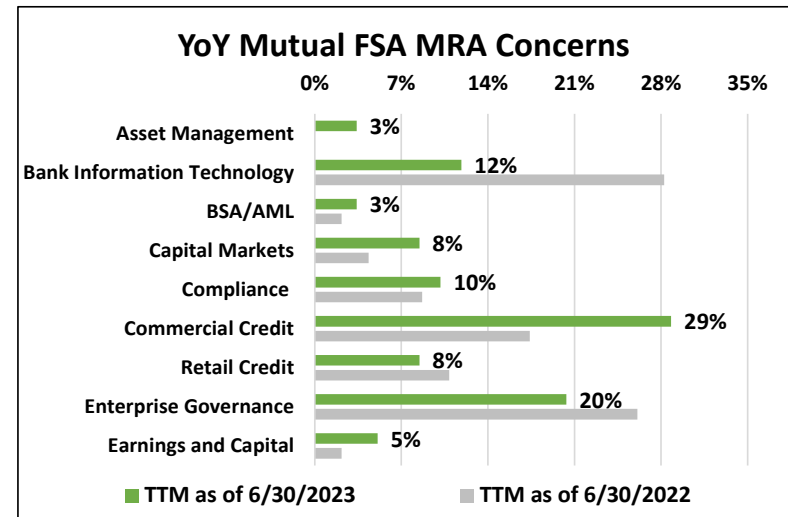
Risk Ratings and Supervisory Cycle

- The top three risks for mutual FSAs are IRR (increasing), strategic (stable), and operational (decreasing).
- Qualifying banks with less than \$3 billion in total assets are eligible for an 18-month examination cycle. Ninety-five percent of mutual FSAs are on the 18-month supervisory cycle.



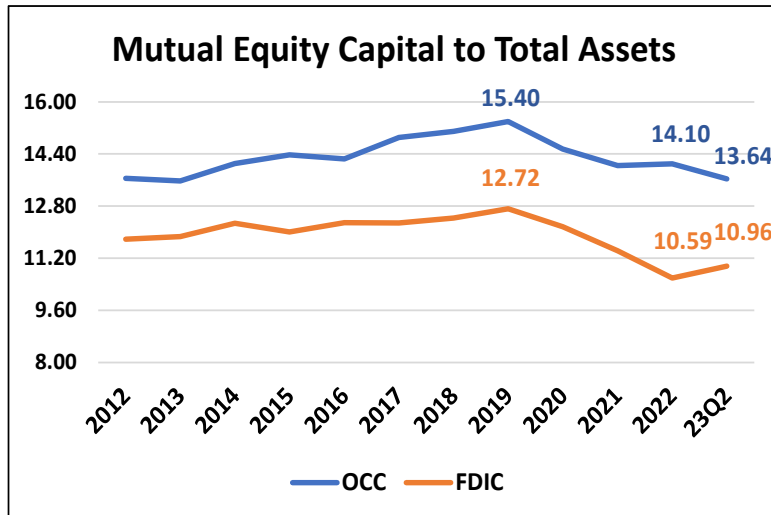
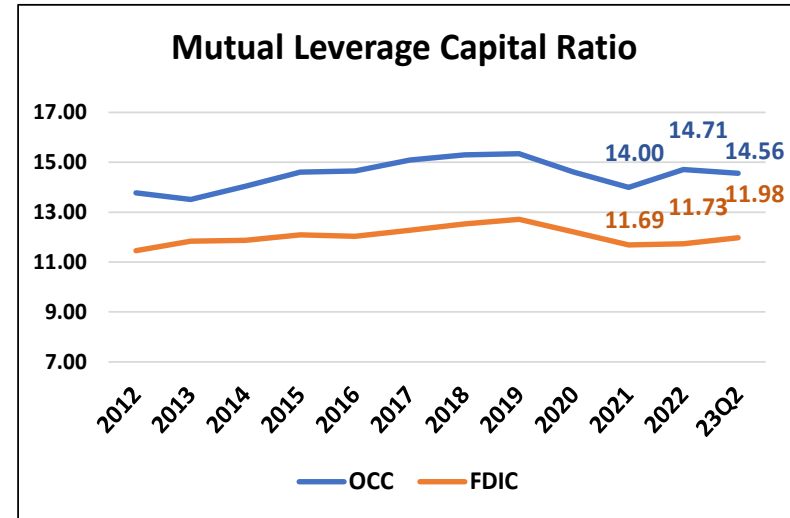
MRAs and VOLs

- Matters Requiring Attention (MRAs) increased 28 percent in the trailing 12 months ending June 30, 2023. Commercial Credit saw the largest increase. Bank Information Technology had the largest decrease.
- Violations of Law (VOLs) volume is down 16 percent in the trailing 12 months ending June 30, 2023. The top three VOLs are Truth in Lending (Reg Z), Real Estate Lending and Appraisals (12 CFR 34), and Bank Secrecy Act (31 CFR 1010/1020).



Capital Levels are Strong

- Mutual FSA capital ratios remain strong and well above peer. The gap between the OCC and FDIC leverage ratio widened since 2021.



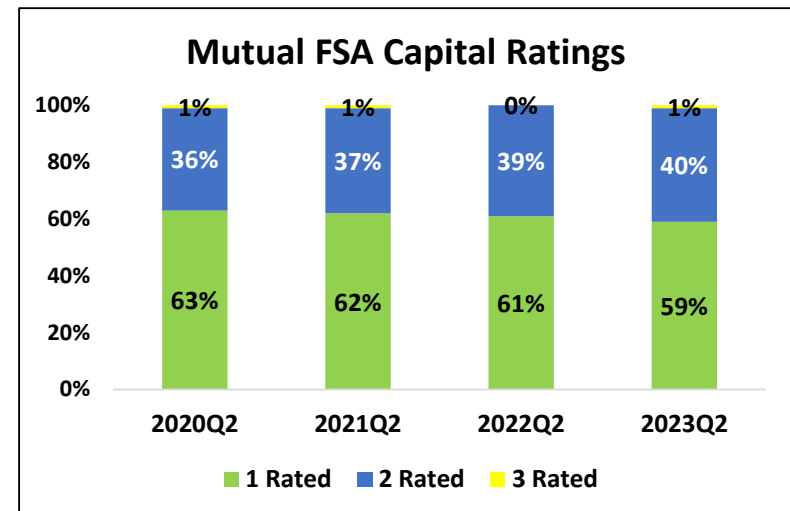
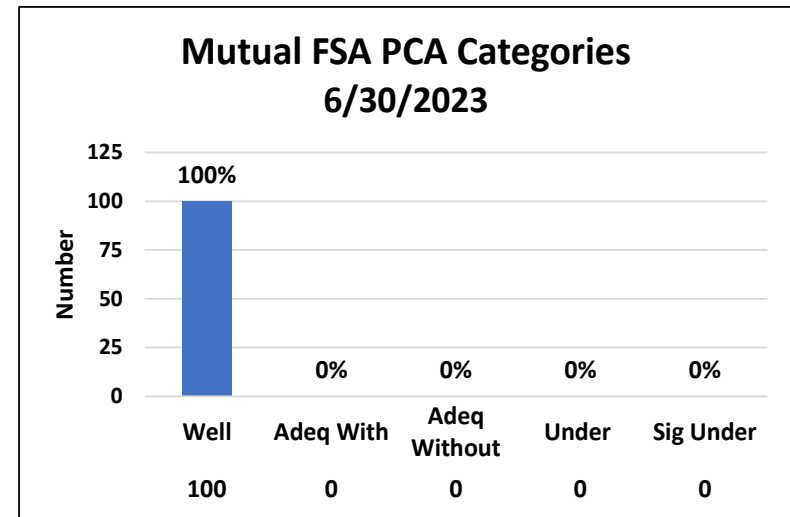
Leverage Ratio - June 30, 2023

