

Mutual Savings Association Advisory Committee Meeting

May 3, 2016

Mutual Overview and Trends

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Mutual Overview and Trends

1. Portfolio Statistics

- FSA trends; charter type/form of organization; state and asset distribution; charter age.

2. Financial Metrics

- Asset quality (including loan mix and loan growth); Earnings and Capital (including noninterest expenses and PCA categories); Liquidity and Sensitivity. Some breakouts by mutual peer groups.

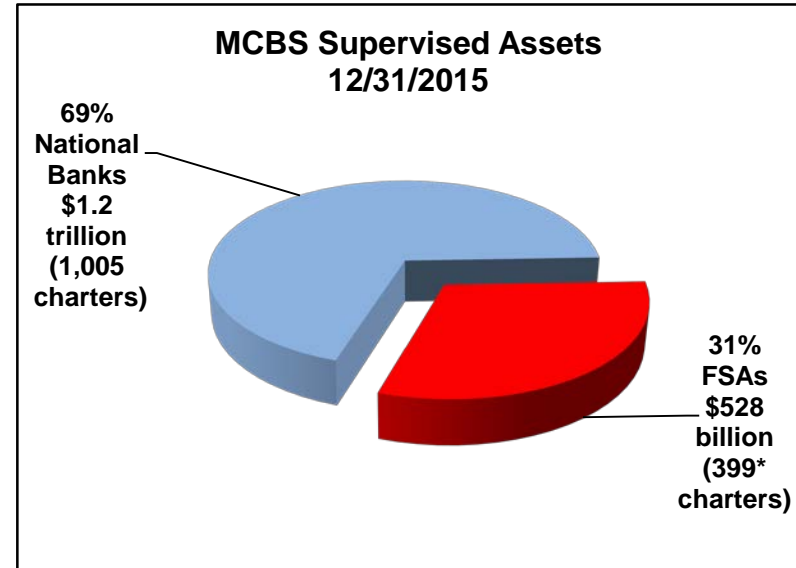
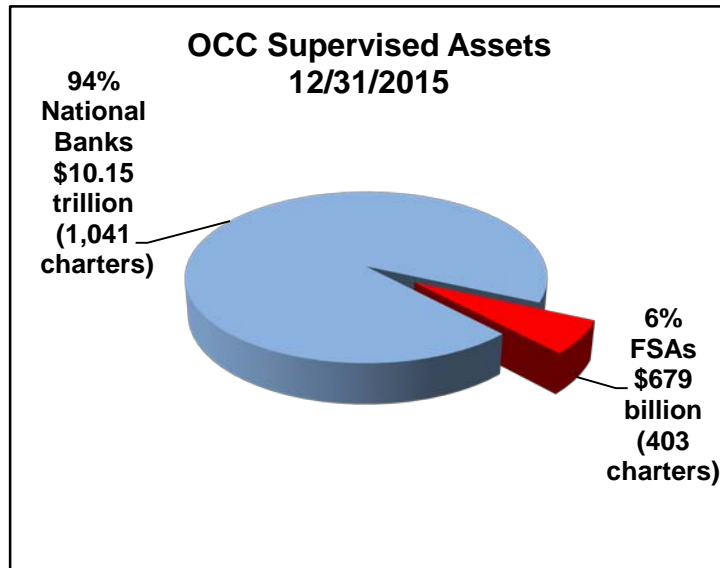
3. Supervisory Data

- Examination cycle; composite, component and specialty rating distributions and changes; quality of risk management; aggregate level and direction of risk; moderate and increasing risks; Matters Requiring Attention (MRAs); Violations of Law (VOLs).

4. OCC Supervisory Tools

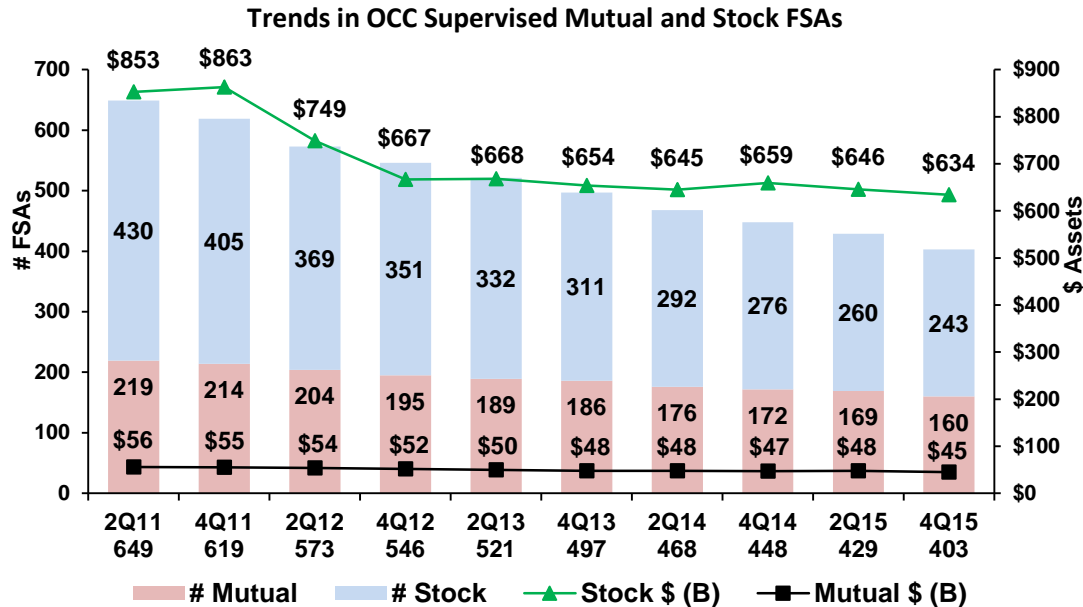
- Summary of key OCC Supervisory Tools – Canary System Benchmarks, Thrift Analysis Report, Mutual Peer Bank Performance Report (and Demonstration), Quarterly FSA Briefing Package.

Mutual Overview: Portfolio Stats



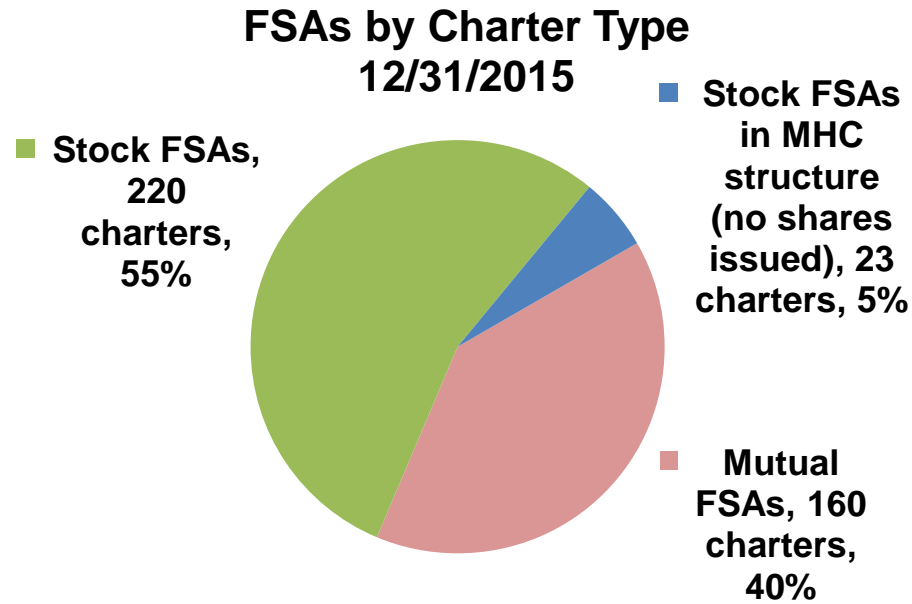
- OCC-regulated banks hold \$10.8 trillion in assets, including \$679 billion in FSAs.
- Total assets held by Midsize and Community Bank Supervision (MCBS) institutions were \$1.7 trillion or 15% of all OCC-supervised assets and the 1,404 MCBS charters were 97% of all OCC-supervised bank charters.
- FSA charters represent 28% of MCBS-supervised charters with \$528 billion in assets or 31% of all assets held by MCBS institutions.

