MSAAC Meeting

September 28, 2021

State of Mutual FSAs

Financial Information as of June 30, 2021

Ernie Knott
OCC Financial Analyst

Mutual Overview and Trends

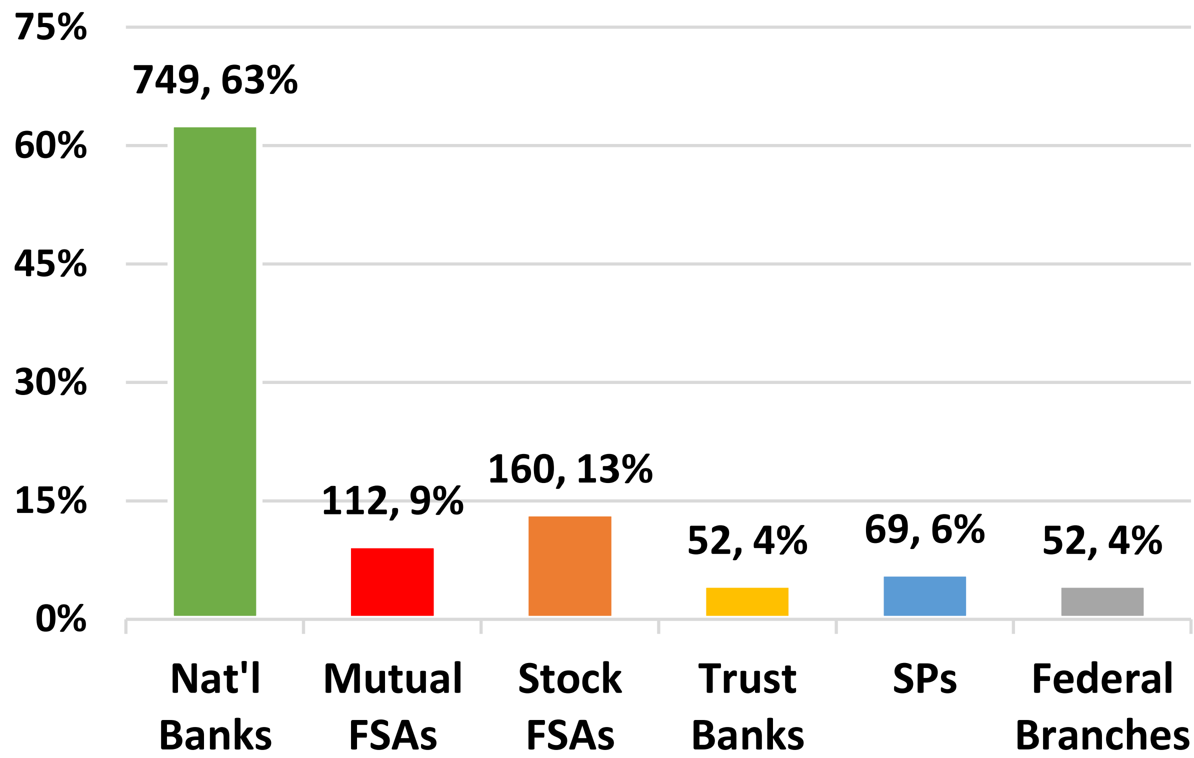
This presentation will focus on:

- **Portfolio Demographics-Ernie Knott**
- **Financial Performance-Ernie Knott and Ashley Hicks**
- **Supervisory Information-Cristina Im**

Preface: The current mutual population as of June 30, 2021 is “held constant” for financial analysis. Mutual banks began filing the Call Report in 2012 unless they early adopted. Some charts use the median and others use weighted averages. For certain ratios, OCC created “unified” calculations. If the former Thrift Financial Report (TFR) contained the elements to calculate ratios on the current Uniform Bank Performance Report (UBPR), we are able to provide analysis using these calculations dating back to 2007.

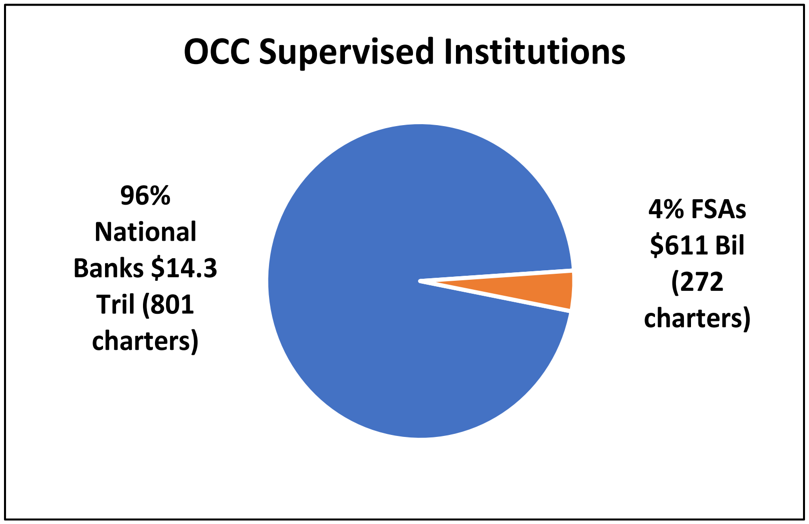
OCC Charters by Institution Type

OCC supervised 1,194 institutions as of June 30, 2021. Federal Savings Associations (FSAs) represent 22 percent of OCC charters.

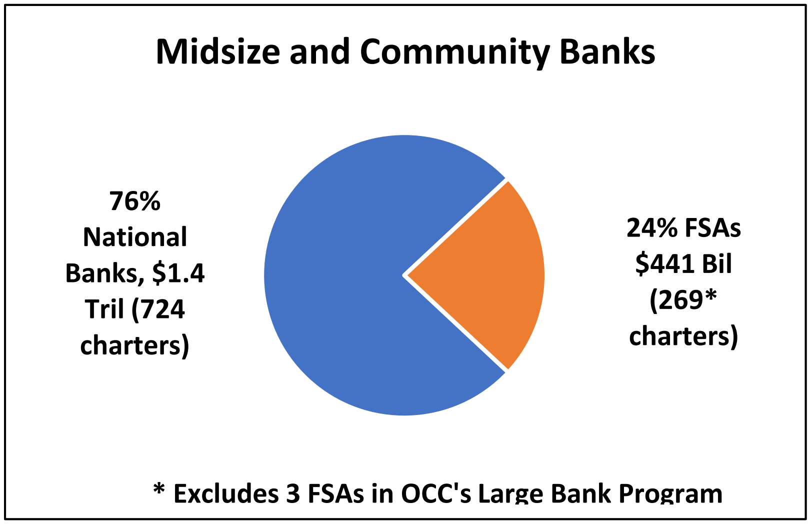


OCC Supervised Assets

- FSAs represent $611 billion or 4 percent of OCC supervised assets as of June 30, 2021.

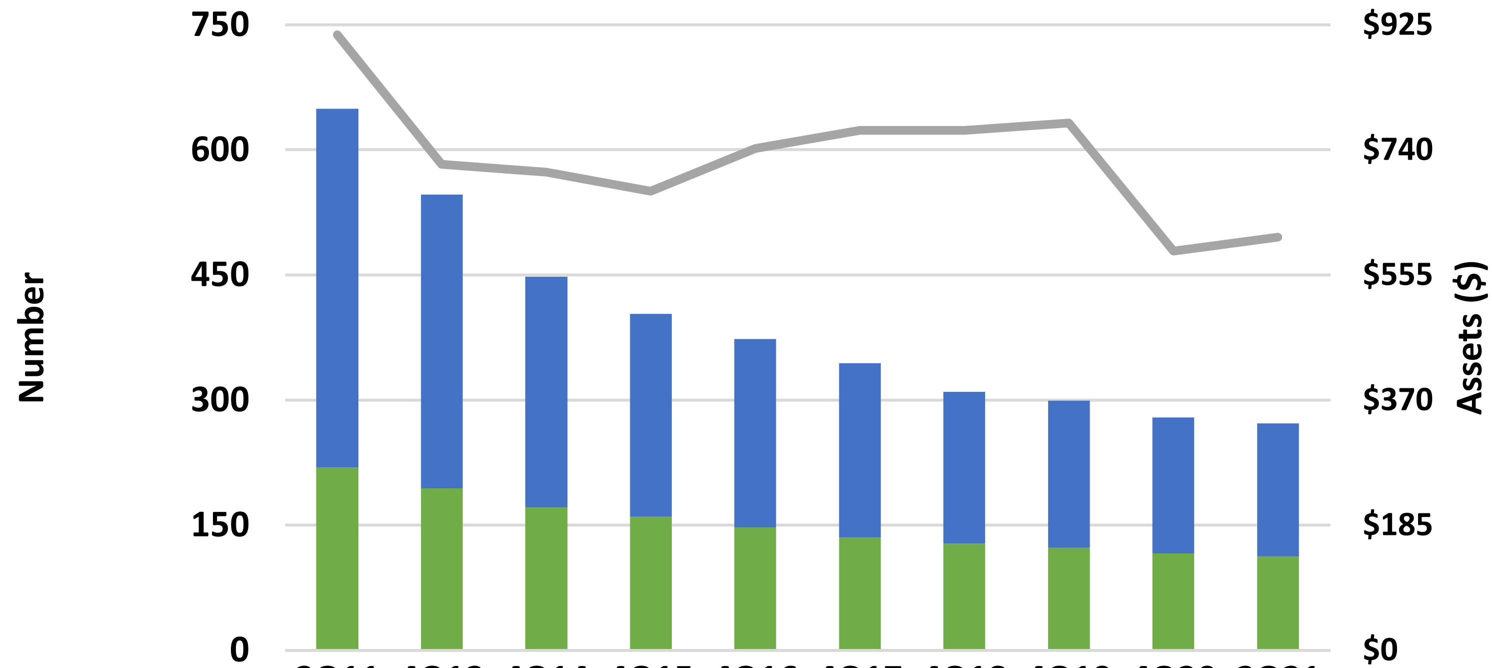


- FSAs represent $441 billion or 24 percent of midsize and community bank assets as of June 30, 2021. Only three FSAs are supervised by OCC's Large Bank Program, but all mutual FSAs are supervised by OCC's Midsize and Community Bank Supervision Unit.



FSA Charter Trends

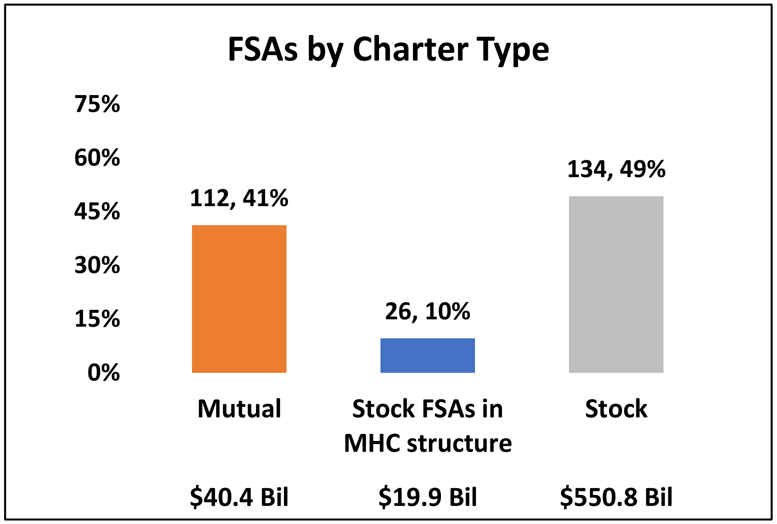
The number of mutual FSAs continues to decline but not as rapidly as stock FSAs.



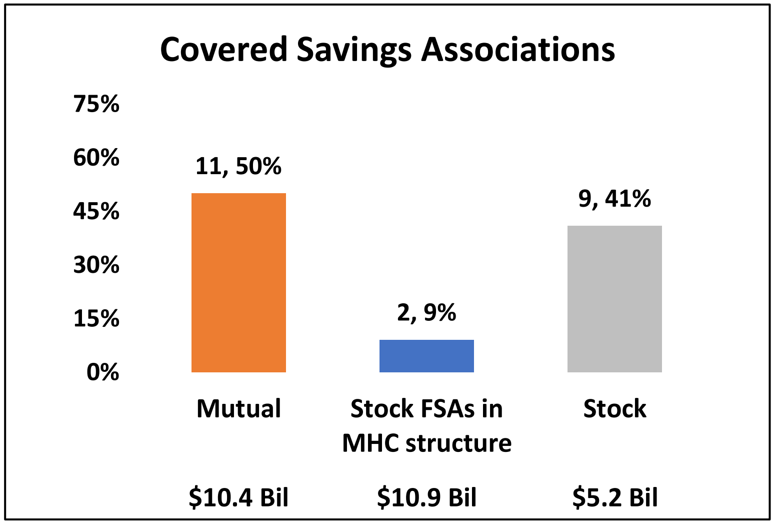
	2Q11	4Q12	4Q14	4Q15	4Q16	4Q17	4Q18	4Q19	4Q20	2Q21
# Stock	430	352	277	243	226	209	182	176	163	160
# Mutual	219	194	171	160	147	135	128	123	116	112
Assets (B)	$910	$719	$707	$679	$742	$769	$769	$780	$590	$611

FSAs by Type

- Mutual FSAs and stock FSAs in MHCs (that have not issued shares) represent 51 percent of OCC-regulated FSAs.