Asset Category	FDIC	OCC
Under \$50MM	14.50	17.64
\$50MM - \$100MM	13.49	20.57
\$100MM - \$250MM	11.86	14.43
\$250MM - \$500MM	12.35	12.74
\$500MM - \$1B	11.79	12.06
Greater than \$1B	10.59	14.97
Median	11.98	14.56



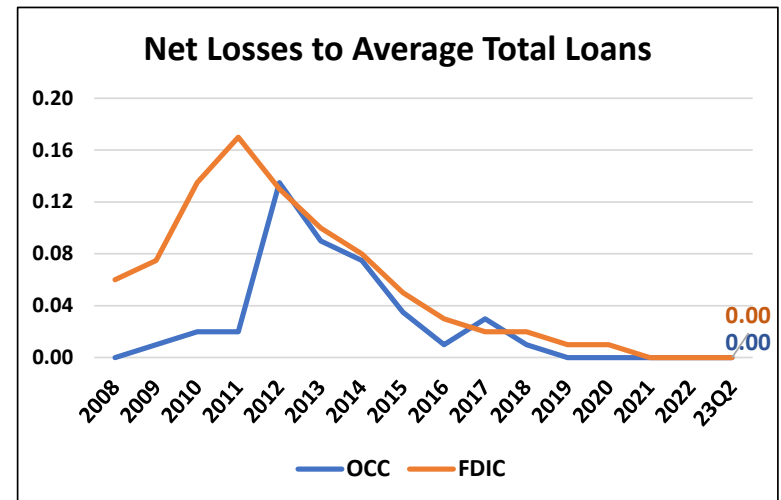
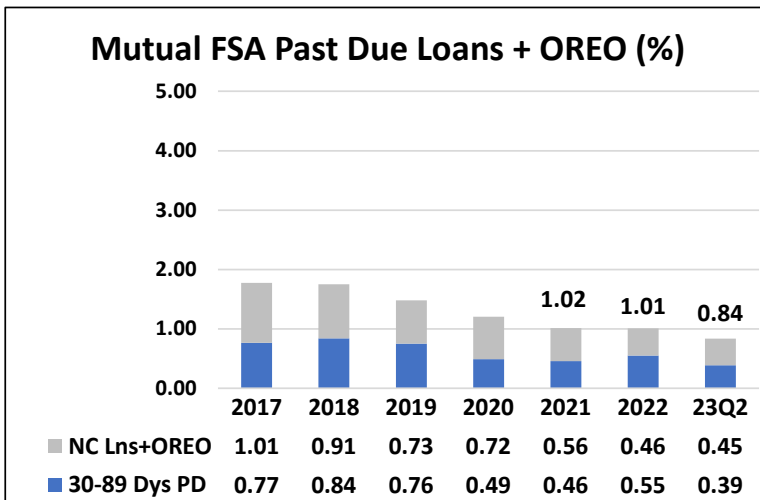
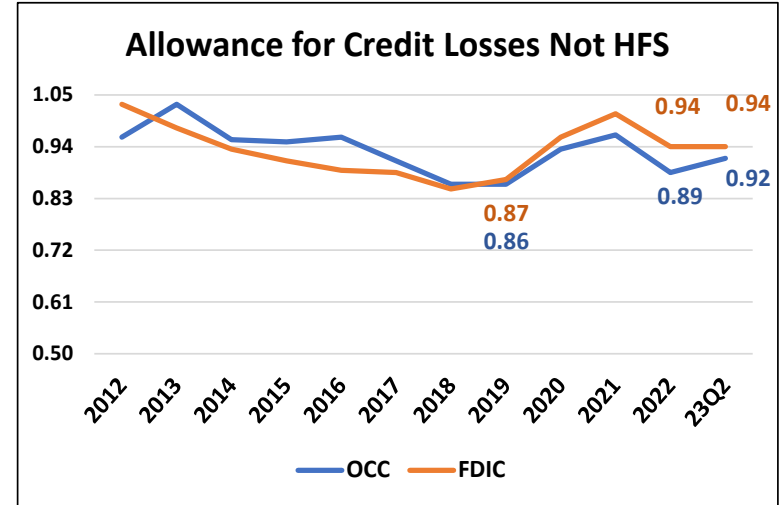
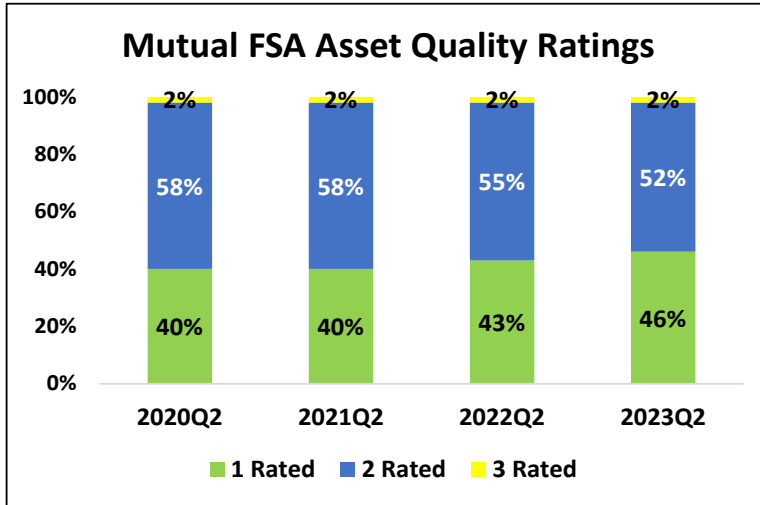
Mutual FSAs are Well Capitalized

- All mutual FSAs met the well capitalized definition contained in Prompt Corrective Action as of June 30, 2023.
- Ninety-nine percent of mutual FSAs are rated 1 or 2 for capital. Forty-seven percent of mutual FSAs opted into the CBLR framework this quarter.