Mutual Overview: Portfolio Stats



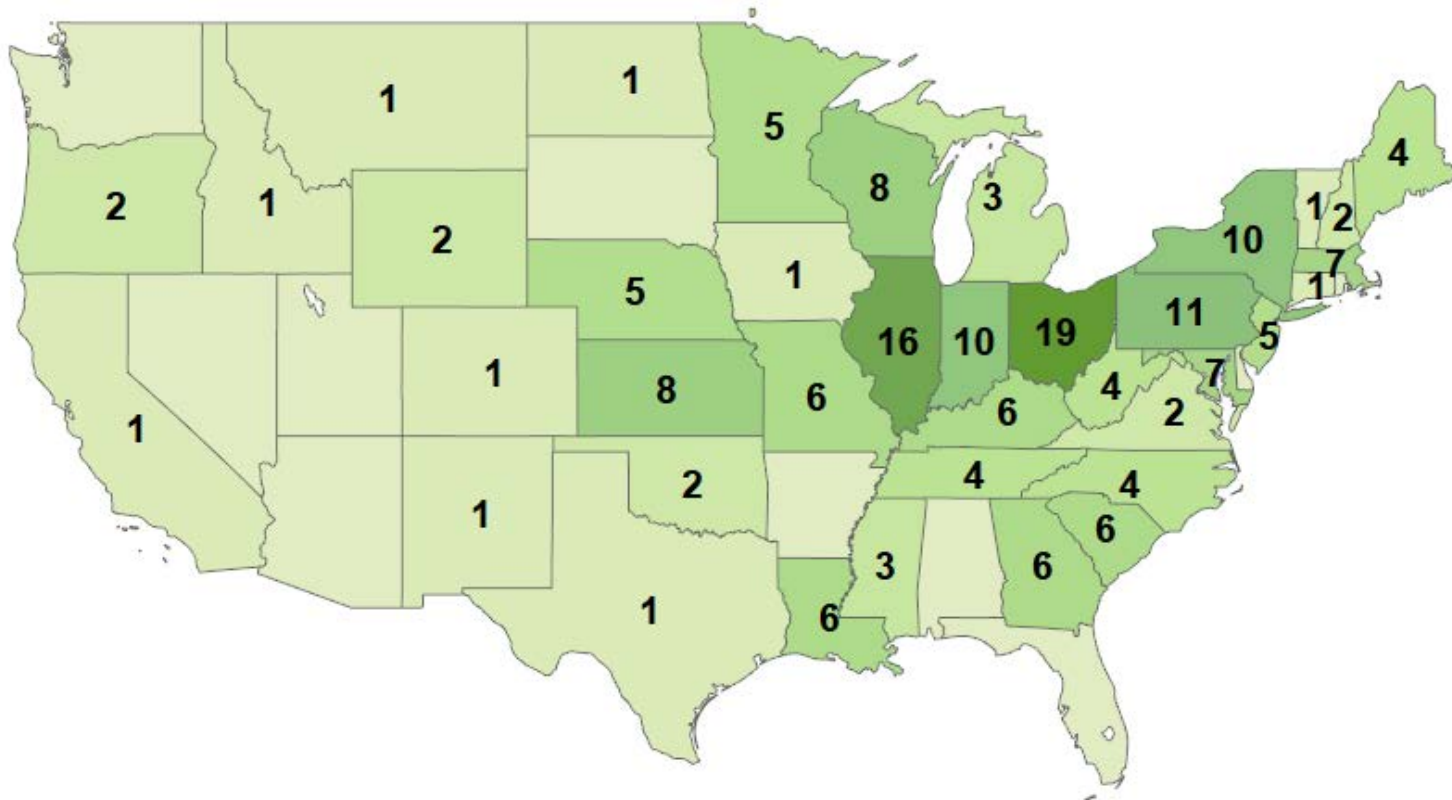
- Mutual FSAs continue to decline but not as rapidly as other institution types. Aggregate assets held by mutual FSAs of \$45B remained fairly stable over the last year.
- Mutual FSAs are increasing relative to the total FSA population. As of year-end 2011, mutual FSAs represented 35% of FSA charters. As of year-end 2015, the proportion of mutual FSAs to total FSAs has grown to 40%.

Mutual Overview: Portfolio Stats



- There were 160 mutual FSA's and 23 stock FSA's in a MHC (mutual holding company) structure that have not issued shares, as of 12/31/2015.
- Mutual FSA's and stock FSA's mutually-owned (that have not issued shares) represent 45% of OCC-regulated FSA's.

Mutual Overview: Portfolio Stats



- There are five states with 10 or more mutual FSAs: Ohio (19); Illinois (16); Pennsylvania (11); and Indiana and New York (10 each).
- Four other states have more than 7 mutual FSAs: Wisconsin and Kansas (8 each); and Maryland and Massachusetts (7 each).

Mutual Overview: Portfolio Stats

States with Mutual FSA and Mutually Owned FSA Assets > \$ 1 Billion

State	# Mutuals	% Mutual FSAs	Total Assets 2015Q4	% of Mutual FSA Assets
PA	11	6%	10,087,344	18%
NJ	5	3%	5,530,185	10%
NY	10	5%	4,381,097	8%
OH	19	10%	4,030,211	7%
WI	8	4%	3,635,936	6%
TN	4	2%	2,697,661	5%
IL	16	9%	2,522,795	4%
MA	7	4%	2,165,987	4%
MD	7	4%	1,955,661	3%
ND	1	1%	1,888,081	3%
MN	5	3%	1,783,753	3%
NH	2	1%	1,744,528	3%
LA	6	3%	1,644,581	3%
NC	4	2%	1,388,983	2%
IN	10	5%	1,303,234	2%
Total	115	63%	46,760,037	82%

- States (15) with more than \$1 billion in mutual FSA assets are listed above.
- Pennsylvania, at \$10.1 billion, followed by New Jersey at \$ 5.5 billion and New York at \$4.4 billion are the top three states for mutual FSA assets.

Mutual Overview: Portfolio Stats

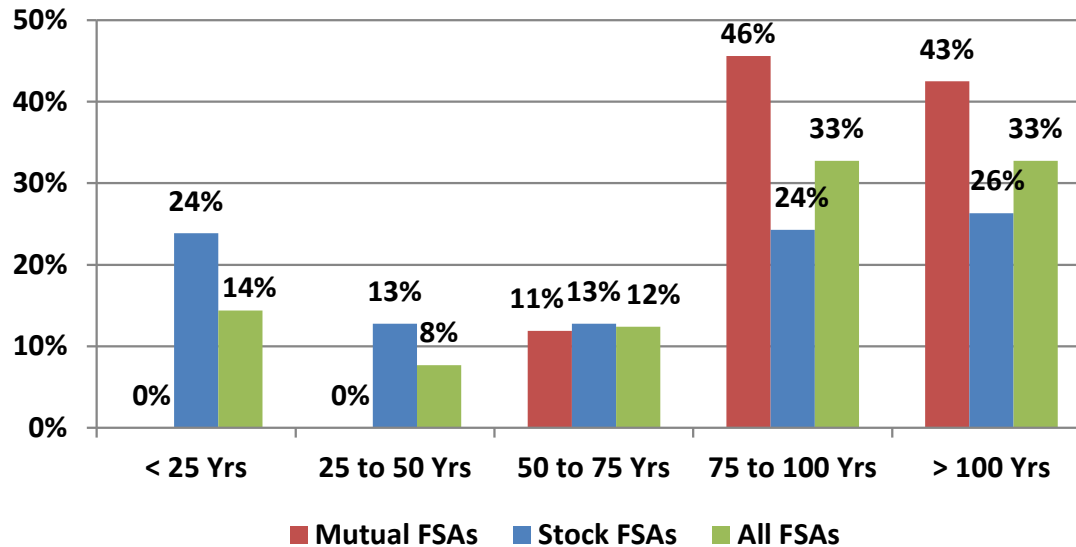
FSA Asset Distribution - 12/31/2015

Asset Size	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Less Than \$50MM	50	12%	31	19%	19	8%
\$50MM To \$100MM	67	17%	39	24%	28	12%
\$100MM To \$250MM	123	31%	46	29%	77	32%
\$250MM To \$500MM	67	17%	29	18%	38	16%
\$500MM To \$1B	40	10%	9	6%	31	13%
Greater Than \$1B	56	14%	6	4%	50	21%
Total	403	100%	160	100%	243	100%

- Mutual FSAs are typically smaller in size than their stock counterparts.
- 90% of mutual FSAs are less than \$500 million in size compared to only 68% for stock FSAs.
- 19% of mutual FSAs have assets less than \$50 million versus only 8% for stock FSAs.

