Office of the Comptroller of the Currency

Risk Perspective Overview Mutual Savings Association Advisory Committee

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Agenda

- **Mutual Supervisory Data Overview**
- **System-wide Earnings Performance**
- **Retail Credit Trends**
- **Commercial Credit Trends**
- **Key Risk Themes**

Mutual Supervisory Data Overview

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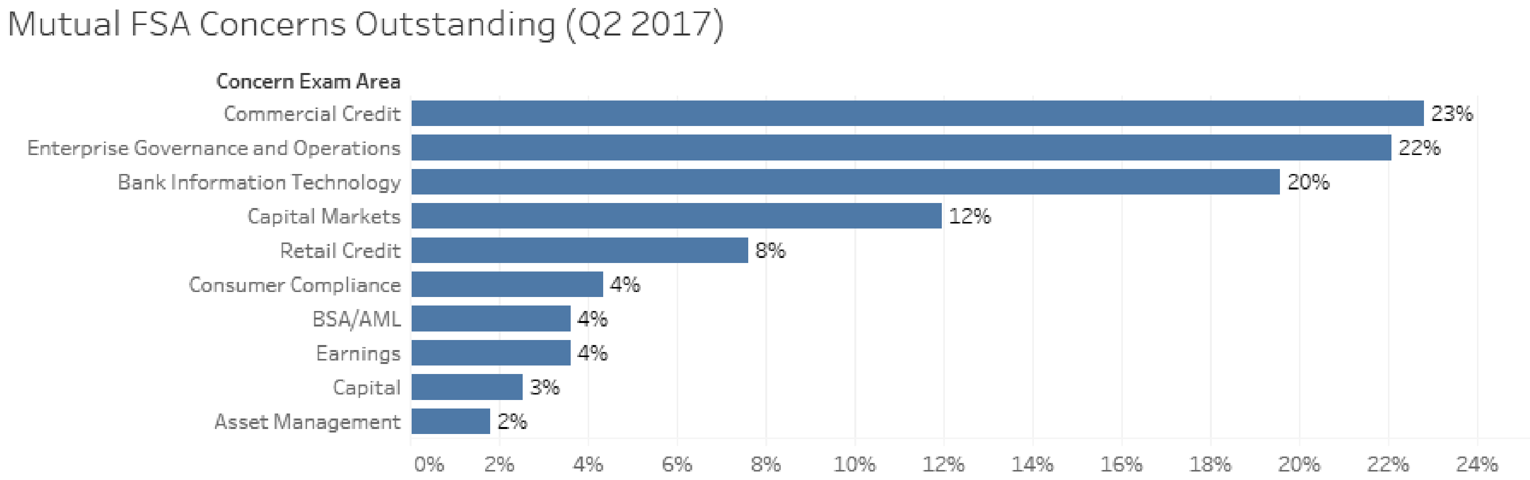
Mutual Overview: Supervisory Data



Source: OCC Supervisory Data

Matters Requiring Attention ("Concerns") are 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.**

Note: Data includes mutual federal savings associations (FSAs) and stock FSAs within a mutual holding company structure that have not issued shares