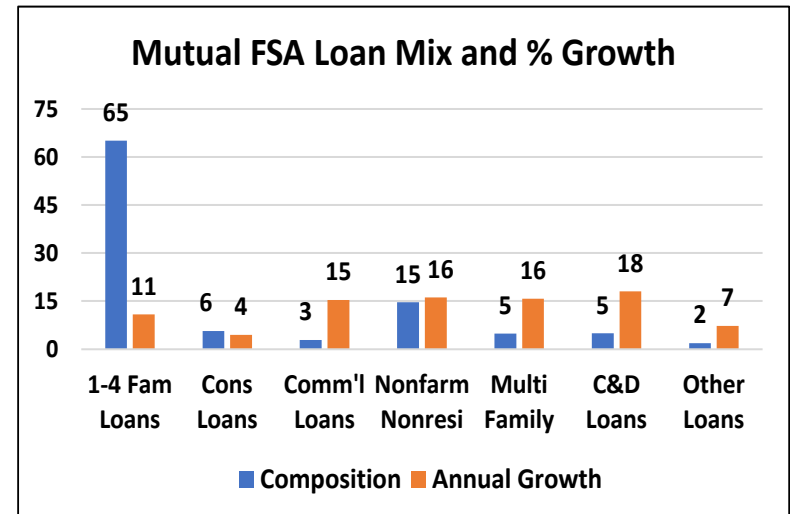
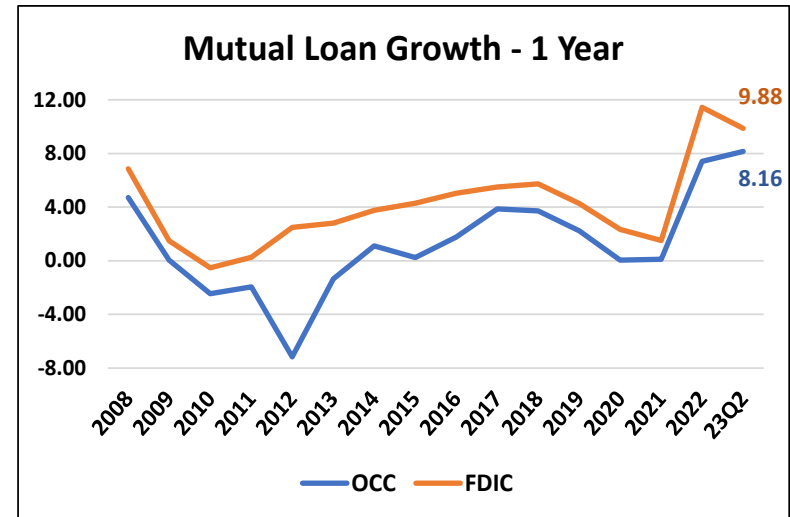
Asset Quality is Resilient

Asset quality ratings continue to improve. Delinquencies are low and declining. The ACL is adequate. Loan losses are low.



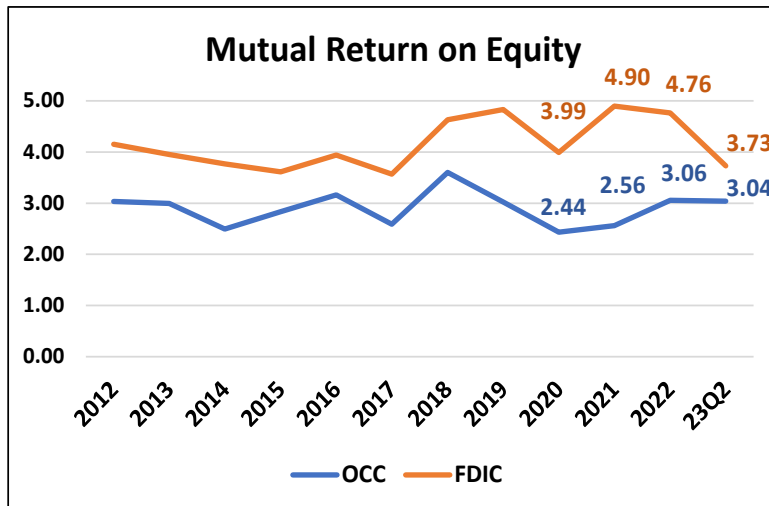
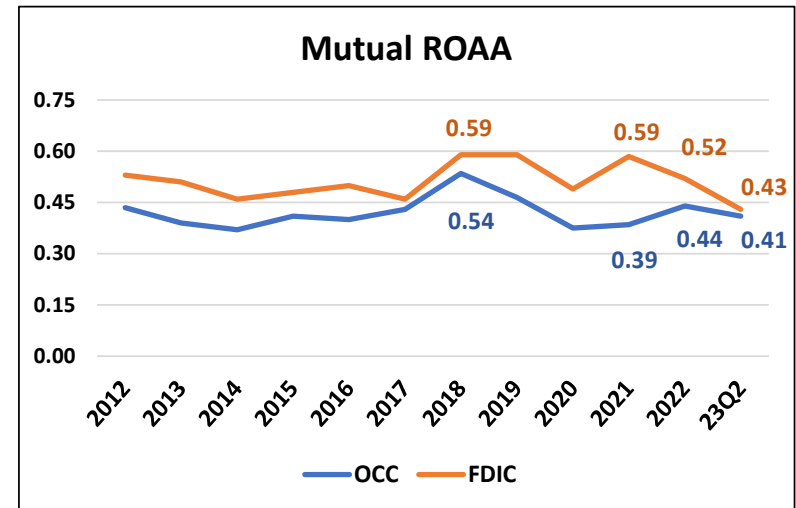
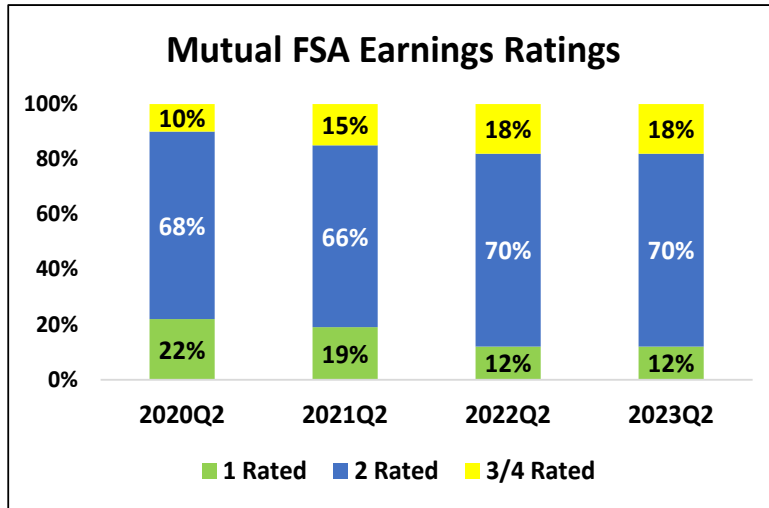
Loan Growth Improved