Mutual Overview: Portfolio Stats

FSA Age Distribution - 12/31/2015



- Mutual FSAs represent some of the oldest financial institutions in the United States.
- 43% of mutual FSAs were formed more than **100** years ago.
- 89% of all mutual FSAs have operated for 75 years or more.
- All mutual FSAs have been in existence for over 50 years.

Mutual Overview: Financial Metrics

Supplemental Insured Savings Bank Peer Group

(Includes insured savings banks with the following characteristics)

Peer Group Number	Ownership Type and Assets*
101M	Mutually-owned insured savings banks in excess of \$1 billion
102M	Mutually-owned insured savings banks between \$300 million and \$1 billion
103M	Mutually-owned insured savings banks between \$100 million and \$300 million
104M	Mutually-owned insured savings banks less than \$100 million

* Asset figure used is latest quarterly average assets (from FFIEC Call Report Schedule RC-K)

- FSAs are placed into four peer groups based on quarterly average assets.
- There are 3 sets of peer groups. One for all FDIC insured savings banks, one for mutually owned savings banks and one for stock owned savings banks.
- For more information on peer groups, refer to the Technical Information section of the UBPR User's Guide which is available on the FFIEC website at: www.ffiec.gov.

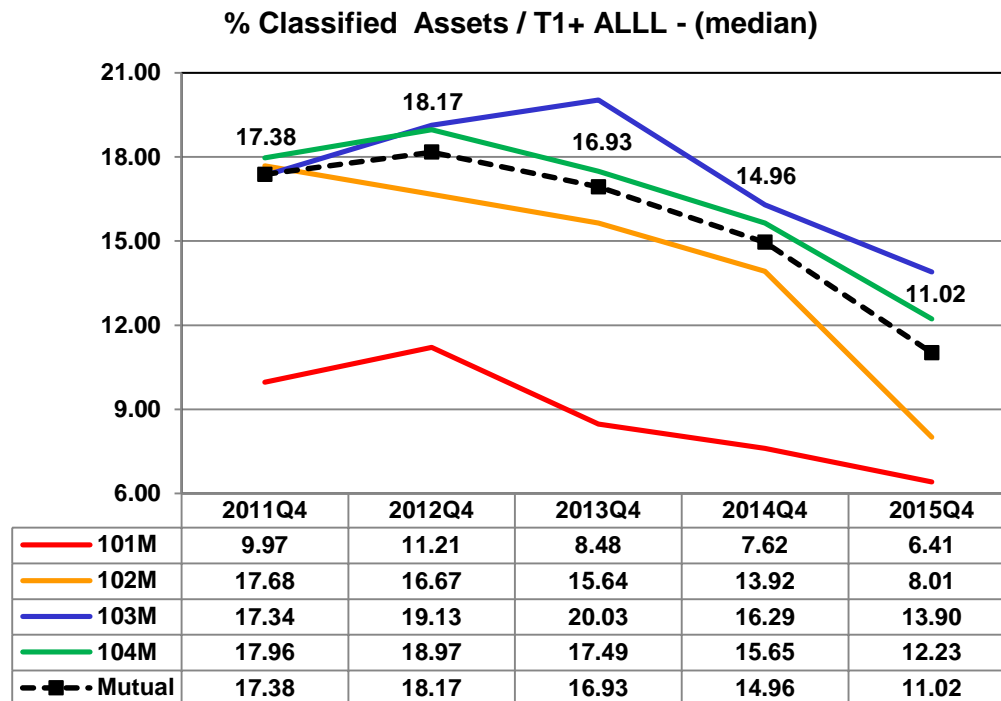
Mutual Overview: Financial Metrics

Asset Quality (median values)

Financial Measure	12/31/2015			12/31/2014		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Special Mention /Tier 1 + ALLL	3.53	2.20	4.70	4.32	3.16	4.90
% Classified Assets /Tier 1+ ALLL	15.46	11.02	17.12	18.12	14.96	21.27
Non-cur Lns&OREO/Lns&OREO	1.36	1.37	1.36	1.63	1.60	1.71
ALLL / Loan & Leases Not HFS	1.07	0.99	1.15	1.19	1.00	1.30
Net Loan & Lease Growth Rate	3.49	0.91	5.63	2.83	0.21	5.21
Net Loss / Avg Tot Lns & Ls	0.05	0.04	0.05	0.10	0.08	0.12

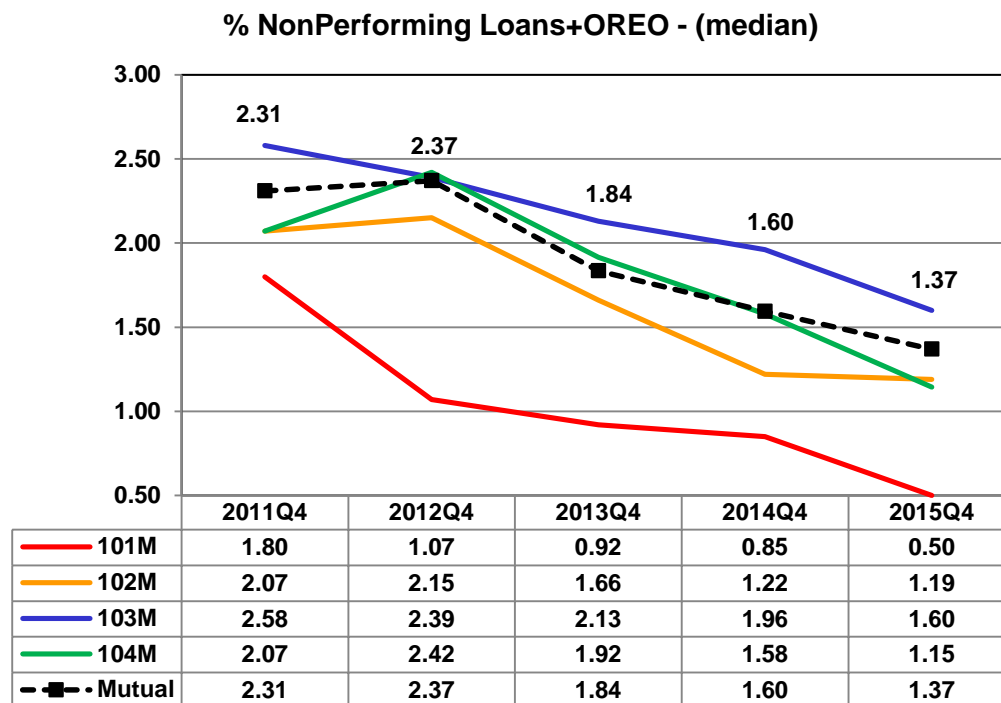
- Asset quality metrics at mutual FSAs improved year-over-year as of 12/31/2015.
- Apart from loan growth, mutual FSA asset quality indicators are outperforming stock FSA metrics.
- ALLL levels have been fairly stable year-over-year and now represent 0.99% of portfolio loans.