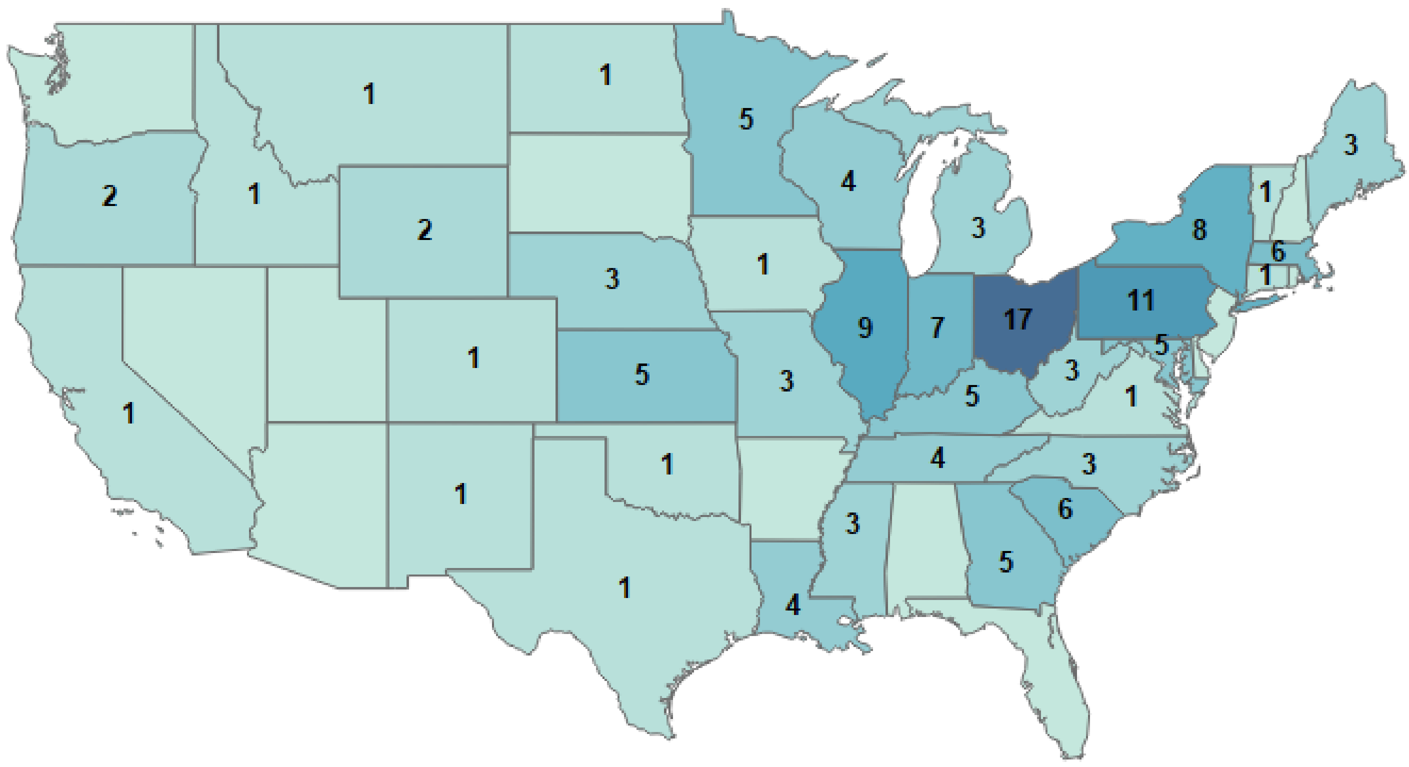


- FSAs with total assets of $20 billion or less as of December 31, 2017, may elect to operate as covered savings associations (CSAs). CSAs represented 22 or 8 percent of FSA charters and 4 percent of FSA assets as of June 30, 2021.



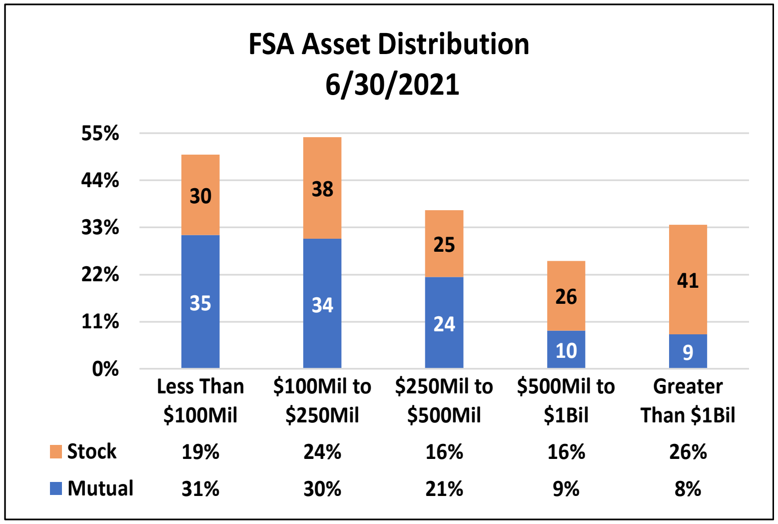
Mutual FSAs by State

Mutual FSAs are concentrated in the Midwest and Northeast. There are three states with 9 or more mutual FSAs: Ohio (17), Pennsylvania (11), and Illinois (9).

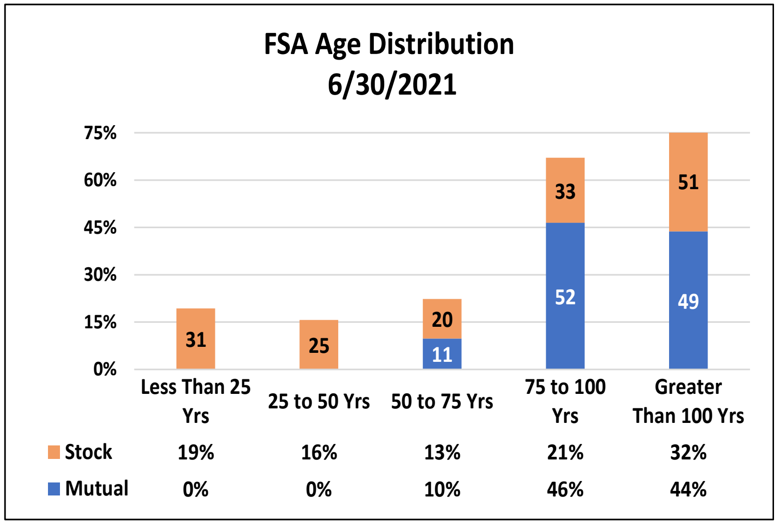


Mutual FSAs Asset Size and Age

- 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 26 percent of stock FSAs.



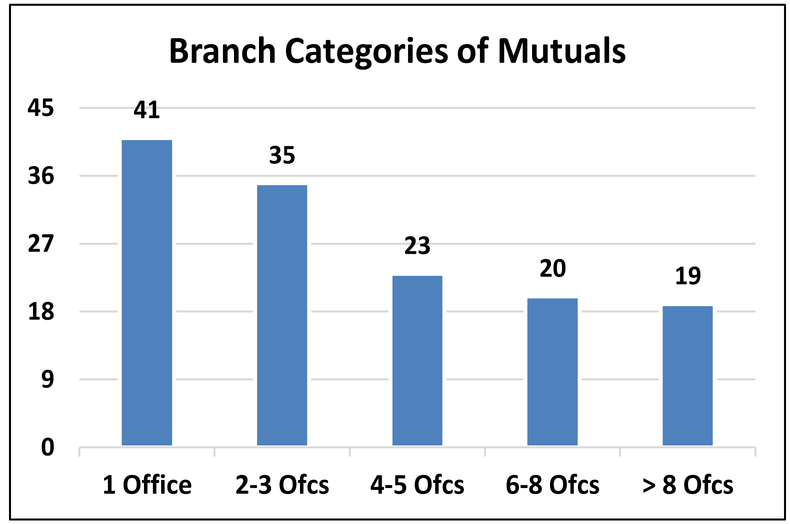
- Mutual FSAs represent some of the oldest financial institutions in the United States. Forty-four percent of mutual FSAs were formed more than **100** years ago. Ninety percent have operated for 75 years or more.

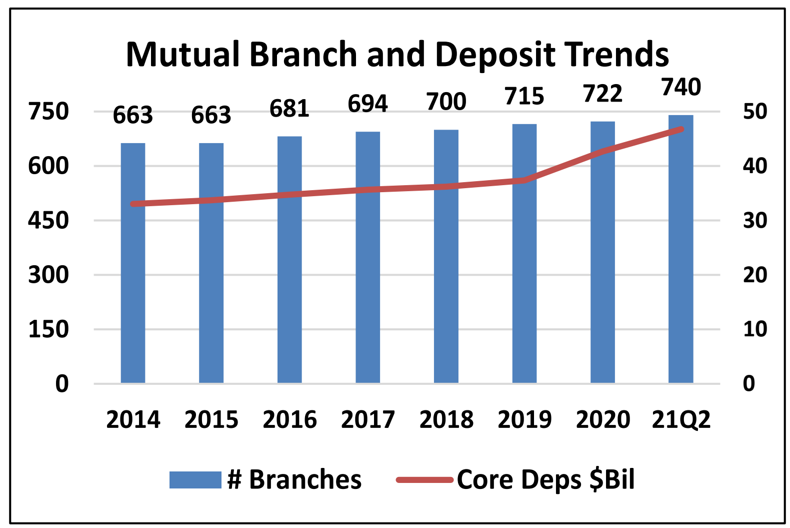


Mutual FSA Branches

- Thirty percent of mutual FSAs operate from one location, and 55 percent have three locations or less. Thirty-six mutual FSAs or 26 percent have changed their branch configuration since 2014. Five mutual FSAs have fewer offices today versus 2014.

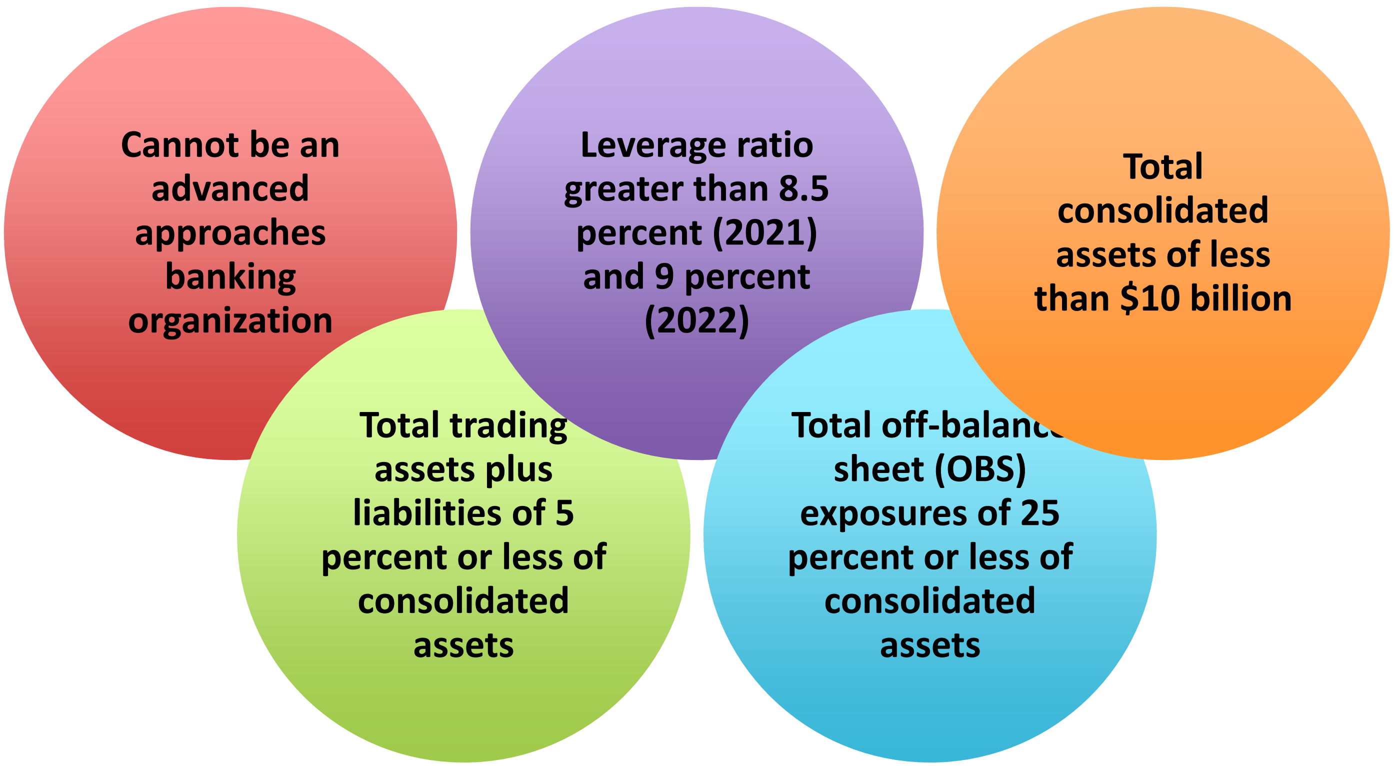
- Since 2014, the number of mutual FSA office locations has grown 12 percent, but core deposits have grown 41 percent (13 percent through 2019 or pre-pandemic).





CBLR Framework – Now Being Phased In

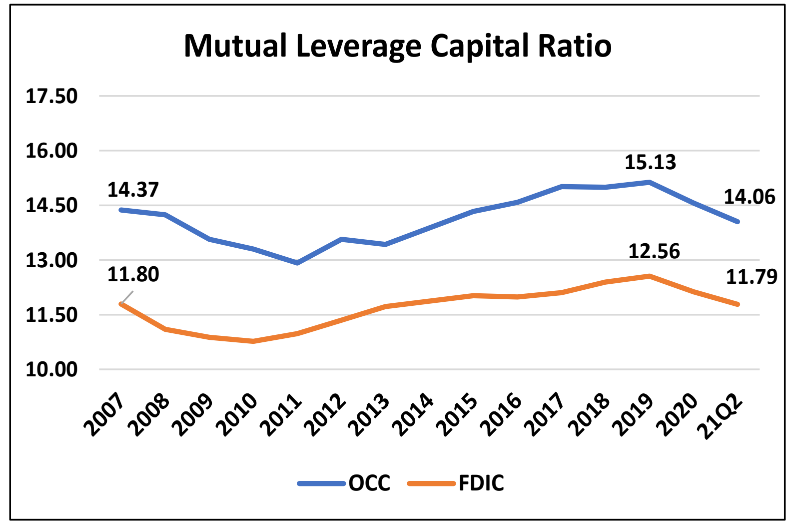
The Community Bank Leverage Ratio (CBLR) is an optional simple leverage capital measure that became effective January 1, 2020. The CARES Act provided temporary relief and a gradual phase-in through 2021 due to the pandemic.



Capital Levels Remain Solid

- Mutual FSA capital levels remain strong but lower this year. The gap between federal and state charters remains wide but narrowed to 227 basis points this quarter.

- In general, the smaller mutual charters have the highest levels of capital.