- Mutual FSA loan growth improved to 8.16 percent this year. Paycheck Protection Program (PPP) loans are nominal; 11 mutual FSAs reported PPP loans of \$675,000.
- Loan growth was highest for the commercial real estate categories: C&D, nonfarm nonresidential, and multifamily and lowest for consumer loans.



Earnings are Stable

Earnings ratings are stable but lag ratings in other safety and soundness areas. The median mutual FSA ROAA decreased three basis points to 0.41 percent.



Return on Assets - June 30, 2023

Asset Category	FDIC	OCC
Under \$50MM	0.32	0.30
\$50MM - \$100MM	0.20	0.25
\$100MM - \$250MM	0.39	0.44
\$250MM - \$500MM	0.48	0.42
\$500MM - \$1B	0.45	0.51
Greater than \$1B	0.53	0.52
Median	0.43	0.41



Net Income Up 7 Percent in 2023

Despite higher overhead expenses and a contraction in fee income, the weighted average ROAA rose this year due to strong growth in net interest income.

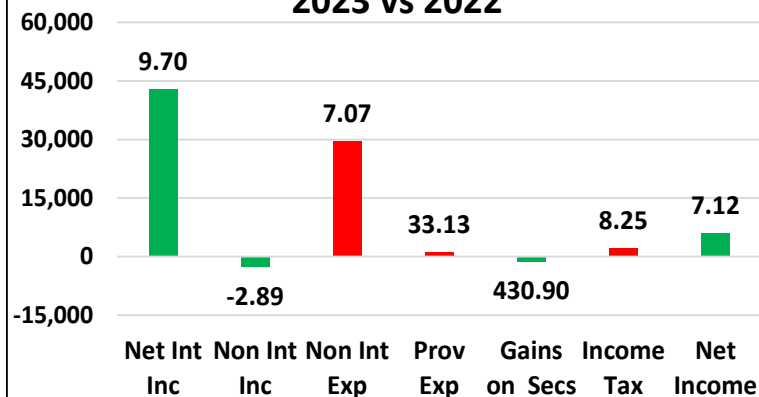
Mutual FSA Income Statement (\$'000's)

	2023Q2	2022Q2	Δ 1 Yr \$	Δ 1 Yr %
Int Income	642,484	492,414	150,070	30.48
Int Expense	157,138	49,993	107,145	214.32
Net Int Inc	485,346	442,421	42,925	9.70
Non Int Inc	89,311	91,966	-2,655	-2.89
Non Int Exp	447,334	417,779	29,555	7.07
Prov Exp	4,505	3,384	1,121	33.13
Gains on Secs	-1,529	-288	-1,241	430.90
Income Tax	29,546	27,294	2,252	8.25
Net Income	91,730	85,629	6,101	7.12

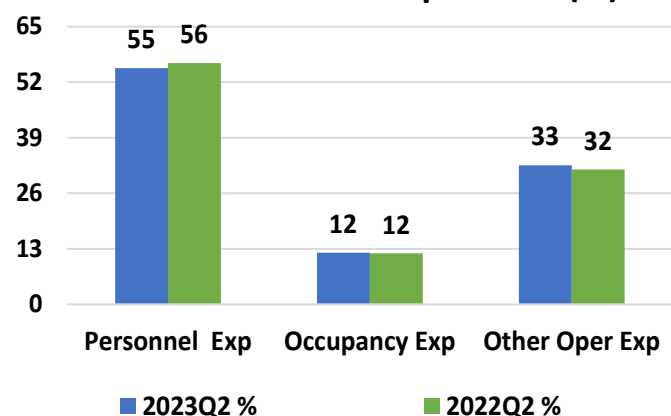
Mutual ROAA Decomposition (%)

	2023Q2	2022Q2	Δ 1 Yr
Int Income	3.63	2.82	
Int Expense	0.89	0.29	
Net Int Inc	2.74	2.54	0.21
Non Int Inc	0.50	0.53	-0.02
Non Int Exp	2.53	2.39	0.13
Prov Exp	0.03	0.02	0.01
Gns on Secs	-0.01	0.00	-0.01
Income Tax	0.17	0.16	0.01
ROAA	0.52	0.49	0.03

