Office of the Comptroller of the Currency

Mutual Savings Association Advisory Committee

November 18, 2015

Introduction

- Industry performance trends
- Risk Assessment – OCC's perspective on top industry risks

Office of the Comptroller of the Currency

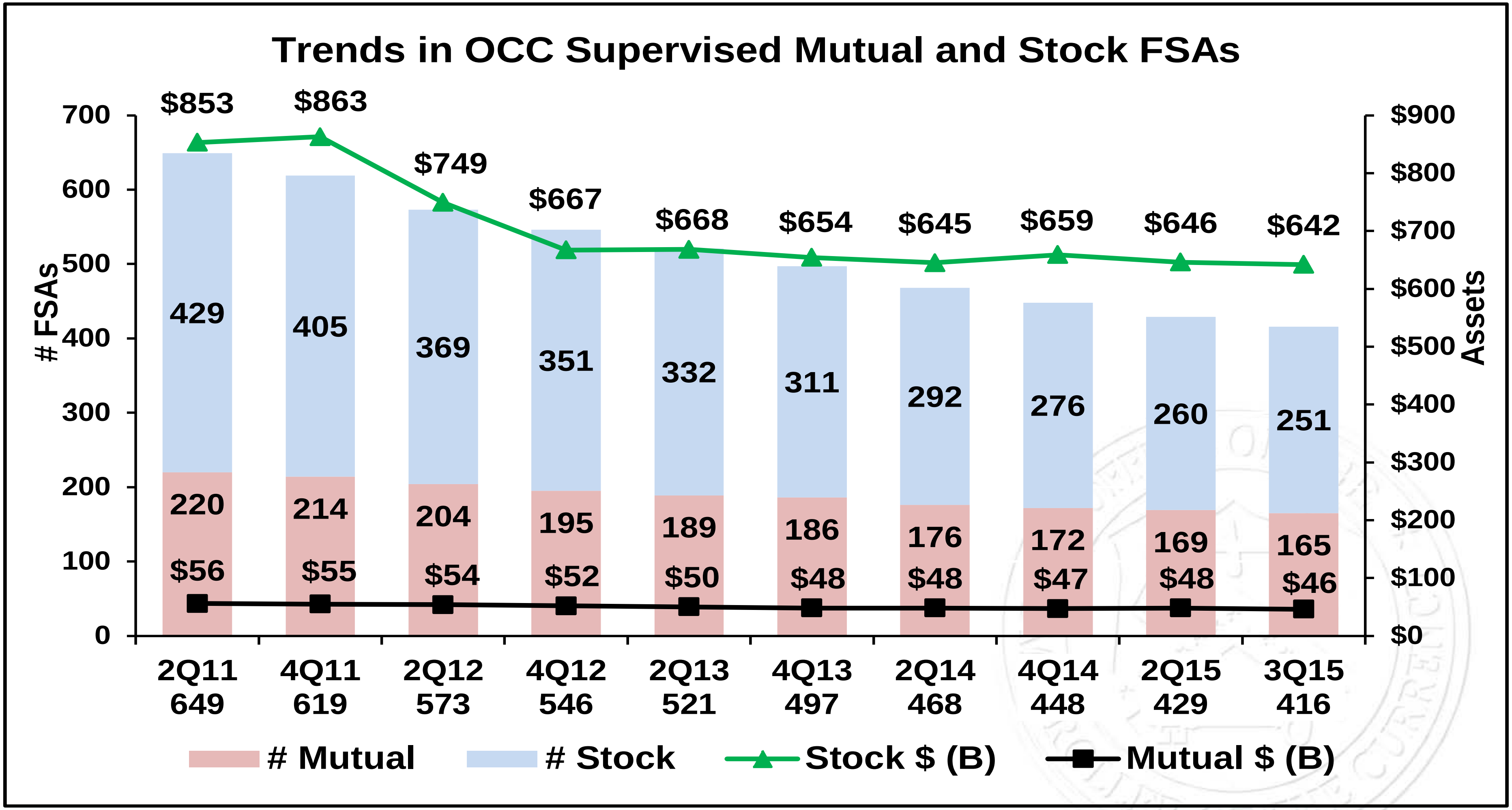
Savings Institutions

- As of September 30, 2015, the savings industry comprises 823 charters and $1.1 trillion in assets.
- OCC supervises 51 percent, or 416 of these charters and 66 percent, or $688 billion of the assets.
- The other 407 institutions consist of state savings banks, state savings & loans and cooperatives.