System-wide Earnings Performance

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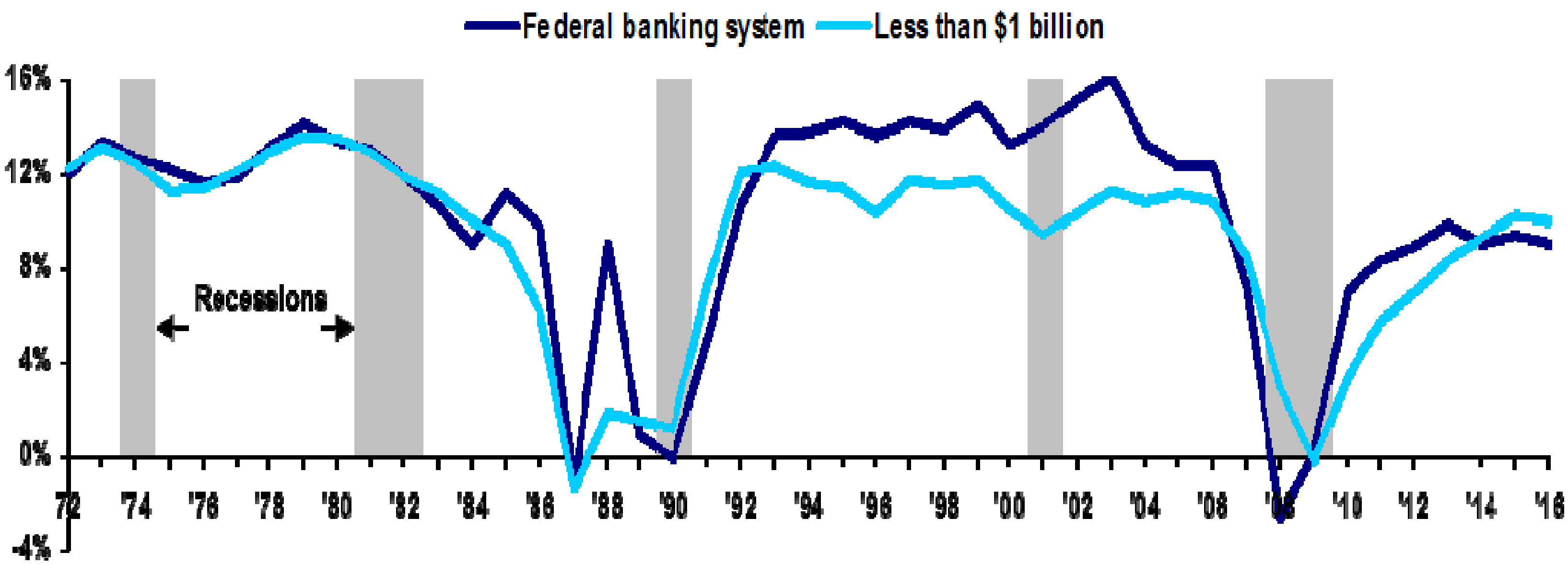
Return on Equity Stabilizing

