Office of the
Comptroller of the Currency

OCC Mutual Forum

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State of Mutual FSAs

Financial Information as of March 31, 2022

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Mutual Overview and Trends

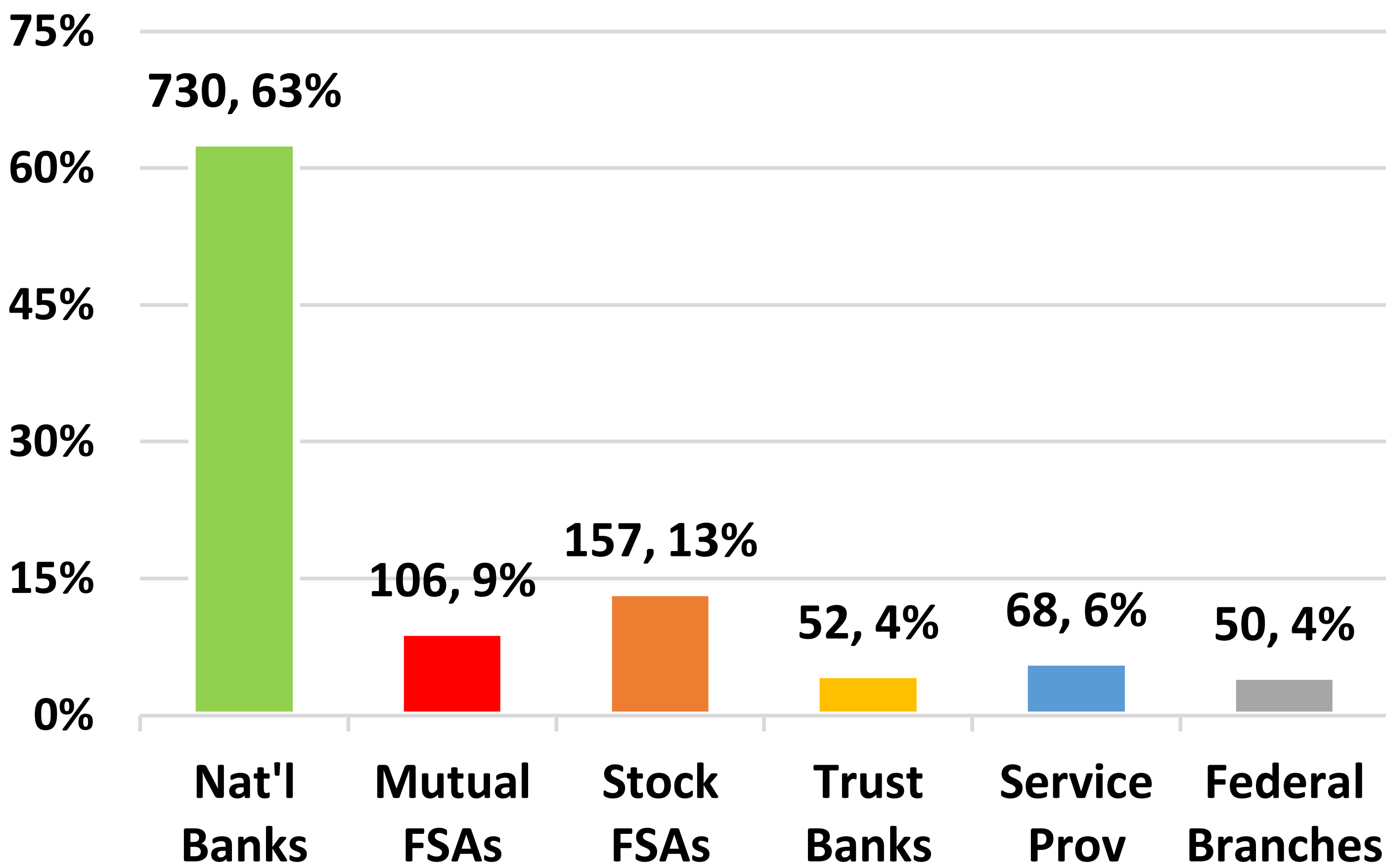
This presentation will focus on:

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

Preface: The current mutual population as of March 31, 2022, 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. The OCC created "unified" calculations for certain ratios which allows us to provide trend data back to 2007 when the former Thrift Financial Report contained the necessary elements.