Mutual Overview: Financial Metrics



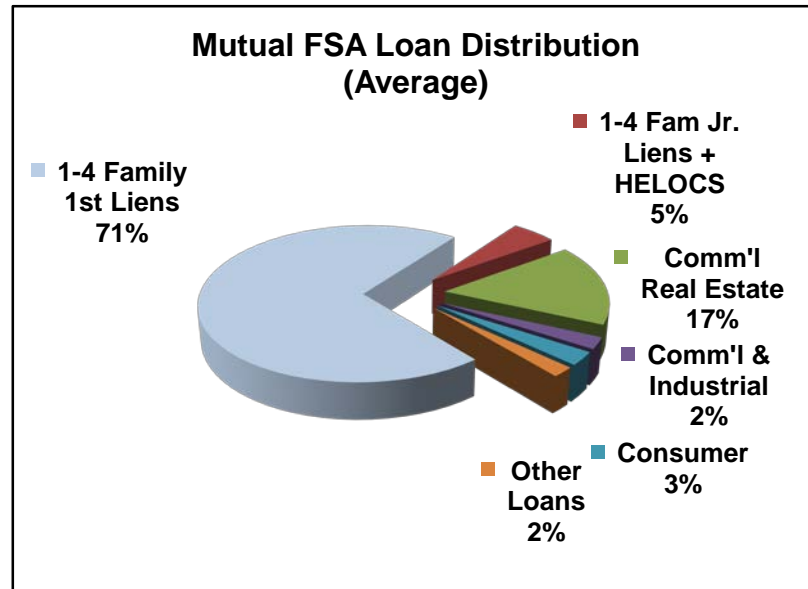
- Classified assets to Tier 1 capital plus the ALLL fell to 11.02% as of 12/31/2015.
- Classified assets to Tier 1 capital plus the ALLL improved for all mutual peer groups in 2015.

Mutual Overview: Financial Metrics



- Nonperforming loans + OREO declined year-over-year to 1.37% for mutual FSAs.
- Nonperforming loans + OREO improved for all mutual peer groups.
- Improvement is most pronounced in the 101M peer group, where nonperforming loans+OREO levels declined 130 basis points in four years.

Mutual Overview: Financial Metrics



Loan Distribution by FSA Type-Straight Average							
Charter Type	\$ Loans (000's) 12/31/2015	% of Total Loans					
		1-4 Family 1st Liens	1-4 Fam Jr. Liens + HELOCS	Comm'l Real Estate	Comm'l & Industrial	Consumer	Other Loans
Mutual	30,845,087	71%	5%	17%	2%	3%	2%
Stock	351,452,814	50%	6%	28%	6%	6%	3%
All FSAs	382,297,901	59%	6%	23%	5%	5%	3%

- Loan portfolios held by mutual FSAs are heavily concentrated in residential mortgages.
- Mutual FSAs hold lower levels of CRE, C&I and Consumer loans versus stock FSAs.

Mutual Overview: Financial Metrics

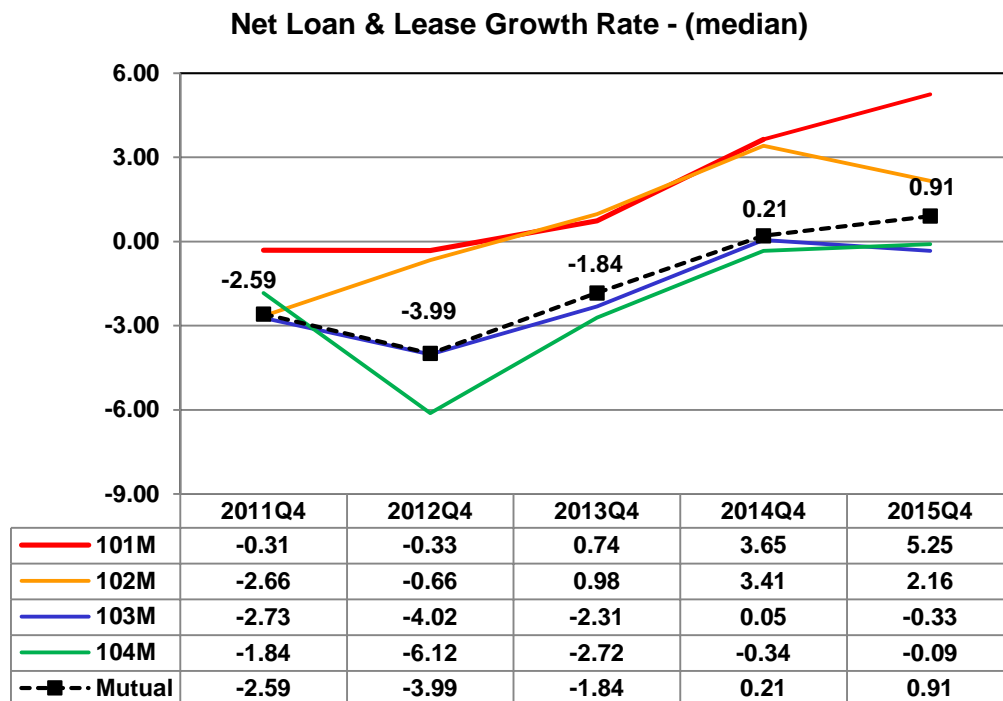
- Highest loan growth for most mutual FSAs is in the commercial real estate, residential mortgage and C&I categories. See last column below.

Analysis of Mutual Loans Offered and Growth Rates

Loan Category	% of Total Loans	% of Mutuals That Offer Product	Median Year-over-year Growth Rate	# with growth rates > 10% (a)
1-4 Family 1st Lien Loans	71%	100%	0.19	20
1-4 Family Jr Lien Loans		88%	-8.54	2
Home Equity Lines of Credit	5%	77%	-1.08	11
CRE: Multifamily Loans		80%	-3.57	15
CRE: Land & Development Loans	17%	88%	6.29	23
CRE: NonFarm Nonresi Loans		94%	-2.93	26
Commercial & Industrial Loans	2%	56%	-0.94	14
Lns to Indivs: Other Revolving		93%	-2.51	0
Lns to Indivs: Auto Loans		69%	1.10	5
Lns to Indivs: Other Consumer Loans	3%	28%	-8.16	0
Lns to Indivs: Credit Cards		8%	-1.00	0
Other: Lns to Finance Ag Production		19%	-4.18	0
Other: Lns Secured by Farmland	2%	41%	-3.58	12
Other: Other Loans in Domestic Offices		43%	-5.12	0

(a) - for mutual FSAs that have exposure to capital > 25% for the loan category

Mutual Overview: Financial Metrics



- While loan growth rates remain in positive territory the last two years, loan growth remains a challenge for some mutual FSAs.
- Two mutual peer groups are still showing negative loan growth for 2015.
- Loan growth is strongest at the larger mutual FSAs.

