Office of the
Comptroller of the Currency

Mutual Overview and Trends

Second Quarter 2020

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Mutual Overview and Trends

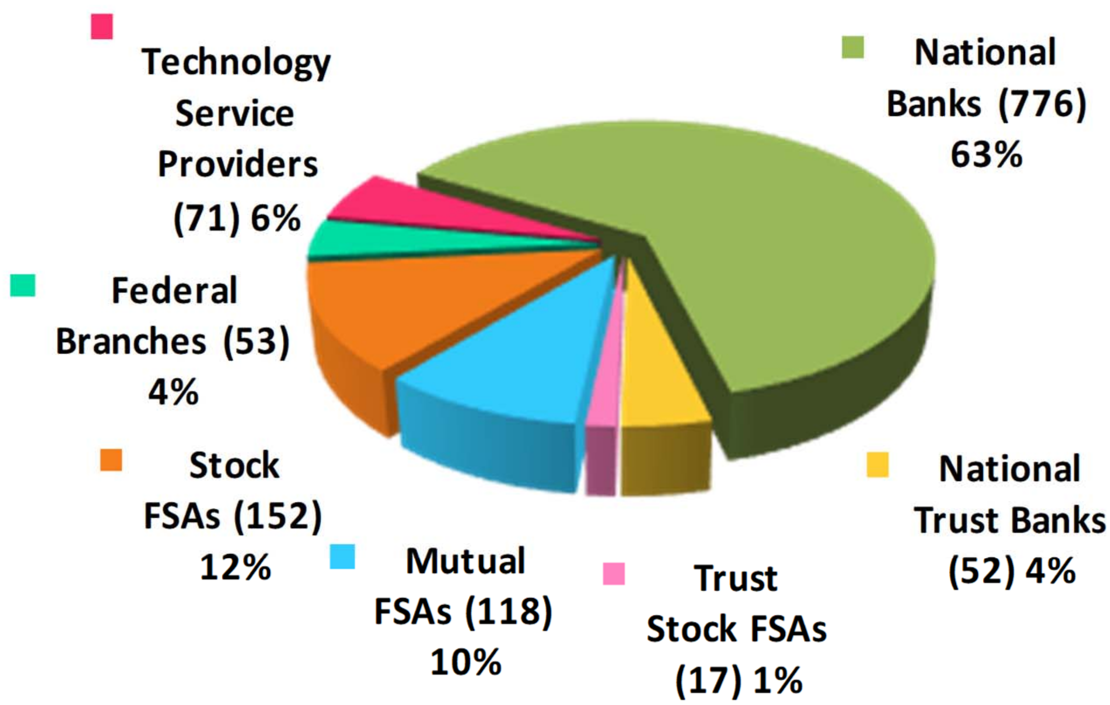
This presentation will provide key metrics, trends, and conclusions for the following topics:

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

Caveats about the Data. The current mutual population as of June 30, 2020 is "held constant." Mutual banks began filing the Call Report in March 31, 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.

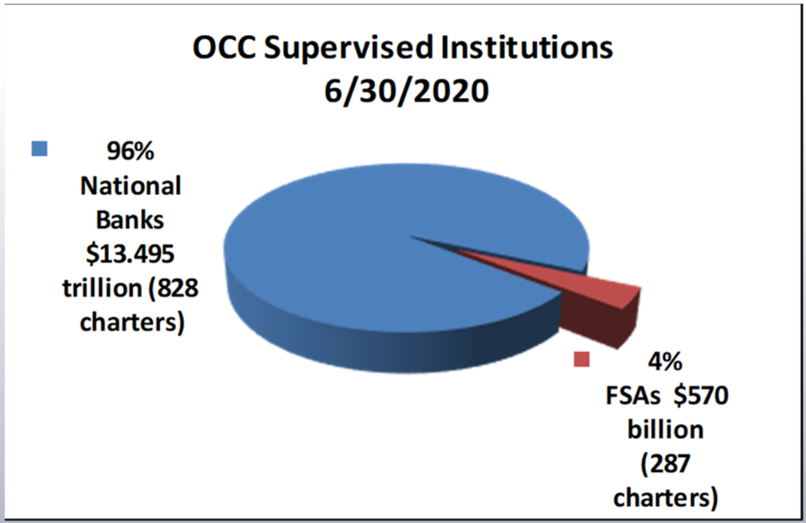
OCC Charters by Type

OCC supervised 1,239 institutions as of June 30, 2020. Federal Savings Associations (FSAs) represent 23 percent of OCC charters.

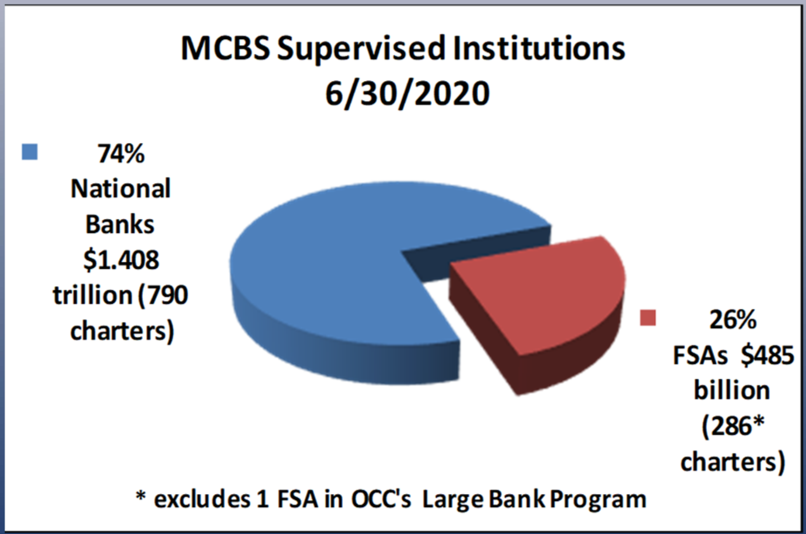


OCC Supervised Assets

- FSAs represent $570 billion or 4 percent of OCC supervised assets as of June 30, 2020.

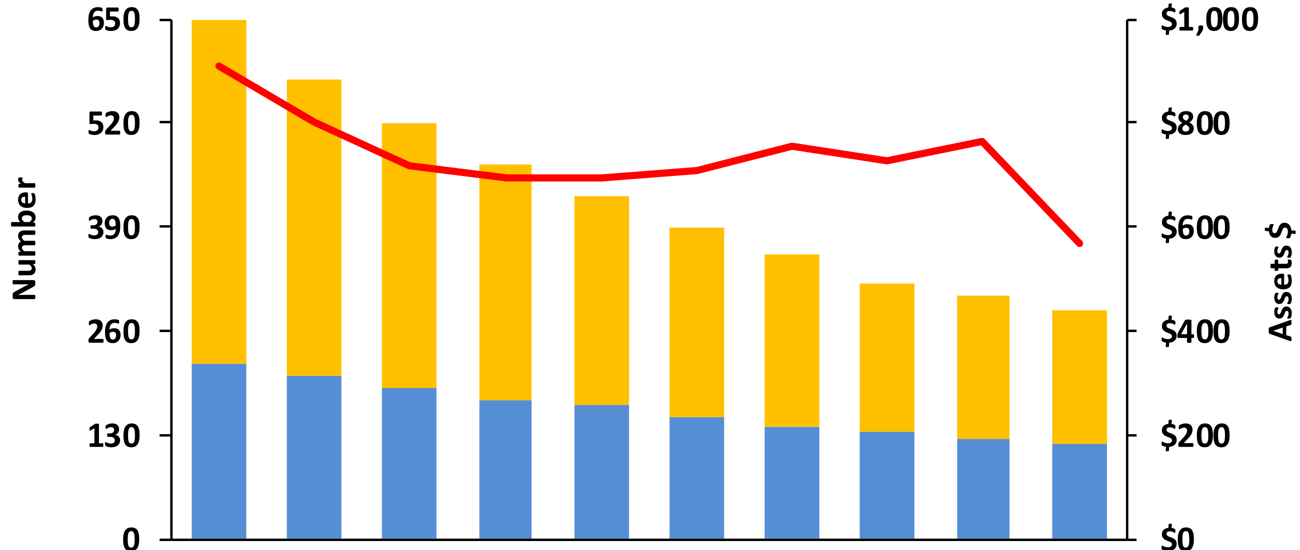


- FSAs also represent $485 billion or 26 percent of Midsize and Community Bank Supervision (MCBS) assets as of June 30, 2020. Only one FSA is supervised by OCC's Large Bank Program, but all mutual FSAs are supervised by MCBS.



FSA Charter Trends

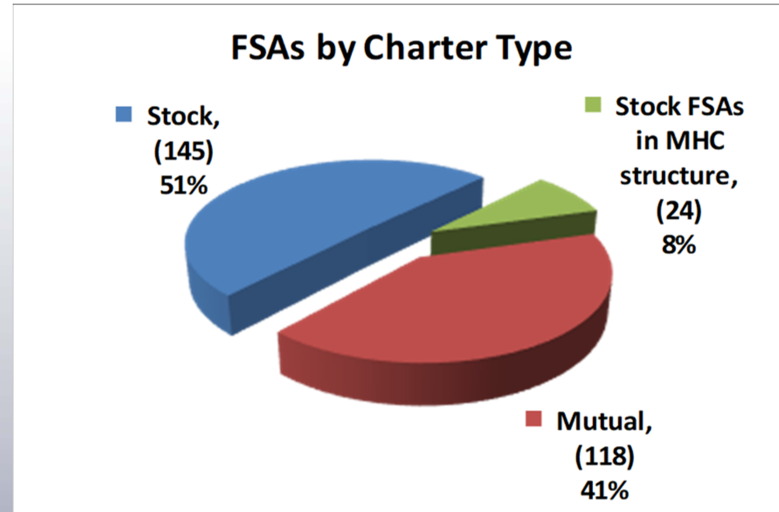
The number of mutual FSAs continues to decline but not as rapidly as stock FSAs.



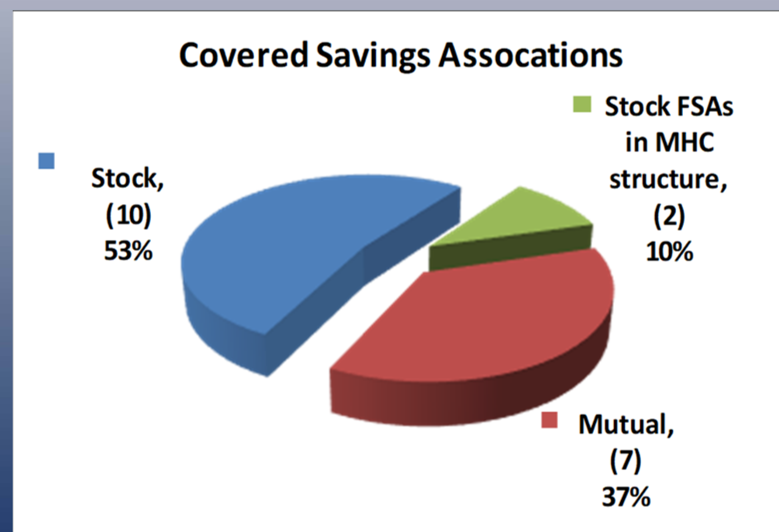
	2Q11 (649)	2Q12 (573)	2Q13 (521)	2Q14 (468)	2Q15 (429)	2Q16 (390)	2Q17 (357)	2Q18 (320)	2Q19 (305)	2Q20 (287)
# Stock	430	370	333	293	260	237	216	187	179	169
# Mutual	219	203	188	175	169	153	141	133	126	118
Assets $ (B)	910	803	718	693	693	709	756	728	765	570

FSAs by Type

- Mutual FSAs and stock FSAs in MHCs (that have not issued shares) represent 49 percent of OCC-regulated FSAs.

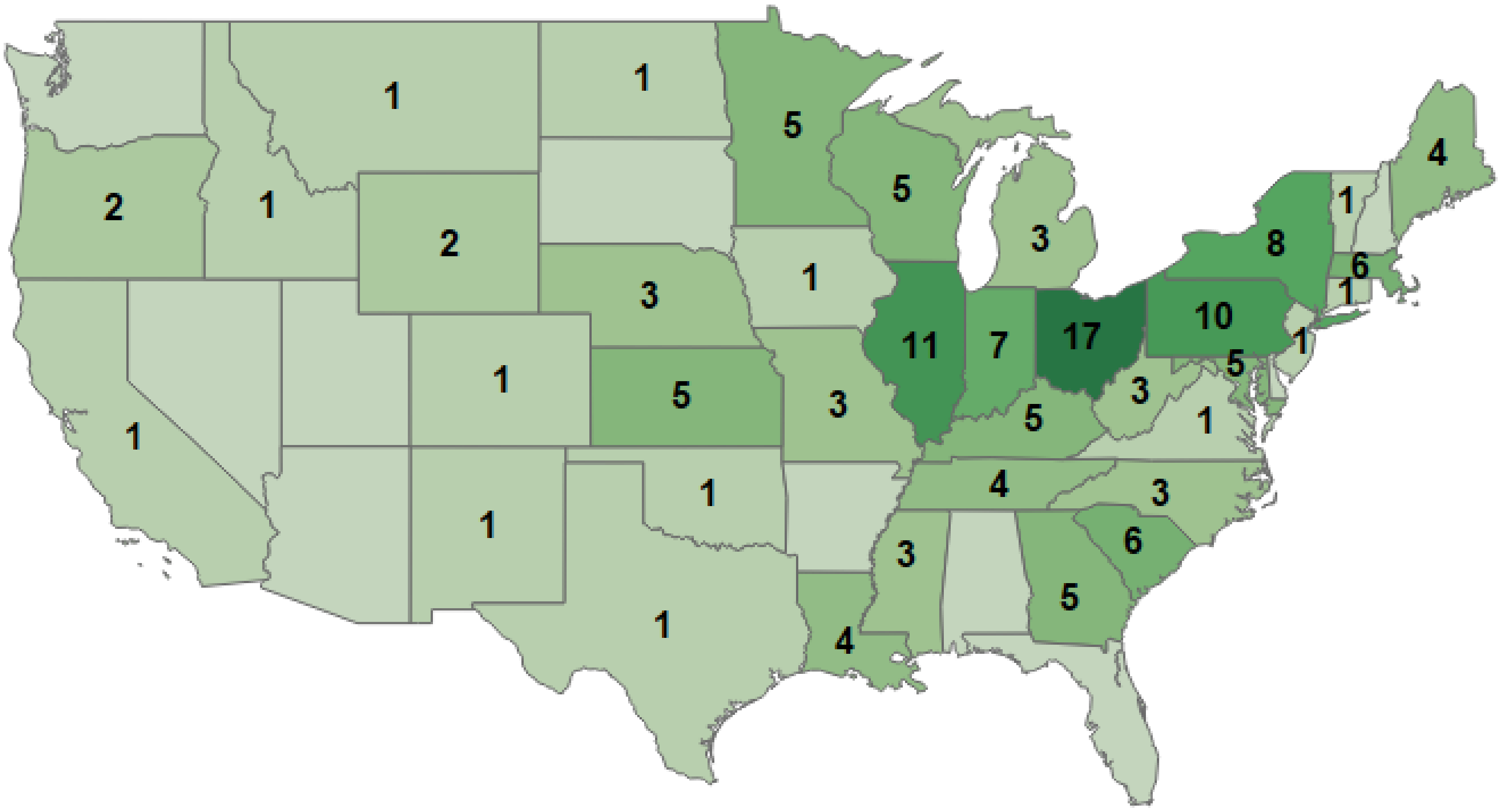


- FSAs with total assets of $20 billion or less as of December 31, 2017 may elect to operate as covered savings associations (CSAs). There were 19 or 7 percent of FSAs that operated as CSAs as of June 30, 2020.



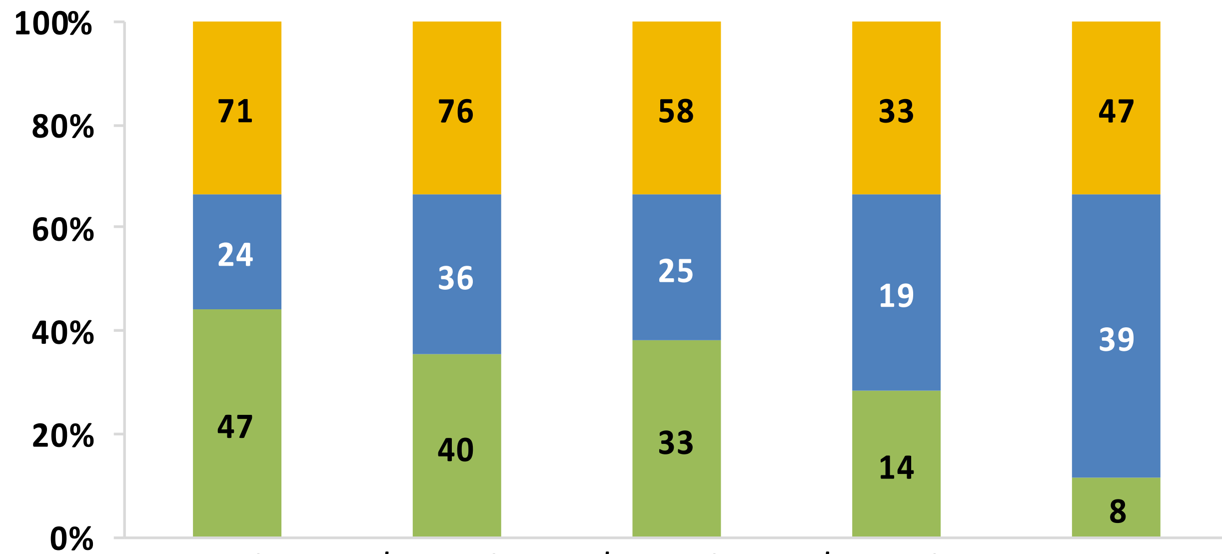
Mutual FSAs by State

Mutual FSAs are concentrated in the Midwest and Northeastern states. There are three states with 10 or more mutual FSAs: Ohio (17), Illinois (11), and Pennsylvania (10).