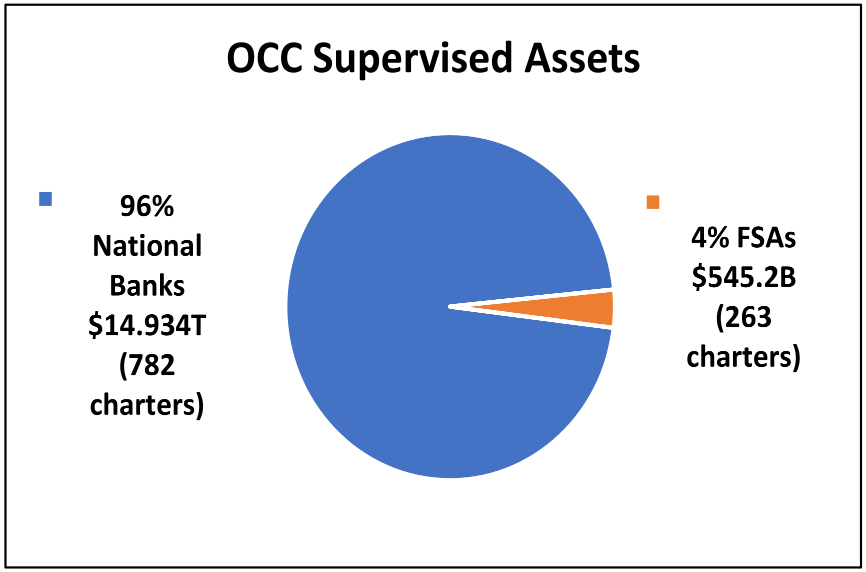
OCC Charters by Institution Type

OCC supervised 1,163 institutions as of March 31, 2022. Mutual Federal Savings Associations (FSAs) represent 9 percent of OCC charters or 10 percent of OCC bank charters.

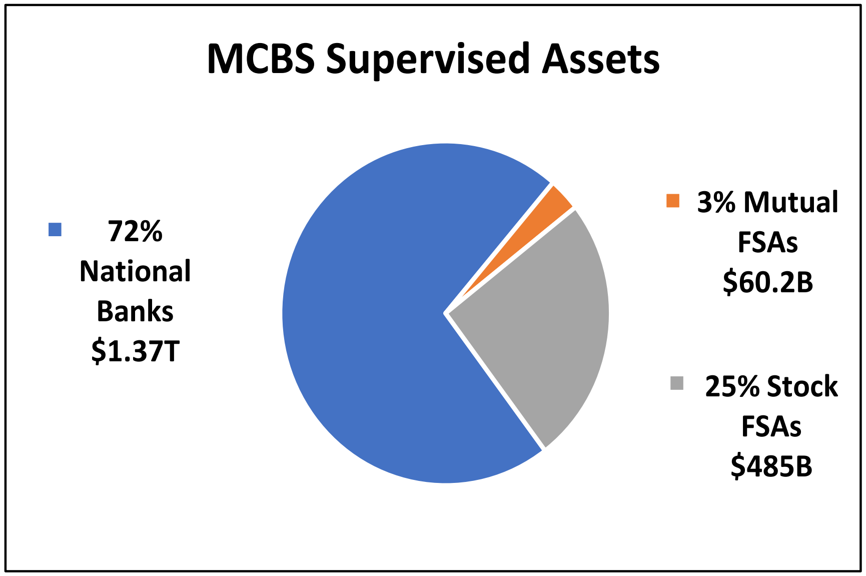


OCC Supervised Assets

- FSAs represent $545.2 billion or 4 percent of OCC-supervised assets as of March 31, 2022.