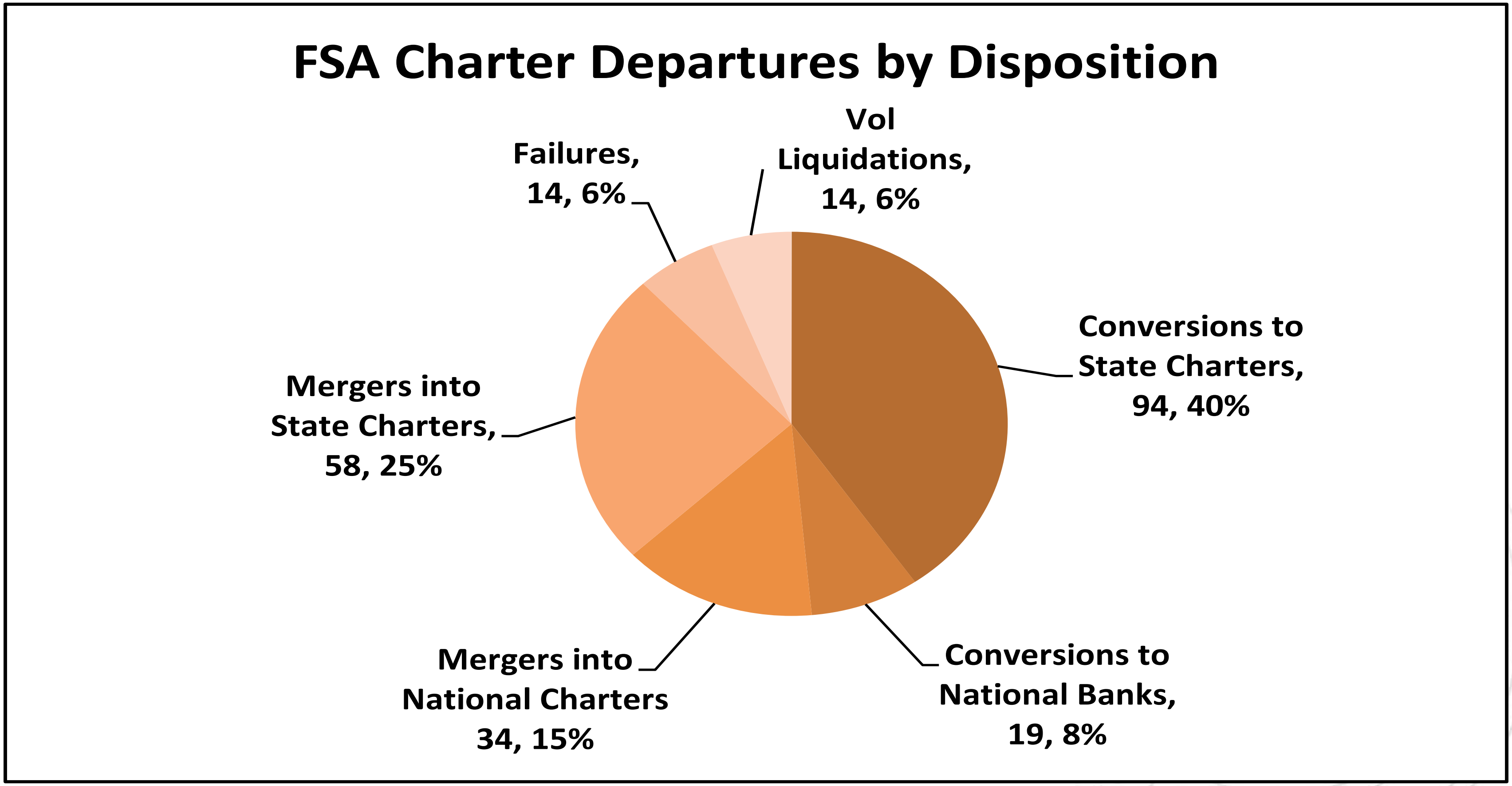
FSAs vs Other Savings Institutions

Prim Reg	# Chart	% Chart	Assets $ 2015Q3 (000's)	% of Assets
OCC	416	51%	687,967,762	66%
FDIC	407	49%	362,194,982	34%