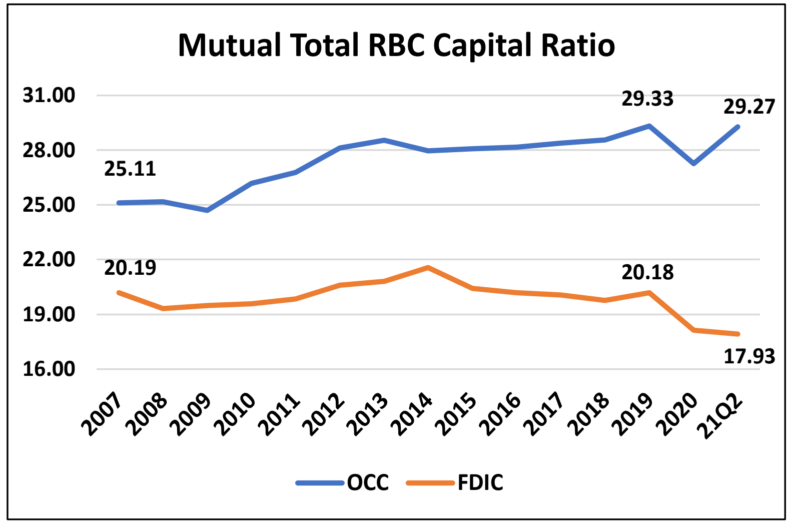


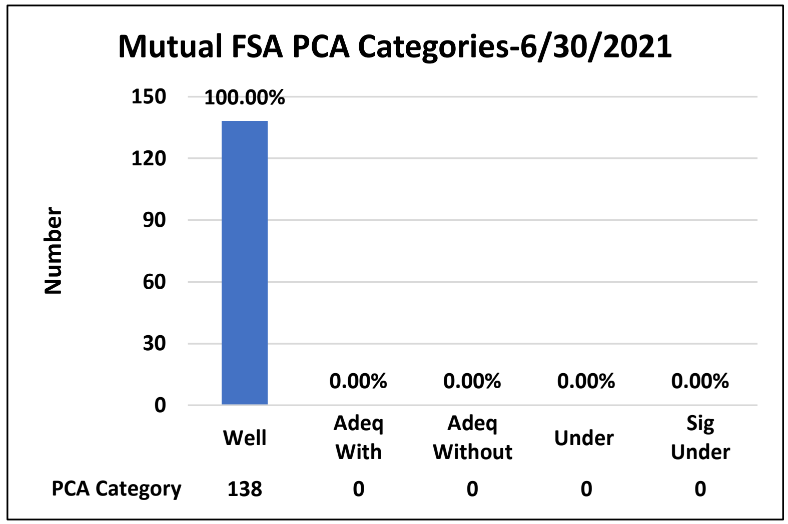
Leverage Ratio - June 30, 2021		
Asset Category	**FDIC**	**OCC**
Under $50MM	12.55	16.74
$50MM - $100MM	12.25	14.07
$100MM - $250MM	11.77	14.09
$250MM - $500MM	12.17	13.66
$500MM - $1B	11.29	13.44
Greater than $1B	11.35	11.00
Median	**11.79**	**14.06**

Mutual FSAs are "Well-capitalized"

- Mutual FSA total risk-based capital levels increased in 2021 and are back to their pre-pandemic level. The gap between federal and state charters has widened to over 1,100 basis points this year.

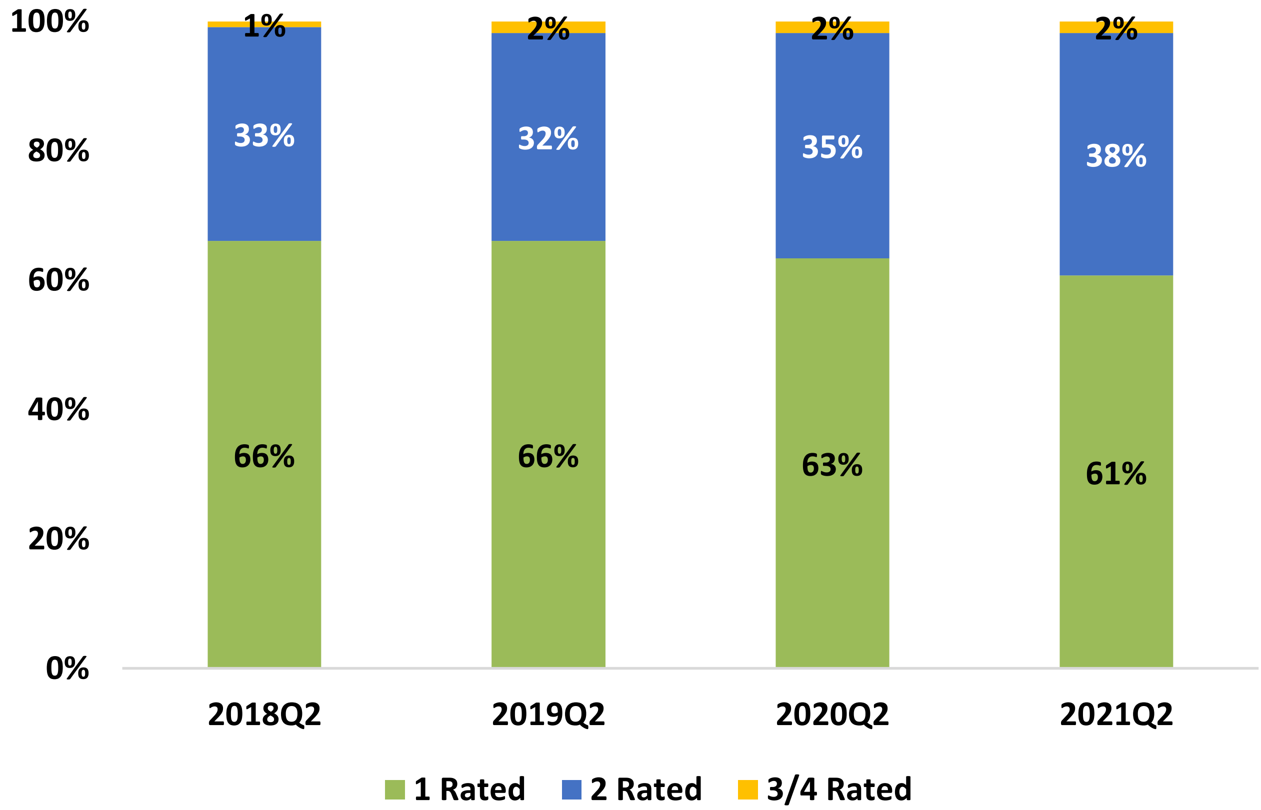
- All mutual FSAs met the "well-capitalized" definition contained in Prompt Corrective Action as of June 30, 2021.





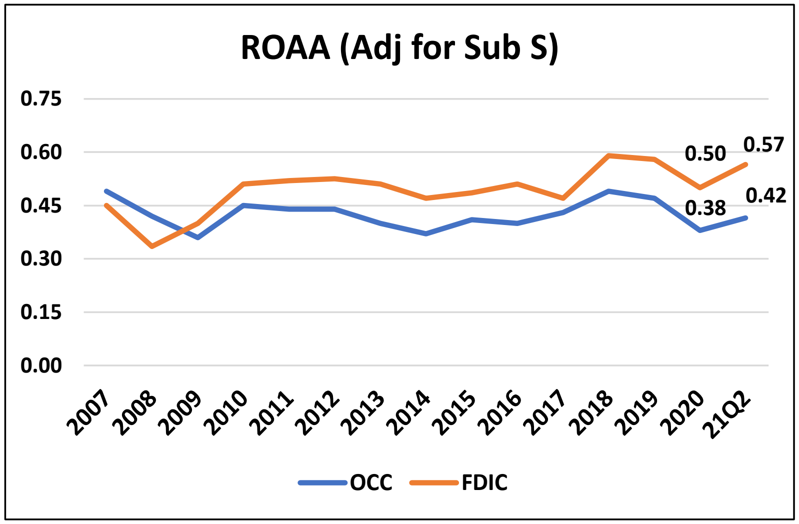
Capital Ratings Remain Strong

Ninety-nine percent of mutual FSAs are rated 1 or 2 for capital. Only two mutual FSAs are rated 3. There are no mutual FSAs rated 4 or 5 for capital this quarter.



ROAA Up This Year

- ROAAs for mutual FSAs increased four basis points to 0.42 percent in 2021 and lag FDIC-regulated bank performance.



- In general, the larger the mutual FSA, the better the ROAA.

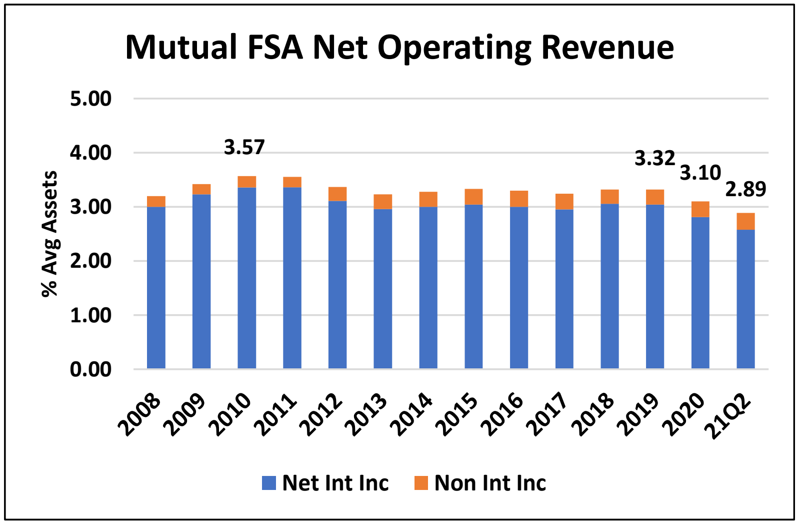
Mutual FSA ROAA by Asset Group

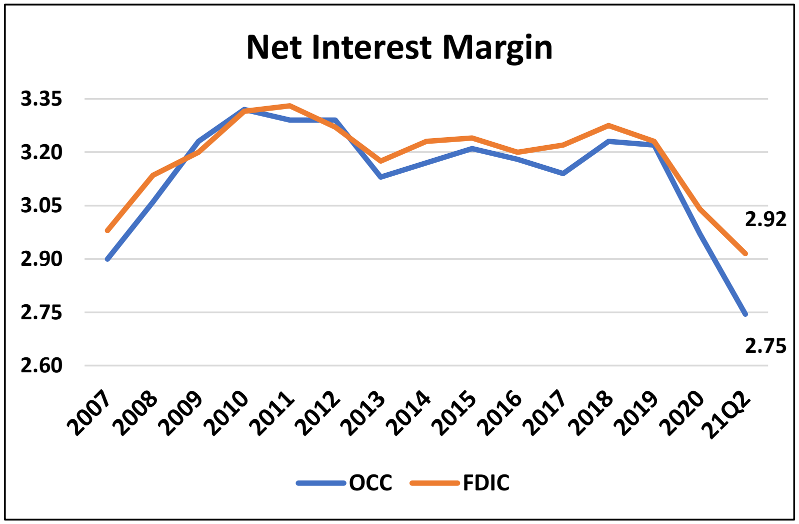
Asset Category	2021Q2	2020Q4
Under $50MM	0.18	0.06
$50MM - $100MM	0.27	0.37
$100MM - $250MM	0.37	0.30
$250MM - $500MM	0.50	0.45
$500MM - $1B	0.56	0.62
Greater than $1B	0.53	0.65
Median	**0.42**	**0.38**

Net Interest Margin Sharply Lower

- Mutual FSA net operating revenue fell 43 basis points since year-end 2019. Net interest income fell 46 basis points to 2.58 percent. Fee income rose three basis points to 0.31 percent. Higher fee income remains a key distinction between smaller and larger banks.

- Net interest margins (NIM) continue to compress. NIMs fell 47 basis points since 2019, 22 basis points since 2020, and five basis points since last quarter.



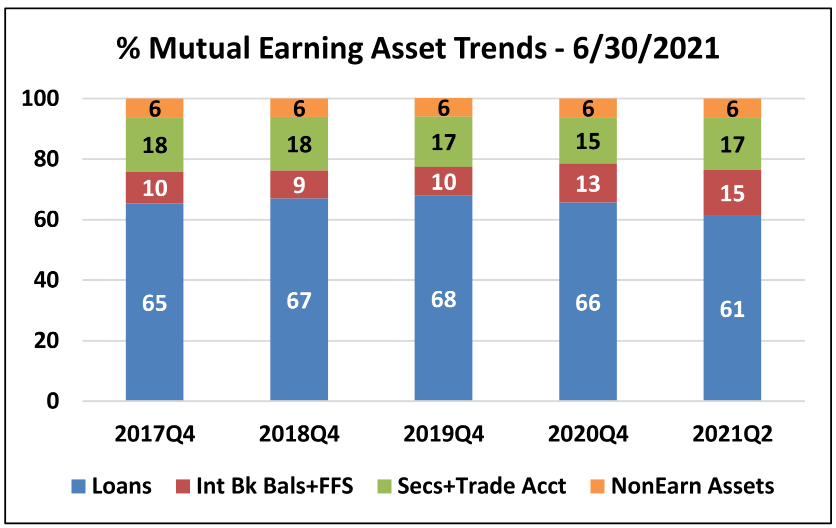


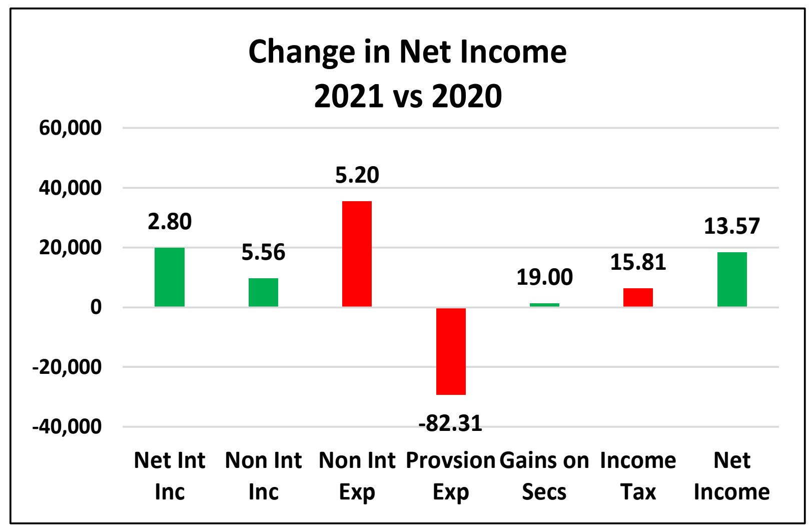
Mutual Net Income Up 13.6 Percent

- Despite margin compression, mutual FSA net income increased in 2021 due mainly to lower provision expenses.