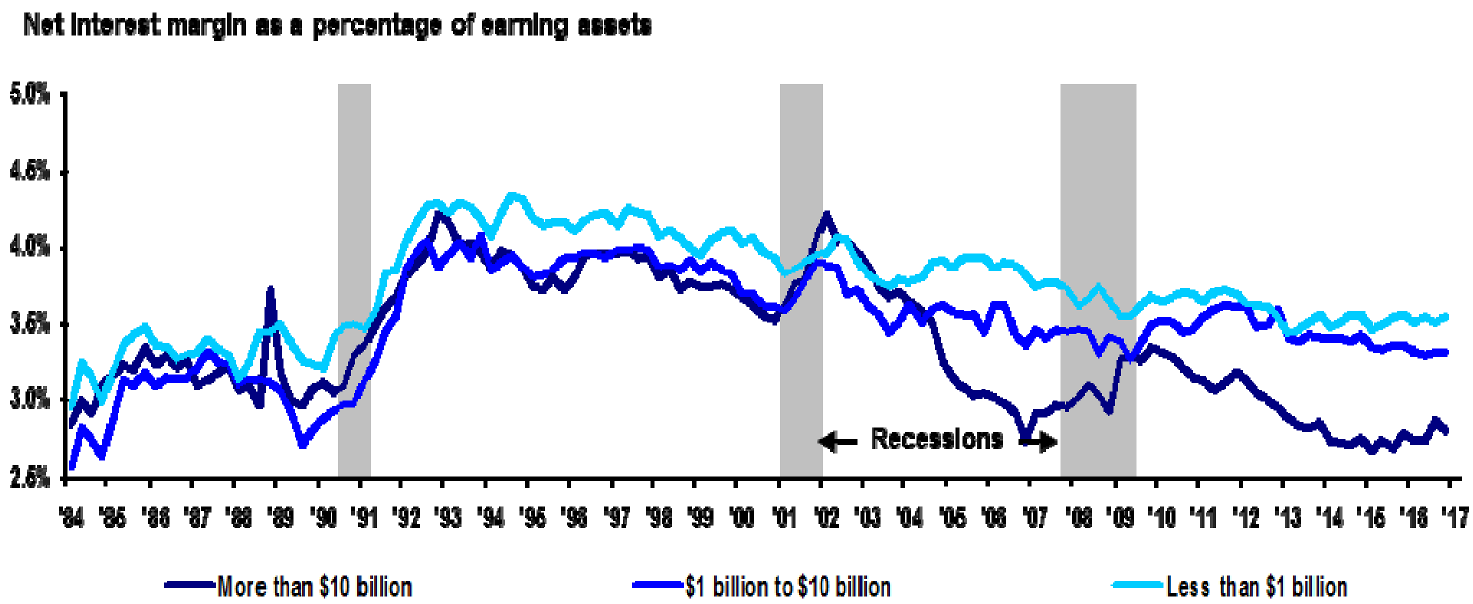


Source: Integrated Banking Information System (OCC)

- Return on Equity (ROE) across the federal banking system has been gradually improving
- At banks with less than $1 billion in total assets, ROE of 10 percent surpassed the system-wide ROE in 2014

Note: Information obtained from page 14 of the Semiannual Risk Perspective, Spring 2017

Net Interest Margins Have Stabilized but Remain Historically Low



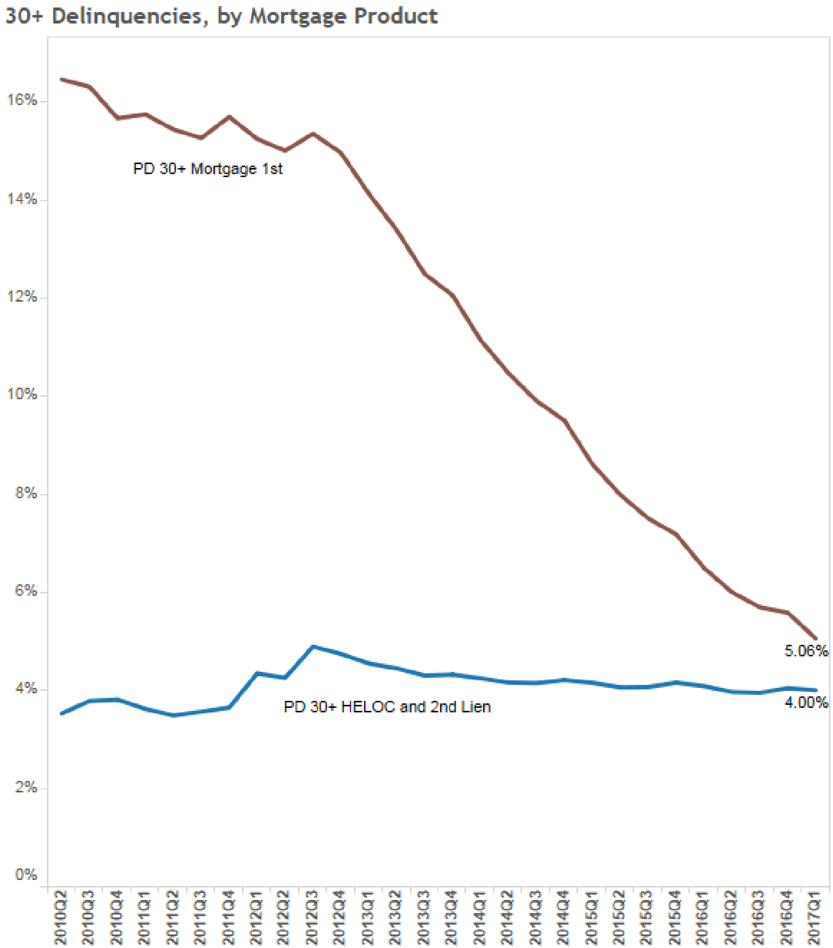
Source: Integrated Banking Information System (OCC)