Total	823	100%	1,050,162,744	100%

Thrift Charter Consolidations and Conversions



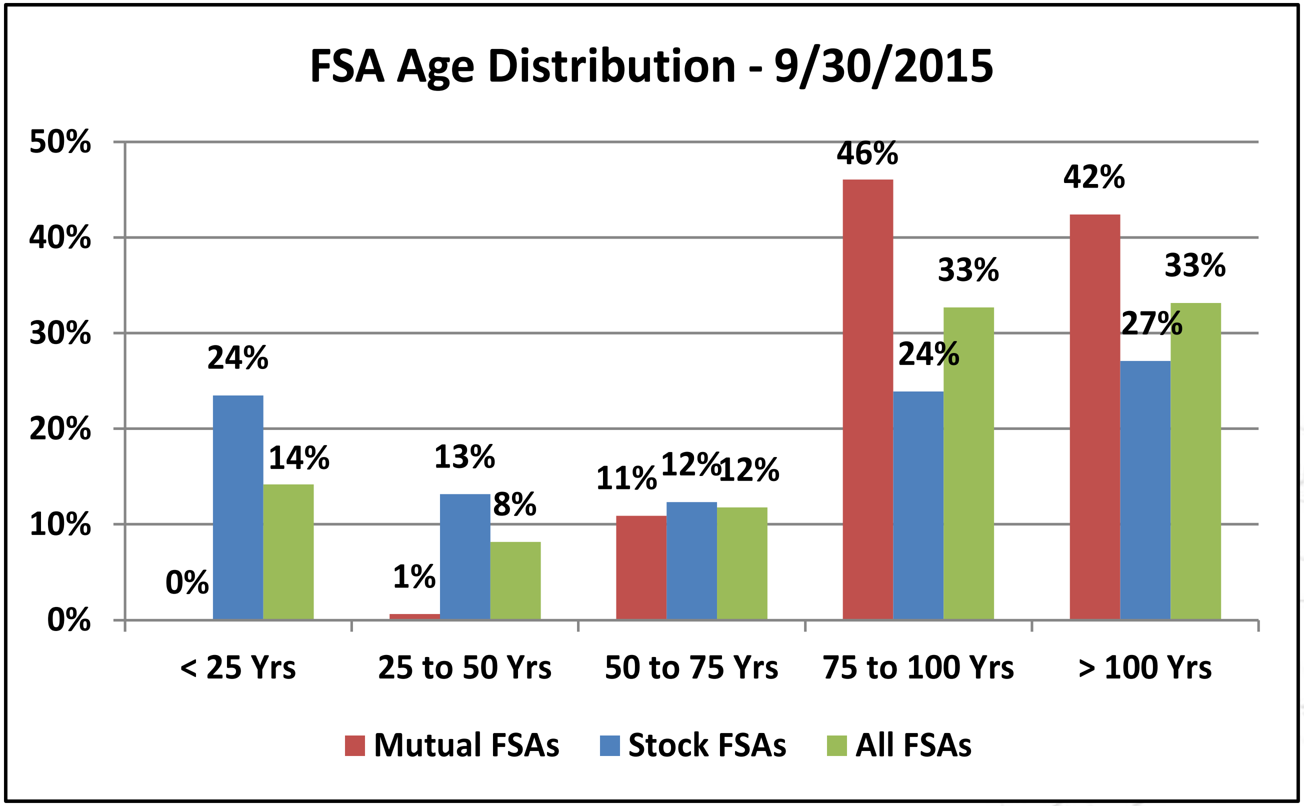
Federal Savings Associations – Departures