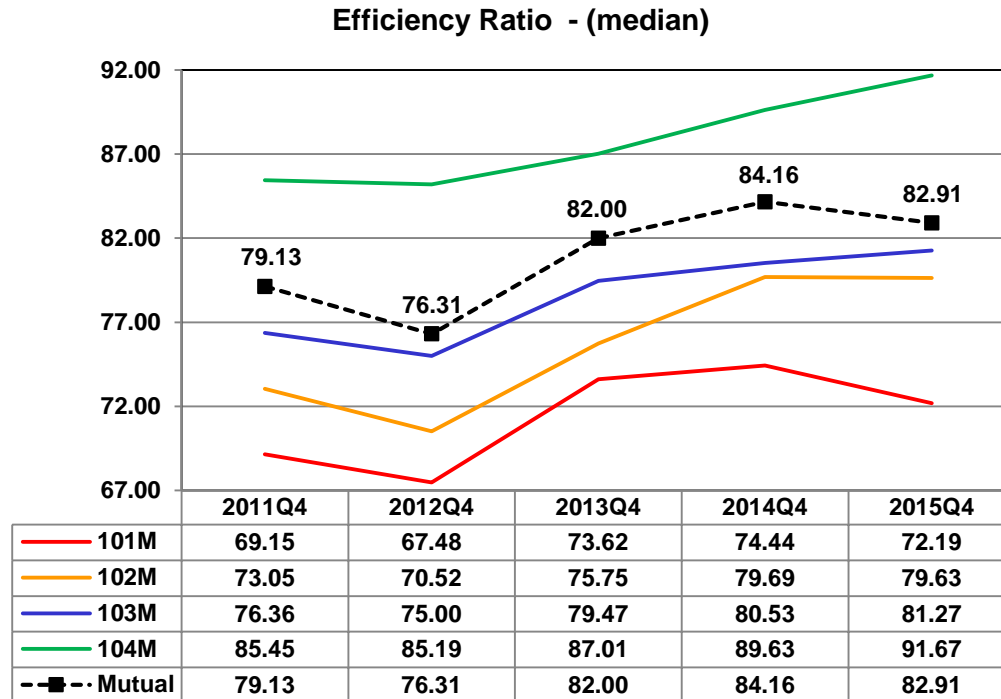
Mutual Overview: Financial Metrics

Earnings and Capital (median values)

Financial Measure	12/31/2015			12/31/2014		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
ROAA Adj Sub S	0.48	0.36	0.62	0.43	0.30	0.52
Net Interest Margin (NIM)	3.28	3.22	3.39	3.30	3.18	3.39
Efficiency Ratio	81.15	82.91	79.17	81.78	84.16	80.57
T1 Leverage Capital	11.92	13.66	11.22	11.74	13.18	11.07
T1 RBC to Risk-Wt Assets	20.41	26.51	17.27	20.78	26.46	17.51
Total RBC to Risk-Wt Assets	21.51	27.02	18.47	21.93	27.42	18.77
Common Equity Tier 1	20.41	26.51	17.23	-	-	-

- ROAAs and NIMs for mutual FSAs increased slightly year-over-year to 0.36% and 3.22%, respectively.
- Efficiency ratios remain high but improved for mutual FSAs in 2015.
- Mutual FSAs tend to have higher capital levels than stock FSAs.
- Most capital ratios at mutual FSAs remain strong and increasing as of 12/31/2015. The new Common Equity Tier 1 ratio matches the T1 RBC ratio for all but 1 mutual.

Mutual Overview: Financial Metrics



- There is a direct correlation between asset size and the efficiency ratio.
- Efficiency ratios for mutual FSAs improved for two of the four peer groups.
- Efficiency ratios for the smallest mutual FSAs, the 104M peer group, topped the 90 percent mark as of 12/31/2015.

Mutual Overview: Financial Metrics

Efficiency Ratio Comparison:

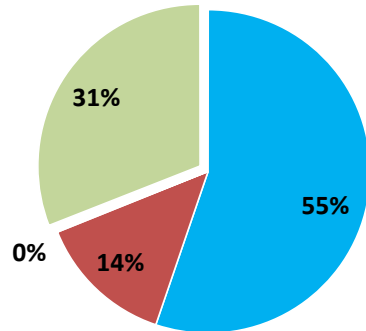
-2015Q4

EFFICIENCY COMPONENT	101M & 102M Peer Group			103M & 104M Peer Group		
	\$	YOY Δ	% of AA	\$	YOY Δ	% of AA
NONINT EXPENSE	1,007,936	3.03	2.59	437,626	1.69	2.98
NONINT INCOME	226,657	16.07	0.54	60,567	14.20	0.35
NET INT INCOME (TE)	1,161,121	3.12	2.89	454,889	0.09	3.01
Efficiency Ratio	72.63			84.90		

- The above table compares mutual FSAs greater than \$300 million to those less than \$300 million. Boxes highlighted in green identify the group with the better performance for that category.
- Larger mutual FSAs have better efficiency ratios due to smaller relative noninterest expenses and to a lesser extent, higher fee income.

Mutual Overview: Financial Metrics

Noninterest Expense Components



■ SALARIES / EE BENEFITS ■ PREMISES / FIXED ASSETS
■ GOODWILL & OTHER INTANGIBLES ■ OTH NONINT EXPENSES

Top Ten Other Noninterest Expenses

Expense Item	Total \$ 2015Q4	2 Year Δ 2012Q4- 2014Q4	3 Year Δ 2012Q4- 2015Q4	% Total Oth NonInt Expenses
Data Processing Expenses	60,663	9.09	18.02	16.65%
Advertising & Marketing Expenses	35,040	9.95	15.64	9.62%
FDIC Insurance Assessments	28,429	(6.80)	(9.75)	7.80%
ATM & Interchange Expenses	20,719	15.45	22.76	5.69%
Director Fees	20,225	7.57	11.31	5.55%
Printing and Postage Expenses	18,165	(2.40)	(6.39)	4.98%
Accounting & Auditing Expenses	15,333	29.96	26.66	4.21%
Telecommunication Expenses	12,709	12.77	13.23	3.49%
Consulting & Advisory Expenses	10,599	26.34	6.47	2.91%
Legal Fees and Expenses	5,112	(23.74)	(16.99)	1.40%
TOTAL	226,994	7.38	9.61	62.29%

- We analyzed non-interest expenses of mutual FSAs based on information you submitted on Schedule RI-E of the Call Report.
- Data Processing Expenses were, by far, the number one other non-interest expense.
- We also assessed the two year and three year change in expenses and found that Accounting & Auditing expenses increased the most since 2012.

Mutual Overview: Financial Metrics

FSA PCA Categories - 12/31/2015

Category	All FSAs		Mutual FSAs		Stock FSAs	
	#	%	#	%	#	%
Well	378	94%	157	98%	221	91%
Adequate	21	5%	2	1%	19	8%
Under	0	0%	0	0%	0	0%
Sig Under	4	1%	1	1%	3	1%
Critically Under	0	0%	0	0%	0	0%
Total	403	100%	160	100%	243	100%

- 98% of all mutual FSAs are “well-capitalized” per the Prompt Corrective Action (PCA) provisions of FDICIA.
- Of the 3 mutual FSAs designated as “adequately capitalized”, one has capital levels below the PCA minimums.
- No mutual FSAs are designated less than “significantly undercapitalized”.
- A new PCA threshold was introduced in 2015: The Common Equity Tier 1 ratio must be above 6.5% for an institution to remain “well-capitalized”.

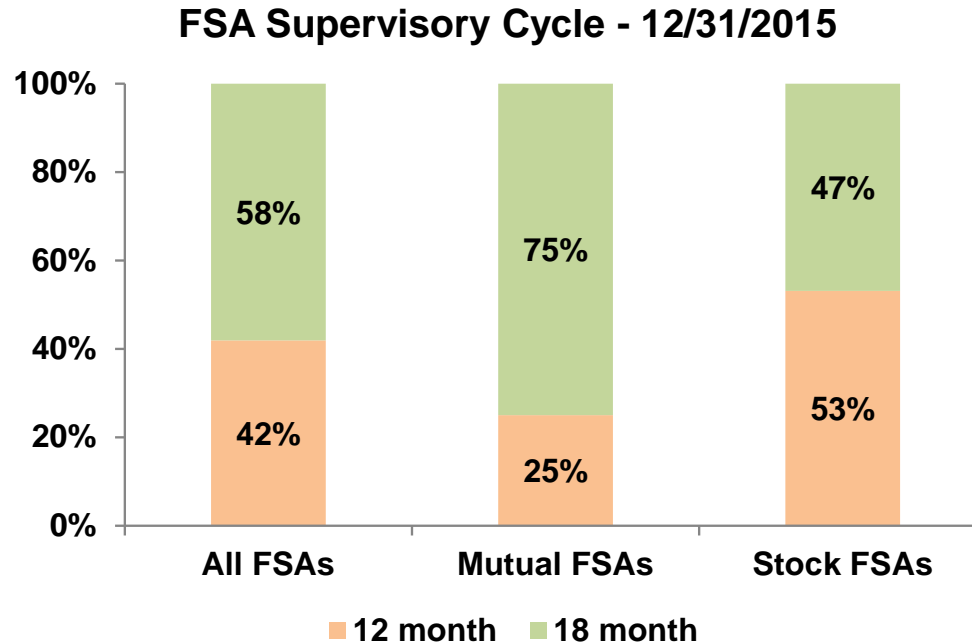
Mutual Overview: Financial Metrics

Liquidity and Sensitivity to Market Risk (median values)