FSAs by Asset Size

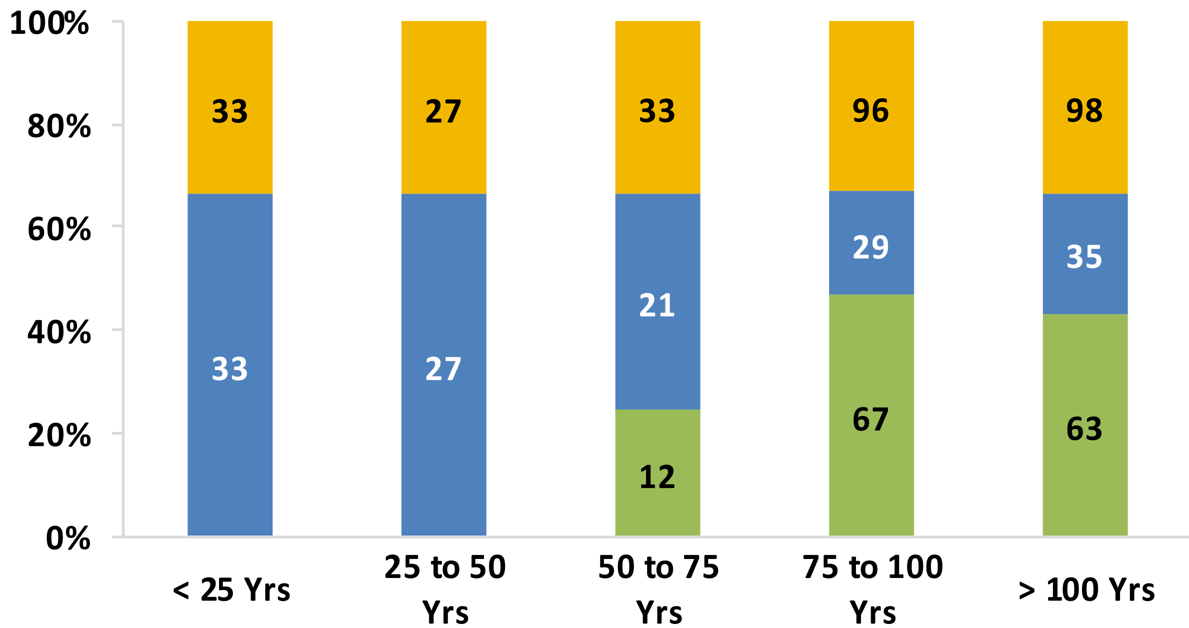
Mutual FSAs are typically smaller in size than their stock counterparts. Only 6 percent of mutual FSAs have total assets greater than $1 billion versus 27 percent of stock FSAs.



	Less Than $100Mil	$100Mil to $250Mil	$250Mil to $500Mil	$500Mil to $1Bil	Greater Than $1Bil
All FSAs	25%	27%	20%	12%	16%
Stock FSAs	17%	25%	17%	13%	27%
Mutual FSAs	33%	28%	23%	10%	6%

FSA Age Distribution

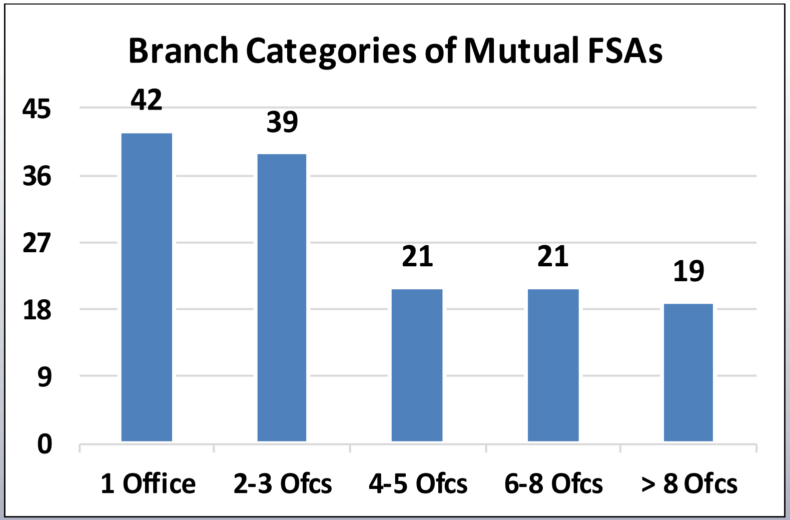
Mutual FSAs represent some of the oldest financial institutions in the United States. Forty-four percent of mutual FSAs were formed more than **<u>100</u>** years ago. Ninety-one percent have operated for 75 years or more.

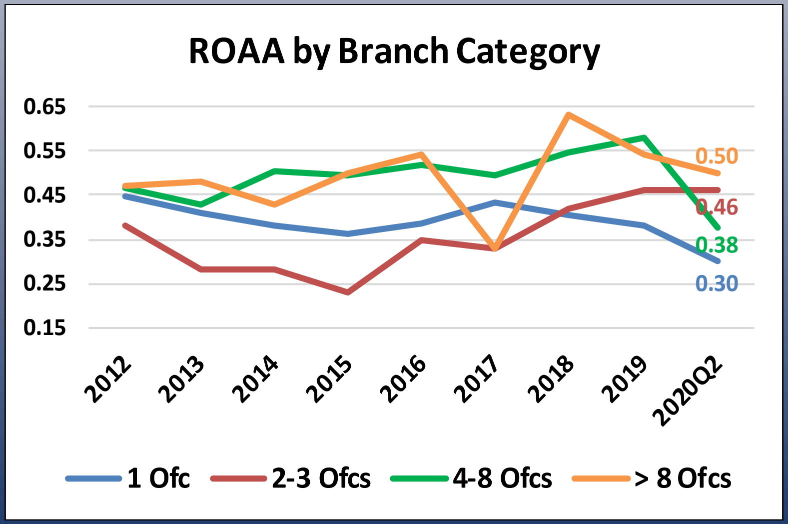


	< 25 Yrs	25 to 50 Yrs	50 to 75 Yrs	75 to 100 Yrs	> 100 Yrs
All FSAs	11%	9%	11%	33%	34%
Stock FSAs	23%	19%	14%	20%	24%
Mutual FSAs	0%	0%	8%	47%	44%

Mutual FSA Branches

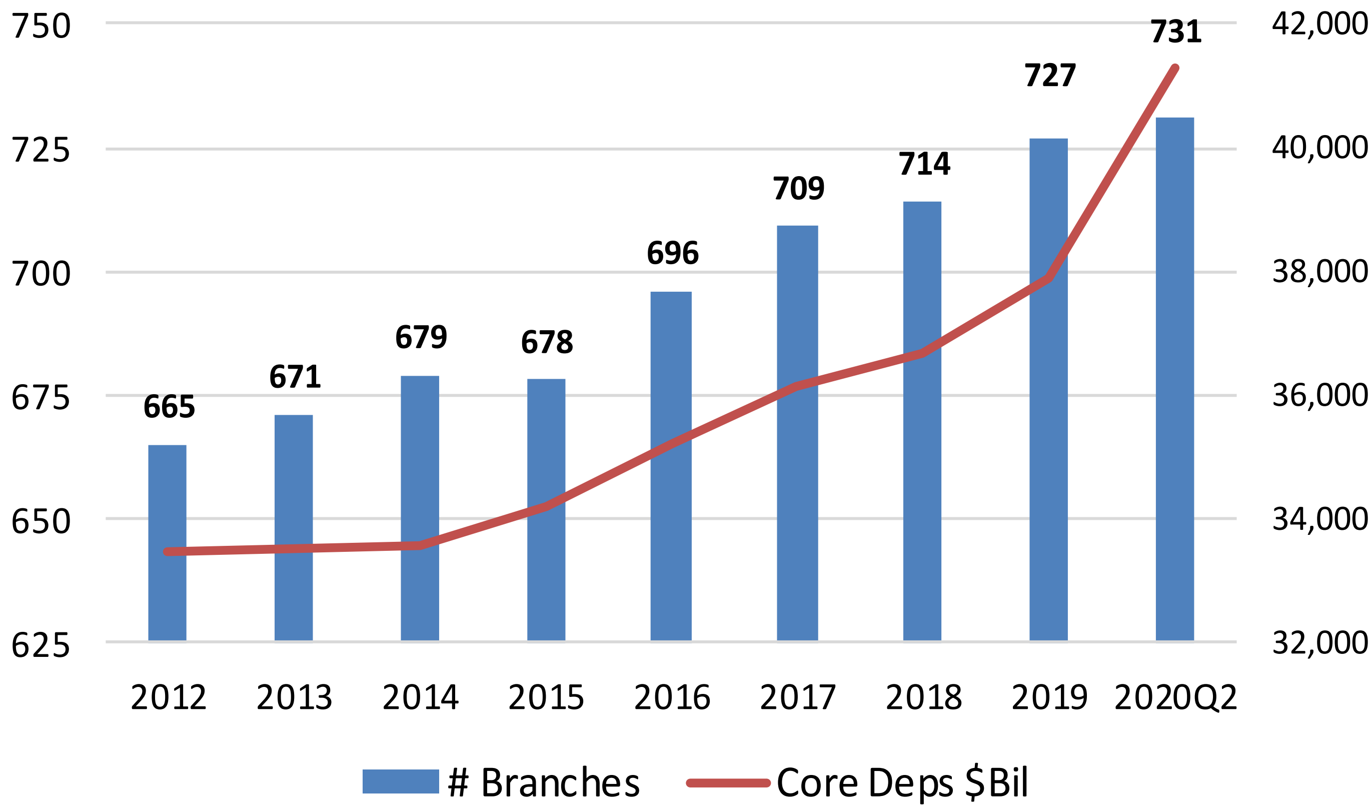
- 30 percent of mutuals operate from one location, and 57 percent have three locations or less.
- 36 mutual FSAs or 25 percent have changed their branch configuration since 2012.
- Five mutual FSAs have less offices today compared to 2012.
- Mutual FSAs with more than eight offices reported the highest ROAA in six of the nine years displayed including 2020. Single office mutual FSAs have the least volatility in earnings.





Mutual FSA Branch Trends

Since 2012 the number of mutual FSA office locations has grown 10 percent but core deposits have grown 23 percent (13 percent through 2019).



Mutual FSA Peer Groups

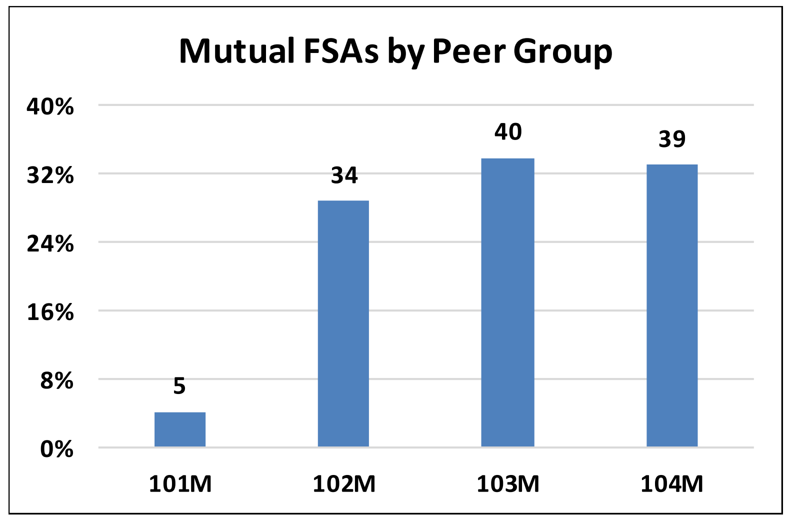
- Mutual FSAs are placed into four standard peer groups and four supplemental peer groups based on the quarterly average assets from the Call Report.

- For purposes of this financial analysis, stock FSAs in a MHC that have not issued shares are treated as mutual FSAs.

Savings Banks Peer Groups

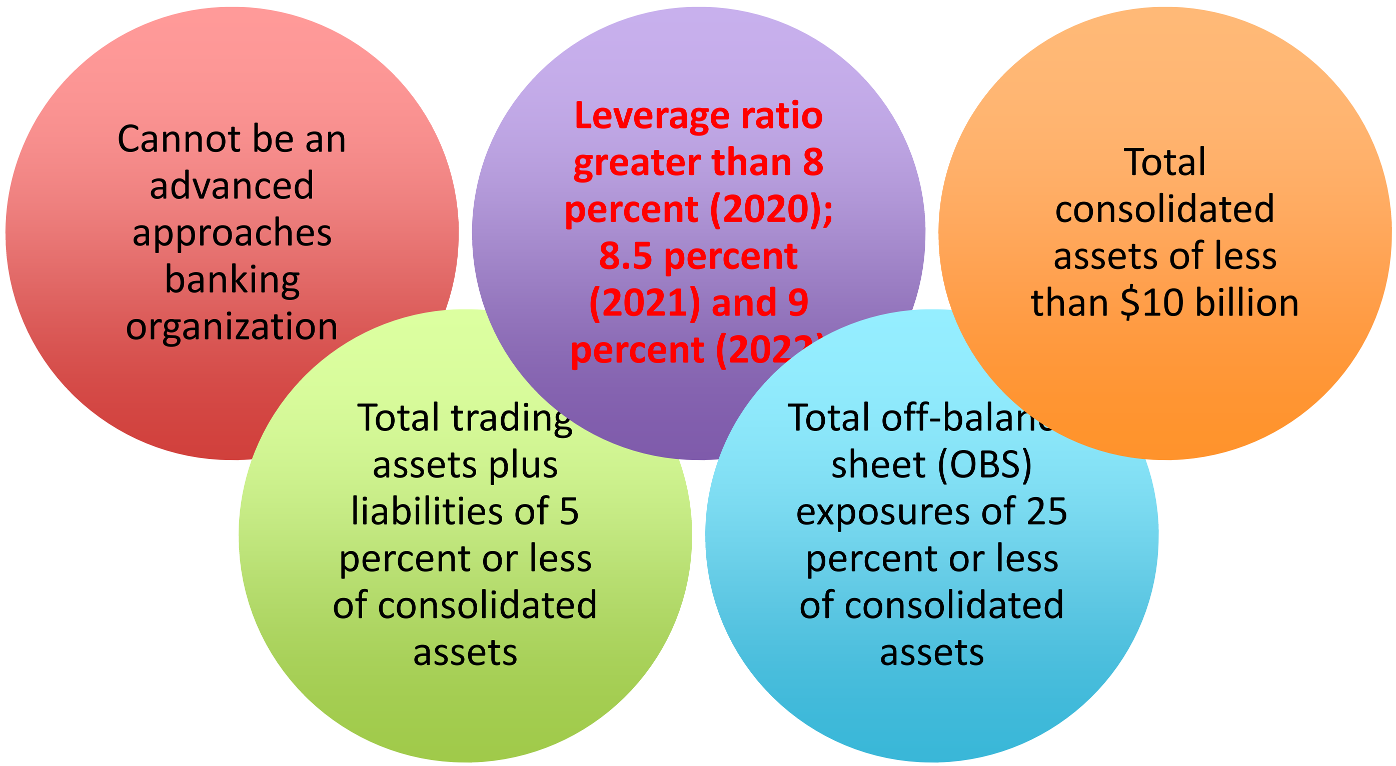
Assets*	FDIC-insured savings banks	Mutually-owned savings banks
In excess of $1 billion	101	101M
Between $300 million and $1 billion	102	102M
Between $100 million and $300 million	103	103M
Less than $100 million	104	104M

*Quarterly average assets (Call Report Schedule RC-K)



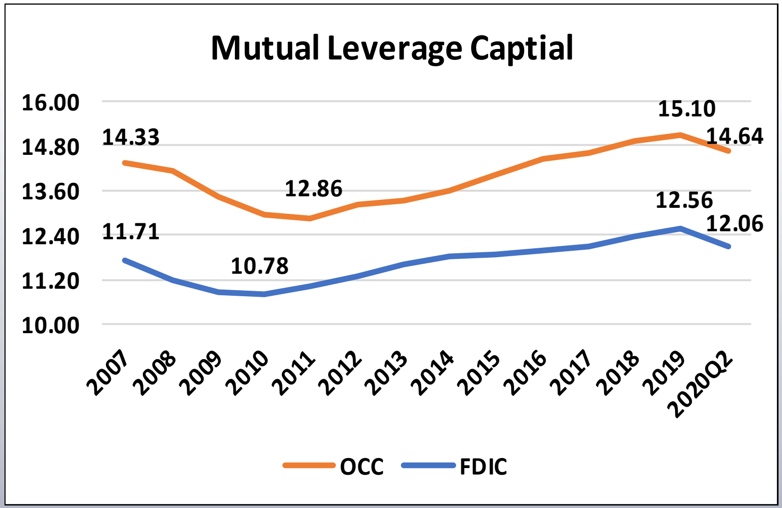
CBLR – Now Being Phased In

The Community Bank Leverage Ratio (CBLR) is an optional simple leverage capital measure that became effective January 1, 2020. Banks using the CBLR would be subject to a simplified reporting requirement.