FSA Asset Distribution

FSA Asset Distribution - 9/30/2015						
Asset Size	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Less Than $50MM	52	13%	32	19%	20	8%
$50MM To $100MM	68	16%	39	24%	29	12%
$100MM To $250MM	130	31%	50	30%	80	32%
$250MM To $500MM	69	17%	28	17%	41	16%
$500MM To $1B	38	9%	9	5%	29	12%
Greater Than $1B	59	14%	7	4%	52	21%
Total	**416**	**100%**	**165**	**100%**	**251**	**100%**

FSA Age Distribution



FSA Performance – Asset Quality

Asset quality indicators for FSAs improved in 2015. Classified, special mention and non-performing assets declined year-over-year. The ALLL decreased in tandem with classified loans and net loan losses. Loan growth has been weak but improved year-over-year to 2.61 percent.

Asset Quality (median values)

Financial Measure	9/30/2015			9/30/2014		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Special Mention /Tier 1 + ALLL	3.90	2.28	4.80	4.47	3.37	5.99
% Classifed Assets /Tier 1+ ALLL	16.75	14.01	18.65	18.54	15.82	23.37
Non-cur Lns&OREO/Lns&OREO	1.46	1.49	1.41	1.71	1.58	1.78
ALLL / Loan & Leases Not HFS	1.09	1.01	1.17	1.19	1.03	1.30
Net Loan & Lease Growth Rate	2.61	0.69	5.47	2.25	-0.41	5.00
Net Loss / Avg Tot Lns & Ls	0.04	0.04	0.05	0.09	0.08	0.10

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FSA Performance – Earnings and Capital

- Earnings indicators are mixed through the first nine months of 2015. While ROAA rose by five basis points, NIM fell two basis points and efficiency ratios edged higher to 80.93.
- Capital levels remain strong and stable year-over-year. The new capital rules introduced Common Equity Tier 1 as a new capital adequacy ratio beginning March 31, 2015. The new ratio was the same as Tier 1 RBC Ratio for all but seven FSAs as of September 30, 2015.

Earnings and Capital (median values)

Financial Measure	9/30/2015			9/30/2014		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
ROAA Adj Sub S	0.49	0.38	0.59	0.44	0.34	0.54
Net Interest Margin (NIM)	3.28	3.19	3.40	3.30	3.15	3.43
Efficiency Ratio	80.93	83.61	79.31	80.88	82.94	79.22
T1 Leverage Capital	11.81	13.34	11.18	11.83	13.20	10.94
T1 RBC to Risk-Wt Assets	20.21	26.69	17.63	20.55	27.03	17.61
Total RBC to Risk-Wt Assets	21.54	27.44	18.58	21.61	27.73	18.80
Common Equity Tier 1	20.21	26.69	17.63	-	-	-

FSA Performance – Liquidity and Sensitivity

- Liquidity ratios remain stable.
- Sensitivity indicators reflect higher risk. The long term assets to total assets ratio increased and poses a supervisory concern should rates rise.
- The residential real estate to total assets ratio remains high, but decreasing and the non-maturity deposits to long-term assets improved slightly.