Mutual FSA Income Statement ($000's)

	2021Q2	2020Q2	Δ 1 Yr $	Δ 1 Yr %
Int Income	853,421	907,478	-54,057	-5.96
Int Expense	120,489	194,514	-74,025	-38.06
Net Int Inc	732,932	712,964	19,968	2.80
Non Int Inc	185,009	175,261	9,748	5.56
Non Int Exp	719,000	683,479	35,521	5.20
Provsion Exp	6,295	35,581	-29,286	-82.31
Gains on Secs	8,143	6,843	1,300	19.00
Income Tax	46,250	39,936	6,314	15.81
Net Income	154,520	136,059	18,467	13.57

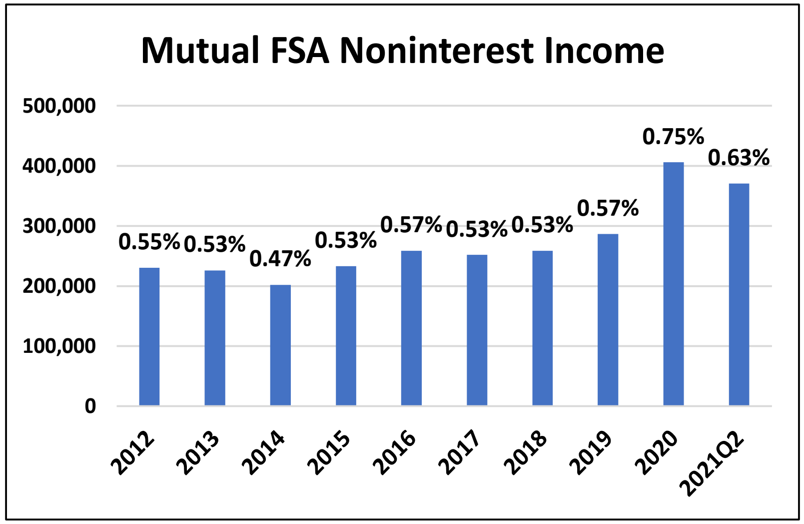


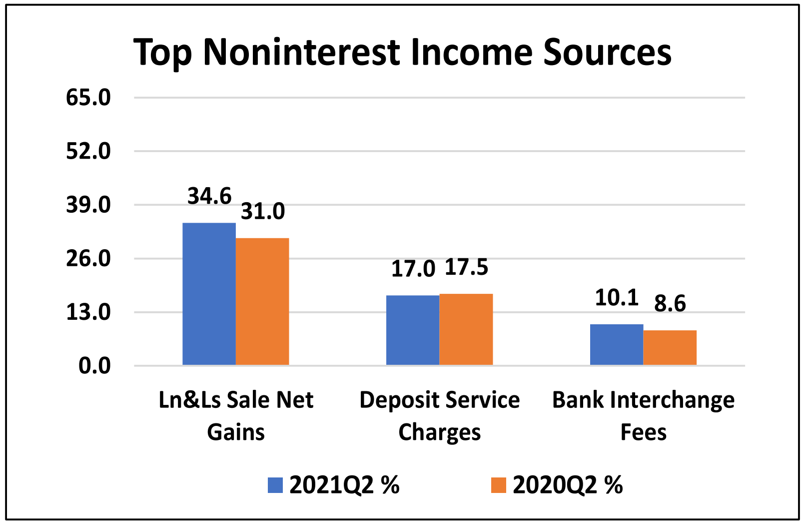


Noninterest Income Improving

- Fee income is up 6 percent versus one year ago. While fee income to average assets is up from pre-pandemic levels, 62 mutual FSAs or 45 percent reported fee income of 0.25 percent or less this quarter. Lack of fee income diversity has hurt smaller charters.

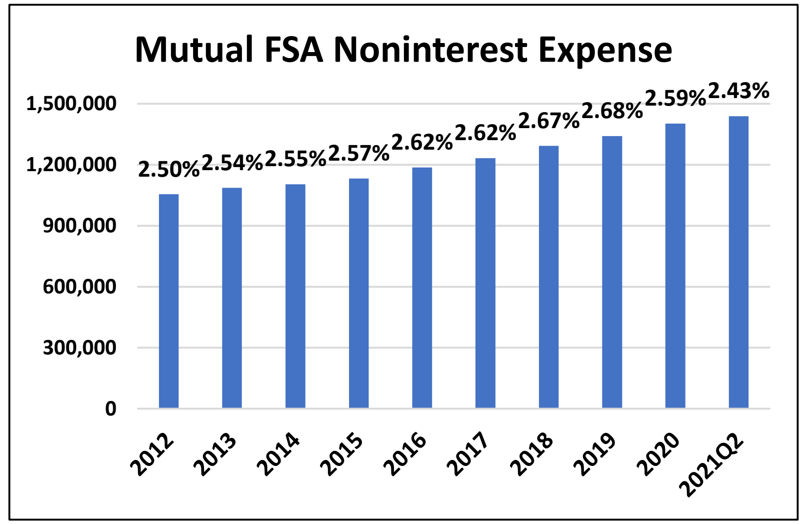
- At 34.6 percent, loan and lease sales is the top noninterest income category. It has grown 18 percent since last year. Deposit service charges is second and has grown 3 percent since last year.



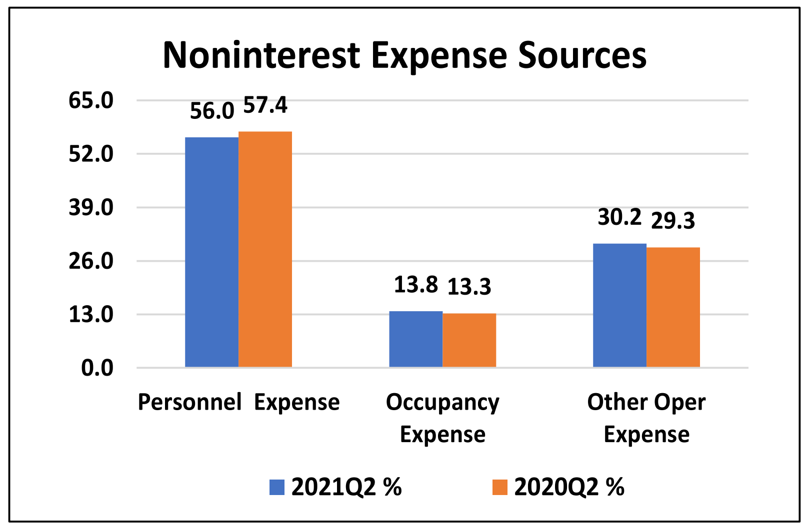


Noninterest Expense Growing

- Noninterest expense is up 5 percent compared to the same time last year. Noninterest expense to average assets has increased steadily to 2019 but fell sharply in 2020 due to the rapid asset growth from the pandemic.



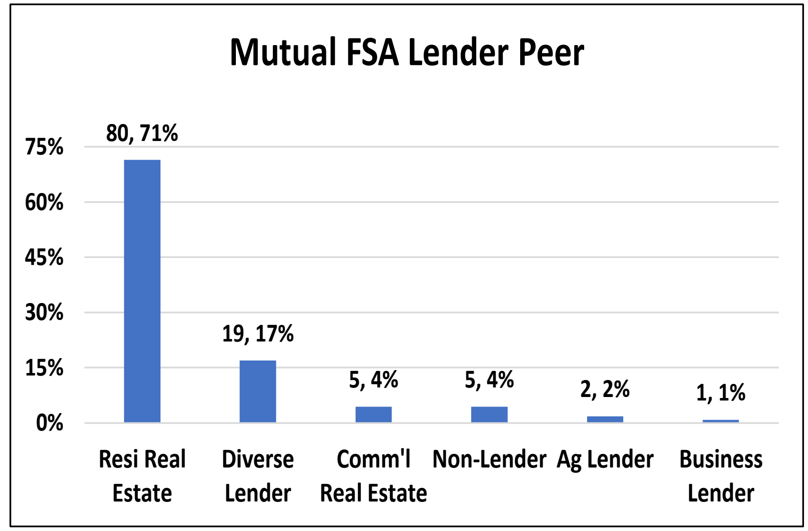
- At 56.0 percent, personnel is the top noninterest expense category. It has grown 3 percent since last year. Occupancy is much lower at 13.8 percent of noninterest expense and growing faster at 9 percent.

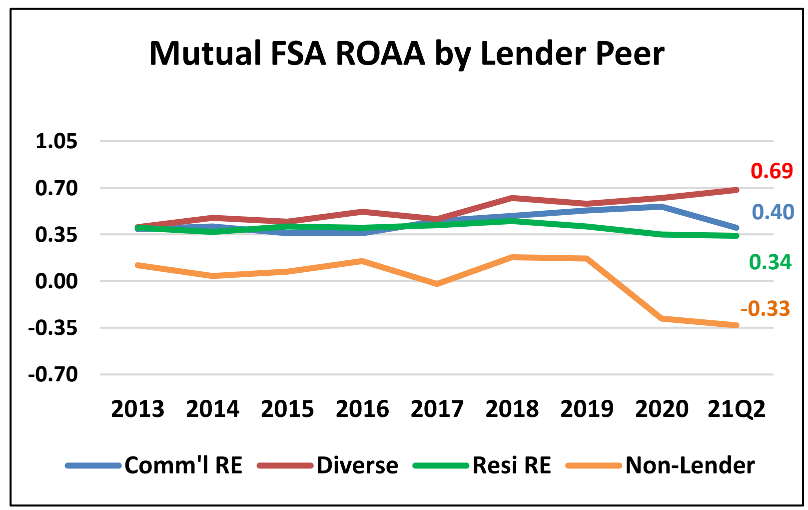


Diverse Lenders Enjoy Higher ROAAs

- In addition to asset size and geography, OCC also analyzes mutual FSA performance by peer lender. Most mutual FSAs or 71 percent are residential real estate lenders and 17 percent are diversified lenders.

- Diversified lenders have enjoyed higher ROAAs in recent years.

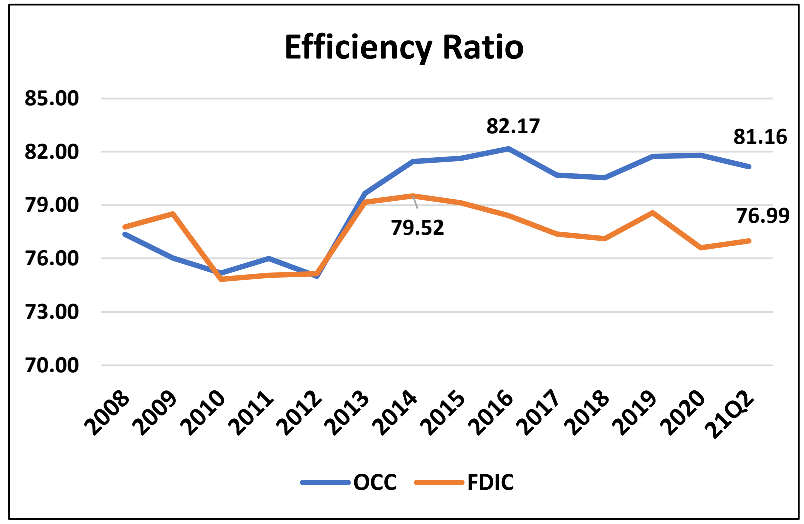




Efficiency Ratio Remains High

- The mutual FSA efficiency ratio peaked in 2016 and has declined in recent years but remains elevated and has hovered above 80 percent since 2014.

- In general, the smaller mutual charters have the highest efficiency ratios. Forty-three of 138 mutual FSAs or 31 percent reported efficiency ratios over 90 percent for second quarter 2021.

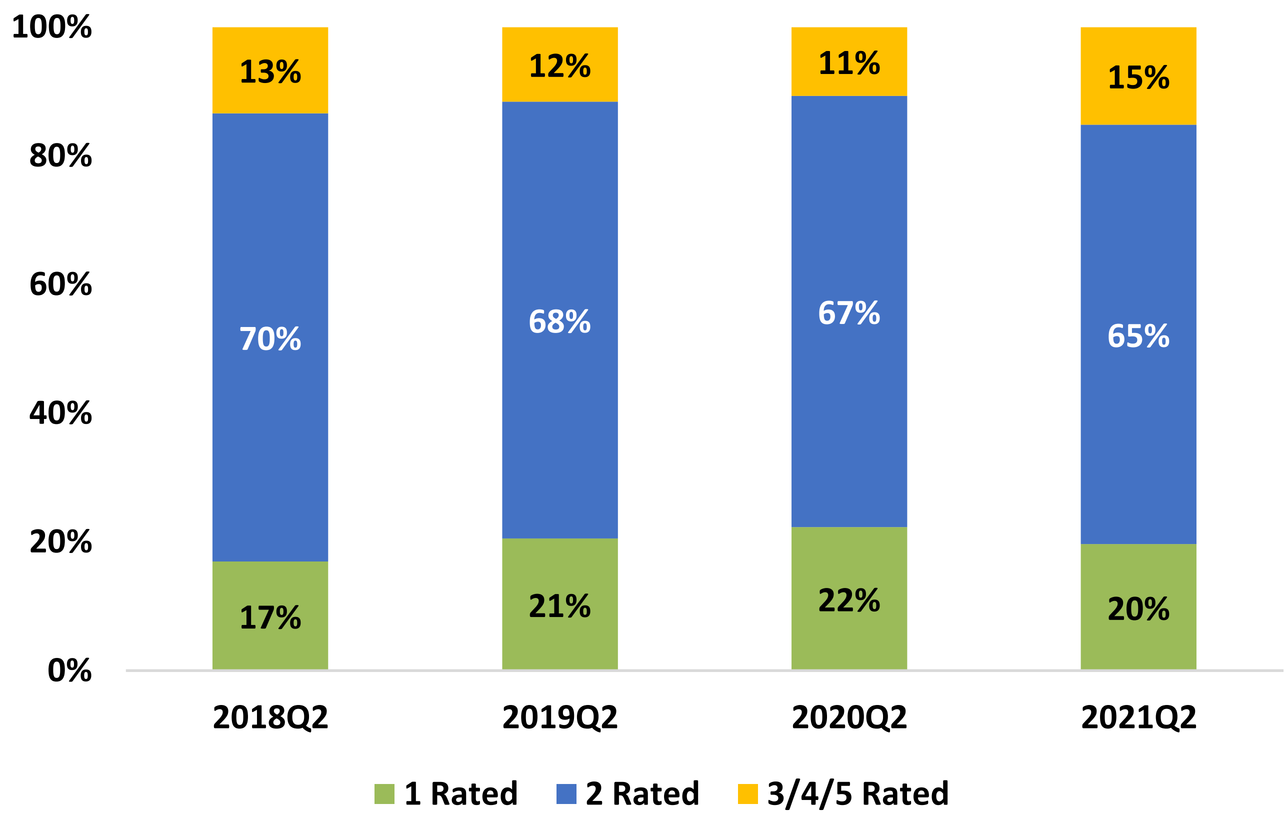


Efficiency Ratio - June 30, 2021

Asset Category	FDIC	OCC
Under $50MM	96.86	95.05
$50MM - $100MM	83.05	85.65
$100MM - $250MM	82.54	79.83
$250MM - $500MM	78.34	80.36
$500MM - $1B	75.29	77.47
Greater than $1B	70.82	77.69
Median	**76.99**	**81.16**

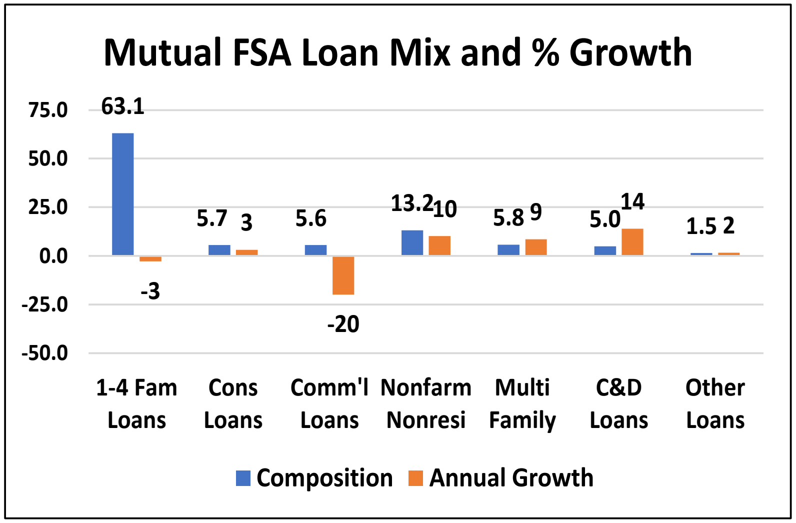
Mutual FSA Earnings Ratings Worsen

Earnings ratings have shown some slippage and continue to lag ratings in other safety and soundness areas. Only 85 percent of mutual FSAs are rated 1 or 2 for earnings.