Capital Levels Remain Solid

- Mutual FSA capital levels remain strong and passed the 15 percent mark last year.
- The gap between state and federal charters has widened to 258 basis points this quarter.



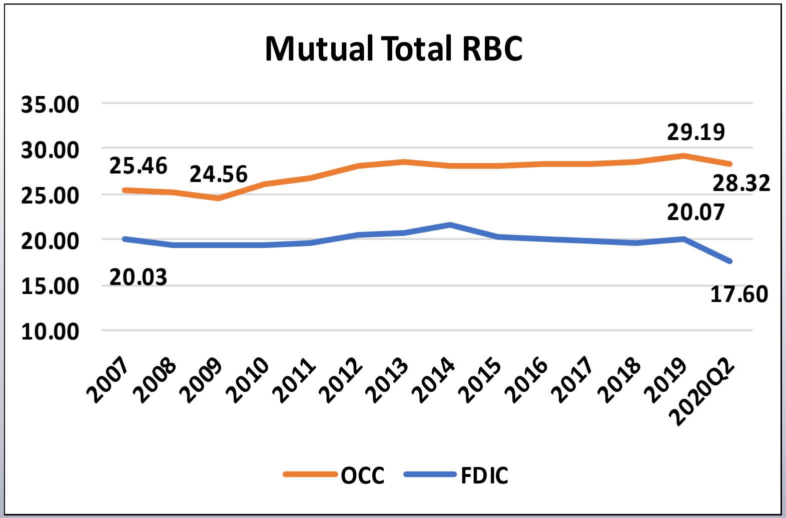
- In general, the smaller mutual charters have the highest levels of capital.

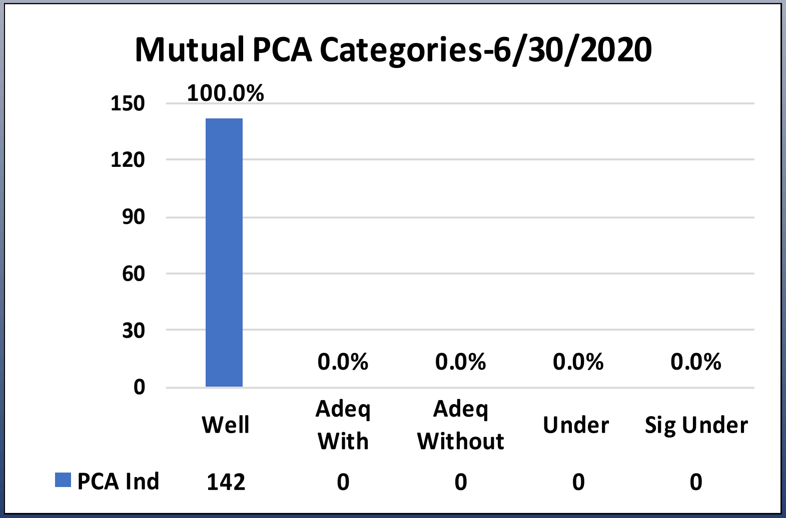
Leverage Ratio - June 30, 2020		
Asset Category	**OCC**	**FDIC**
Under $50MM	19.55	13.08
$50MM - $100MM	14.72	14.27
$100MM - $250MM	14.78	12.81
$250MM - $500MM	14.04	11.09
$500MM - $1B	14.06	11.96
Greater than $1B	13.65	10.78
All Mutuals	**14.64**	**12.06**

Mutual FSAs are "Well-capitalized"

- Mutual FSA total risk-based capital levels fell to 28.32 percent as of June 30, 2020.
- The gap between state and federal charters has gradually widened to 1,072 basis points this year.

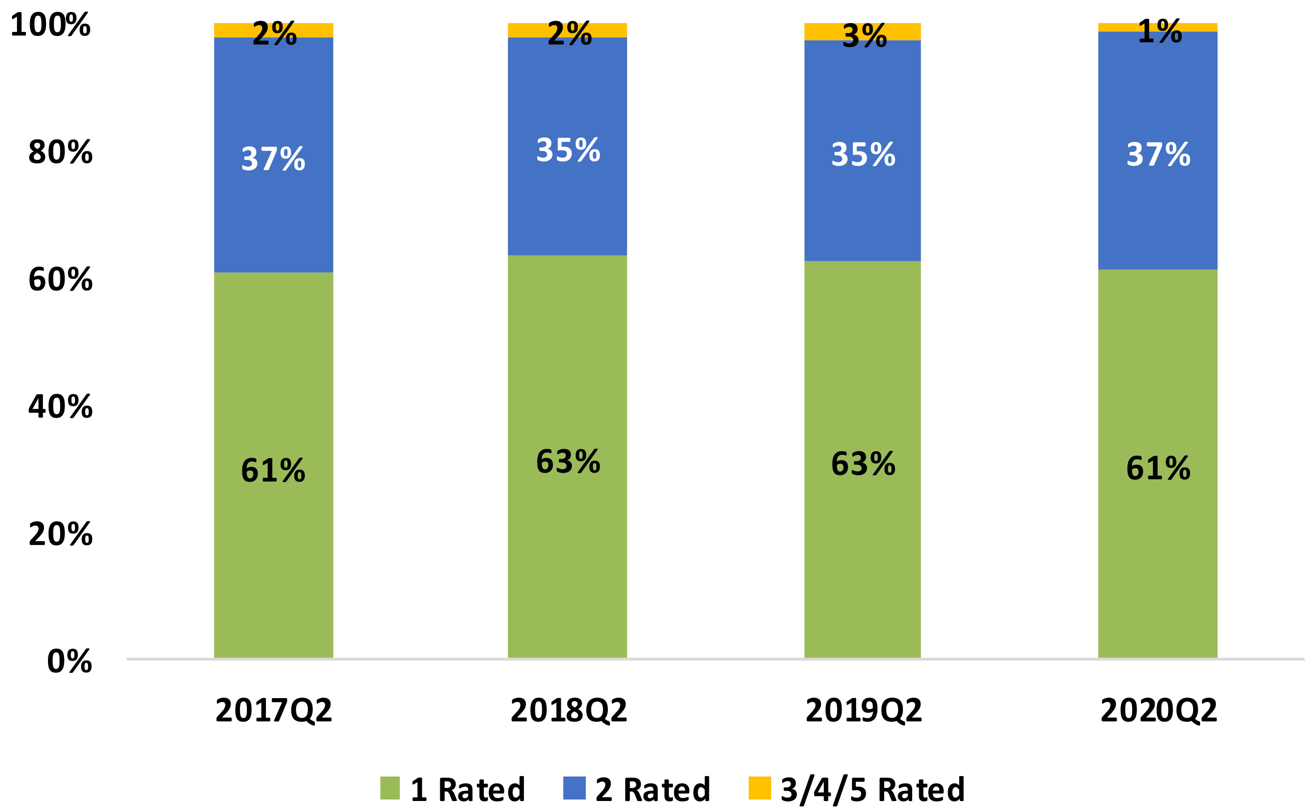
- All mutual FSAs met the "well-capitalized" definition contained in Prompt Corrective Action as of June 30, 2020.





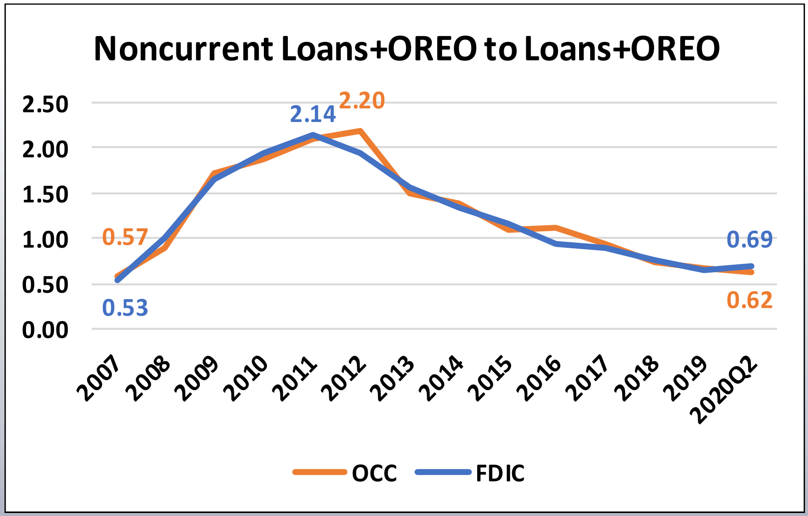
Mutual FSA Capital Ratings

Mutual FSA capital ratings remained strong. Ninety-eight percent of mutual FSAs are rated 1 or 2 for capital. There are no mutual FSAs rated 4 or 5 for capital this quarter.

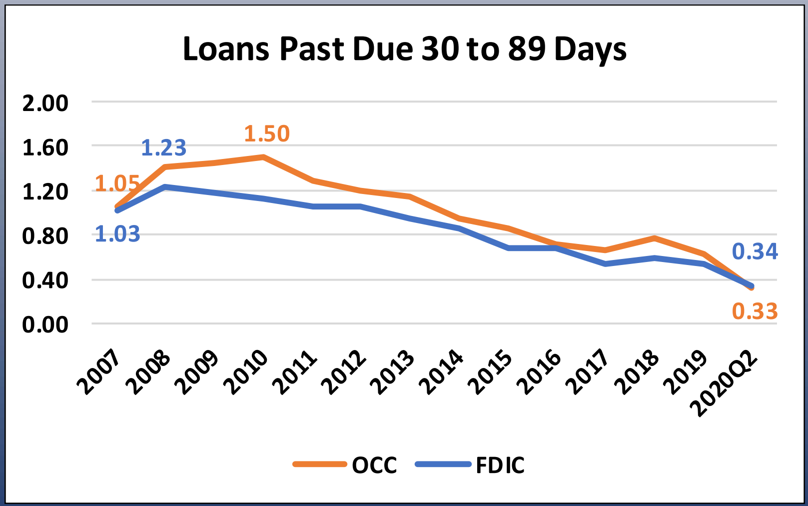


Problem Assets are Low

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



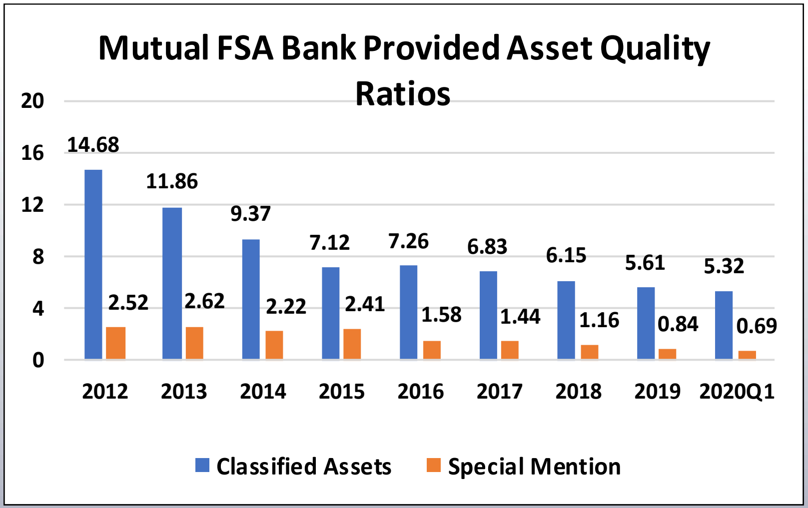
- Loans past due 30 to 89 days continue to decline and remain at low levels.
- Most credit risk quality indicators are not yet showing signs of deterioration due to modification programs in the CARES Act that delay recognition of delinquency.

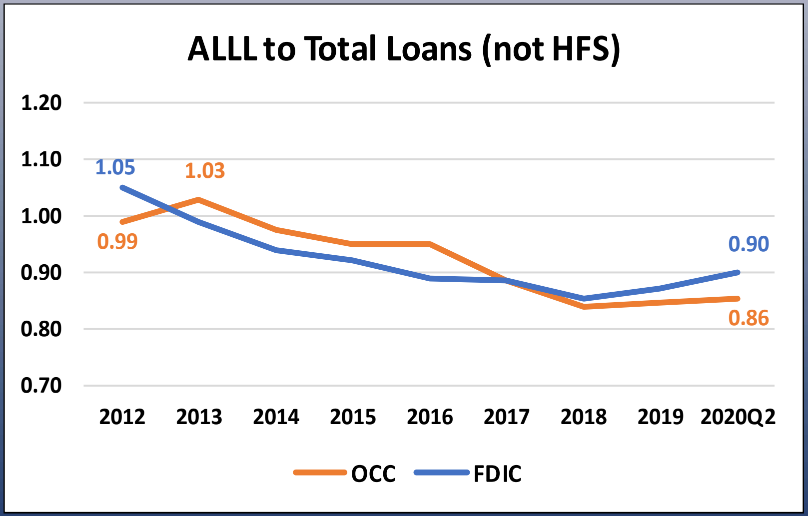


ALLL Levels Increasing

- The bank provided classified assets to tier 1 capital plus the ALLL ratio continues to edge lower but the rate of improvement has slowed.

- ALLL levels for mutual FSAs have increased for the second consecutive year and now represent 0.86 percent of total loans.

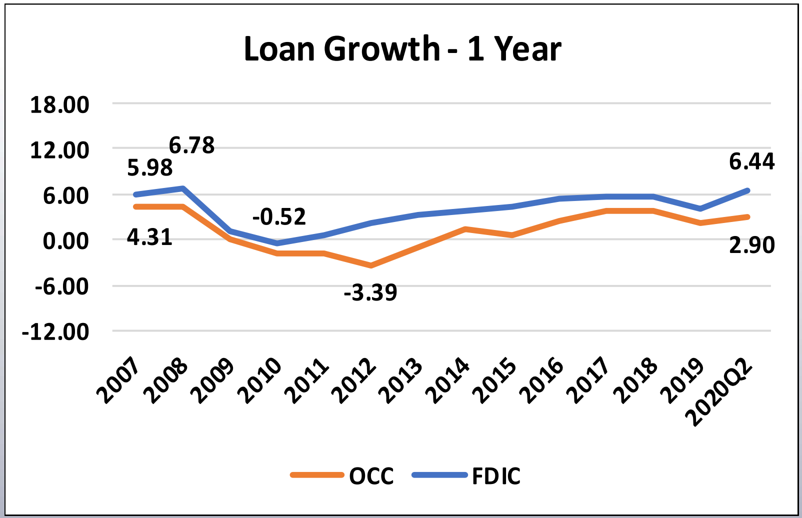




Loan Growth Has Noise

- Mutual FSA loan growth rose to 2.90 percent compared to 2.15 percent for the prior year.
- Adjusting for the Paycheck Protection Program (PPP), median mutual FSA loan growth fell to 1.33 percent.

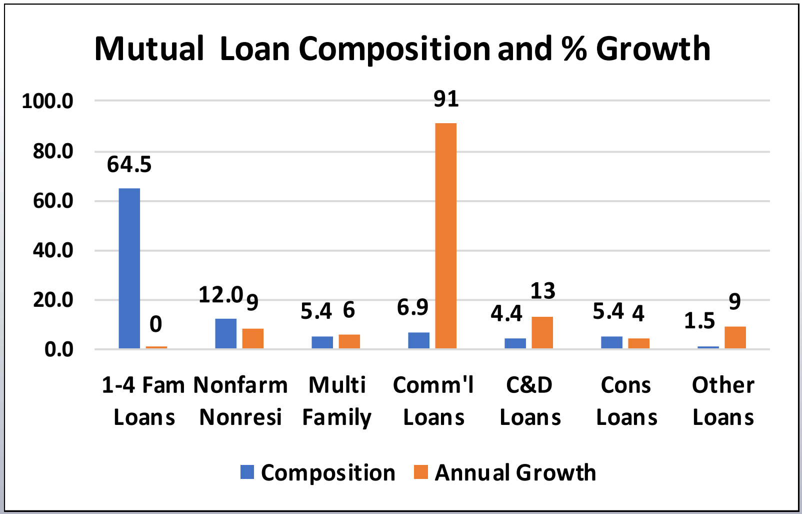
- Loan growth was highest for banks with total assets over $1 billion and lowest for banks with total assets under $50 million.