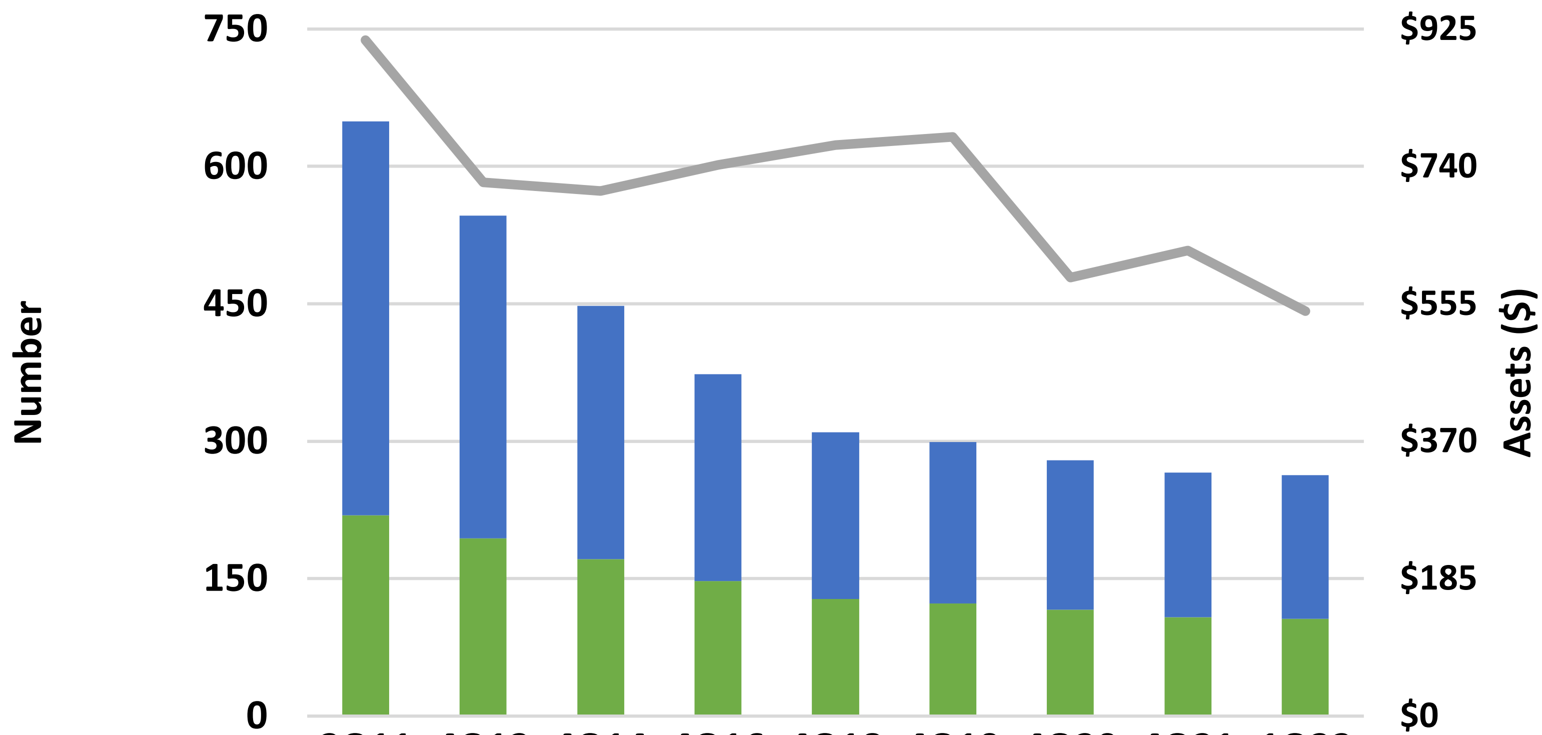


- Mutual FSAs represent $60.2 billion or 3 percent of Midsize and Community Bank Supervision assets as of March 31, 2022. No FSAs are supervised by OCC's Large Bank Program.



FSA Charter Trends

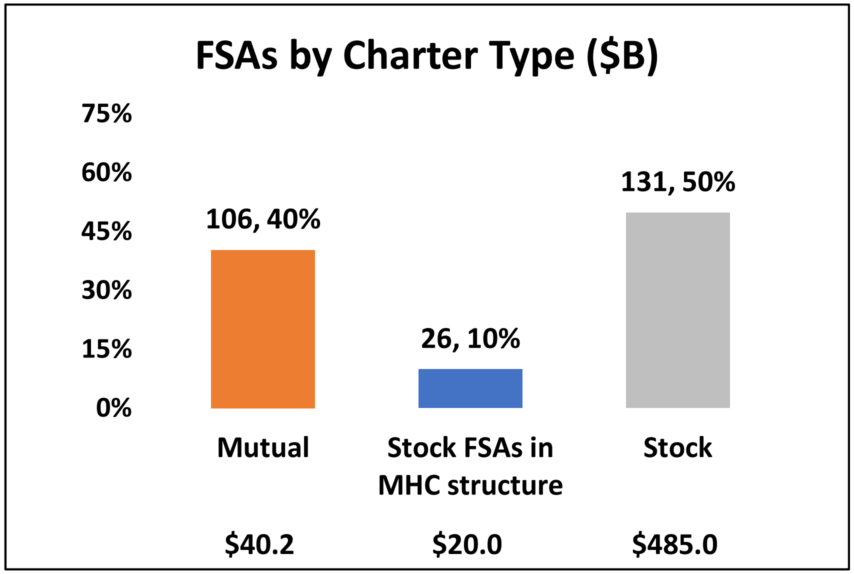
The number of mutual FSAs continues to decline but not as rapidly as stock FSAs.