Liquidity and Sensitivity to Market Risk (median values)

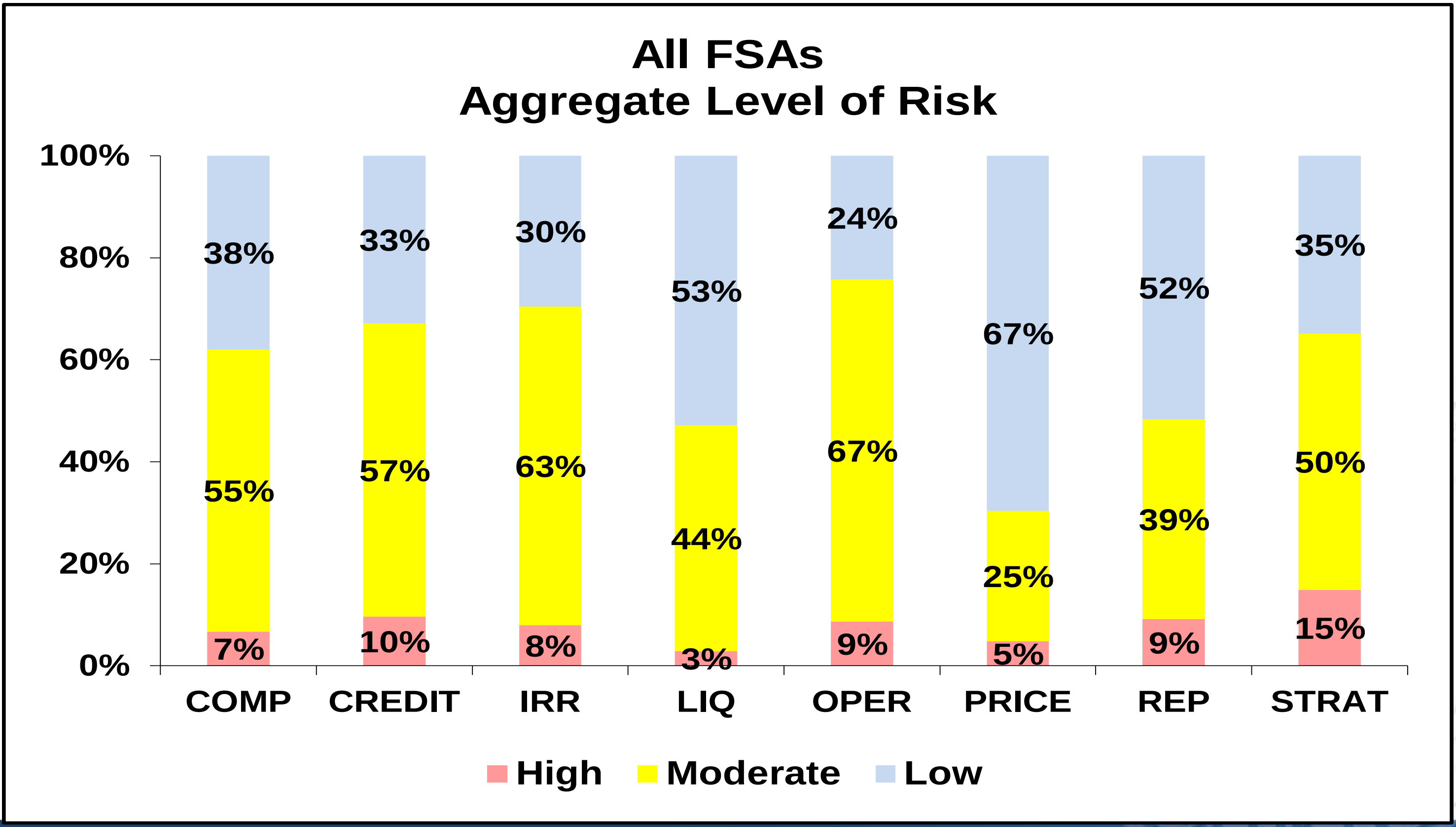
Financial Measure	9/30/2015			9/30/2014		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Non-Core Funding Dependence	1.20	-3.90	7.58	0.95	-4.34	5.57
% Reliance on Whole. Funding	5.84	1.25	10.50	5.07	1.37	9.22
Loans to Deposits	86.51	83.31	90.77	83.31	81.50	87.88
% LT Assets /Total Assets	46.02	51.09	41.23	46.88	52.94	41.73
% Res Real Estate /Total Assets	53.52	59.43	47.17	54.70	61.78	48.06
Non-Mat Deposits/Long Assets	79.00	69.29	86.05	75.39	64.63	84.35