Change in Net Income
2023 vs 2022

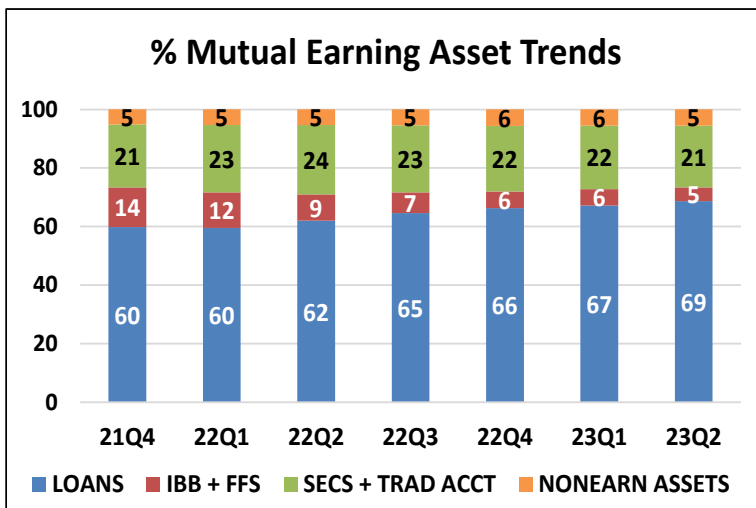
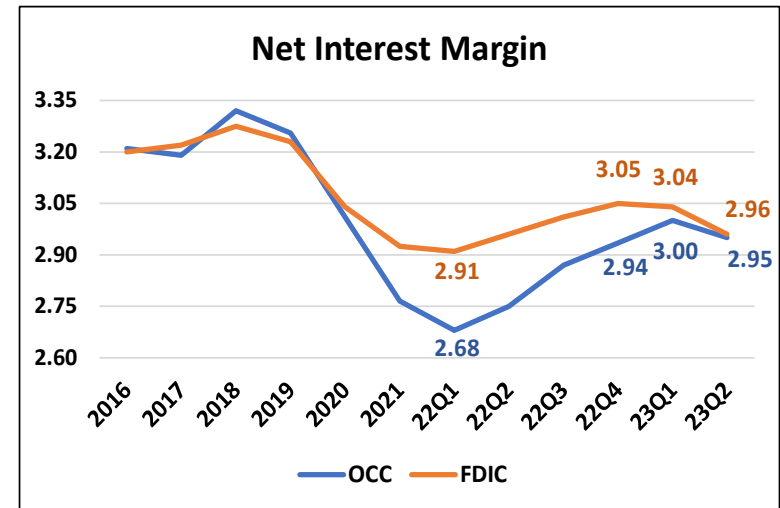
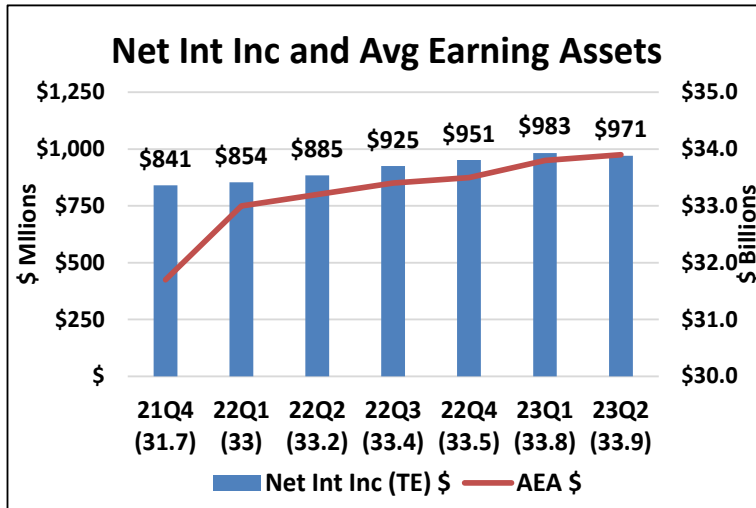


Mutual Overhead Components (%)



Net Interest Margin Contracts

After four quarters of expansion, NIMs contracted this quarter due to the sharp rise in the cost of funds. The NIM represents 84 percent of Mutual operating revenue.



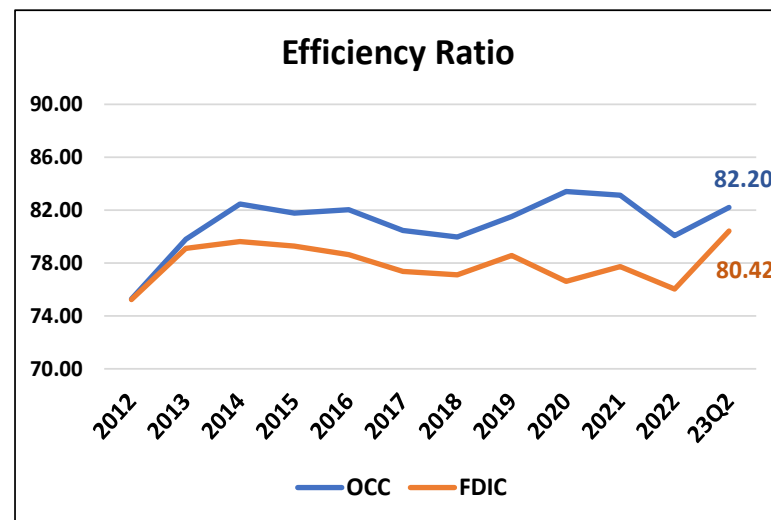
Net Interest Margin - June 30, 2023

Asset Category	FDIC	OCC
Under \$50MM	3.23	3.19
\$50MM - \$100MM	3.05	2.78
\$100MM - \$250MM	3.23	3.01
\$250MM - \$500MM	2.96	2.83
\$500MM - \$1B	2.84	3.12
Greater than \$1B	2.85	2.86
Median	2.96	2.95



Efficiency Ratio Higher

- The mutual FSA efficiency ratio increased this year as overhead outpaced the growth in operating revenue.



- In general, the smaller mutual charters have the highest efficiency ratios. Thirty of 100 mutual FSAs or 30 percent reported efficiency ratios over 90 percent this quarter.

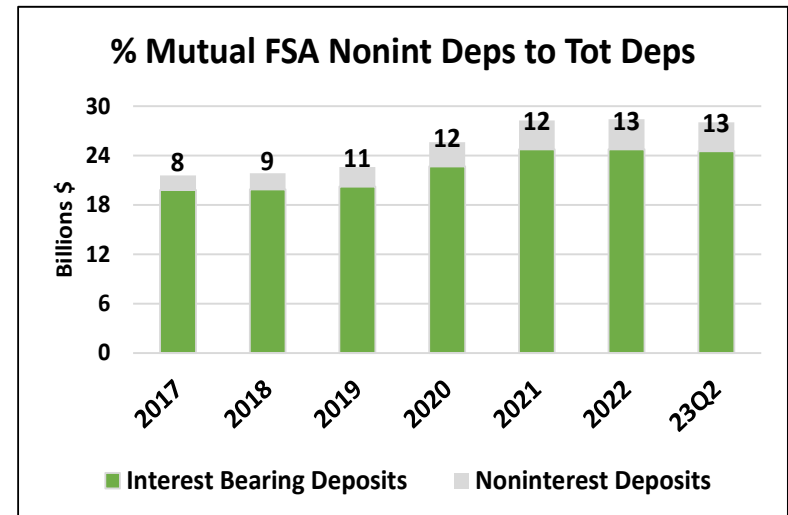
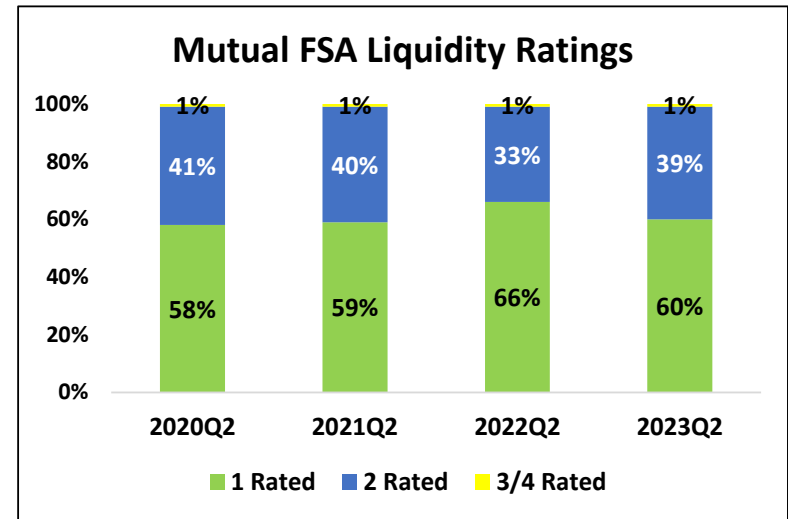
Efficiency Ratio - June 30, 2023