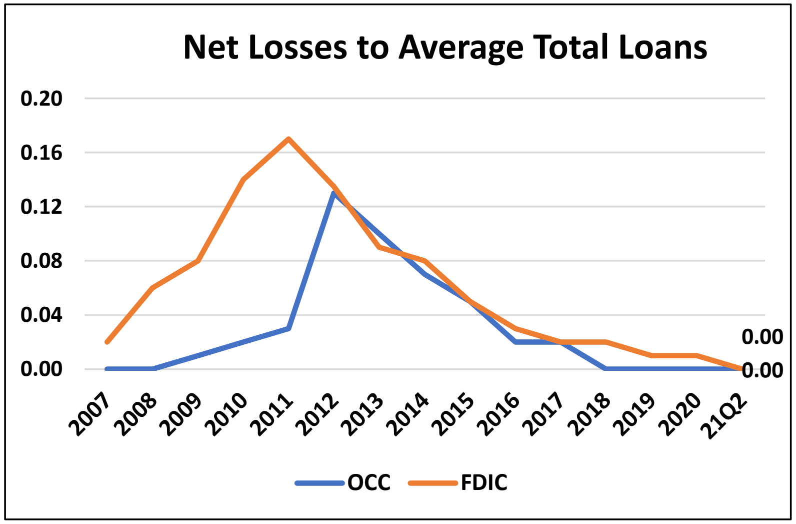


Residential Mortgages Dominate Loan Mix

- Mutual FSA loan portfolios are heavily concentrated in residential mortgages. Loan growth was highest for C&D loans at 14 percent.

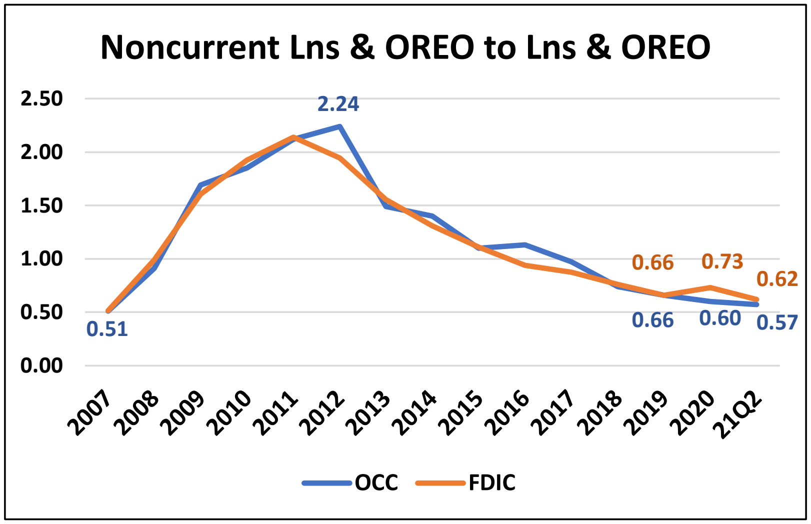


- Net loan losses are at decade-low levels with a median of 0.00 percent and a weighted average of 0.01 percent. Most losses emanate from consumer loans.

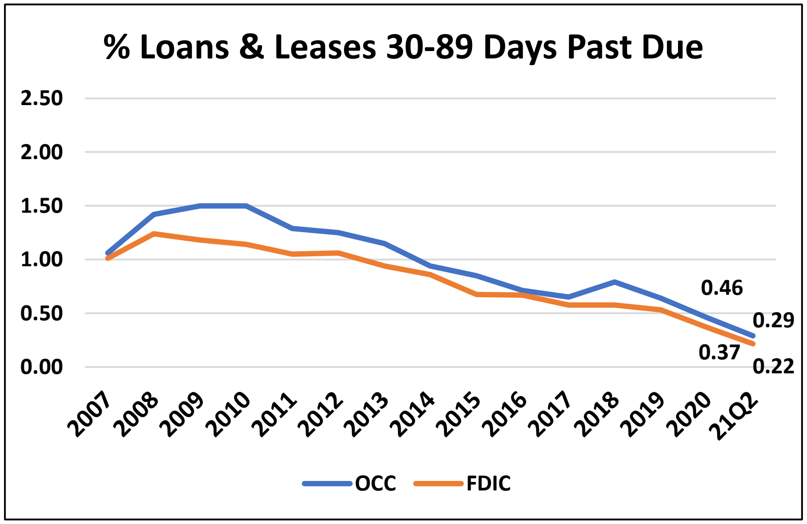


Past Due Levels are Low

- The noncurrent loans plus OREO ratio for mutual FSAs peaked in 2012 and has been on a steady downward trajectory since then.

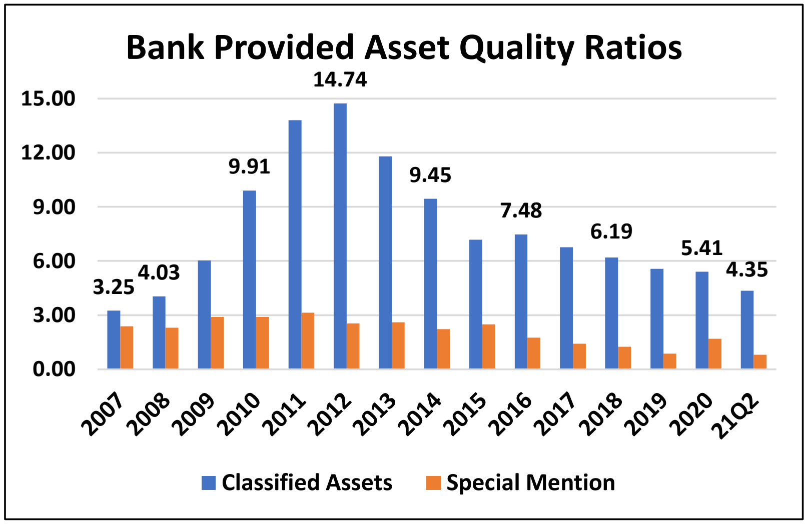


- While past dues remain low and declining, modification programs in the CARES Act are masking delinquencies for some credits. Fortunately, that pool of loans is declining.

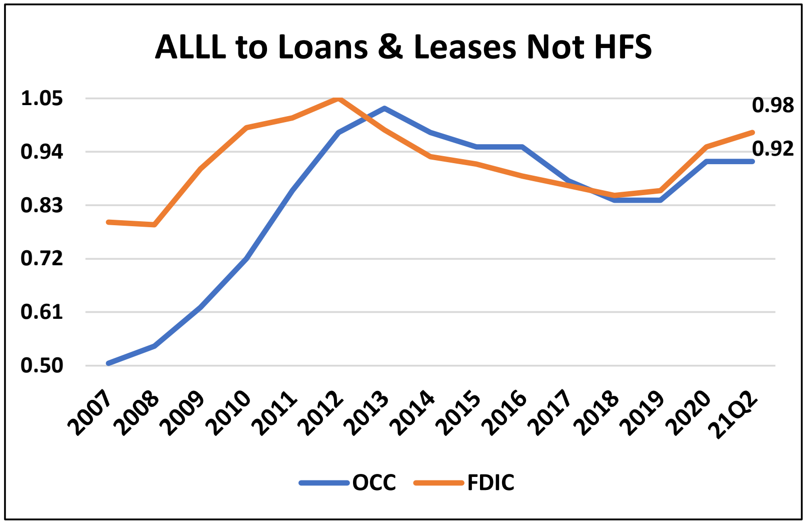


Classified Assets Lower and ALLL Elevated

- The bank provided classified assets to tier 1 capital plus the ALLL ratio continues to edge lower.



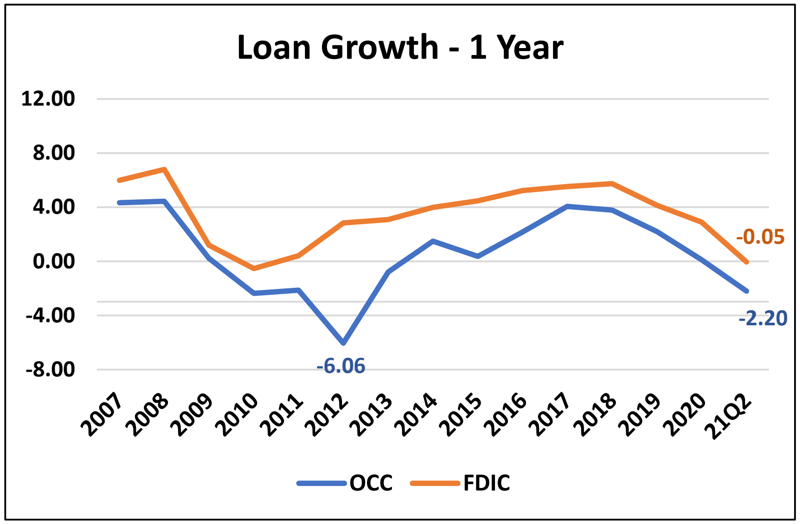
- ALLL levels for mutual FSAs remain stable this year at 0.92 percent of total loans.



Loan Growth Weak

- Mutual FSA loan growth fell to -2.20 percent compared to 0.12 percent for the prior year. Adjusting for the Paycheck Protection Program (PPP), median mutual FSA loan growth improved to -2.10 percent.

- Loan growth was negative for most mutual bank groups. Normally, loan growth is highest for banks with total assets over $1 billion and lowest for the smallest banks.

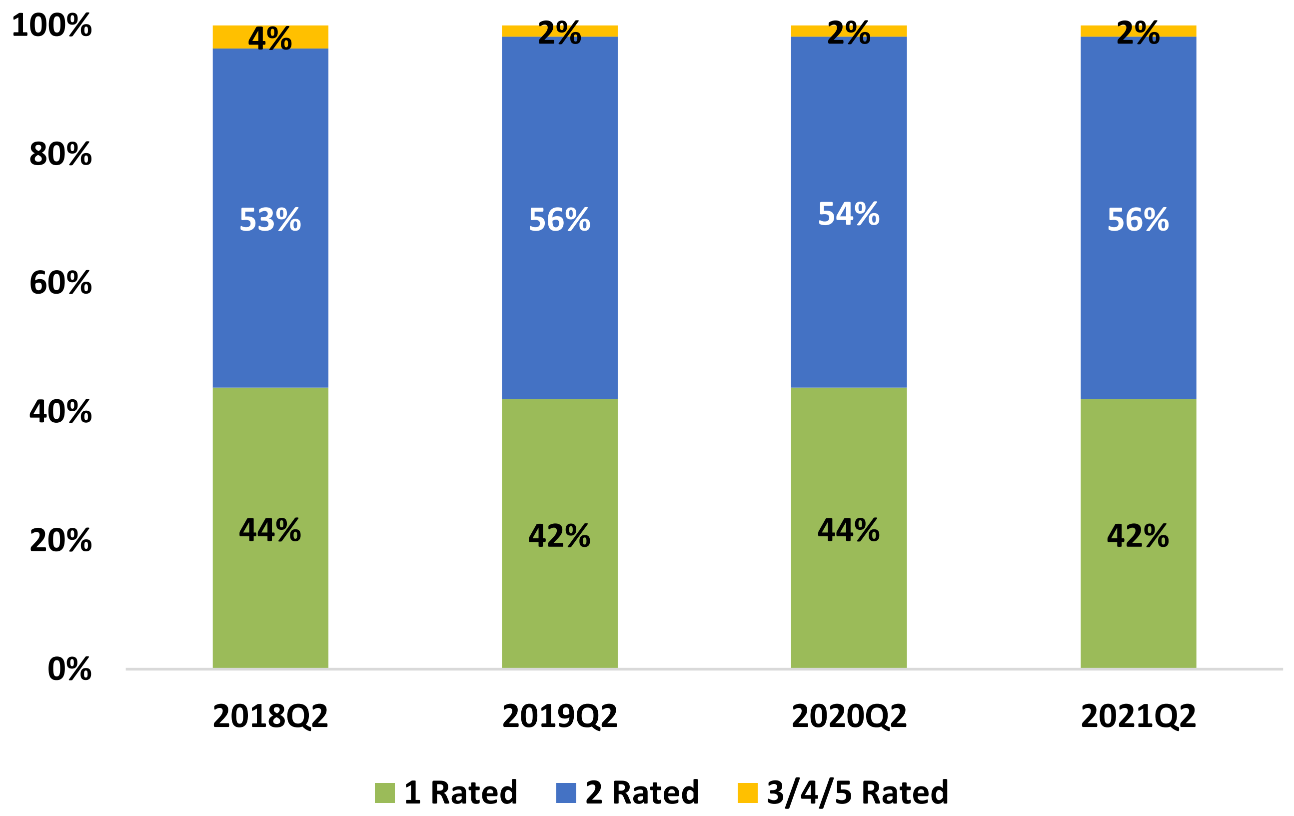


Loan Growth Ratio - June 30, 2021

Asset Category	FDIC	OCC
Under $50MM	-1.23	-3.34
$50MM - $100MM	-0.01	-2.04
$100MM - $250MM	-1.38	-0.64
$250MM - $500MM	0.33	-3.16
$500MM - $1B	1.01	-1.55
Greater than $1B	-0.08	-3.51
Median	**-0.05**	**-2.20**