OCC National Risk Committee
Top Risks

- **Strategic Risk**
- **Compliance – BSA/AML and Consumer Compliance**
- **Operational - Cybersecurity**
- **Credit - Underwriting**
- **Interest Rate Risk**

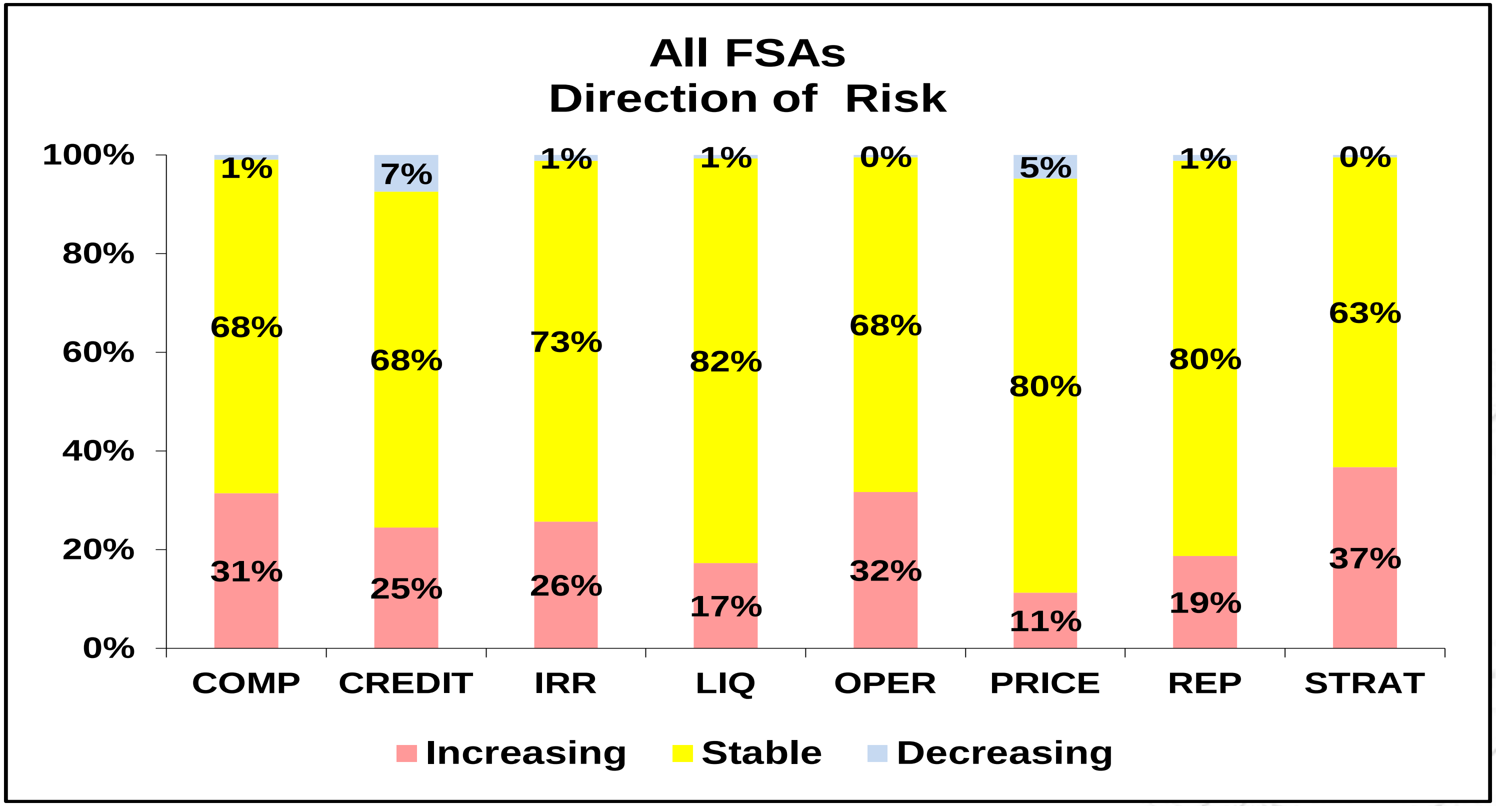
FSA Level of Risk

A high aggregate level of risk rating was most often assigned for Strategic, at 15 percent, followed by Credit risk, at 10 percent.