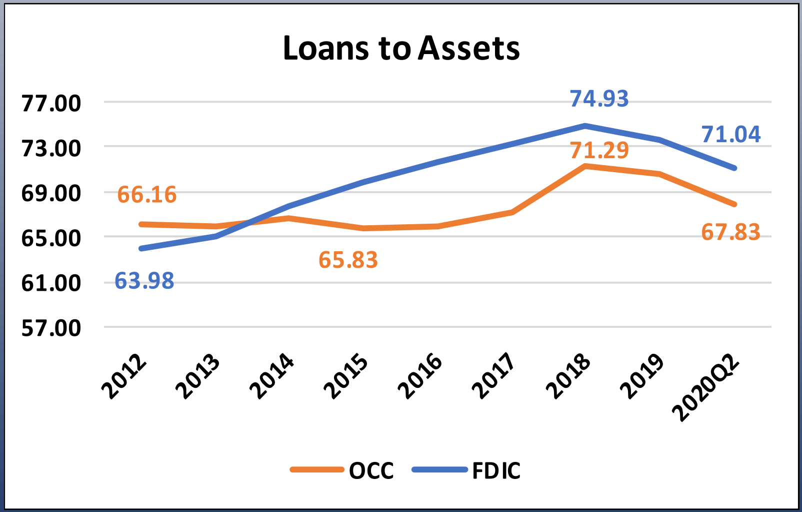
Loan Growth Ratio - June 30, 2020		
Asset Category	**OCC**	**FDIC**
Under $50MM	-0.03	-0.29
$50MM - $100MM	3.16	5.92
$100MM - $250MM	3.27	1.30
$250MM - $500MM	3.18	6.90
$500MM - $1B	2.45	6.93
Greater than $1B	7.48	11.60
All Mutuals	**2.90**	**6.44**

Mutual FSA Loan Composition

- Loan portfolios held by mutual FSAs are heavily concentrated in residential mortgages.
- Apart from Commercial loans (PPP), loan growth was highest for C&D loans at 13 percent.

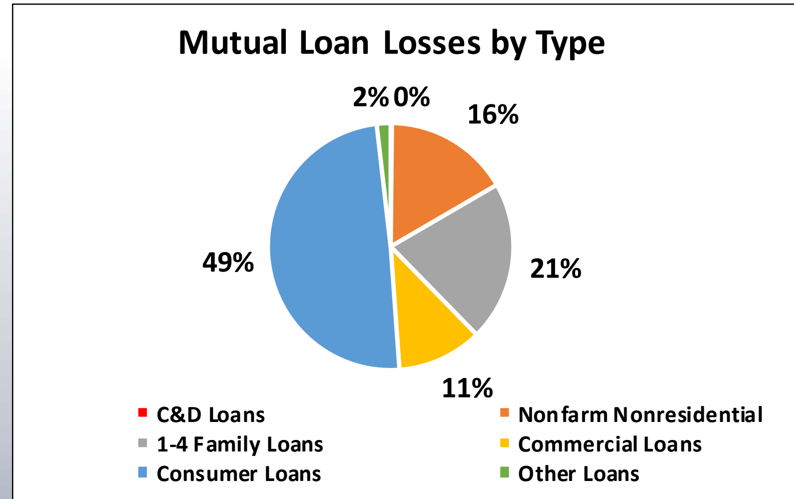


- Loans to assets for mutual FSAs declined to 67.83 percent in 2020.

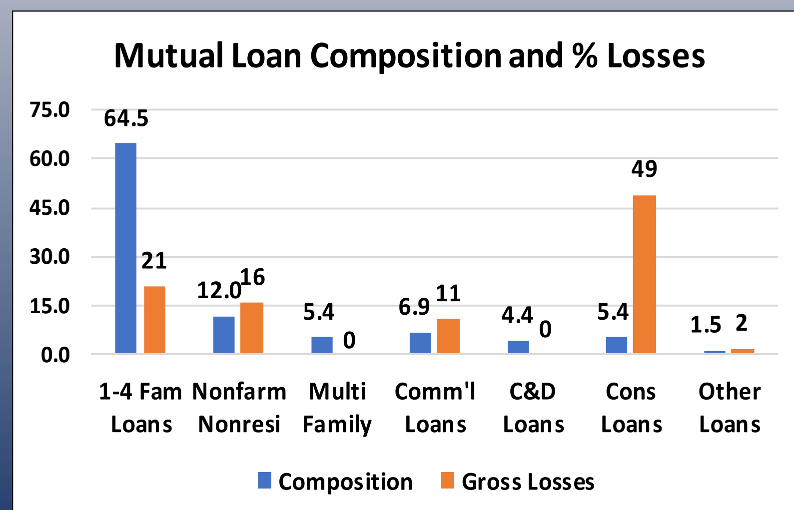


Mutual FSA Loan Losses are Low

- Gross loan losses as of second quarter 2020 remain low for mutual FSAs at 0.04 percent.
- Most losses emanate from consumer loans (49 percent) and 1 to 4 family residential loans (21 percent).

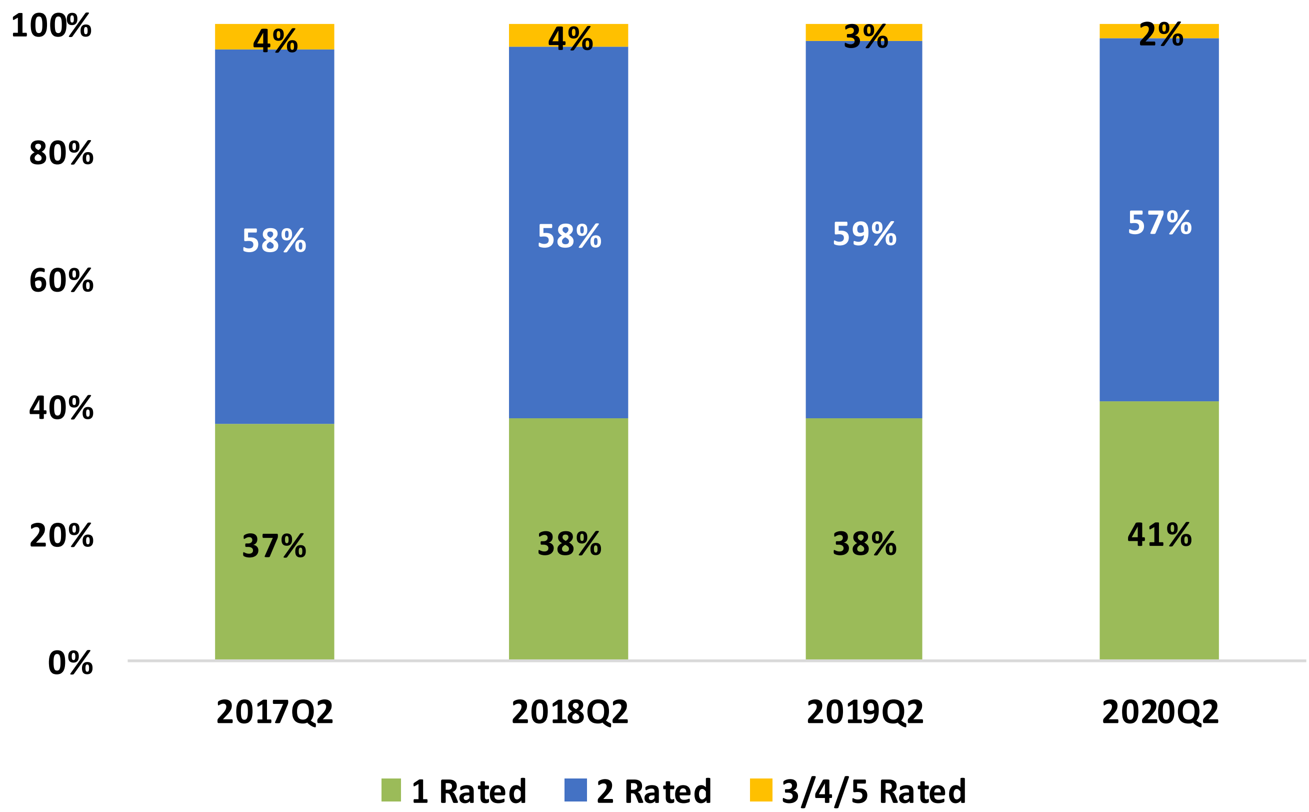


- Consumer loans account for 5.4 percent of loan volume but 49 percent (auto-6%) of charge-offs.
- On the other hand, multifamily loans account for 5.4 percent of loan outstandings but virtually no losses.



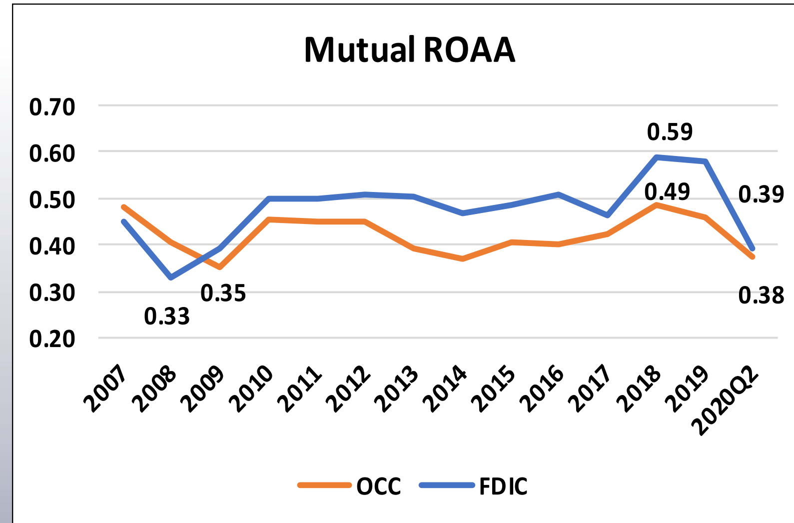
Mutual FSA Asset Quality Ratings

Asset quality ratings remain strong for mutual FSAs. Ninety-eight percent are rated 1 or 2 for asset quality.

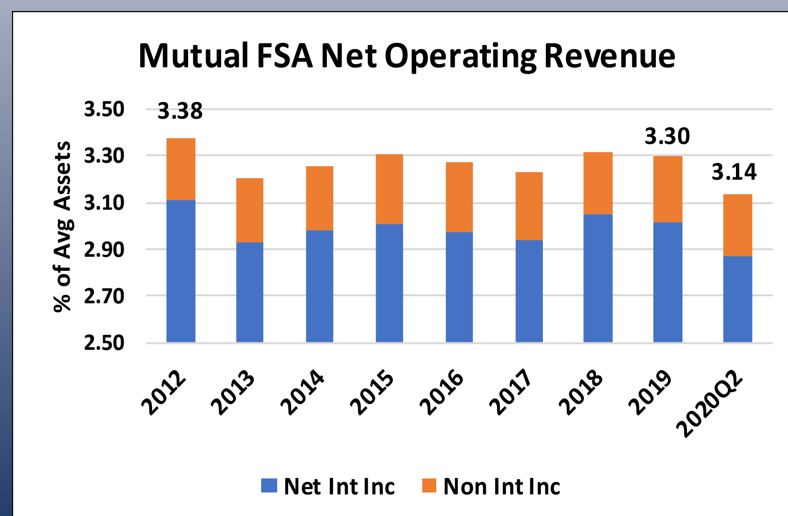


ROAA Down From Last Year

- ROAA for mutual FSAs fell eight basis points to 0.38 percent as of June 30, 2020.

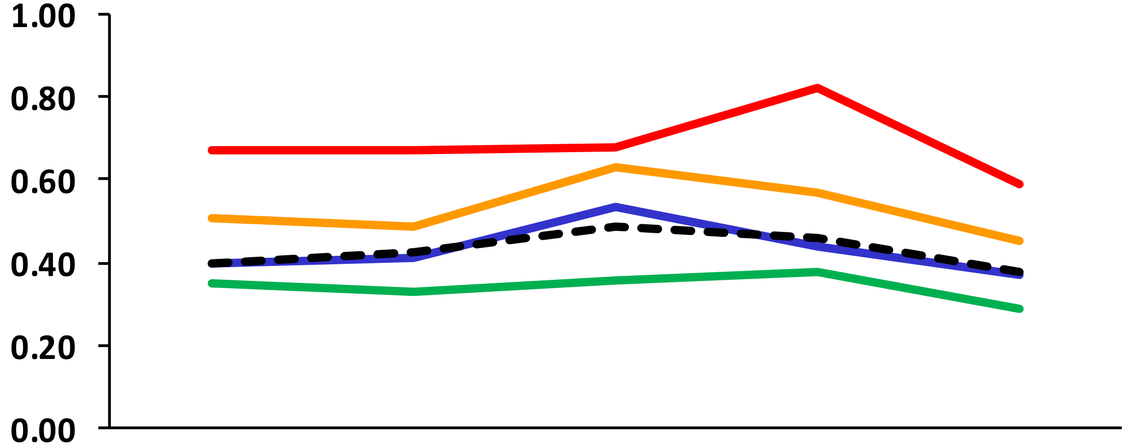


- Mutual FSA net operating revenue fell 16 basis points since year-end 2019 to 3.14 percent. Net interest income fell 14 basis points to 2.87 percent. Noninterest income fell two basis points to 0.27 percent.



Return on Average Assets

Mutual earnings declined for all peer groups. The larger the mutual, the better the ROAA.

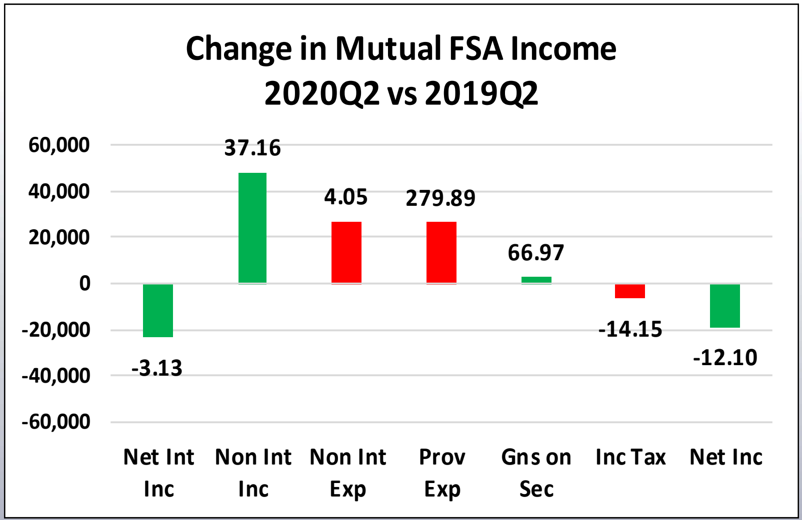


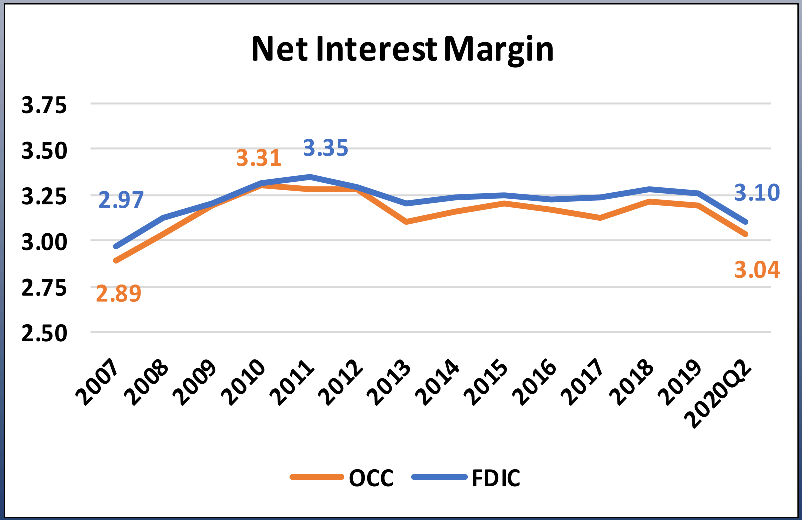
	2016Q4	2017Q4	2018Q4	2019Q4	2020Q2
101M	0.67	0.67	0.68	0.82	0.59
102M	0.51	0.49	0.63	0.57	0.46
103M	0.40	0.41	0.54	0.44	0.37
104M	0.35	0.33	0.36	0.38	0.29
Mutual	0.40	0.43	0.49	0.46	0.38

Mutual Net Income Down 12%

- Mutual net income fell 12 percent in 2020. The main drivers were margin compression and a larger provision expense.
- 101 or 71 percent of mutual FSAs reported lower ROAA year-over-year in 2020. Eighteen or 13 percent of mutual FSAs reported negative earnings.

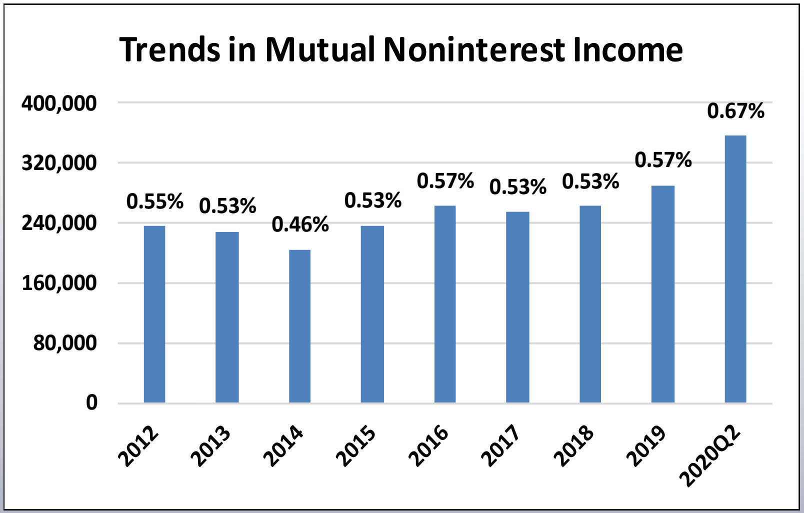
- Net interest margin (NIM) of 3.04 percent is down 15 basis points from year-end 2019.
- This underscores the importance of fee income to make up the shortfall.