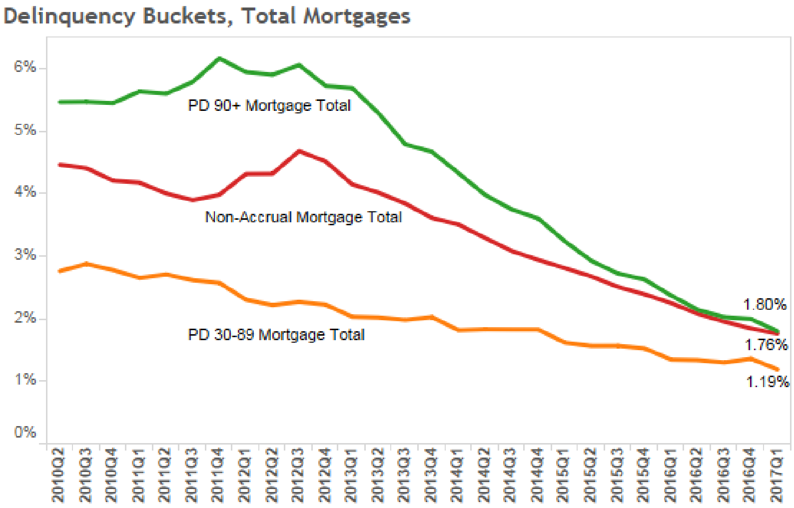
- Net interest margins (NIMs) stabilized at banks of all sizes, following a lengthy period of margin compression
- However, NIMs remain historically low and likely to remain under pressure for banks with extended maturities or low loan growth
- Strong loan growth combined with NIM stabilization enabled banks to report the largest net interest income gain since 2010

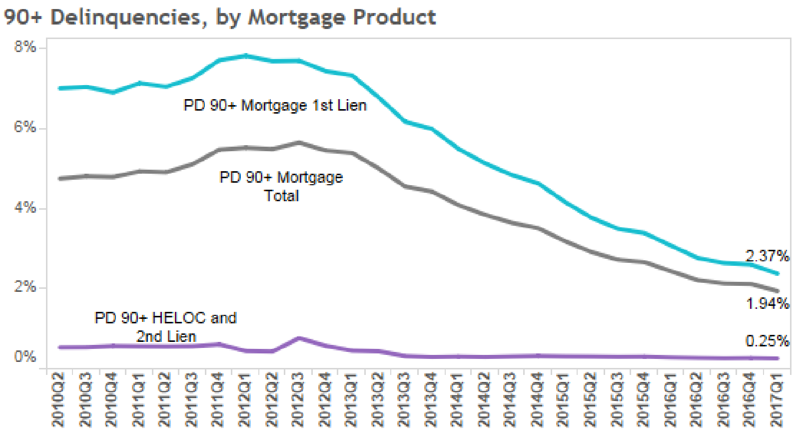
Note: Information obtained from page 14 of the Semiannual Risk Perspective, Spring 2017

Retail Credit Trends

Mortgage Performance







Source: Call Reports, IBIS. Note: Data are merger-adjusted.

- Delinquencies for first mortgages continue to decline
- Since 2014, home equity line of credit (HELOC) and second lien mortgages delinquencies remain flat