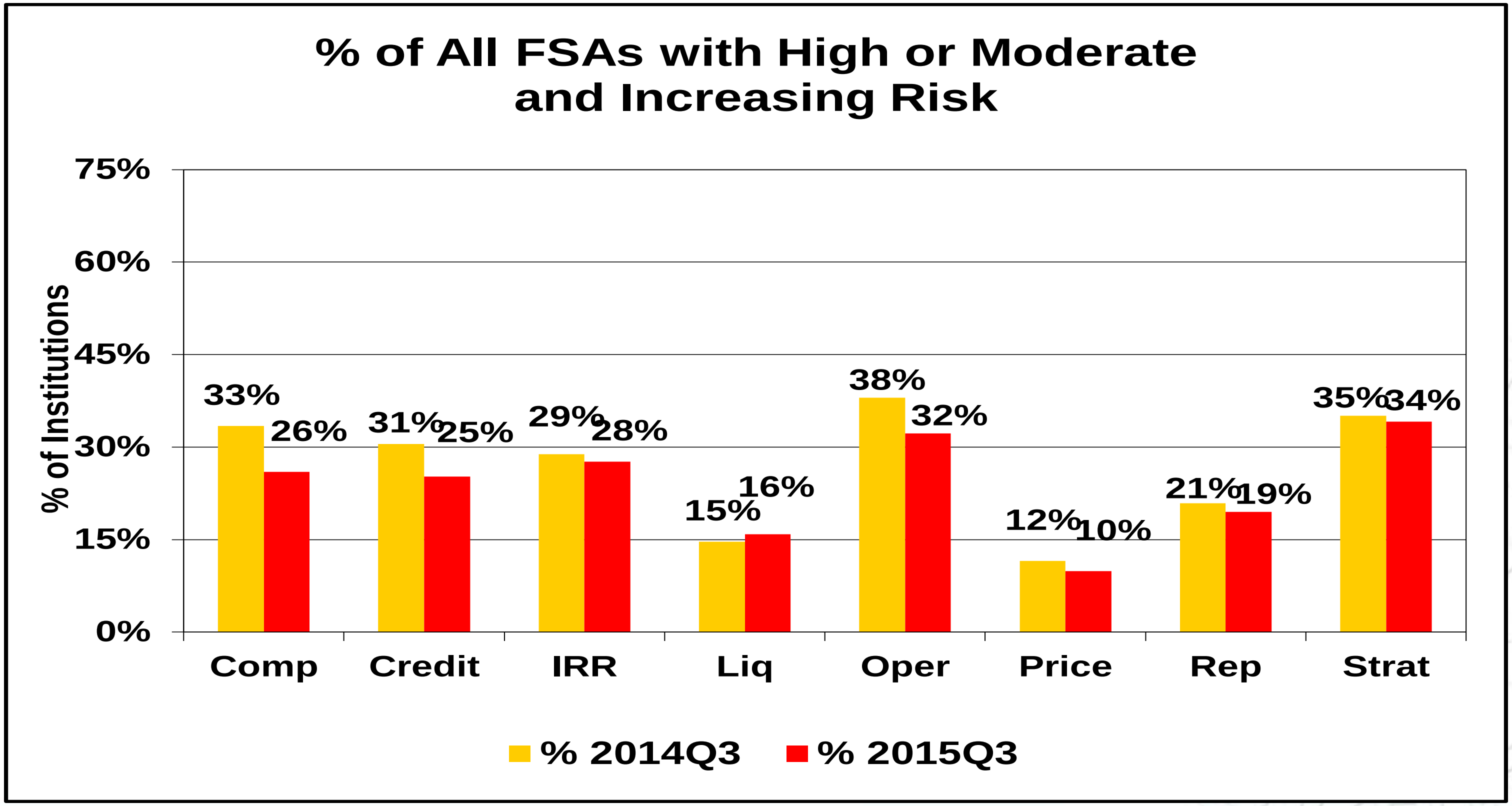
FSA Direction of Risk

An increasing direction of risk rating was most often assigned for Strategic, at 37 percent, followed by Compliance and Operational, at 32 and 31 percent, respectively.



FSAs with High or Moderate and Increasing Risk

More FSAs have high or moderate and increasing strategic risk, at 35 percent, versus any other category. Operational risk is close behind at 33 percent, but levels of risk have declined year-over-year. IRR has moved into the third spot at 28 percent followed by compliance risk and credit risk at 26 percent and 25 percent, respectively.



Strategic Risk

Anxiety for income

- Bankers are assessing strategic viability, existing business models, risk appetites, and merger/acquisition opportunities
- Entry into new products/services without adequate expertise, due diligence or appropriate risk controls and infrastructure
- Limited management succession and talent retention options
- Increased risk taking and risk layering to meet competition and increase revenues

Operational Risk

Systems are not keeping pace with changes and threats

- Banks continue to be targets of coordinated, sophisticated and evolving cyber-attacks. The OCC and the FFEIC are working to raise awareness, including the Cybersecurity Assessment Tool (CAT)
- Banks may not incorporate resiliency considerations into their overall governance processes, increasing their vulnerability
- Business models are under pressure as bankers launch new products, leverage technology, and increase reliance on automated controls
- The number, nature, and complexity of third-party relationships continue to expand

Interest Rate Risk

There is increasing vulnerability to rapidly rising interest rates