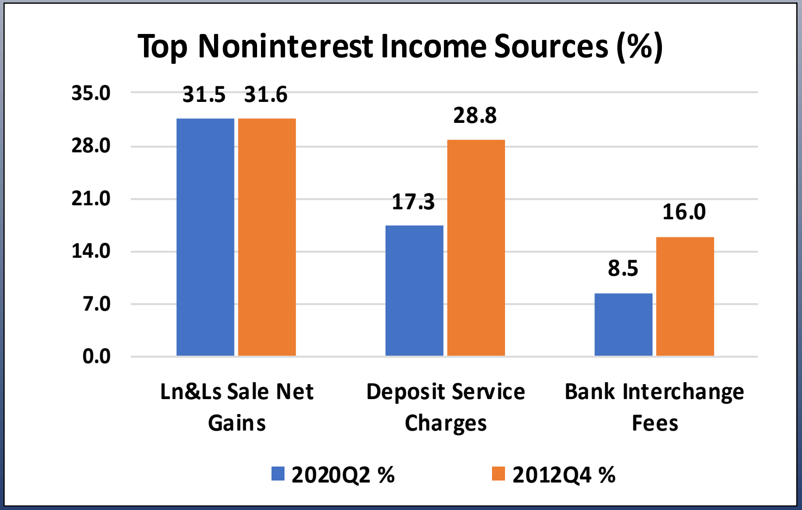




Noninterest Income Improving

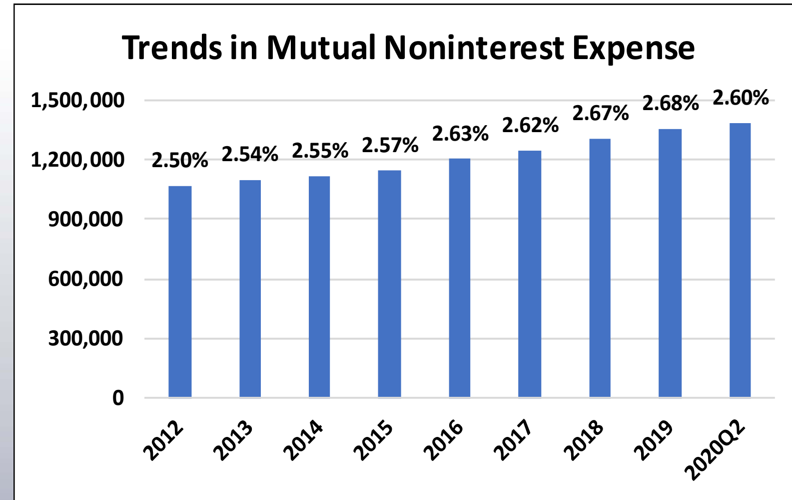
- Mutual FSA noninterest income is up 37 percent compared to the same time last year. Three charters represent 56 percent of the increase.
- While noninterest income to average assets is up sharply in 2020, 31 mutual FSAs or 22 percent reported fee noninterest income of 0.10 percent or less this quarter.
- At 31.5 percent, loan and lease sales is the top noninterest income category. It has grown 51 percent since 2012. Deposit service charges is second and has contracted 9 percent since 2012.



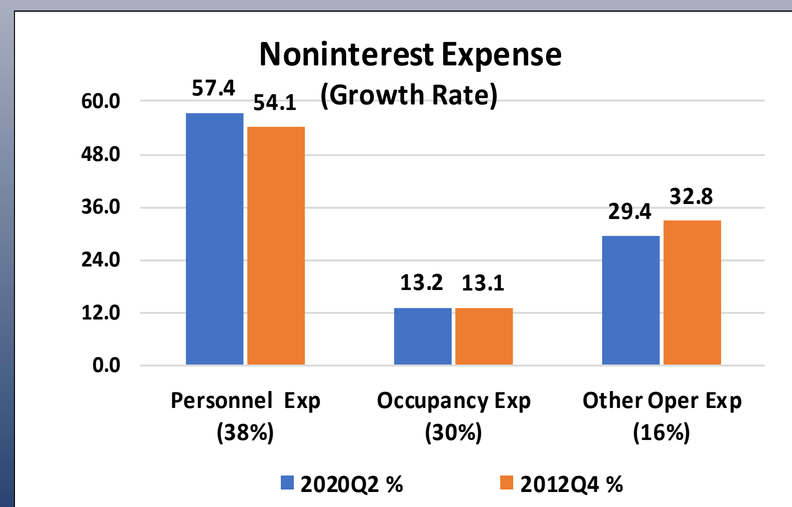


Noninterest Expense Growing

- Mutual FSA noninterest expense is up 4 percent compared to the same time last year.
- Noninterest expense to average assets has increased steadily from 2012 to 2019 but fell sharply in 2020.



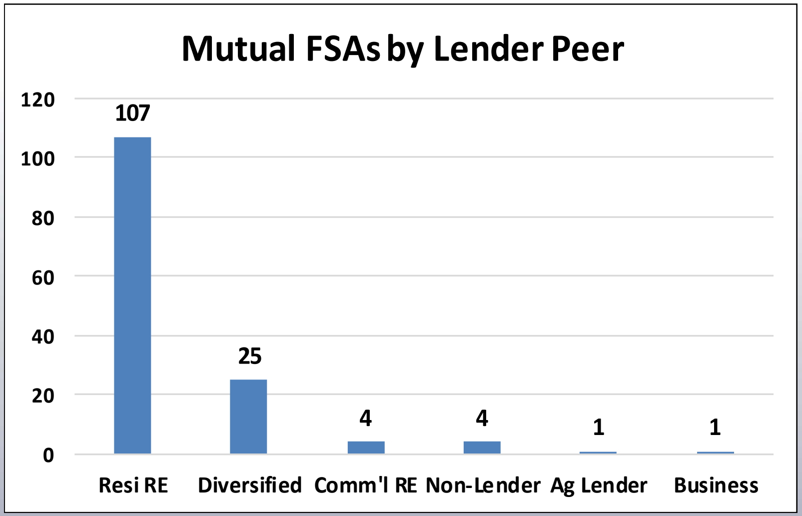
- At 57.4 percent, personnel expense is the top noninterest expense category. It has grown 38 percent since 2012. Occupancy expense is much lower at 13.2 percent of noninterest expense and growing slower at 30 percent.

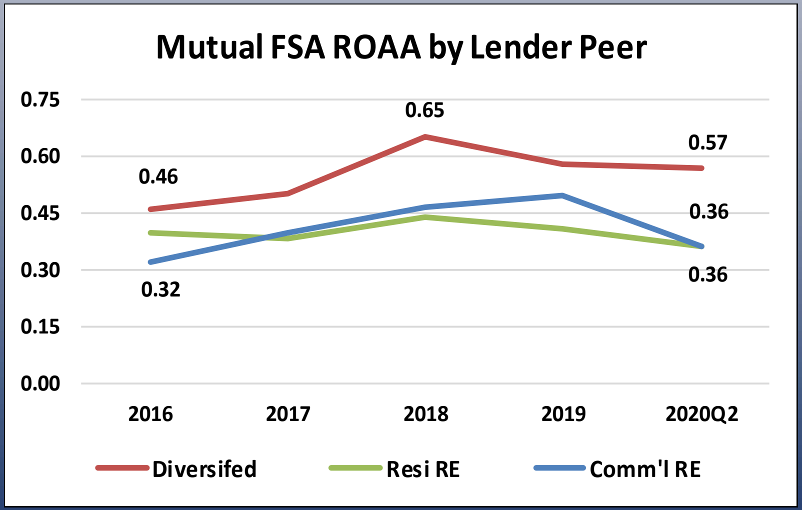


Return on Average Assets by Peer Lender

- In addition to asset size and geography, OCC also analyzes mutual FSA performance by lender peer.
- Most mutual FSAs or 75 percent are classified as residential real estate lenders and 18 percent are diversified lenders.

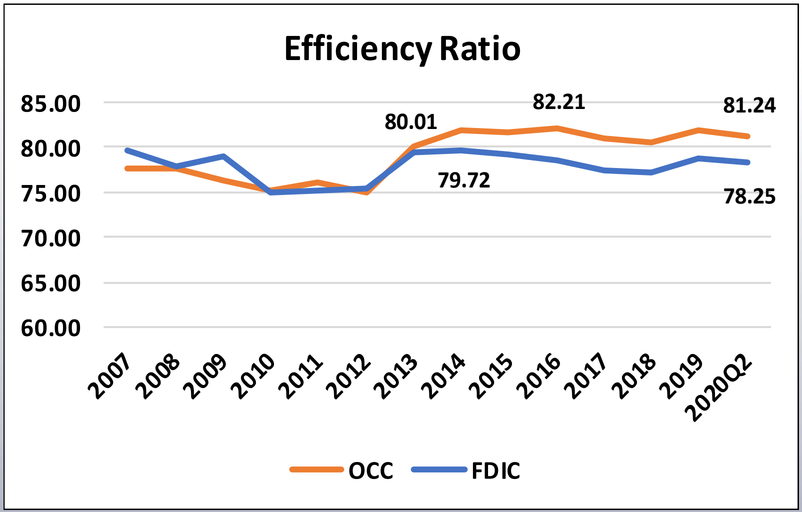
- Diversified lenders have enjoyed higher ROAAs in recent years.





Efficiency Ratio Still High

- The mutual FSA efficiency ratio after peaking in 2016 has declined in recent years but remains elevated and hovering above 80 percent since 2013.



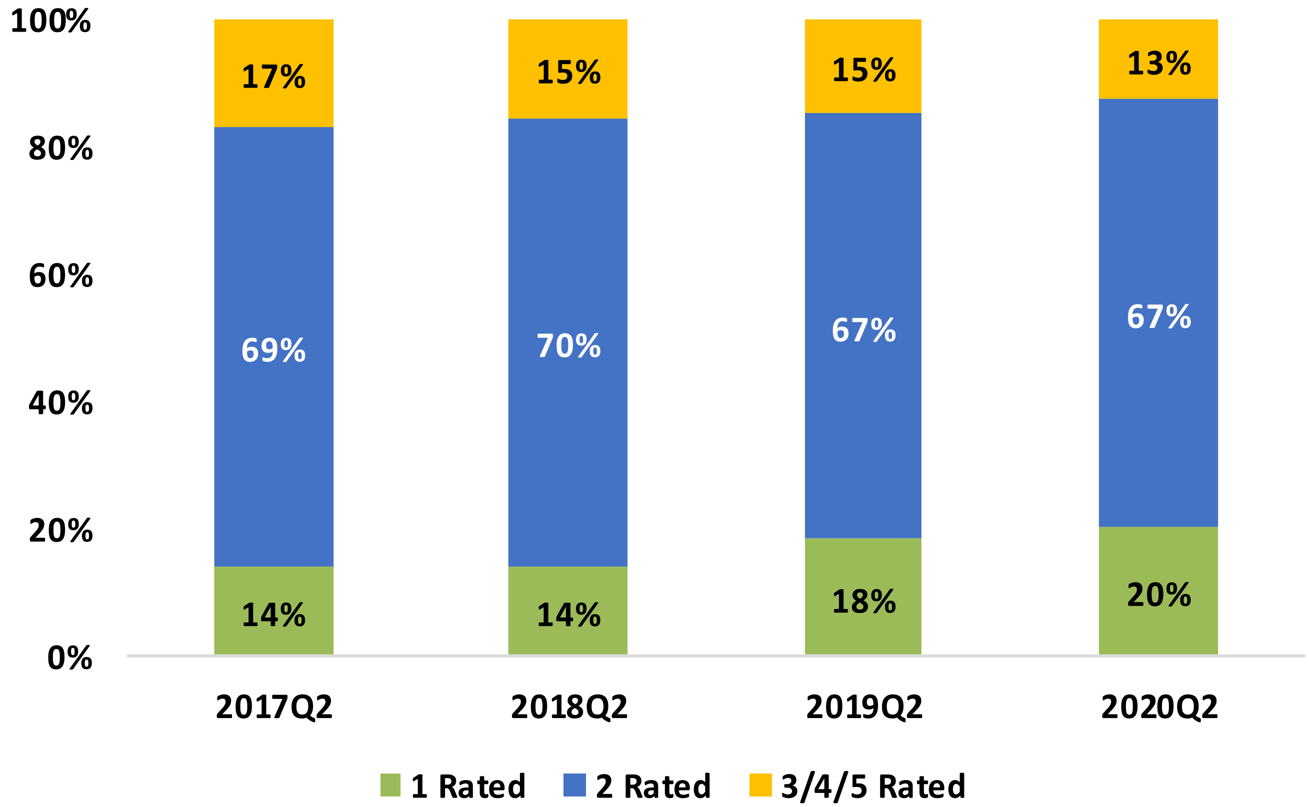
- In general, the smaller mutual charters have the highest efficiency ratios.
- 90 of 142 mutual FSAs or 63 percent reported higher efficiency ratios for second quarter 2020 versus the same time last year.

Efficiency Ratio - June 30, 2020

Asset Category	OCC	FDIC
Under $50MM	90.20	94.72
$50MM - $100MM	85.69	80.69
$100MM - $250MM	83.69	80.12
$250MM - $500MM	79.85	81.64
$500MM - $1B	76.28	75.83
Greater than $1B	74.85	71.90
All Mutuals	**81.24**	**78.25**

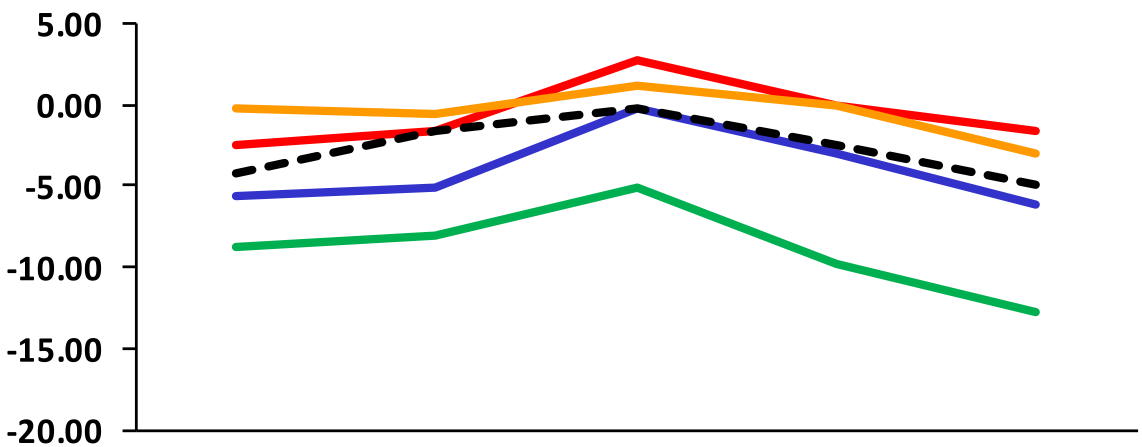
Mutual FSA Earnings Ratings

Earnings ratios continue to improve but lag behind ratings in other safety and soundness areas. Only 87 percent of mutual FSAs are rated 1 or 2 for earnings.



Net Non-core Funding Dependence Ratio

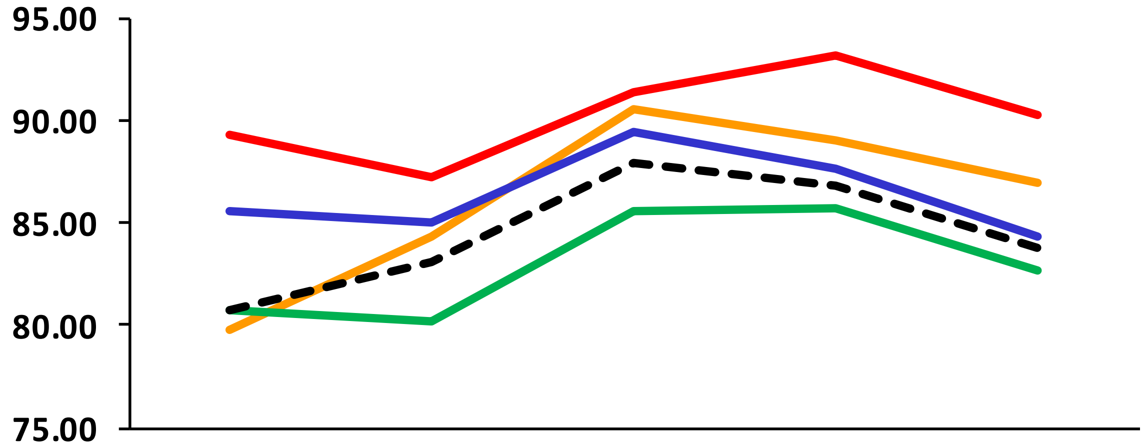
Levels of net non-core funding dependence remain low and have further declined especially for the 104M peer group.