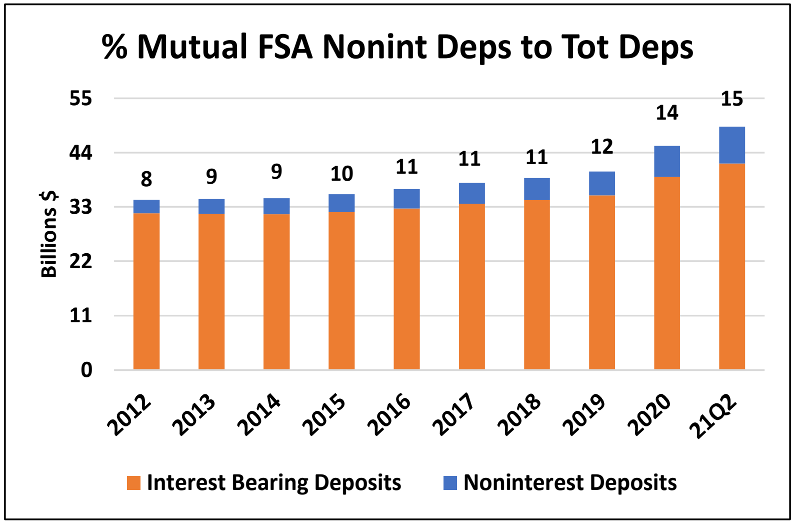
Mutual FSA Asset Quality Ratings Strong

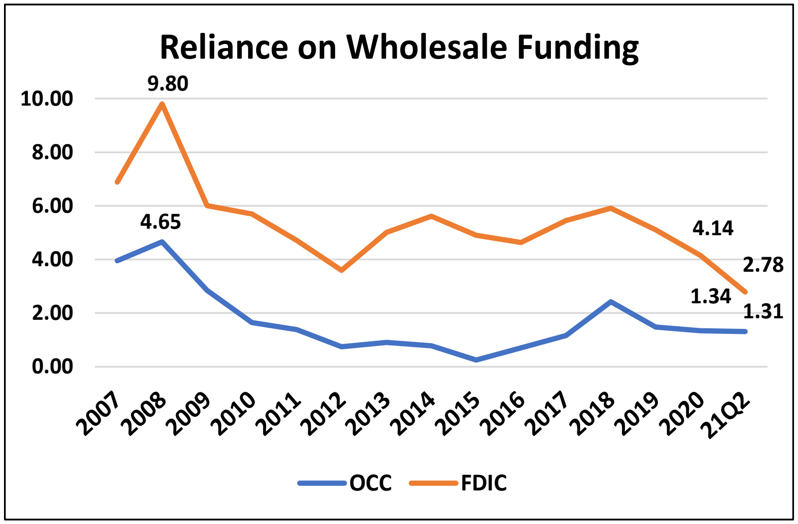
Ninety-eight percent are rated 1 or 2 for asset quality.

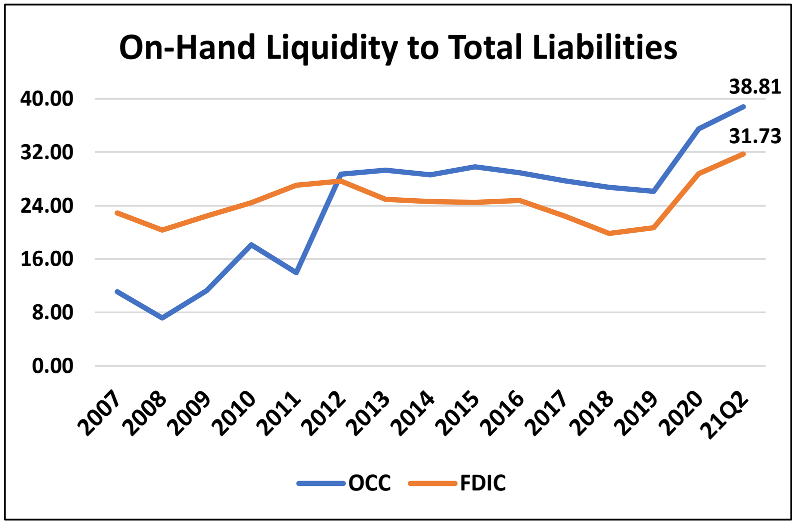


Mutual FSAs are Flush with Liquidity

- Mutual FSA deposits grew 13 percent year-over-year and free funds rose to 15 percent. On-hand liquidity ratios are sharply higher and above pre-crisis and pre-pandemic levels. As a result, mutual banks are relying less on wholesale funding sources.

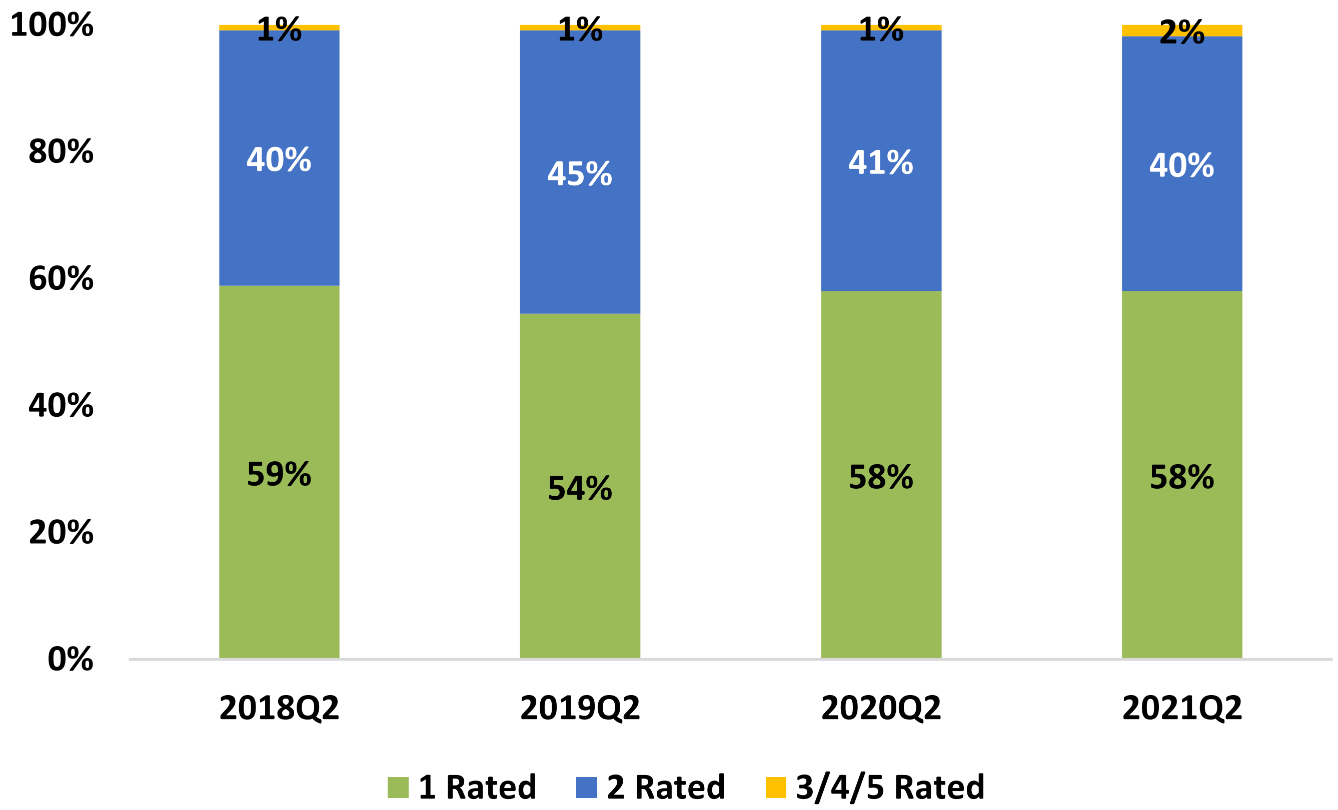






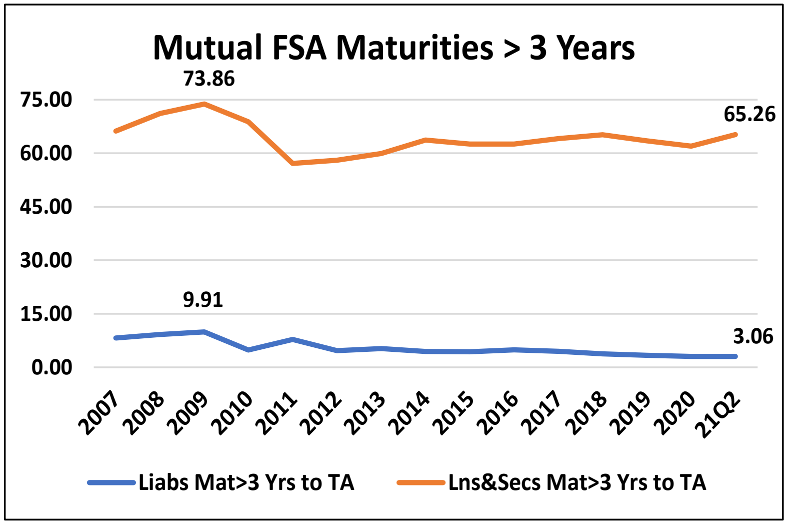
Mutual FSA Liquidity Ratings Remain Strong

Ninety-eight percent are rated 1 or 2. Only two mutual FSAs are rated 3.

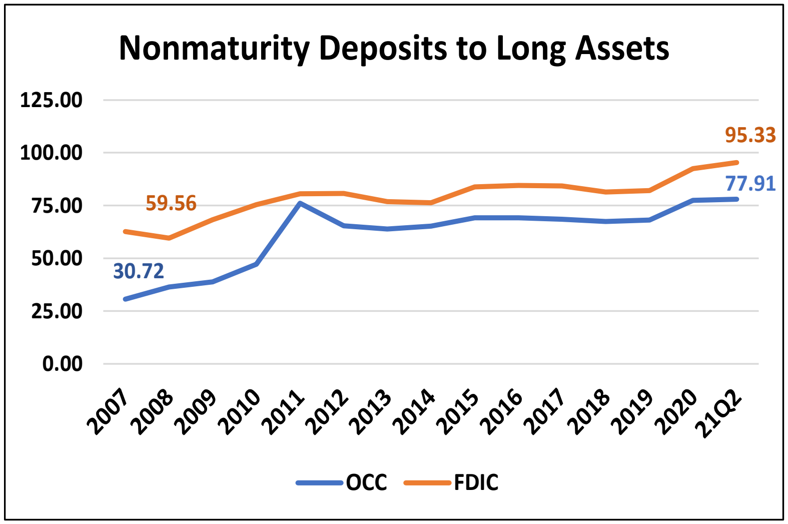


Funding Gap Expands and NMD Up in 2021

- Loans and securities over three years after declining for two consecutive years, rose to 65.26 percent. Only 3.06 percent of mutual FSA liabilities mature or reprice in more than 3 years.

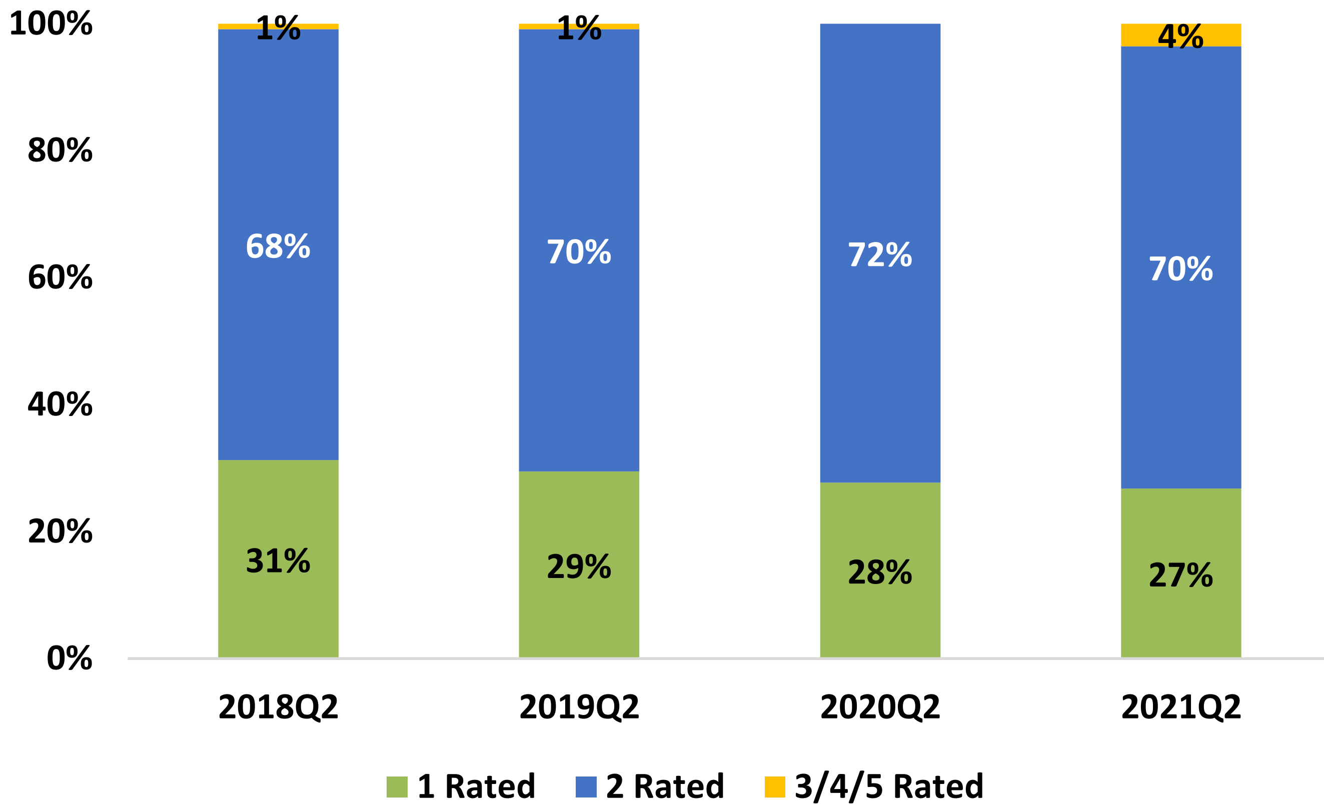


- Nonmaturity deposits to long-term assets for mutual FSAs have increased during the pandemic and are at their highest levels in more than a decade.