- Risk of nonmaturity deposits, which may include surge deposits, being more volatile and rate sensitive than in past rate cycles merits additional analysis to support underlying assumptions

- Banks that extend asset maturities for yield could face significant earnings pressure and capital erosion, depending on the severity and timing of interest rate moves

- Diminished market liquidity and market depth could exacerbate liquidity concerns during a stress event that causes excessive volatility

Compliance Risk

New and evolving consumer compliance and BSA/AML requirements coupled with inadequate resources or expertise

- Industry feedback that the integrated mortgage disclosure requirements (TRID) continue to pose significant compliance challenges
- Some compliance programs have failed to evolve or incorporate appropriate controls into new products, services, regulatory changes and changing customer profiles
- Changing money laundering methods and growth in the volume and sophistication of electronic banking fraud challenge compliance risk managers
- Difficult to attract and retain compliance and BSA/AML expertise

Credit Risk

Underwriting loosening and increased risk layering

- Credit risk is building while traditional lagging credit quality metrics improve
  - Competition is resulting in eased underwriting across a variety of credit products
  - Weakening of underwriting standards already noted in syndicated leveraged loans, indirect auto, ABL, CRE, multifamily and C&I lending
  - Risk layering via increased collateral advance rates, waiving/loosening of guarantees, and more liberal repayment terms such as extended interest-only payments
  - Increasing policy, underwriting, and collateral exceptions
- ALLL, capital, and concentration risk management need to keep pace with increased loan growth and underwriting concessions

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