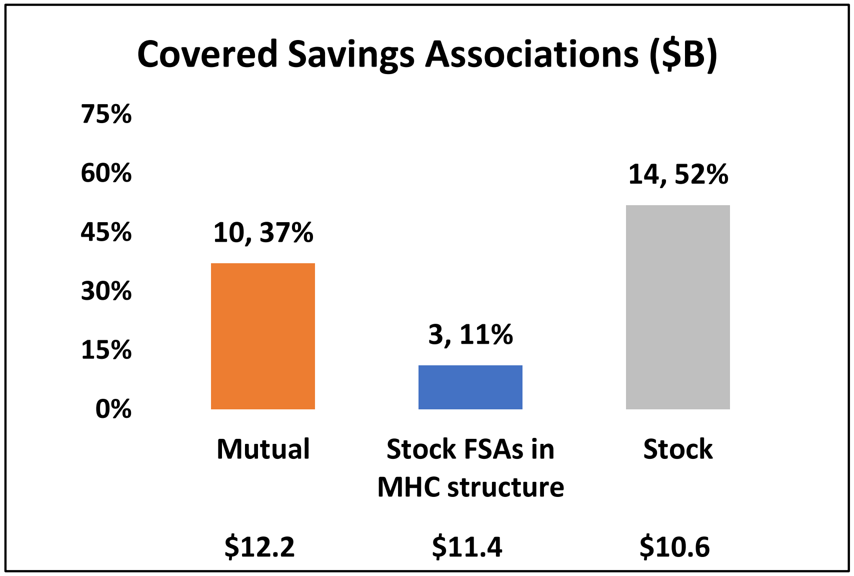
	2Q11	4Q12	4Q14	4Q16	4Q18	4Q19	4Q20	4Q21	1Q22
# Stock	430	352	277	226	182	176	163	158	157
# Mutual	219	194	171	147	128	123	116	108	106
Assets (B)	$910	$719	$707	$742	$769	$780	$590	$627	$545

FSAs by Type

- Mutual FSAs and stock FSAs in MHCs (no shares issued) represent 50 percent of OCC-supervised FSAs.