<u>Asset Category</u>	<u>FDIC</u>	<u>OCC</u>
Under \$50MM	87.17	85.20
\$50MM - \$100MM	90.23	84.75
\$100MM - \$250MM	79.59	83.17
\$250MM - \$500MM	79.89	82.49
\$500MM - \$1B	78.35	76.97
Greater than \$1B	78.62	77.78
Median	80.42	82.20



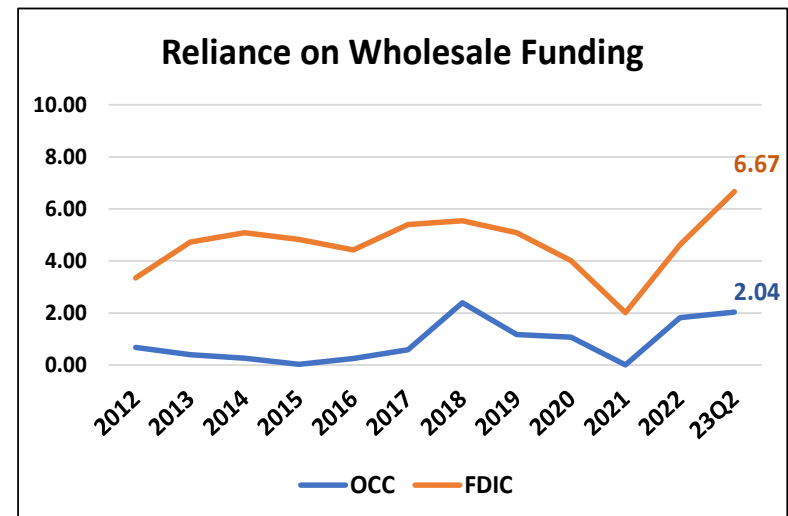
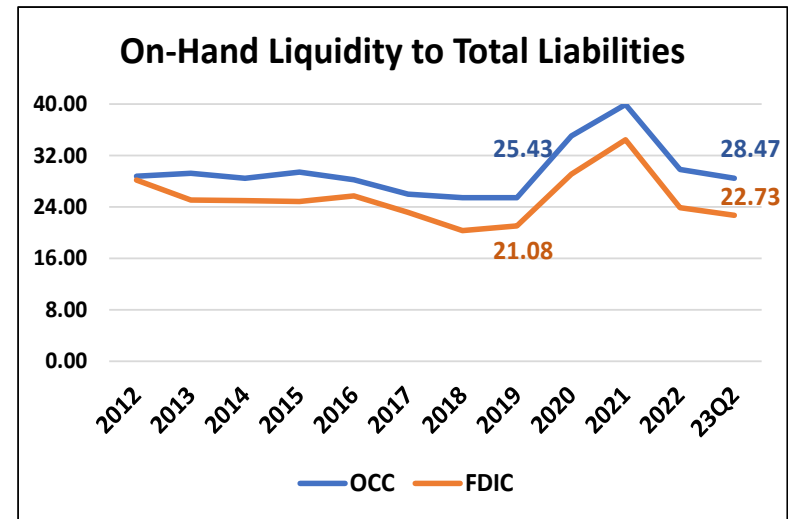
Liquidity Remains Sufficient

- Liquidity ratings remain strong; 99 percent of mutuals are rated 1 or 2 but the share rated 1 fell to 60 percent in 2023. One mutual FSA is rated worse than 2. Liquidity is the ratings component most frequently downgraded over the last year.
- Mutual FSA deposits are lower this year. Total deposits decreased 1.67 percent for the quarter, 1.31 percent year-to-date, and 2.89 percent for the year.