	2016Q4	2017Q4	2018Q4	2019Q4	2020Q2
101M	-2.52	-1.63	2.76	-0.05	-1.56
102M	-0.23	-0.55	1.22	-0.13	-3.11
103M	-5.61	-5.06	-0.25	-2.97	-6.20
104M	-8.71	-8.15	-5.11	-9.74	-12.75
Mutual	-4.22	-1.71	-0.25	-2.59	-4.95

Net Loans & Leases to Total Deposits Ratio

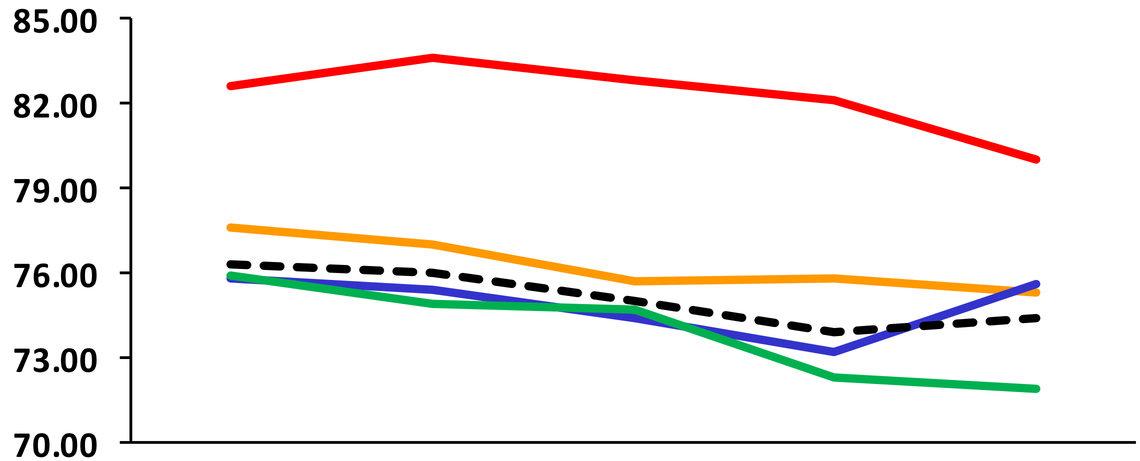
Loan to deposit ratios have come down in recent years but remain elevated, with larger mutual FSAs having higher levels. This ratio is usually higher for FSAs due to more reliance on FHLB borrowings and the Qualified Thrift Lender (QTL) test.



	2016Q4	2017Q4	2018Q4	2019Q4	2020Q2
101M	89.28	87.26	91.31	93.13	90.19
102M	79.78	84.26	90.50	88.97	87.01
103M	85.50	85.04	89.39	87.67	84.30
104M	80.69	80.14	85.54	85.72	82.69
Mutual	80.76	83.14	87.87	86.80	83.81

Core Deposits to Average Assets Ratio

Core deposits have edged lower since 2016, with larger mutual FSAs having higher levels. The amount of core deposits for peer group 101M remains above 80 percent.

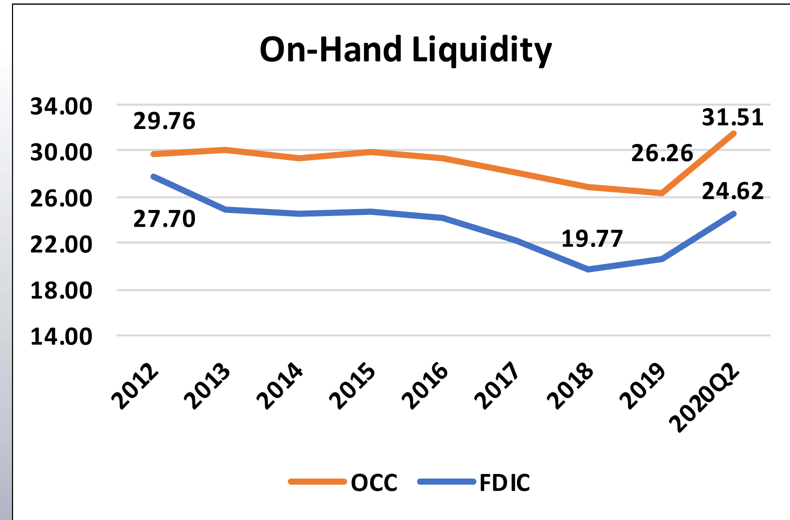


	2016Q4	2017Q4	2018Q4	2019Q4	2020Q2
101M	82.64	83.66	82.87	82.10	80.04
102M	77.68	77.06	75.71	75.84	75.34
103M	75.89	75.40	74.45	73.27	75.60
104M	75.93	74.96	74.71	72.37	71.94
Mutual	76.37	76.02	75.00	73.94	74.40

On-Hand Liquidity

- Mutual liquidity levels increased sharply in 2020 and are above pre-crisis levels.

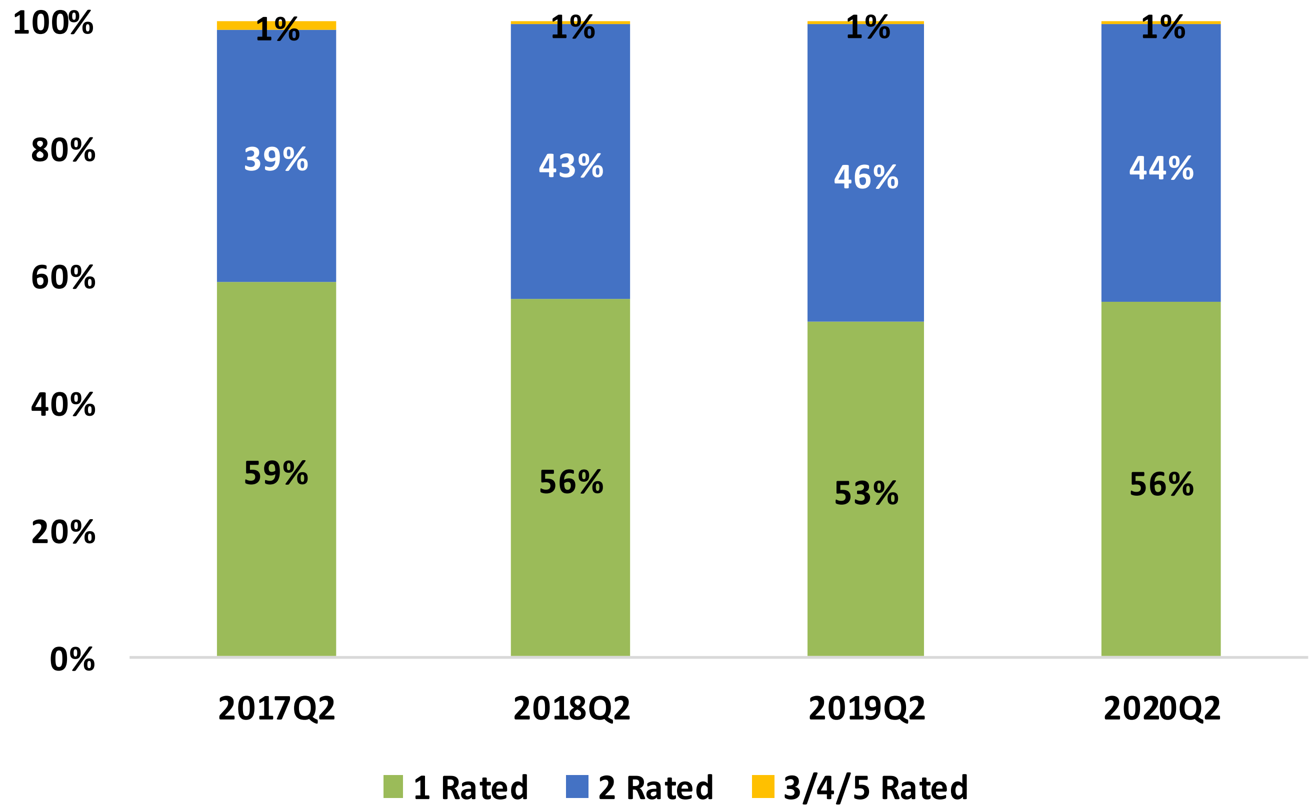
- If you stratify the on-hand liquidity ratio by asset size you will generally find the larger the bank the lower the on-hand liquidity ratio.



On-Hand Liquidity - June 30, 2020		
Asset Category	**OCC**	**FDIC**
Under $50MM	31.58	27.46
$50MM - $100MM	37.41	31.23
$100MM - $250MM	31.72	30.95
$250MM - $500MM	25.38	24.50
$500MM - $1B	29.68	20.67
Greater than $1B	19.09	17.06
All Mutuals	**31.51**	**24.62**

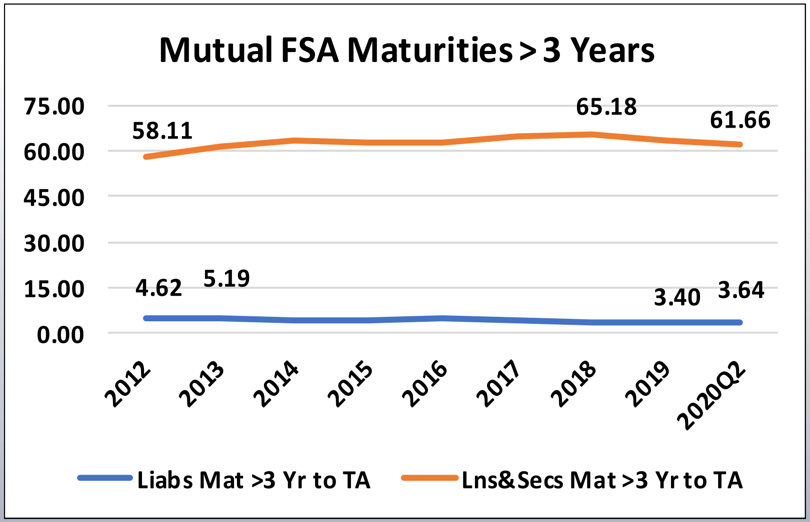
Mutual FSA Liquidity Ratings

Liquidity ratings for mutual FSAs remain strong. Ninety-nine percent are rated 1 or 2. Only 1 mutual FSA is rated 3.

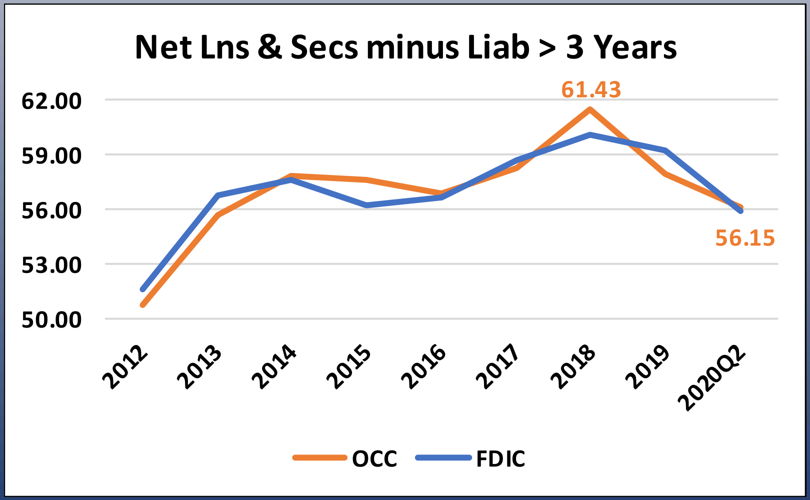


Funding Gap Expands Since 2012

- Mutual FSA loans and securities over 3 years fell for the second consecutive year to 61.66 percent.
- Only 3.64 percent of mutual FSA liabilities mature or reprice in more than 3 years.

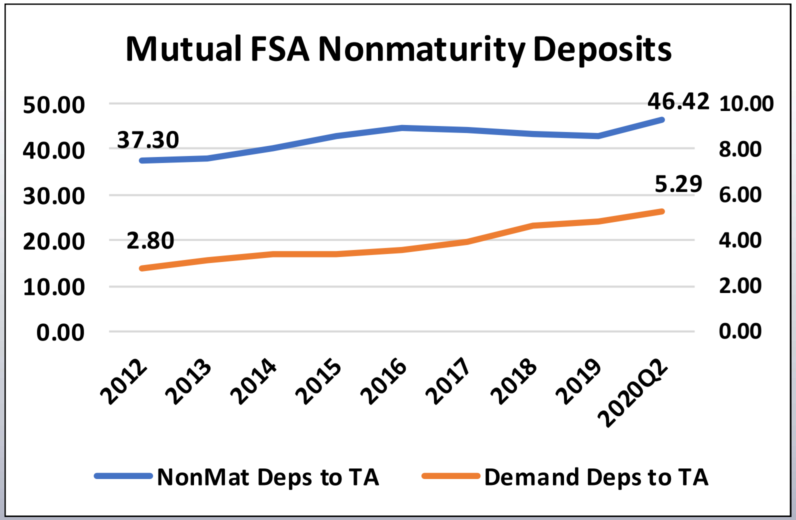


- The spread between loans and securities and liabilities has widened since 2012 and represents a significant funding gap.
- The funding gap is slightly more pronounced for the mutual FSAs.

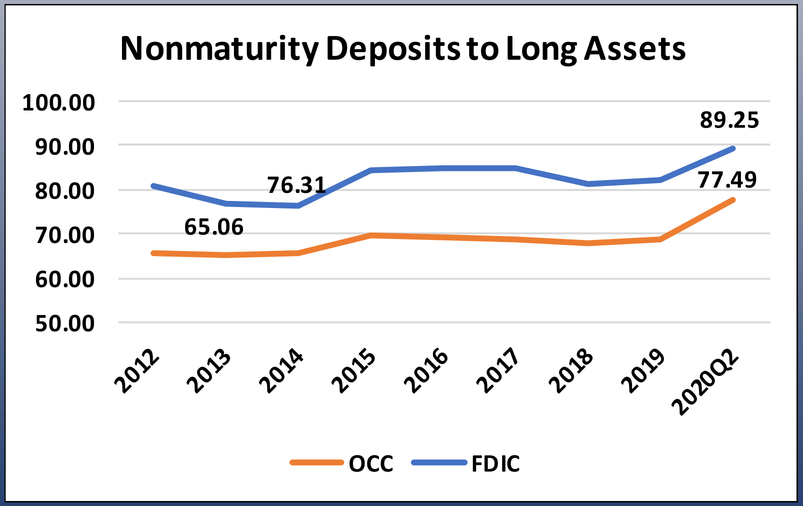


Nonmaturity Deposits Up From 2012

- Mutual FSA nonmaturity deposits (which include demand deposits) are up since 2012 and peaked this year at 46.42 percent of total assets.

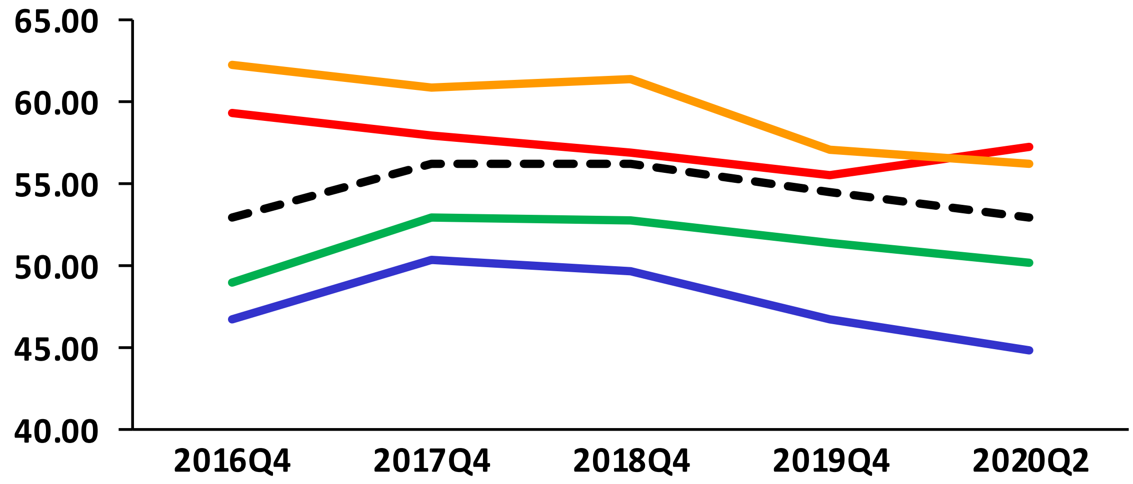


- Nonmaturity deposits to long-term assets have increased sharply in 2020 and are also up since 2012.
- Deposits have jumped sharply in 2020 as a result of COVID-19 and the unprecedented fiscal stimulus including one-time checks to households and the PPP.