Financial Measure	12/31/2015			12/31/2014		
	All FSAs	Mutual	Stock	All FSAs	Mutual	Stock
Non-Core Funding Dependence	1.47	-4.60	6.02	1.89	-4.26	6.03
% Reliance on Whole. Funding	5.75	0.96	9.82	5.59	1.18	9.14
Loans to Deposits	87.92	82.00	89.53	85.83	81.60	87.58
% LT Assets /Total Assets	46.75	50.84	41.12	46.25	52.03	41.53
% Res Real Estate /Total Assets	52.38	60.19	47.52	54.55	61.93	47.87
Non-Mat Deposits/Long Assets	79.90	72.10	89.08	76.14	66.50	86.14

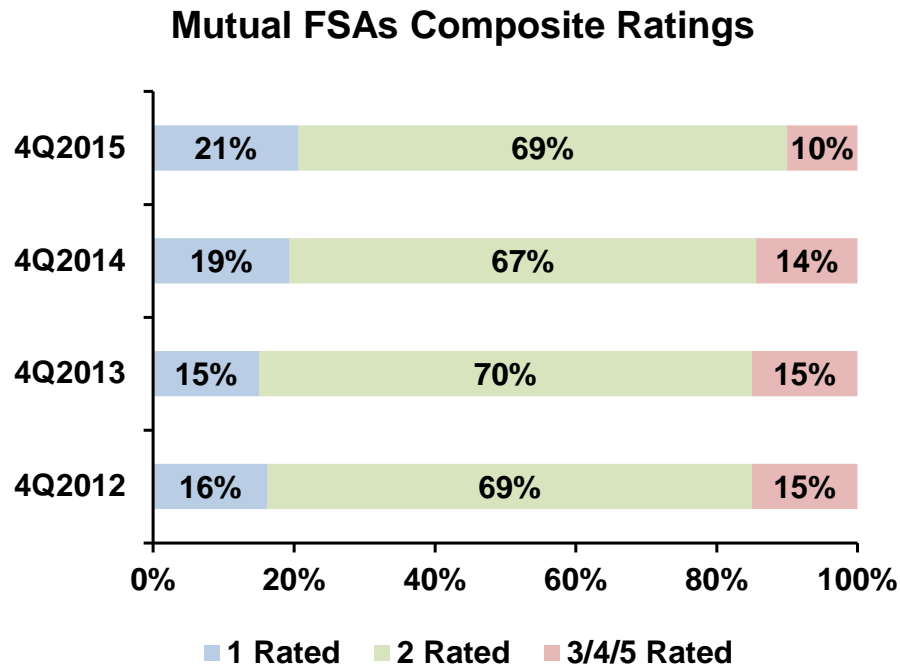
- Reliance on wholesale funding sources remains low for mutual FSAs.
- More than half of the assets at mutual FSAs are long-term as defined in the Uniform Bank Performance Report (UBPR).
- Residential real estate loans represent 60.2% of all assets at mutual FSAs.
- Non-maturity deposits increased considerably in calendar year 2015.

Mutual Overview: Supervisory Data



- Even though mutual FSAs are typically smaller in size than stock FSAs, mutual FSAs also possess lower risk characteristics in general and 75% are on the 18 month examination cycle versus only 47% for stock FSAs.
- A new rule makes qualifying 1- and 2-rated banks, with less than \$1 billion in total assets, eligible for an 18-month (rather than a 12-month) examination cycle.

Mutual Overview: Supervisory Data



- Composite ratings at mutual FSAs improved since last year.
- 90% of all mutuals remain satisfactorily rated with a Composite 1 or 2.
- For comparison, stock FSA ratings at 2015Q4 were: 1 – 11%, 2 – 74%, 3/4/5 – 15%.

Mutual Overview: Supervisory Data

FSA Supervisory Ratings (%) - 12/31/2015

1-ratings > 30% highlighted in green and 3/4/5 ratings > 30% highlighted in red

Rating Category	All Mutual FSAs			All Stock FSAs		
	1-rated	2-rated	3/4/5-rated	1-rated	2-rated	3/4/5-rated
Composite	21%	69%	10%	11%	74%	15%
Capital	53%	42%	6%	30%	59%	11%
Asset Quality	31%	58%	11%	22%	65%	12%
Management	18%	71%	11%	8%	77%	15%
Earnings	14%	54%	31%	22%	50%	28%
Liquidity	53%	44%	3%	33%	60%	7%
Sensitivity	19%	76%	5%	26%	66%	8%
Info Tech	17%	79%	4%	14%	81%	5%
Asset Mgmt	20%	60%	20%	28%	70%	2%
Consumer	25%	74%	1%	19%	76%	5%
CRA	28%	71%	1%	20%	72%	2%

- Mutual FSAs were often assigned a strong Capital (53%) and/or Liquidity (53%) rating and compare very favorably to stock FSAs in these categories.
- Earnings ratings were the weakest of all the categories with 31% of mutual FSAs assigned a 3, 4 or 5 rating.
- Community Reinvestment Act ratings are outstanding for 28% of mutual FSAs.

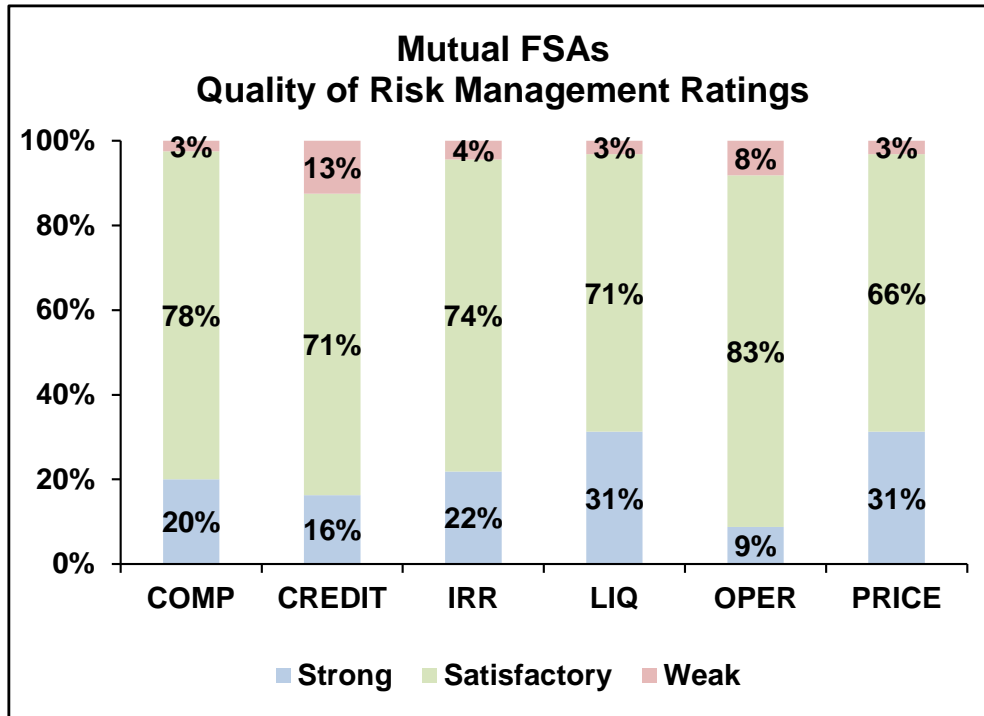
Mutual Overview: Supervisory Data

Mutual and Mutually Owned FSA Upgrades and Downgrades -during last examination (0P vs -1P)