Note: Data includes all OCC regulated institutions

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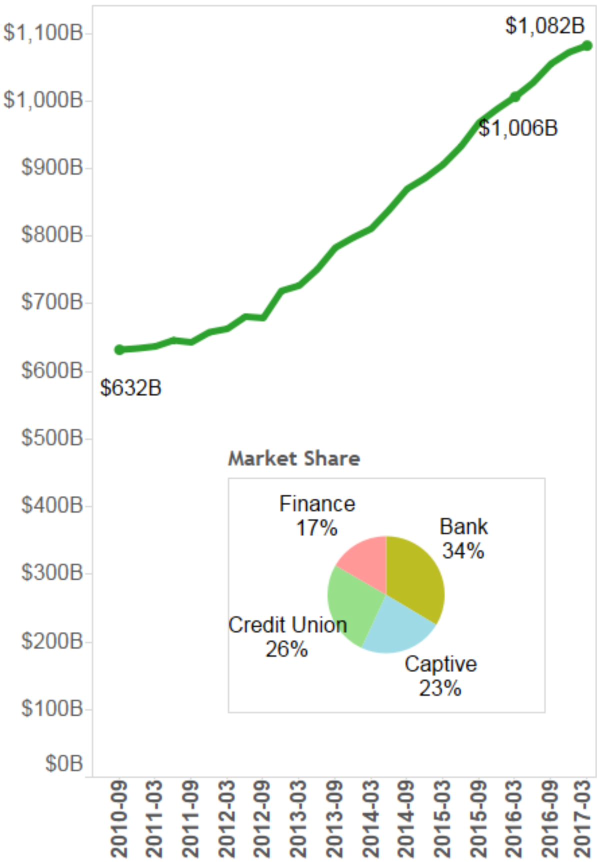
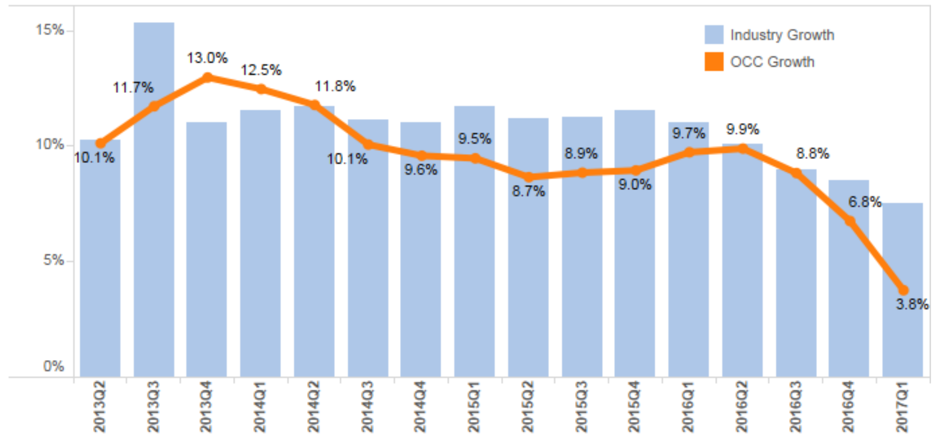
Auto Lending

Industry Auto Outstandings



Source: Experian Automotive.

YOY Growth in Outstandings, Industry vs. OCC



Source: Call Reports, IBIS and Experian Automotive.