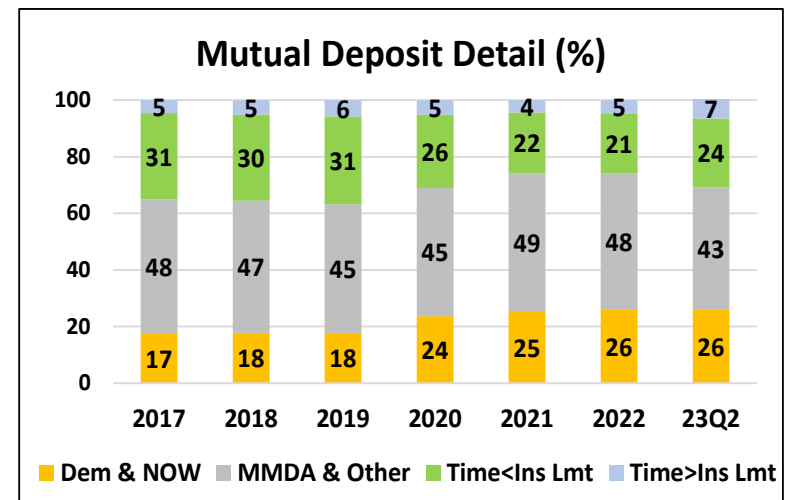
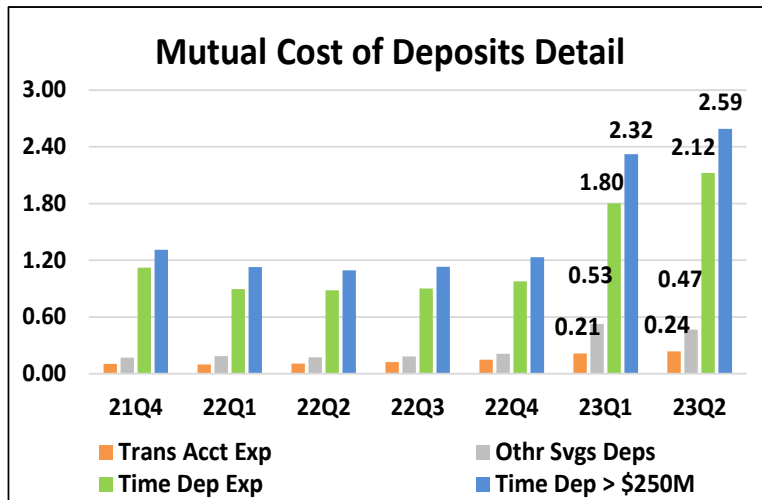
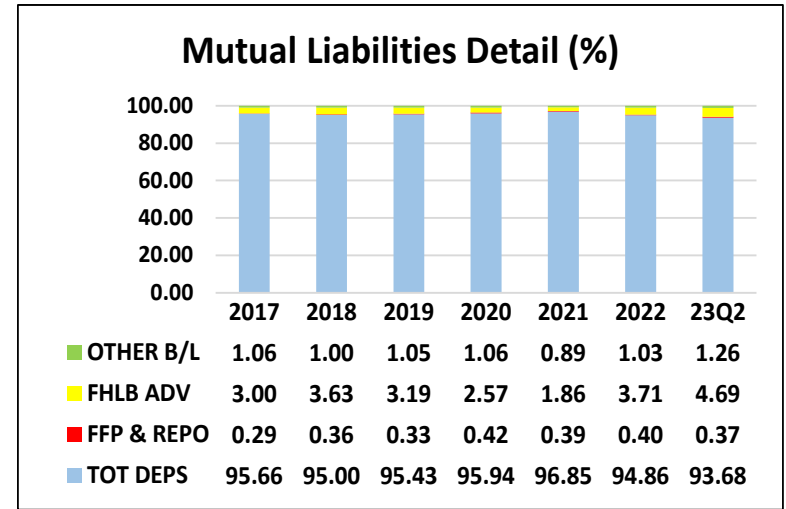
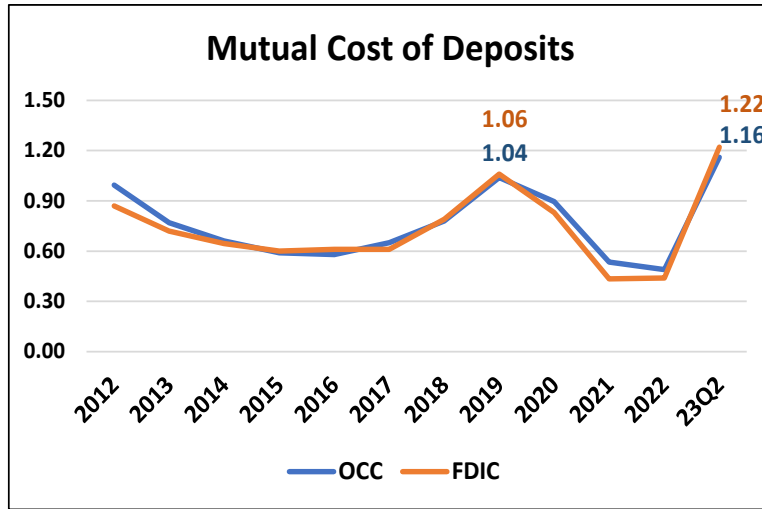
On-Hand Liquidity Lower

- After reaching a cyclical peak in 2021 due to pandemic-related deposits, on-hand liquidity ratios declined in 2022 and 2023 and are approaching pre-pandemic levels.
- Because of declining on-hand liquidity, mutuals are relying more on wholesale funding sources.



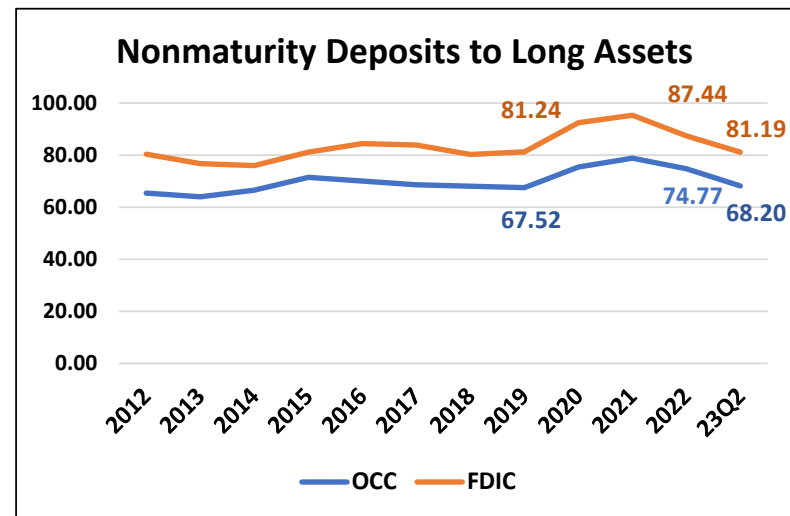
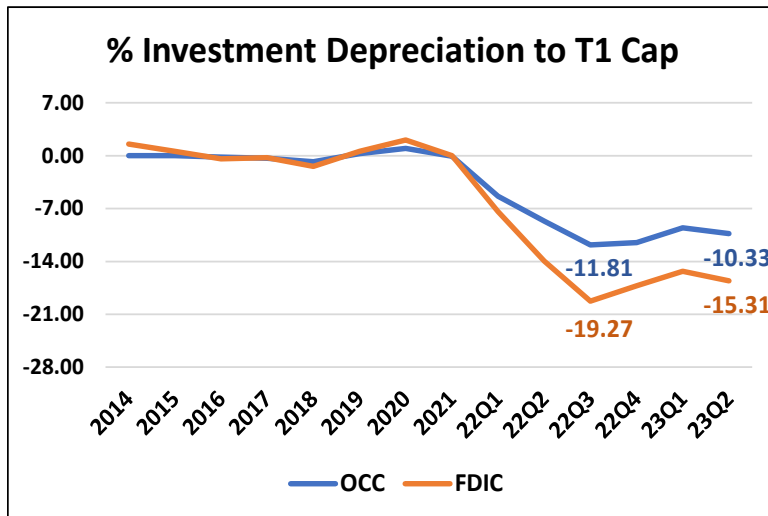
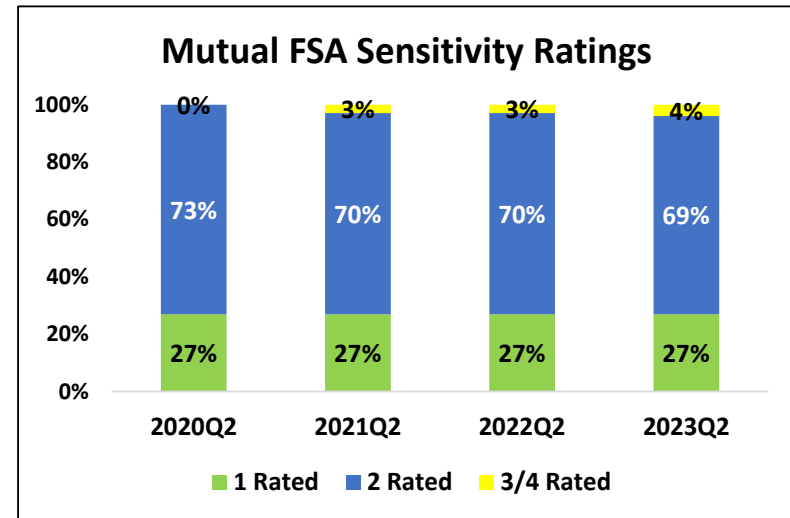
Cost of Deposits Jumps in 2023

The cost of deposits rose sharply in 2023. Time deposits saw the largest increase in cost since last quarter.