Rating Category	Upgrade	Downgrade	No Change	Net Number of Changes	Total
Composite	10	6	167	4	183
Capital	7	5	171	2	183
Asset Quality	20	9	154	11	183
Management	11	6	166	5	183
Earnings	26	5	152	21	183
Liquidity	5	10	168	-5	183
Sensitivity to Market Risk	7	6	170	1	183
Information Technology	14	6	163	8	183
Trust	1	0	182	1	183
Compliance	14	6	163	8	183
CRA	17	9	157	8	183

- During the last year, the rating category most upgraded was Earnings.
- Earnings upgrades outpaced earnings downgrades by a margin greater than five to one.
- In my opinion the issuance of OCC 2014-35, Mutual FSAs: Characteristics and Supervisory Considerations, was partially responsible for these results.

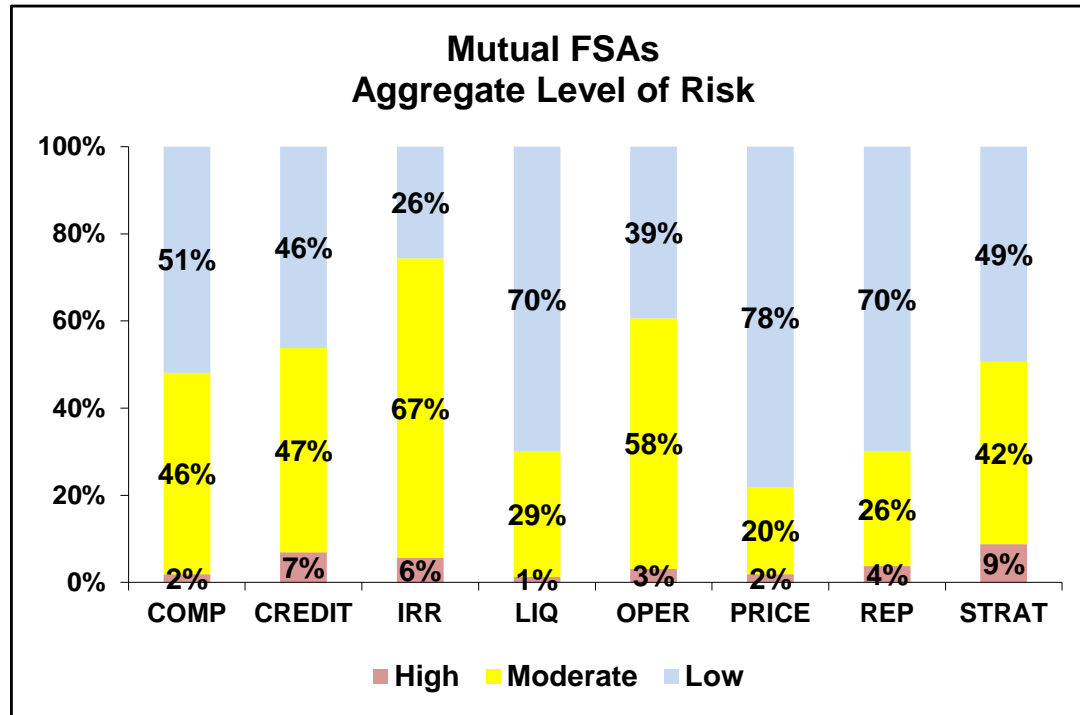
Mutual Overview: Supervisory Data



The Quality of Risk Management is how well risks are identified, measured, controlled, and monitored and is rated as strong, satisfactory, insufficient or weak.

- For all risks except credit, the level of Weak ratings was 10% or less.
- Credit risk has the highest level of Weak ratings at 13%, followed by Operational Risk with 8% of mutuals rated Weak (both metrics improved year-over-year).
- Price and Liquidity had the highest level of Strong ratings for Quality of Risk Management.

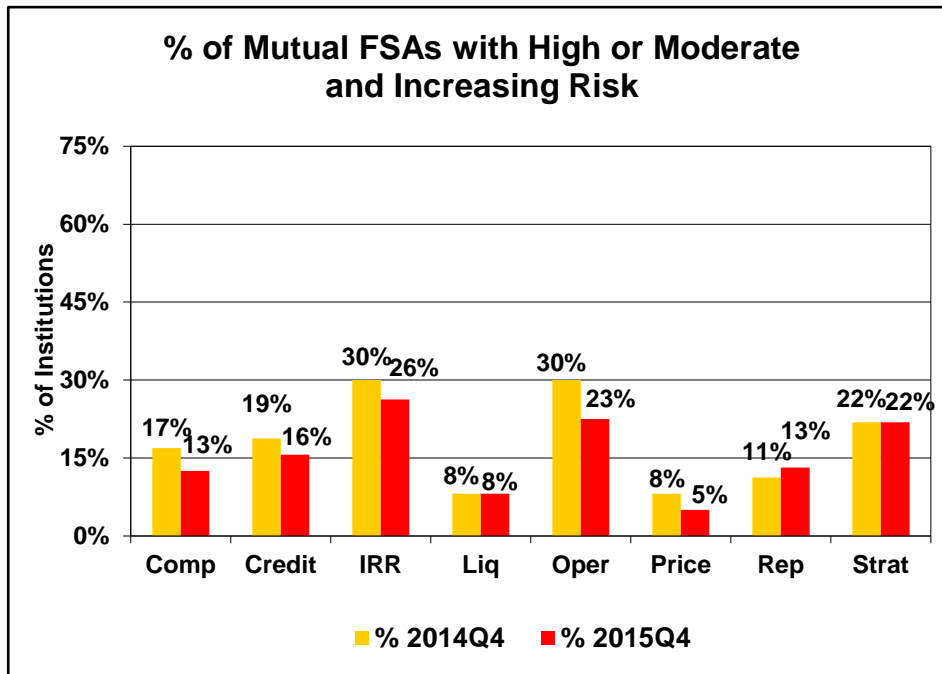
Mutual Overview: Supervisory Data



Aggregate risk is a summary judgment about the level of supervisory concern. It incorporates judgments about the quantity of risk and the quality of risk management.

- Aggregate Risk is low to moderate in nearly all RAS categories.
- The largest Aggregate exposure was Strategic Risk with 9% of mutual FSAs rated High.
- More than 50% of mutuals have low RAS ratings in Compliance, Liquidity, Price and Reputation.
- Price risk was most often rated low followed by Liquidity and Reputation.