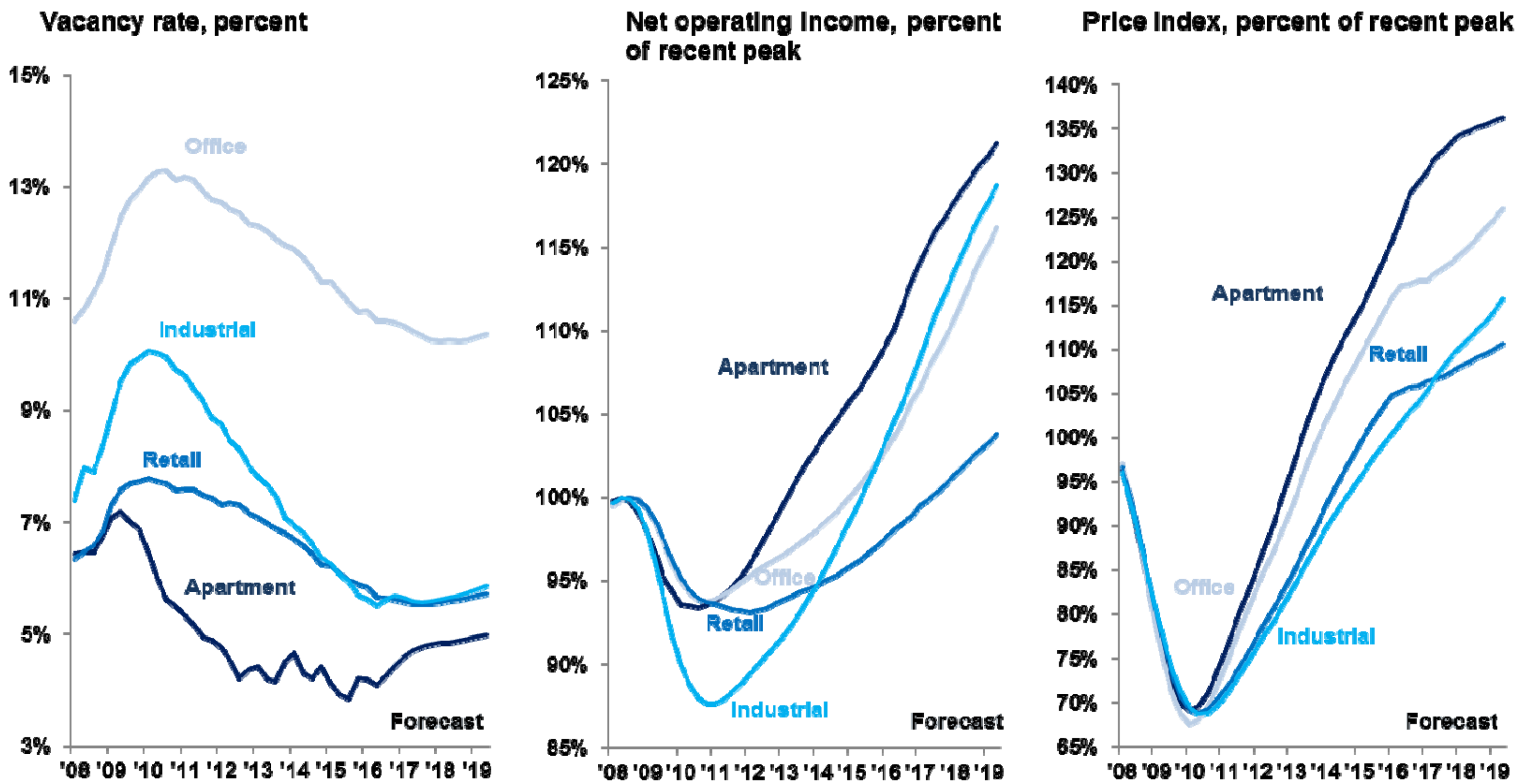
Manheim Used Vehicle Index, SA

Source: Haver Analytics.

- Auto lending growth continues, but at a slowing pace
- Used vehicle values are on a declining trend

Commercial Credit Trends

CRE Outlook Remains Mixed



Source: CoStar Group; fourth quarter 2016 baseline forecast for 54 tier 1 markets

- Office, industrial, and retail space vacancy rates declined over the past two years
- Apartments remain in a more advanced stage of the vacancy rate cycle than other commercial property types
- Apartment vacancies are expected to rise, and improvement in other property types is expected to slow
- Rising interest rates could raise borrowing costs and dampen the pace of price growth for all commercial properties

Note: Information obtained from page 11 of the Semiannual Risk Perspective, Spring 2017

Examiners Report Continued Easing in Underwriting Standards

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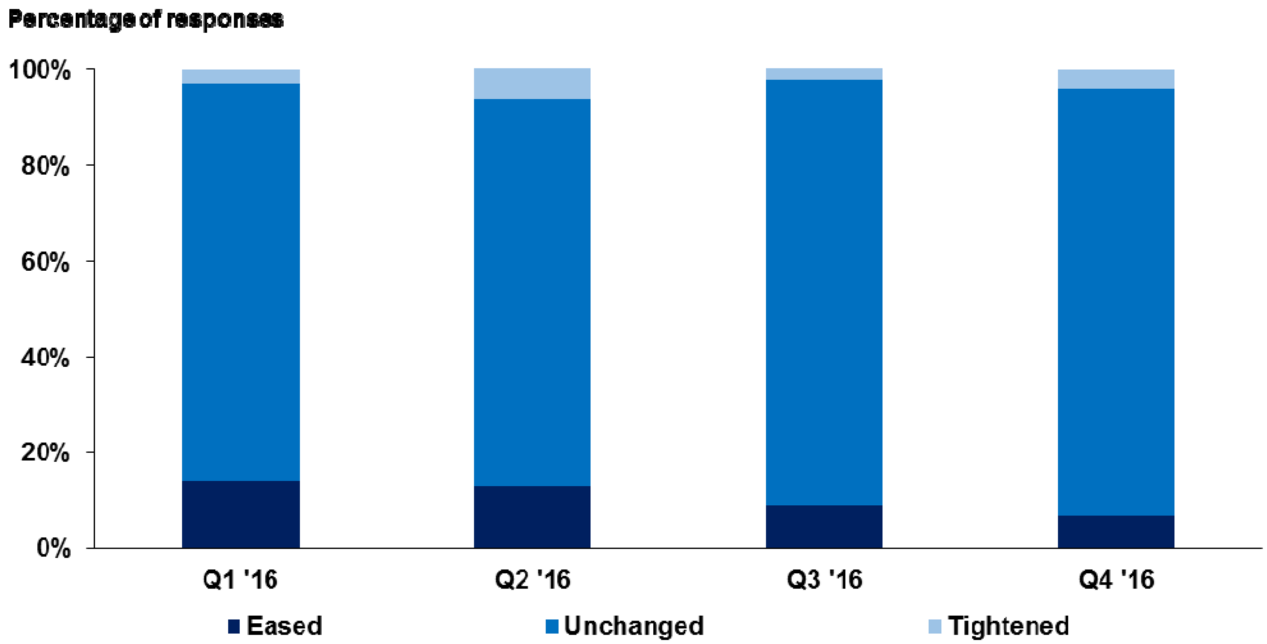