Sensitivity is Adequately Controlled

- Sensitivity to market risk ratings remain satisfactory. Nonmaturity deposits to long-term assets decreased for mutuals in 2023. Due to the rise in rates and extended maturities, investment portfolio depreciation to tier 1 capital remains significant.



Executive Summary – June 30, 2023

- Pure mutual FSAs represent 100 or 10 percent of OCC bank charters and \$35.1 billion or 4.1 percent of community bank assets.
- **Mutual FSAs are in satisfactory condition.** Composite ratings improved this year; 96 percent are rated 1 or 2. No mutual FSA is rated 5.
- **Leverage capital ratios remain strong but lower this year.**
- **Asset quality is resilient.** Total past due loans plus OREO are low and declining. Loan growth is good. The ACL is adequate.
- **Earnings are adequate.** The weighted average mutual FSA ROAA increased this year due to strong growth in net interest income.
- **Liquidity is sufficient.** The cost of deposits has sharply increased in 2023. Total deposits and on-hand liquidity declined this year.
- **Sensitivity to market risk is adequately controlled.** Investment portfolio depreciation remains significant but off the lows of third quarter 2022.



FOMC Rate Hikes

At the Sep 19-20 FOMC meeting, the Fed left the federal funds target rate unchanged at 5.25-5.50 percent. The latest dot plot forecasts a 5.6 percent federal funds rate by year-end 2023. **Rates will be higher for longer.**

FOMC Meetings 2022	Rate Decision	FOMC Meetings 2023	Rate Decision
Jan 25-26	0	Jan/Feb 31-1	+25 bps
Mar 15-16	+25 bps	Mar 21-22	+25 bps
May 3-4	+50 bps	May 2-3	+25 bps
Jun 14-15	+75 bps	Jun 13-14	0
Jul 26-27	+75 bps	Jul 25-26	+25 bps
Sep 20-21	+75 bps	Sep 19-20	0
Nov 1-2	+75 bps	Oct/Nov 31-1	+25 bps
Dec 13-14	+50 bps	Dec 12-13	0

[The Fed - Meeting calendars and information \(federalreserve.gov\)](https://www.federalreserve.gov/meetings/monetarypolicy/)



Summary of Economic Projections

In conjunction with the FOMC meeting held on Sep 19–20, 2023, meeting participants submitted their projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2023 to 2025 and over the longer run.

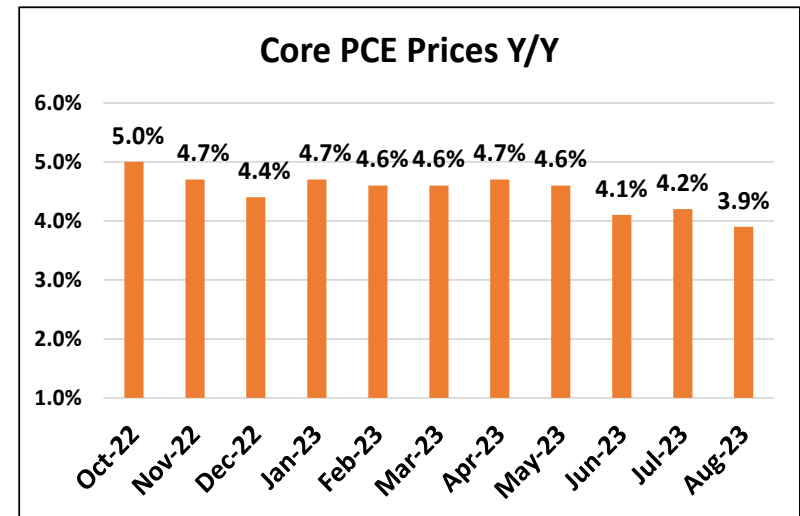
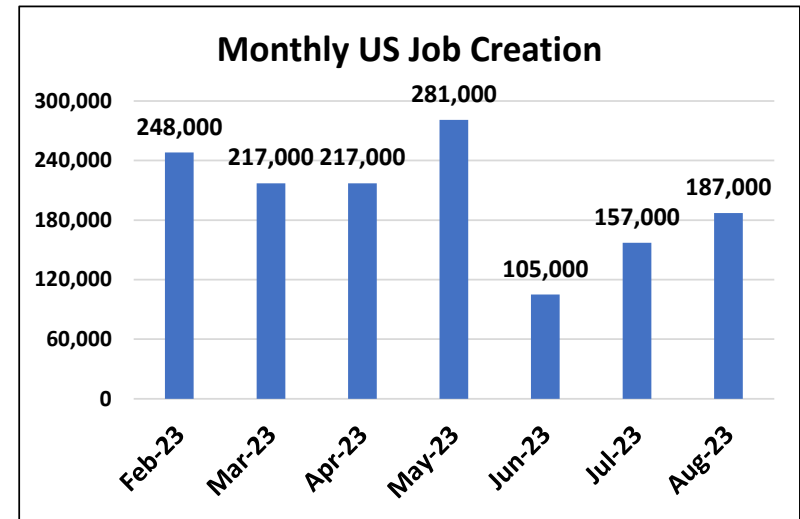
Percent

Variable	Median				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8		1.8
Unemployment rate	3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5		4.0
PCE inflation	3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1		2.0
Core PCE inflation ⁴	3.7	2.6	2.3	2.0	
June projection	3.9	2.6	2.2		
Memo: Projected appropriate policy path					
Federal funds rate	5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4		2.5

4. Longer-run projections for core PCE inflation are not collected.

Fighting Inflation is the Fed's Top Priority

- The US labor market is beginning to cool. The next Employment Situation Report will be released on Oct 6, 2023.
- US inflation is declining and should approach the Fed's 2 percent target in 2025. The Fed views the PCE Price Index-the core rate in particular-as the most accurate measure of US inflation. The next PCE report will be released on Oct 27, 2023.



Questions