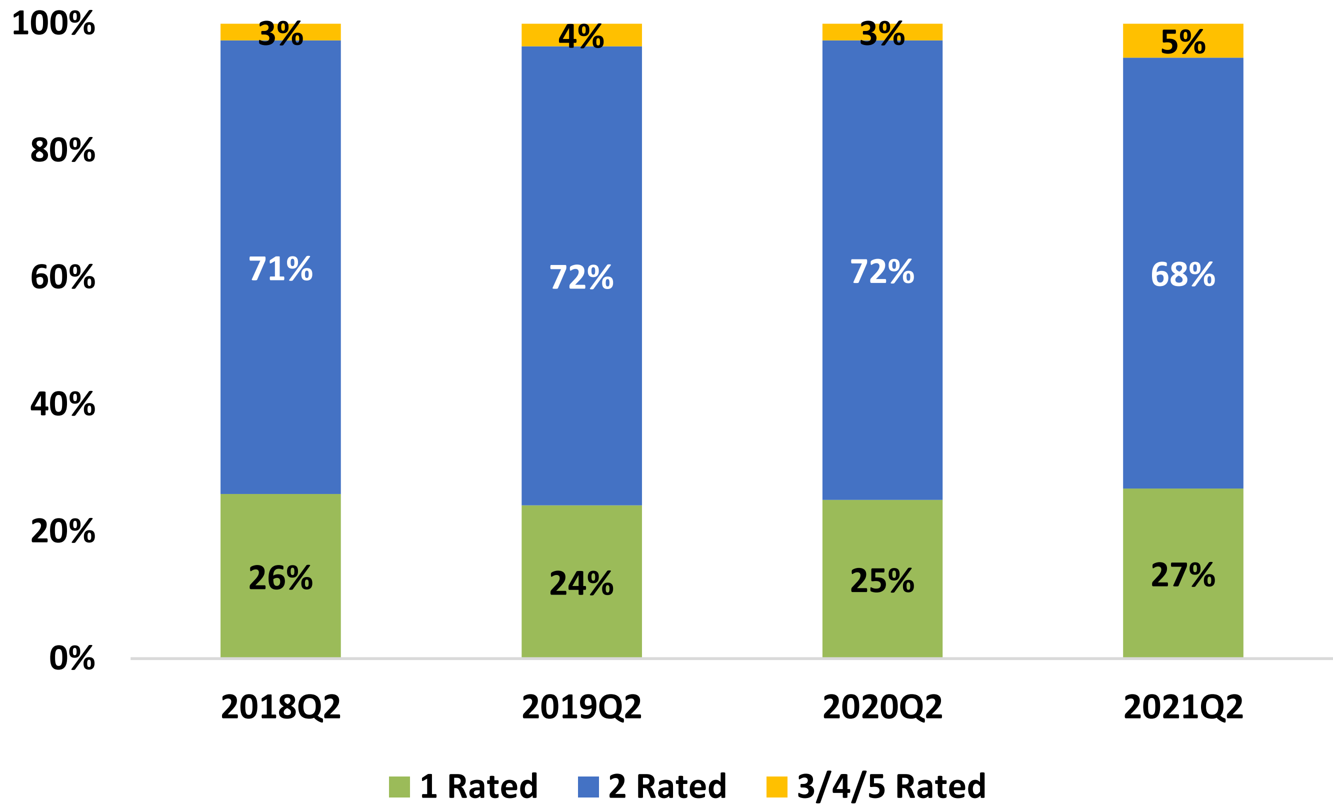
Sensitivity is Adequately Controlled

Sensitivity to market risk for mutual FSAs remains adequately controlled. Last year, no mutual FSAs were rated worse than 1 or 2. This year, four are rated 3.



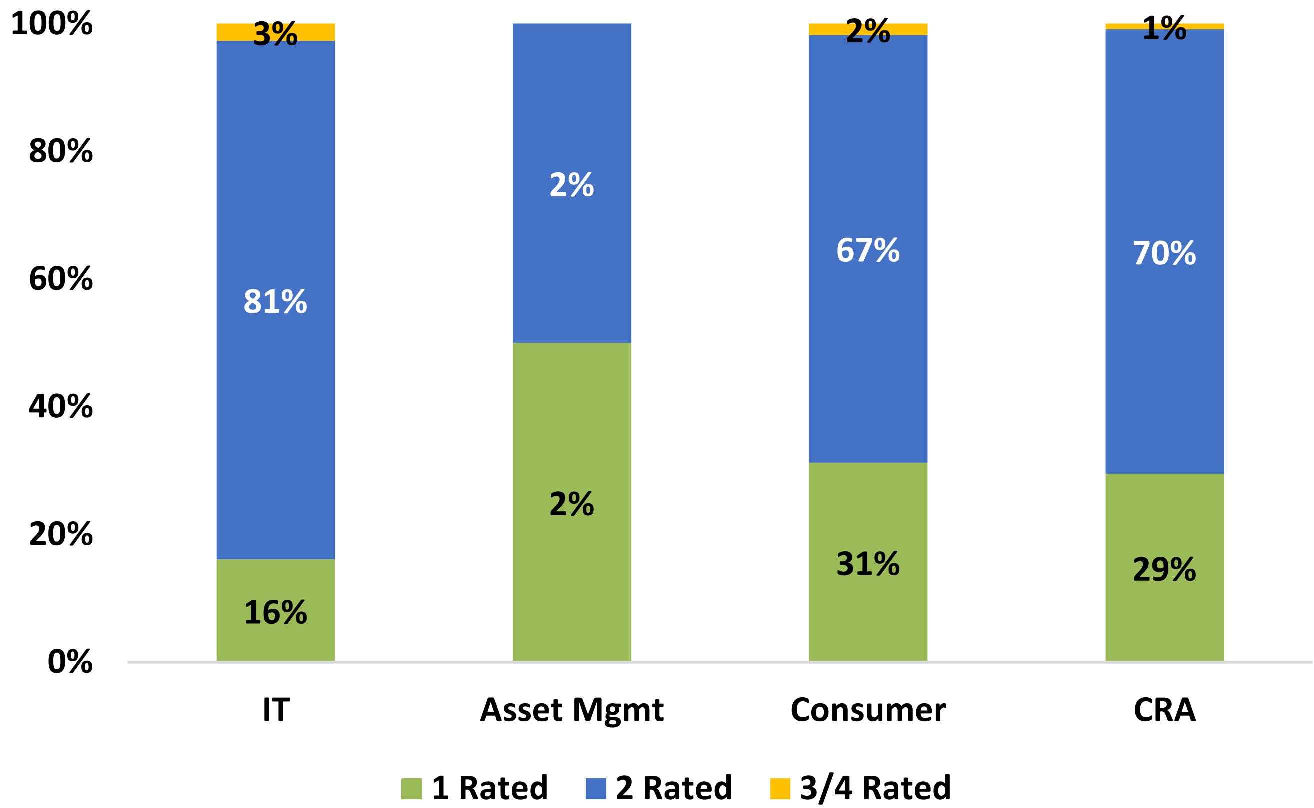
Management Ratings are Satisfactory

Ninety-five percent of mutual FSAs are rated 1 or 2 for management.



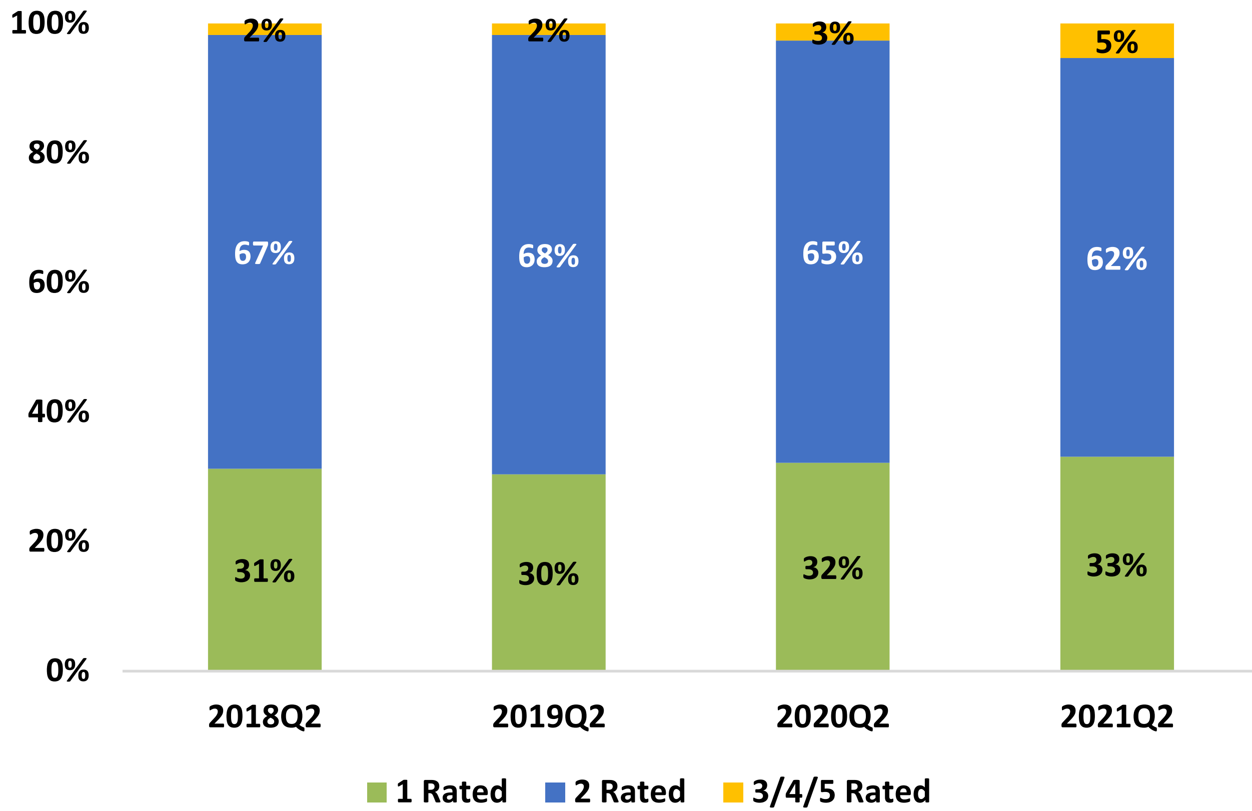
Mutual FSA Specialty Ratings are Strong

Only four mutual FSAs have trust powers (96 percent are not rated for asset management).



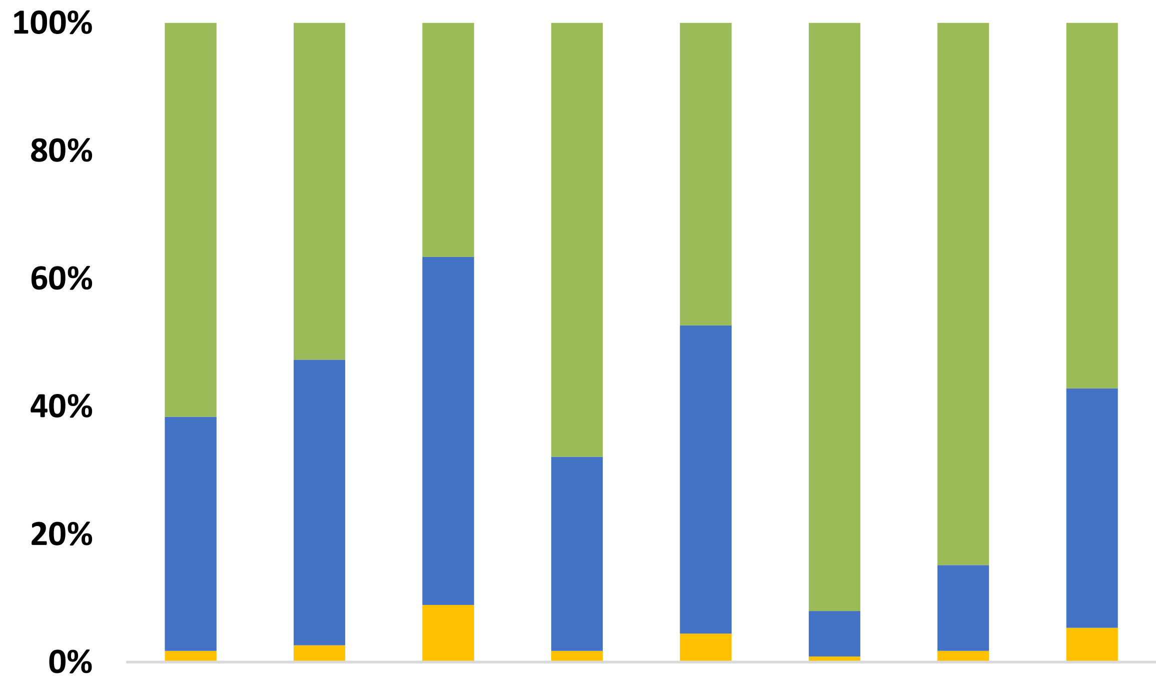
Mutual FSA Composite Ratings are Strong

Ninety-five percent of mutual FSAs have a composite 1 or 2 rating.
There are no mutual FSAs rated 4 or 5 this quarter.