Long-term Assets to Total Assets Ratio

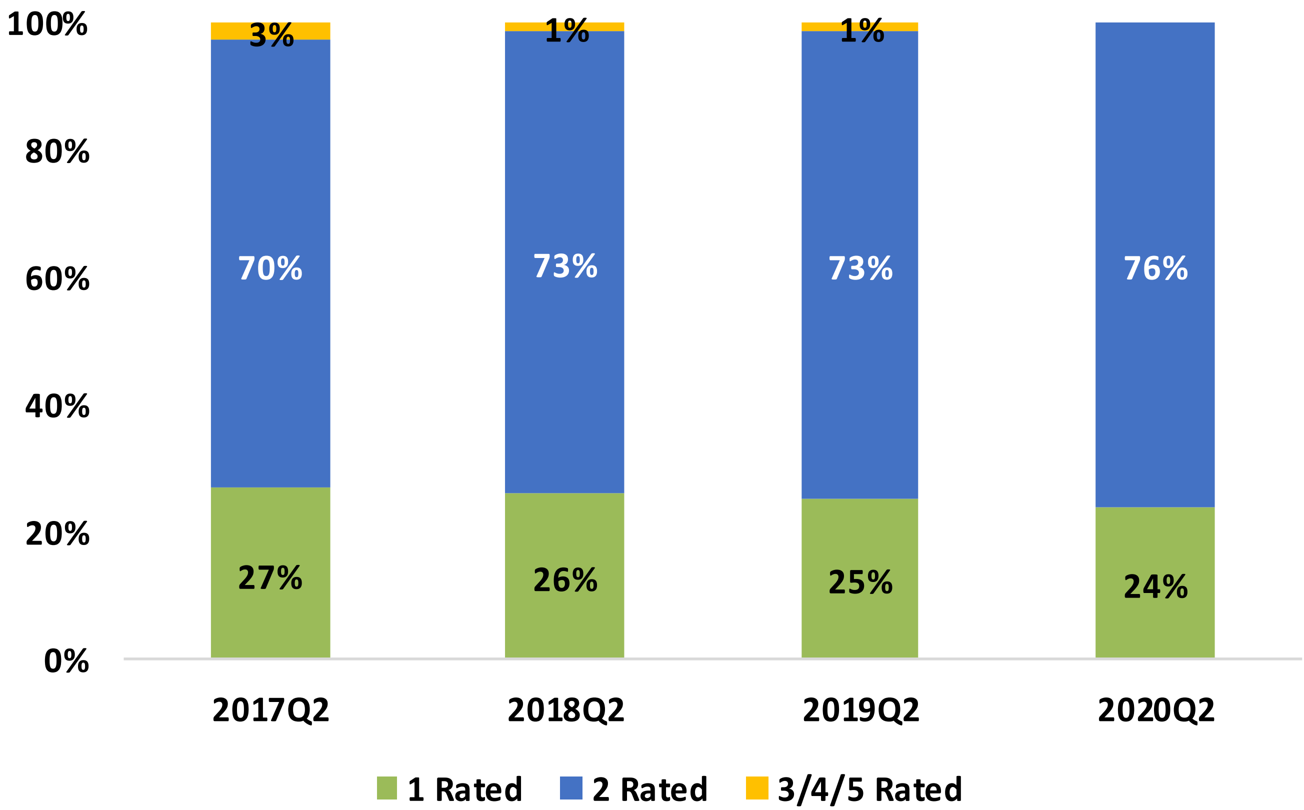
The level of long-term assets to total assets for mutual FSAs has decreased for all peer groups since 2017.



	2016Q4	2017Q4	2018Q4	2019Q4	2020Q2
101M	59.21	57.91	56.94	55.50	57.17
102M	62.24	60.81	61.30	57.07	56.26
103M	46.74	50.38	49.68	46.65	44.90
104M	49.04	52.89	52.74	51.37	50.23
Mutual	52.94	56.15	56.23	54.53	52.89

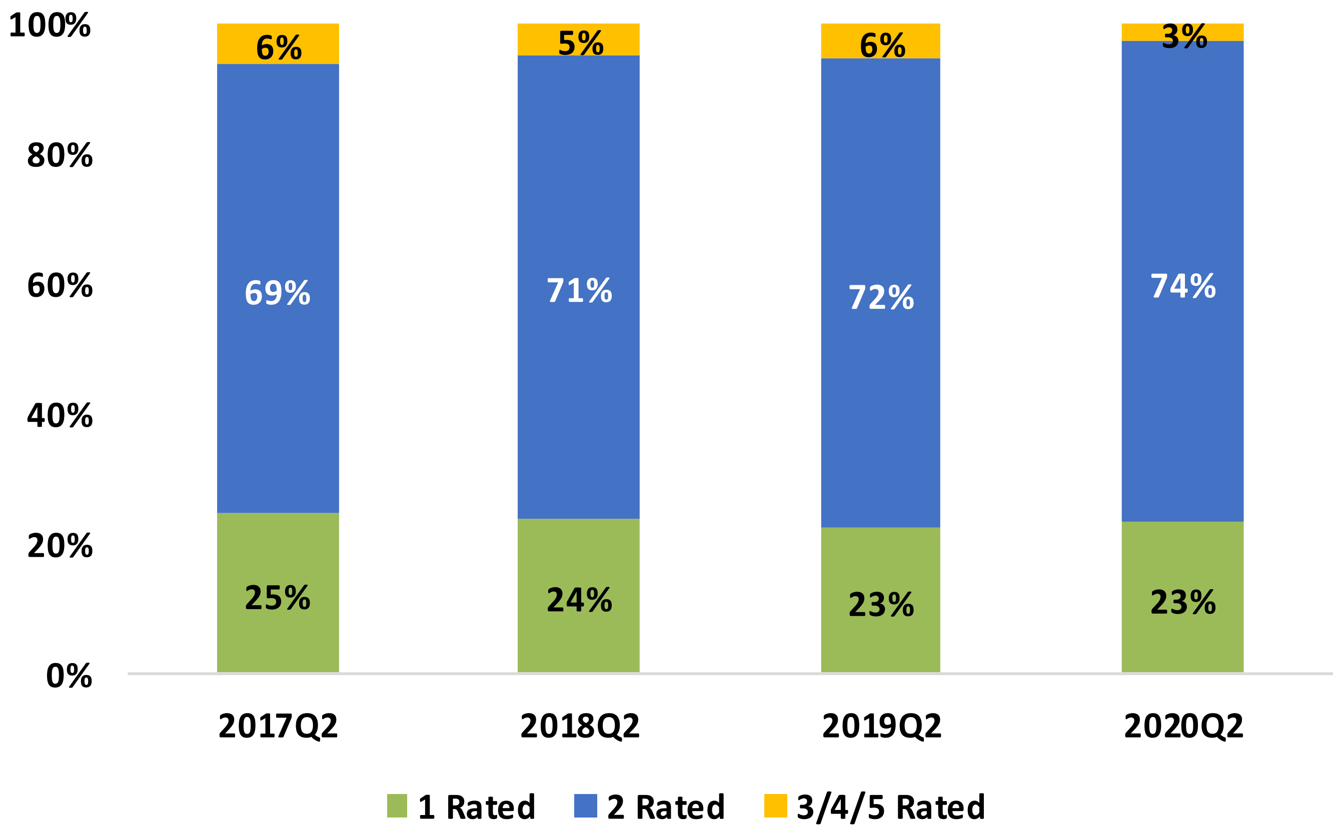
Sensitivity to Market Risk Ratings

Sensitivity to market risk ratings for mutual FSAs remain satisfactory.
All mutual FSAs are rated 1 or 2.



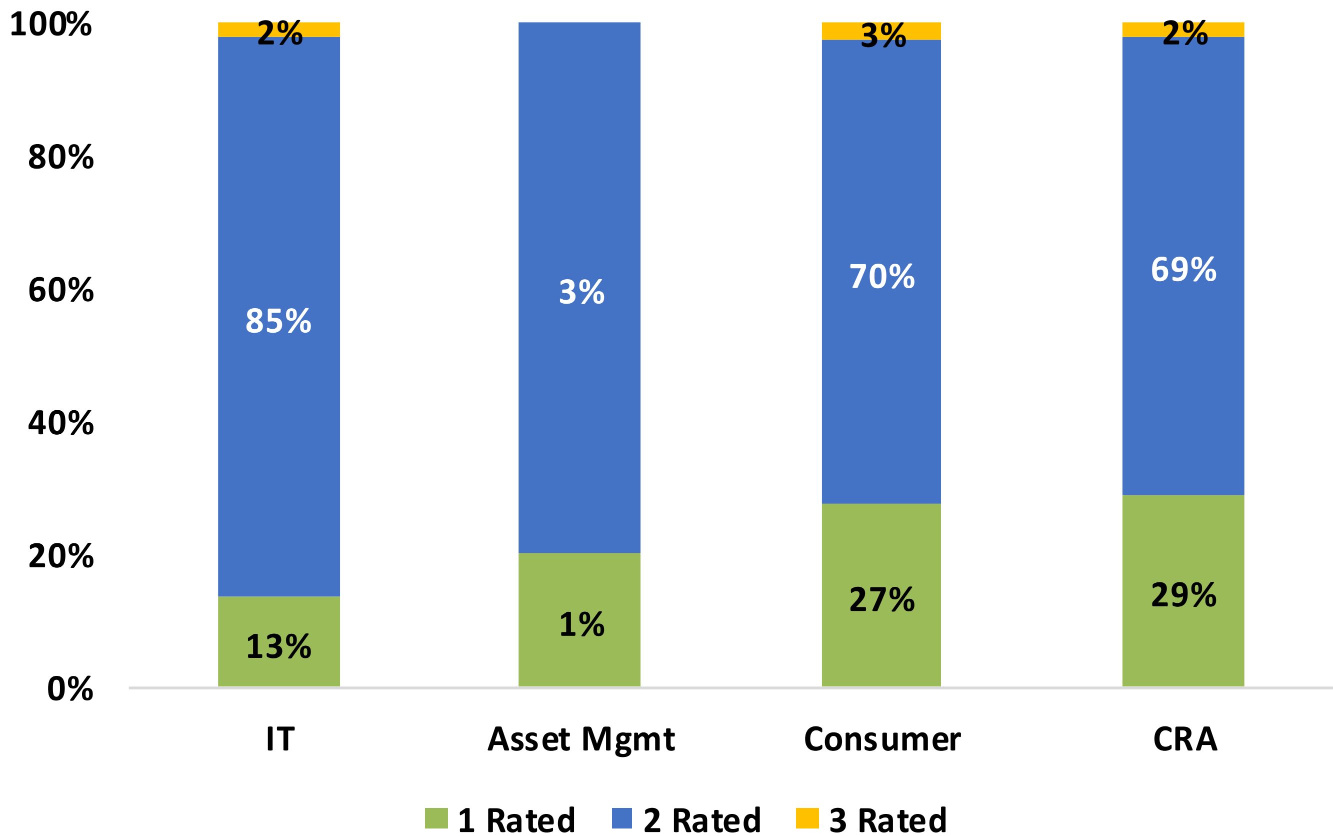
Mutual FSA Management Ratings

Management ratings remain satisfactory. Ninety-seven percent of mutual FSAs are rated 1 or 2 for management.



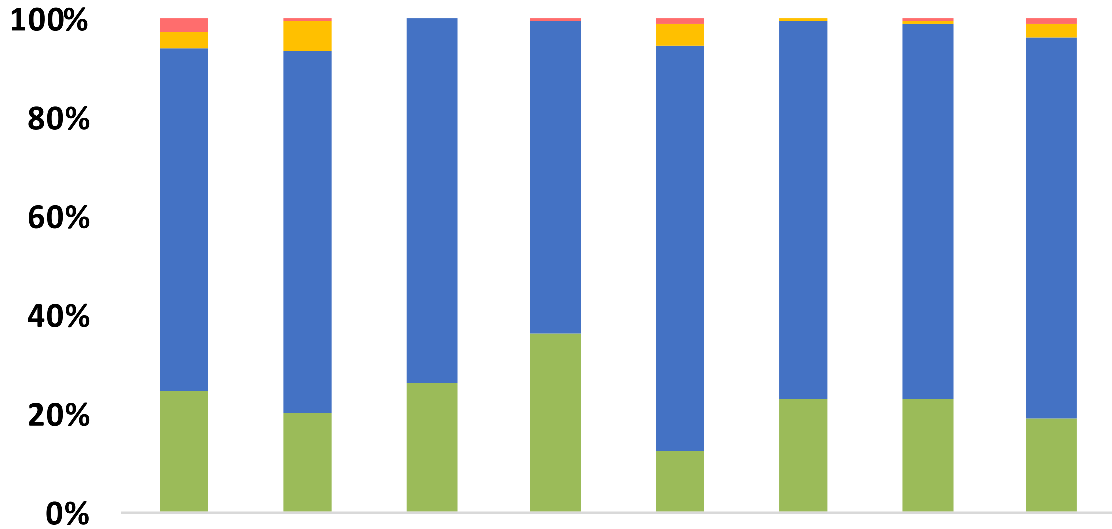
Mutual FSA Specialty Ratings

Specialty ratings are good. Only five mutual FSAs have trust powers (96 percent are not rated for asset management).



Quality of Risk Management

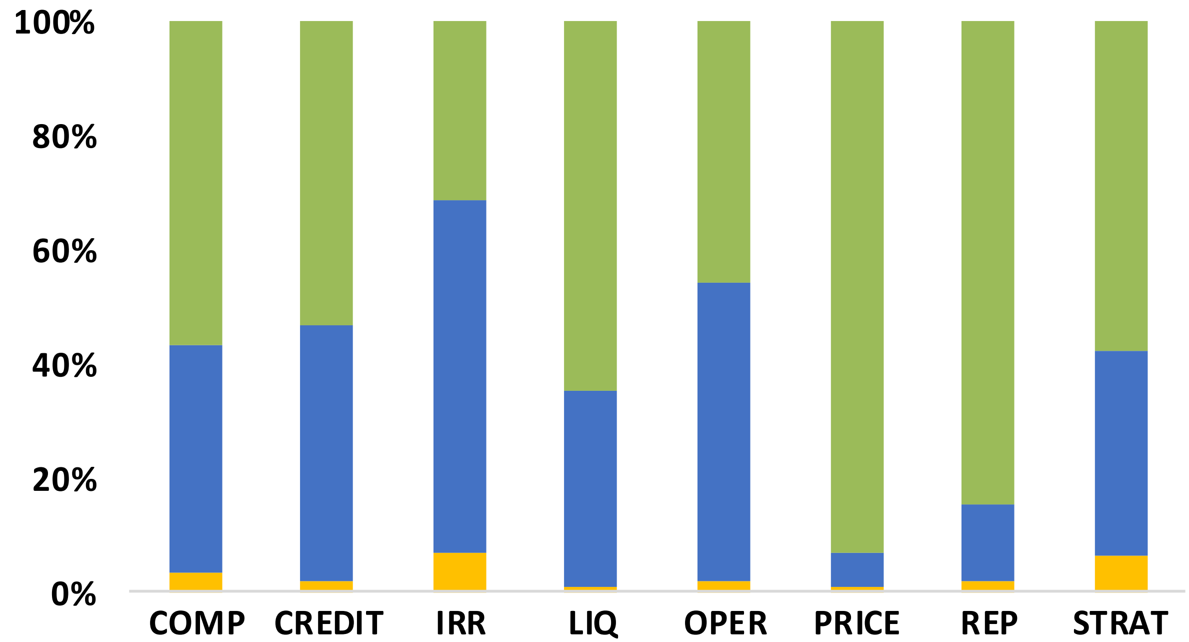
Liquidity and interest rate risk have the most strong ratings at 36 percent and 26 percent, respectively. Compliance and credit have the most insufficient and weak ratings at 7 percent.



	COMP	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
Weak	3%	1%	0%	1%	1%	0%	1%	1%
Insufficient	4%	6%	0%	0%	4%	1%	1%	3%
Satisfactory	69%	73%	74%	63%	82%	77%	76%	77%
Strong	25%	20%	26%	36%	12%	23%	23%	19%

Mutual FSA Aggregate Level of Risk Rating

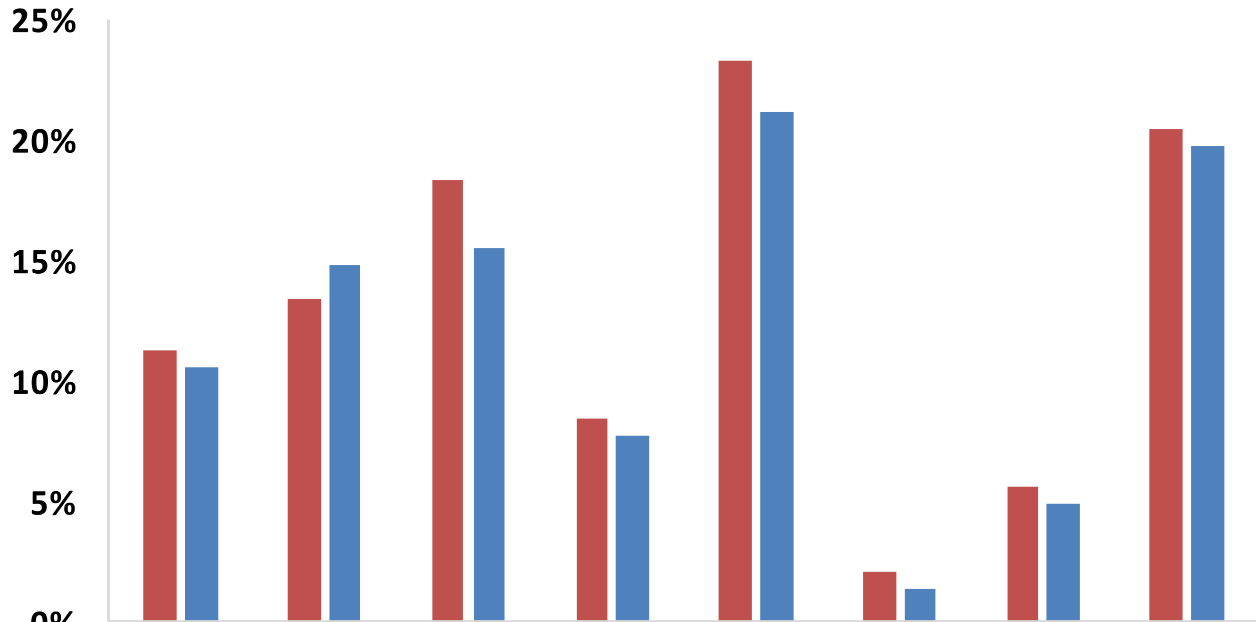
The interest rate risk and strategic categories have the most mutual FSAs designated with high risk. Six of the eight risks are predominately rated as low.