Source: OCC's Credit Underwriting Assessment

- Underwriting (UW) practices reflected incremental easing in 2016, but also indicates UW policies are generally sound
- The trend in UW reflected a slow reduction in the volume of easing, especially in late 2016
- The greatest volume of easing has occurred in large and midsize banks
- Easing was driven by increased competition, higher credit risk appetites, perceived improvements in general economic conditions, and a desire for loan growth
- Easing has occurred generally in pricing, guarantor requirements, loan covenants, retail loan sizes, collateral requirements, and debt-to-income (DTI) requirements

Note: Information obtained from page 17 of the Semiannual Risk Perspective, Spring 2017

Key Risk Themes

Key Risk Themes

Strategic	Strategic risk remains high for many banks, as management teams consider viable business models and search for sustainable ways to generate target rates of return or struggle to implement their strategic plans.
Credit	Growing competitive pressures and continued strong credit risk appetites have led to lower underwriting quality and increased credit risk.
Operational	Operational risk is high as banks adapt business models, transform technology and operating processes, and respond to increasing cyber threats.
Compliance	Compliance risk remains high as banks manage BSA/AML risks and implement changes to policies and procedures to comply with new MLA regulations and mortgage lending requirements.

Key Risk Themes - Operational

Operational Risk

- **Sophisticated cyber threats continue to pose high inherent risks** to an interconnected financial service marketplace.
- **Cyber threats are increasing in speed and sophistication.** These threats target large quantities of PII and proprietary intellectual property, and facilitate misappropriation of funds. **Phishing** is the primary method for breaching data systems and often the entry mechanism to perpetrate other malicious activity.
- **Timely and thorough software patch and update management, strong risk-based authentication, sound controls, and effective user awareness campaigns and training help banks** avoid phishing, ransomware attacks, and viruses, and mitigate other risks.
- There has been a **significant increase in the volume of IT-related MRAs** identified during supervisory activities of MCBS banks and technology service provides (TSPs). The top five categories of concern (77% of MRAs) involve information security, IT governance/oversight, business continuity, third-party risk management, and IT audit.

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Key Risk Themes - Compliance

Compliance Risk

- **BSA/AML compliance risks remain high**. The inability to develop and maintain requisite expertise to successfully implement BSA/AML controls increases the scale of vulnerabilities created by technological developments and innovation.

- **Bank decisions to terminate entire categories of customer accounts without considering the risk** presented by individual customers or the bank's ability to manage the identified risk **may facilitate the movement** of certain customer segments or transactions **out of the regulated financial system**. This reduces transparency and potential reporting to law enforcement authorities, as required by the BSA. Higher-risk customer relationships may instead migrate **to other banks less experienced** in managing complex transactions and potential money laundering risks.

- **Evolving consumer compliance risks and increasing complexity of the risk environment present significant challenges** for bank compliance risk management systems. Increased compliance costs and the resultant pressures place additional demands on already strained systems. Maintaining sufficient compliance expertise to manage the additional risks and complexities remains a concern.

- **Change management challenges continue** as banks work to implement new and revised consumer protection rules.

- **Fair lending risks may increase when banks engage third parties** to conduct some or all of the loan application or underwriting processes, or to help banks make decisions regarding terms or pricing.

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Questions?