Mutual FSA Aggregate Level of Risk Low

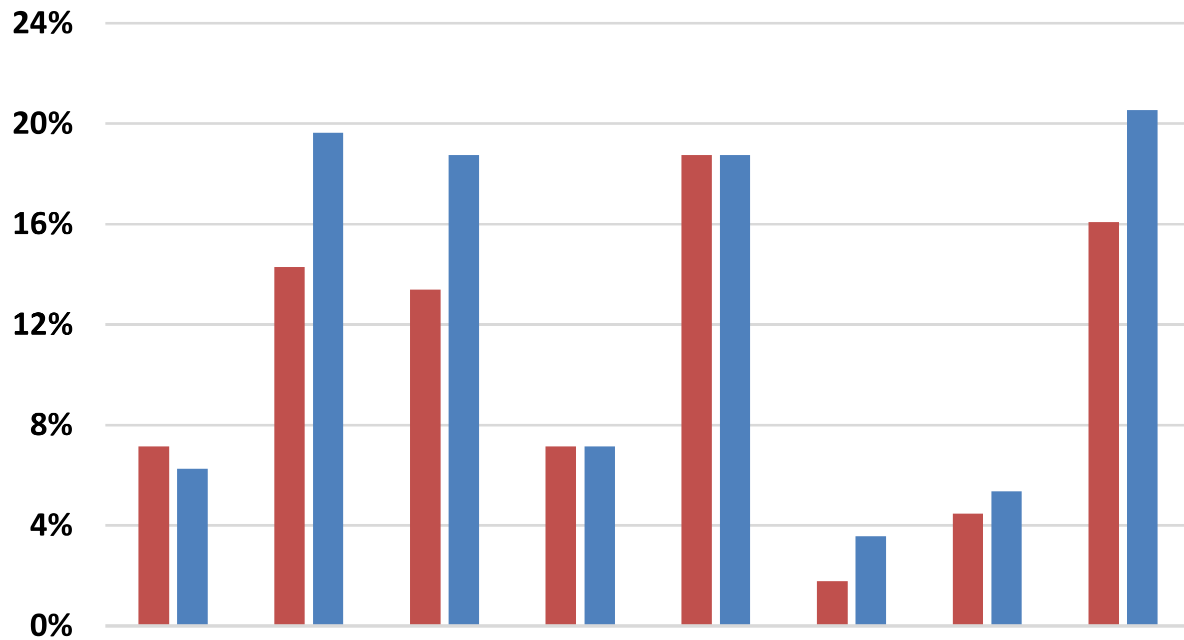
The interest rate risk and strategic categories have the most mutual FSAs designated with high risk. Six of the eight risks are predominately rated as low.



	COMP	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
Low	62%	53%	37%	68%	47%	92%	85%	57%
Moderate	37%	45%	54%	30%	48%	7%	13%	38%
High	2%	3%	9%	2%	4%	1%	2%	5%

Some Risks Increasing

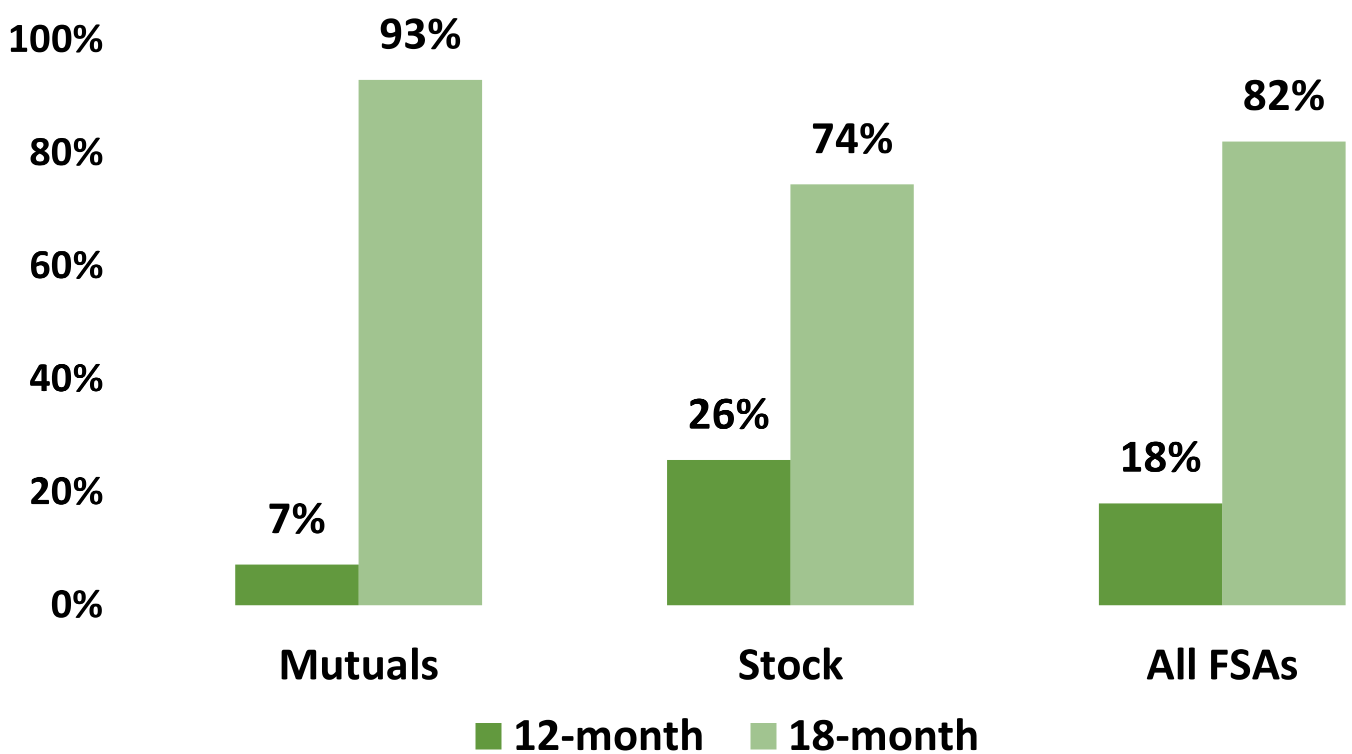
Below are the percentages of mutual FSAs designated with either high or moderate and increasing risk. The top four risks are strategic, credit, IRR, and operational. Of the top risks, strategic, credit, and IRR are showing year-over-year increases.



	COMP	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
2020Q2	7%	14%	13%	7%	19%	2%	4%	16%
2021Q2	6%	20%	19%	7%	19%	4%	5%	21%

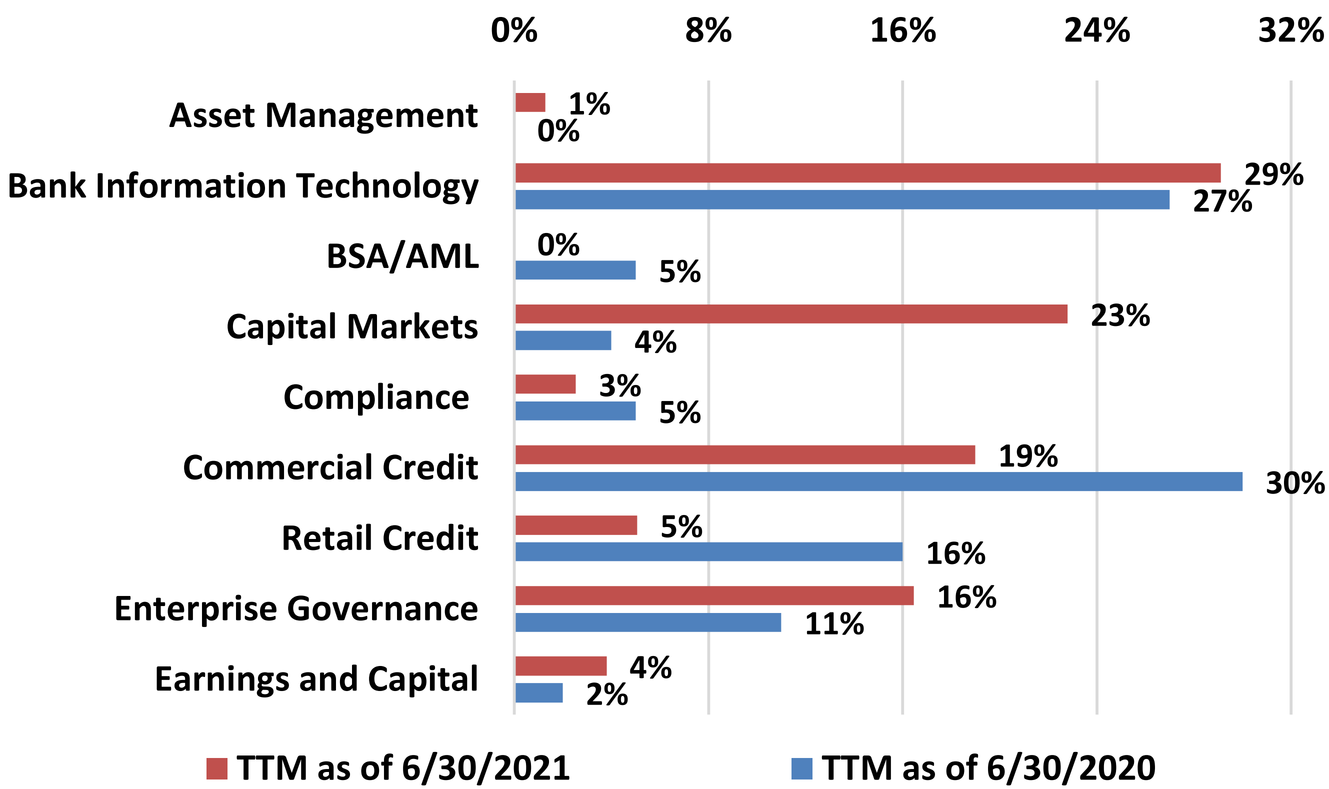
Most Mutuals on Expanded Exam Cycle

Ninety-three percent of mutual FSAs are on the 18-month supervisory cycle.



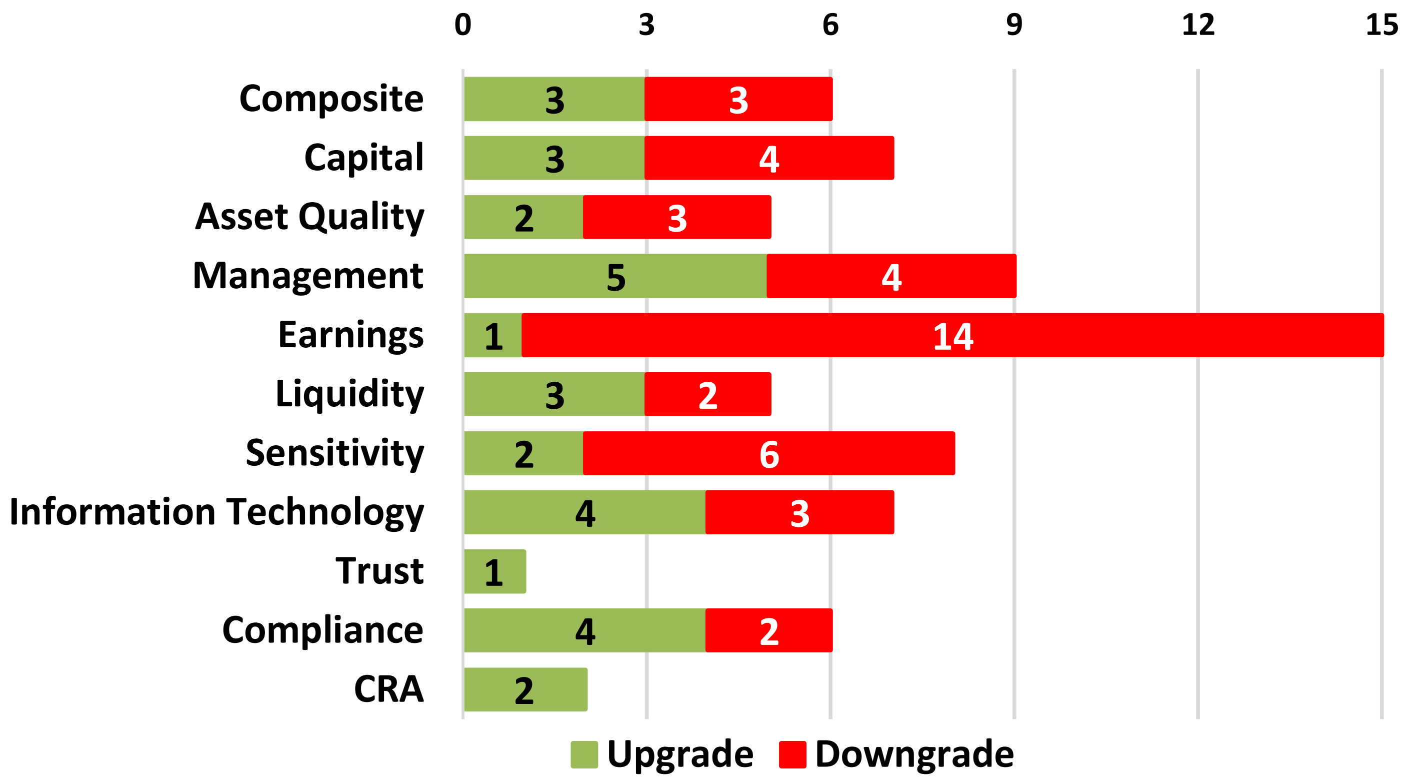
MRA Volume Down for Mutuals in 2021

Mutual MRAs in the trailing twelve months ending June 30, 2021, decreased by 21 percent. More than half were centered in Bank Information Technology at 29 percent and Capital Markets at 23 percent.



Mutual Rating Downgrades > Upgrades

Over the last four quarters, rating downgrades exceeded upgrades. There were 30 upgrades and 41 downgrades, which translates to a net downgrade of 11. Most downgrades were for earnings. Most upgrades were for management.



Key Observations – June 30, 2021

- **Composite ratings for mutual FSAs remain satisfactory.** Ninety-five percent of mutual FSAs are rated 1 or 2. No mutual FSA is rated 4 or 5. Six of the eight risk categories are rated predominately as low.

- **Capital remains strong.** Leverage capital ratios are lower this year due to rapid asset growth from the pandemic but remain much higher than peer. Total risk-based capital ratios increased in 2021 and are back to pre-pandemic levels. The gap between federal and state charters expanded to over 1,100 basis points.

- **Asset quality is good.** Total noncurrent loans fell to a decade low of 0.57 percent. Loan growth is weak. The ALLL is adequate and well above pre-pandemic levels.

- **Earnings are adequate**. Despite NIM compression, ROAA rose four basis points due to lower provision expenses. More mutual FSAs are adversely rated for earnings than any other rating category. Earnings saw the most downgrades over the last year.

- **Liquidity is strong.** Mutual banks are flush with liquidity due to pandemic related deposits and a higher consumer savings rate.

- **Sensitivity to market risk is adequately controlled**. Mutual banks are holding higher levels of nonmaturity deposits relative to long-term assets making them less vulnerable to increases in interest rates.

Questions