	COMP	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
Low	57%	54%	32%	65%	46%	93%	85%	58%
Moderate	39%	44%	61%	35%	52%	6%	13%	36%
High	4%	2%	7%	1%	2%	1%	2%	6%

Mutual FSA Risk Assessments

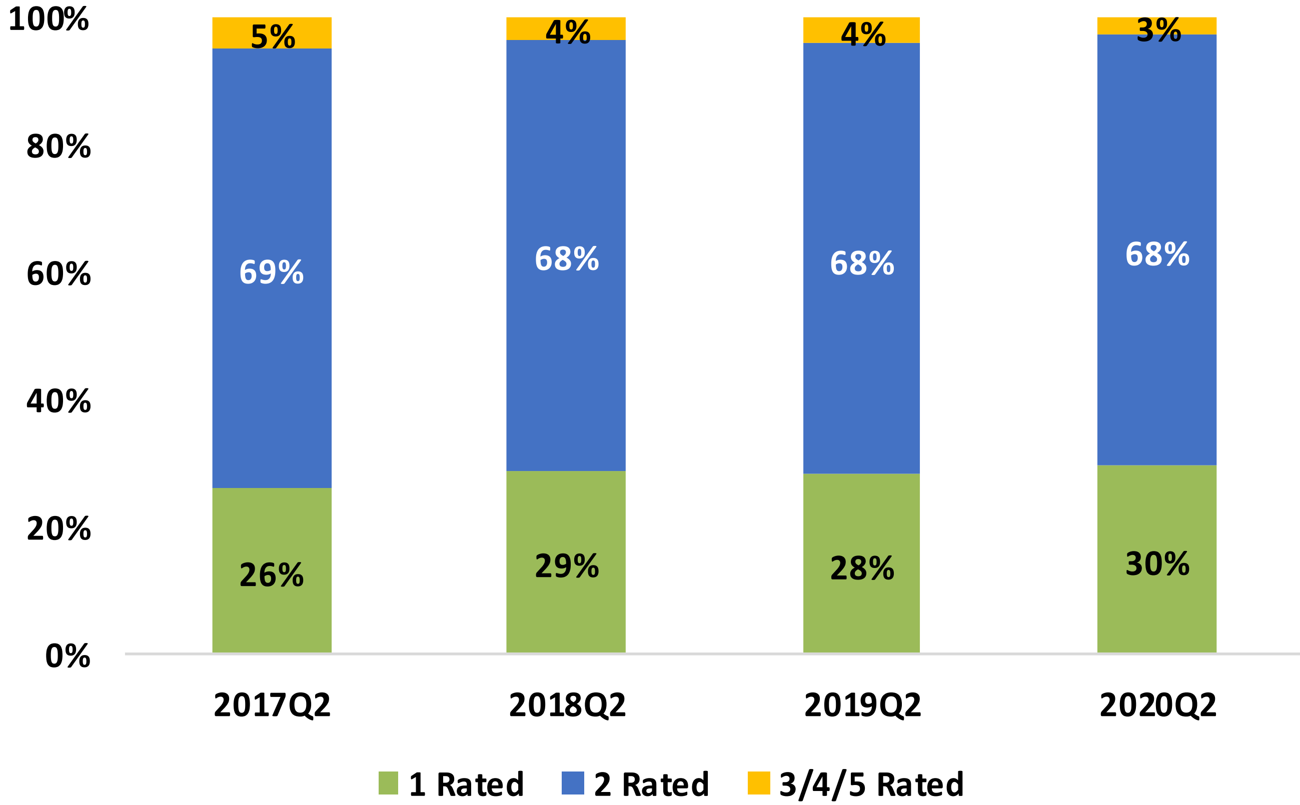
Below are the percentages of mutual FSAs designated with either high or moderate and increasing risk. The top two risks are operational and strategic. Credit is the only risk showing a year-over-year increase.



	COMP	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
2019Q2	11%	13%	18%	8%	23%	2%	6%	20%
2020Q2	11%	15%	15%	8%	21%	1%	5%	20%

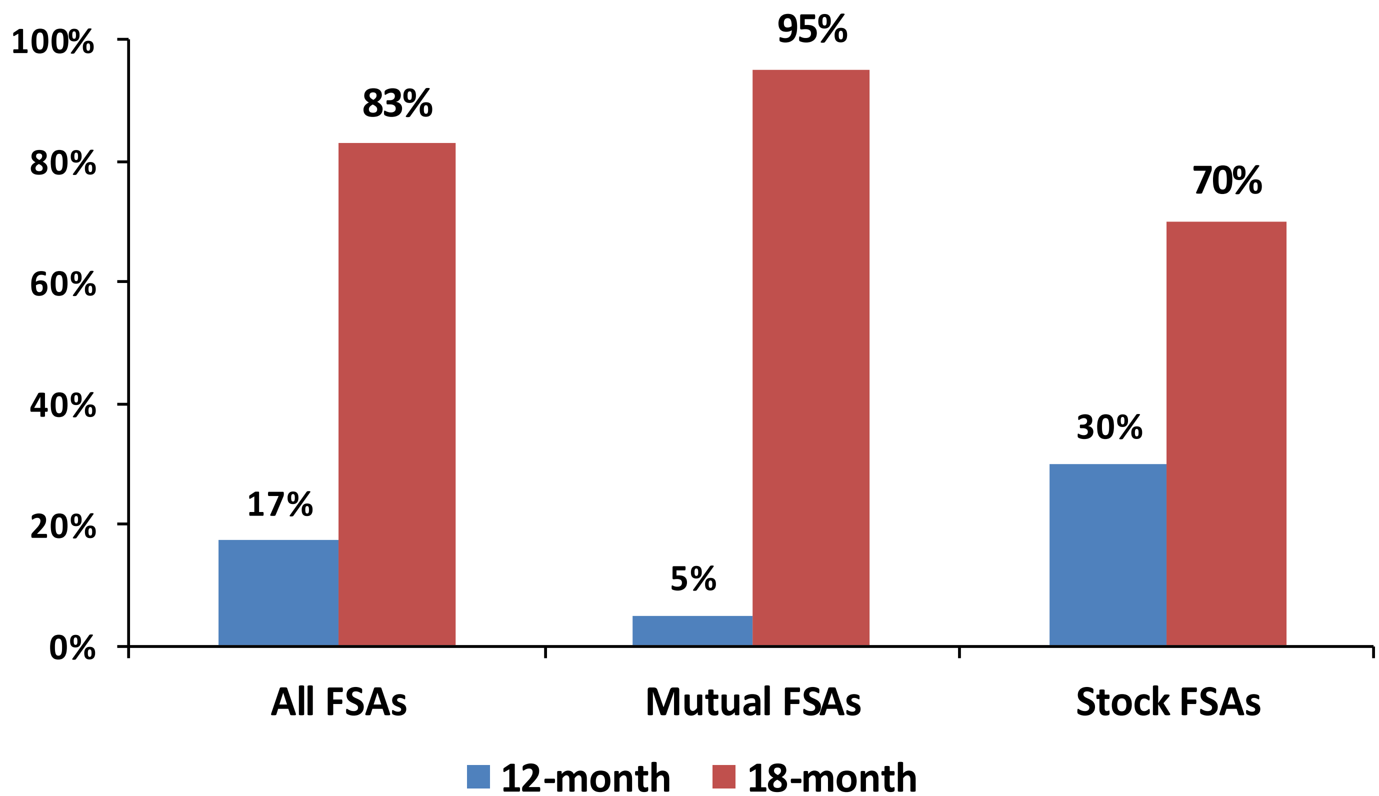
Mutual FSA Composite Ratings

Composite ratings at mutual FSAs remained strong. Ninety-eight percent of mutual FSAs have a composite 1 or 2 rating. There are no mutual FSAs rated 4 or 5 this quarter.



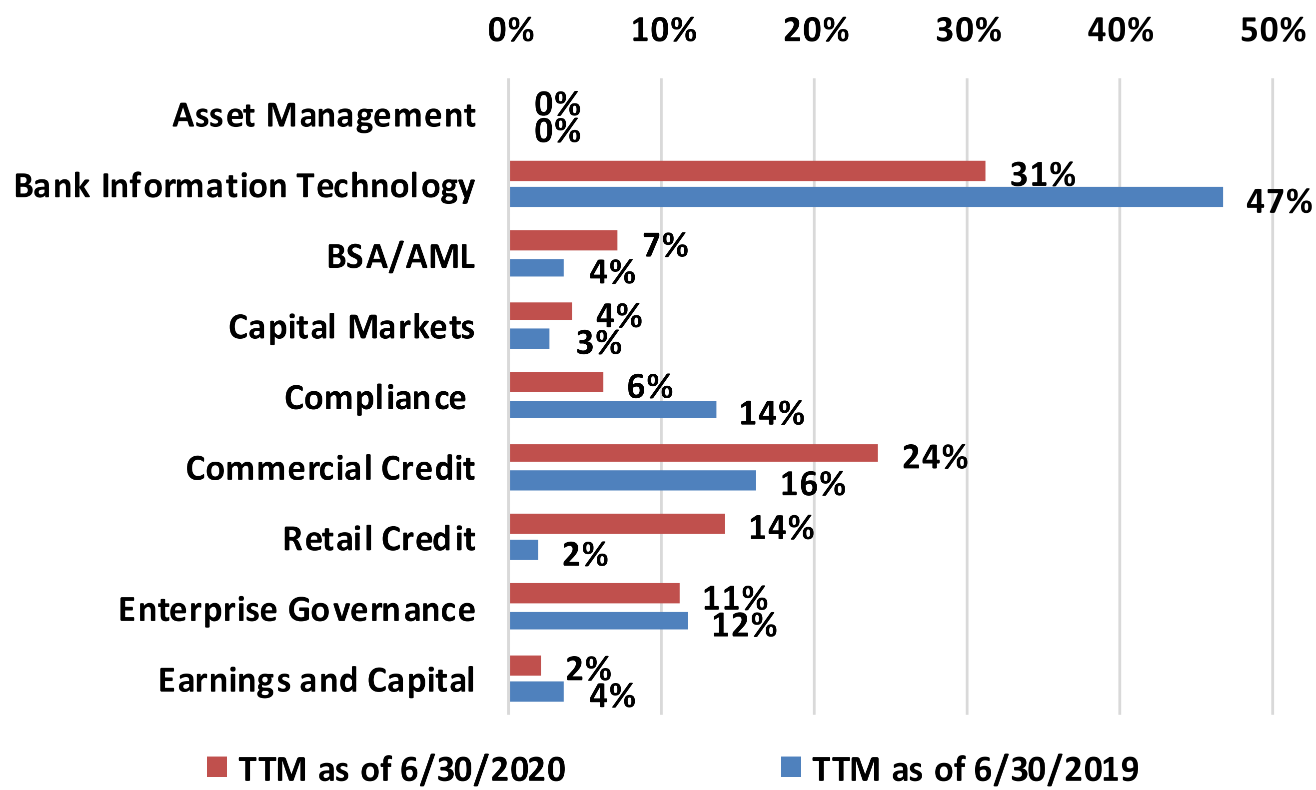
Supervisory Cycles for FSAs

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



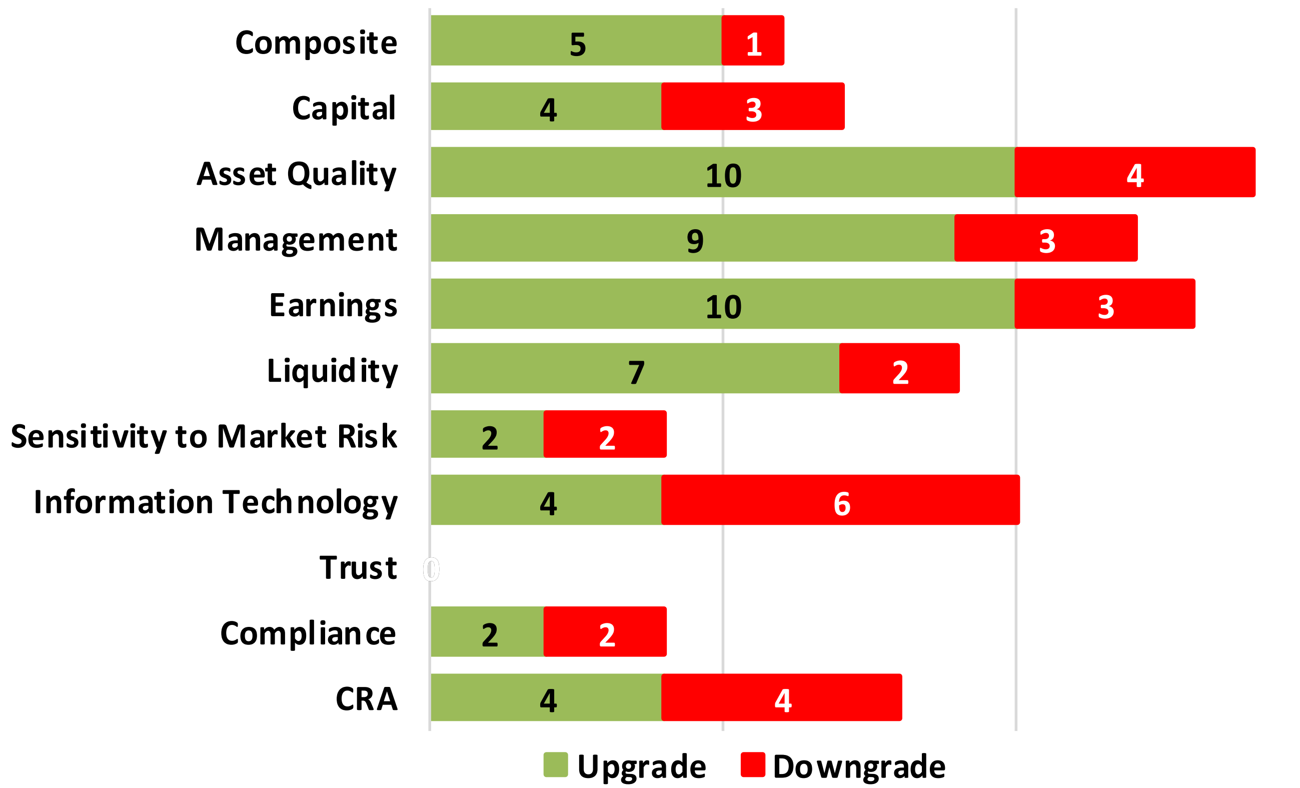
Mutual FSA MRAs by Examination Area

MRA concerns cited at mutual FSAs in the trailing twelve-month period ending June 30, 2020 decreased by 11 percent and were most commonly centered in Bank Information Technology at 31 percent and Commercial Credit at 24 percent.



Mutual Rating Changes

Over the last 4 quarters, rating downgrades exceeded upgrades. There were 57 downgrades and 30 upgrades, which translates to a net upgrade of 27. Most downgrades were for information technology. Most upgrades were for asset quality and earnings.



Key Observations – June 30, 2020

- Capital levels are strong. After exceeding 15 percent in 2019, leverage capital levels declined this year due to rapid asset growth resulting from the PPP. All mutual FSAs are “well-capitalized”.

- Asset quality is strong. Noncurrent loans remain at low levels. Most asset quality indicators are not yet showing signs of deterioration due to modification programs in the CARES Act that delay recognition of delinquency. After adjusting for the PPP, loan growth has slowed in 2020.

- Earnings fell 12 percent in 2020 due to net interest margin compression and higher provision expenses. Earnings is the safety and soundness component with the highest percentage of adverse ratings, which has been the case for many years.

- Liquidity is adequate and improving. On-hand liquidity increased sharply in 2020. 99 percent of banks are rated 1 or 2 for liquidity.

- Sensitivity to market risk remains adequately controlled. Nonmaturity deposits to long assets are at their highest levels this decade. No mutual FSA is rated worse than 2.

Questions