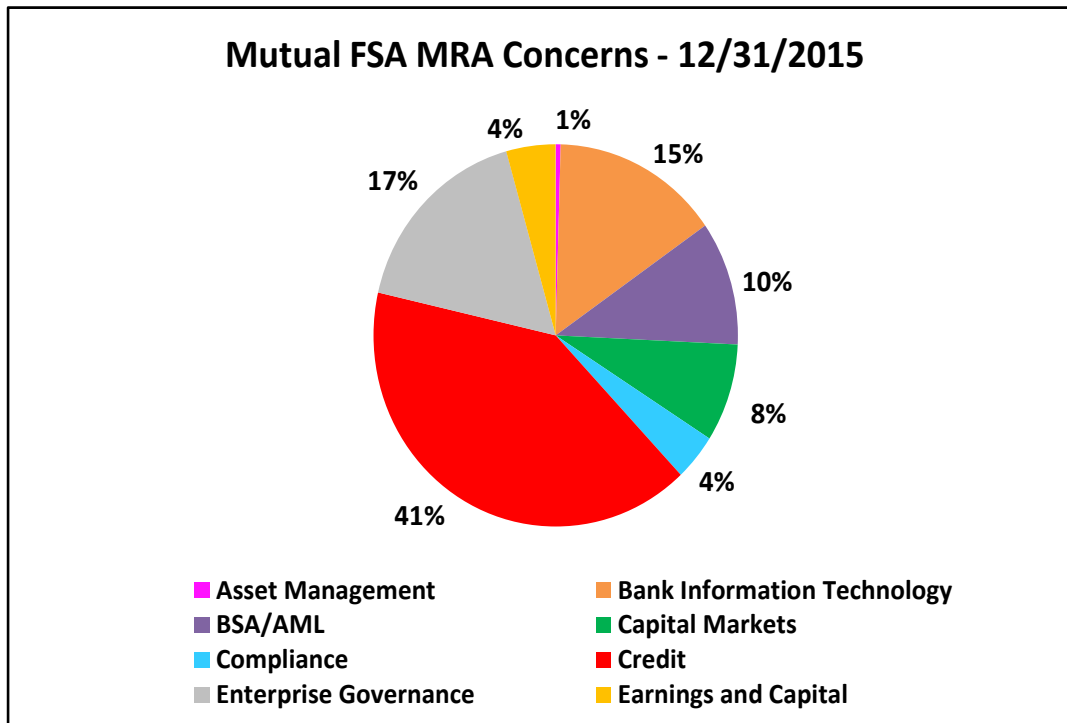
Mutual Overview: Supervisory Data



RAS Ratings of High Aggregate or Moderate & Increasing (H/MI) requires management focus and can lead to supervisory concerns if not properly managed.

- IRR reflected the highest, but decreasing level, of H/MI RAS ratings, followed by Operational and Strategic.
- Price and Liquidity Risks had the lowest level of H/MI RAS ratings at 5% and 8%.
- One risk—Reputation—shows a clear year-over-year increase in risk levels.
- The H/MI RAS rating distributions are consistent with many of OCC's recent Risk Perspectives.

Mutual Overview: Supervisory Data



As detailed in the updated guidance, MRAs:
-focus on deficient bank practices that are referred to as supervisory “concerns.”
-are the means by which supervisory concerns are communicated in writing to bank boards and management teams.

- The most often cited MRA exam area of concern for calendar year 2015 was Credit.
- Enterprise Governance and Bank Information Technology were the next most frequently cited MRA areas of concern.

Mutual Overview: Supervisory Data

Year-over-Year Mutual FSA MRA Comparison

MRA EXAM AREA	2015 - 12 months		2014 - 12 months		Yr to Yr Δ	
	#	%	#	%	#	%
Asset Management	1	1%	3	1%	-2	-67%
Bank Information Tech	34	15%	42	13%	-8	-19%
BSA/AML	24	10%	11	3%	13	118%
Capital Markets	19	8%	36	11%	-17	-47%
Compliance	9	4%	25	8%	-16	-64%
Credit	93	41%	132	41%	-39	-30%
Enterprise Governance	39	17%	53	17%	-14	-26%
Earnings and Capital	10	4%	18	6%	-8	-44%
Total	229	100%	320	100%	-91	-28%

- The volume of MRAs for 2015 decreased by 91, or 28%, compared to 2014.
- While there was no change in the top 3 MRA categories, Bank IT increased relative to other categories and now represents 15% of MRAs cited at Mutual FSAs.
- BSA/AML was the only MRA category that increased in volume/percentage in 2015.
- There was only 1 Asset Management MRA. Only 5, of 3% of mutual FSAs, have trust powers.

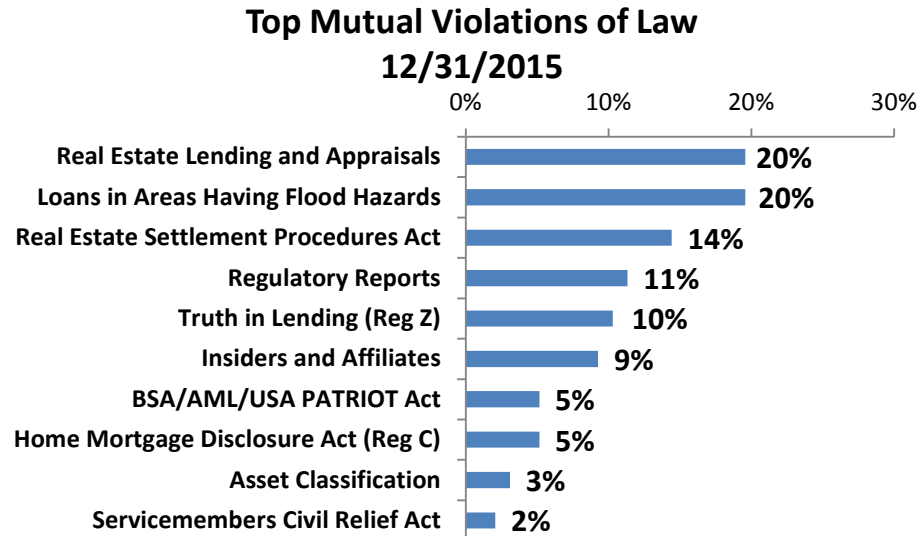
Mutual Overview: Supervisory Data

- The below top 10 MRAs represent 47 percent of all MRAs cited at mutual FSAs in 2015.

Top 10 Mutual MRA Issues of 2015

Rank	MRA Issue from Examiner View	#
1	MIS/Reporting	21
2	Policy/Board and Management Oversight	16
3	ALLL Methodology	11
4	Risk Rating and Accrual	11
5	Vendor Management	10
6	Collateral Valuation/Support	9
7	Credit/Cash Flow Analysis	9
8	Credit Analysis	7
9	Credit/Collateral Documentation	7
10	Internal Controls	7
Total		108

Mutual Overview: Supervisory Data



- OCC cited 110 violations of law at mutual FSAs in calendar year 2015, which is down 28% compared to the same period last year.
- The top 10 represents 97, or 88%, of violations cited at mutual FSAs in 2015.
- The most frequently cited violation was “Real Estate Settlement Procedures Act” followed by “Loans in Areas Having Flood Hazards” (both in the consumer category).”

Mutual Overview: OCC Supervisory Tools

- **Canary** - Credit, Interest Rate Risk and Liquidity Benchmarks. There are both Bank and FSA benchmarks to acknowledge the difference in performance metrics by institution type. (Available on OCC BankNet)
- **Thrift Analysis Report Tool** - Provides a Financial Overview of the Institution, Ratings Summary, Risk Assessment Summary, Ratings Comparison, Graphs and MRA detail. (Available to FSA via Examiners)
- **Mutual Peer Uniform Bank Performance Report** – We have UBPRs to allow examiners to compare mutuals to other mutuals based on the savings supplemental peer group or other attributes. (Available to FSAs via the www.ffiec.gov website)
- **Quarterly FSA Briefing Package** - Prepared to allow our Managers to stay abreast of emerging issues and trends in the mutual FSA population. (Internal OCC document: not available to FSAs)

Presentation Summary

- OCC continues to closely monitor and analyze trends in the FSA portfolio by form of organization: mutual or stock.
- We continue to prepare supervisory tools and a quarterly MIS package on the mutual FSA population for internal use.
- The NED has developed, and other groups at the OCC are looking at, a new “App” for Mutual FSAs. The App was built in an Excel based platform to allow users to compare a subject FSA to the population as a whole, other savings peer groups or other FSAs.
- The NED has created a national Mutual Q Book for Bankers that will compare your institution to other similarly sized mutual institutions and provide other bank supervision information.
- OCC continues to look at ways to help community banks and FSAs by proposing to eliminate or streamline regulations that are needlessly burdensome.
- We welcome feedback and input on needs at mutual FSAs.

Mutual Savings Association Advisory Committee Meeting

May 3, 2016

Mutual Overview and Trends

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