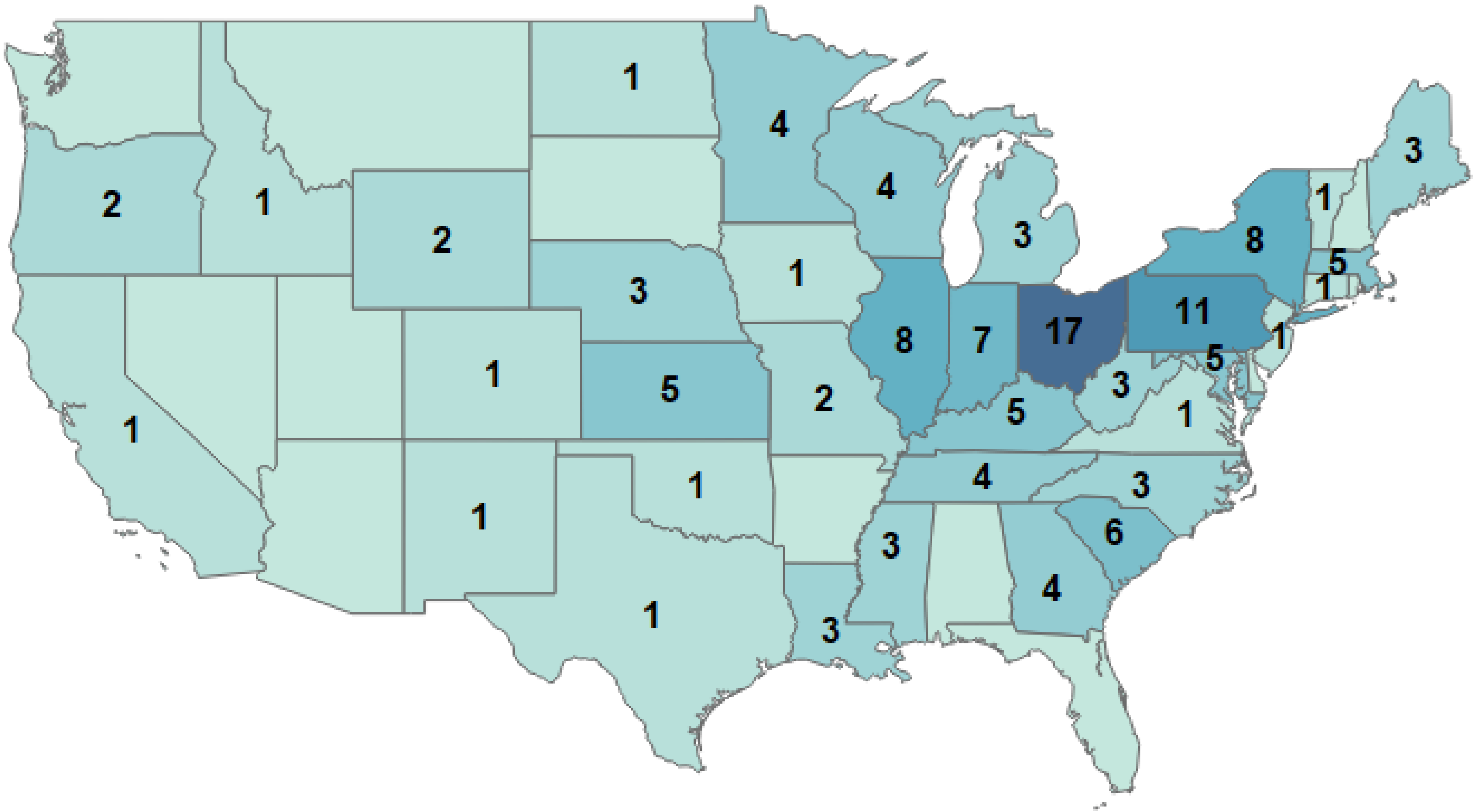


- FSAs with total assets of $20 billion or less as of December 31, 2017, may elect to operate as covered savings associations (CSAs). CSAs represented 27 or 10.3 percent of FSA charters and 6.3 percent of FSA assets as of March 31, 2022.



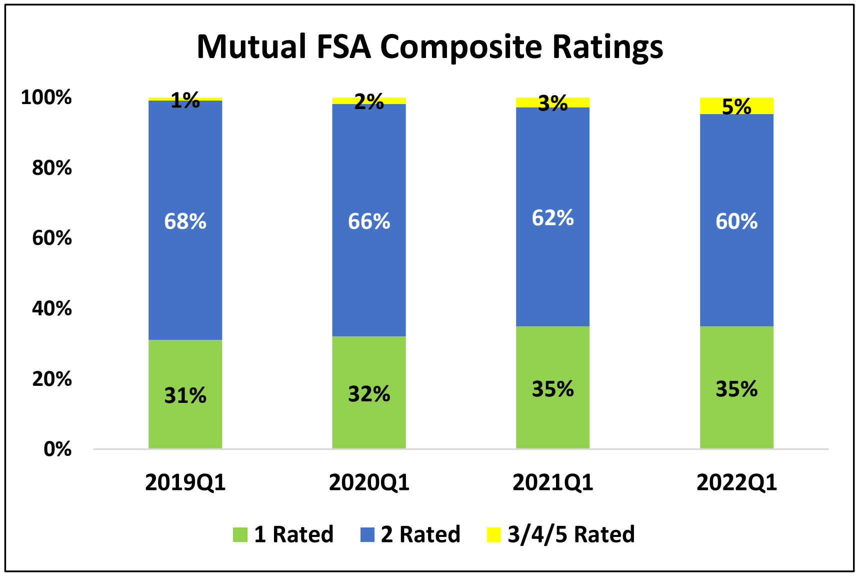
Mutual FSAs by State

Mutual FSAs are concentrated in the Midwest and Northeast. Two states are home to 10 or more mutual FSAs: Ohio (17) and Pennsylvania (11).

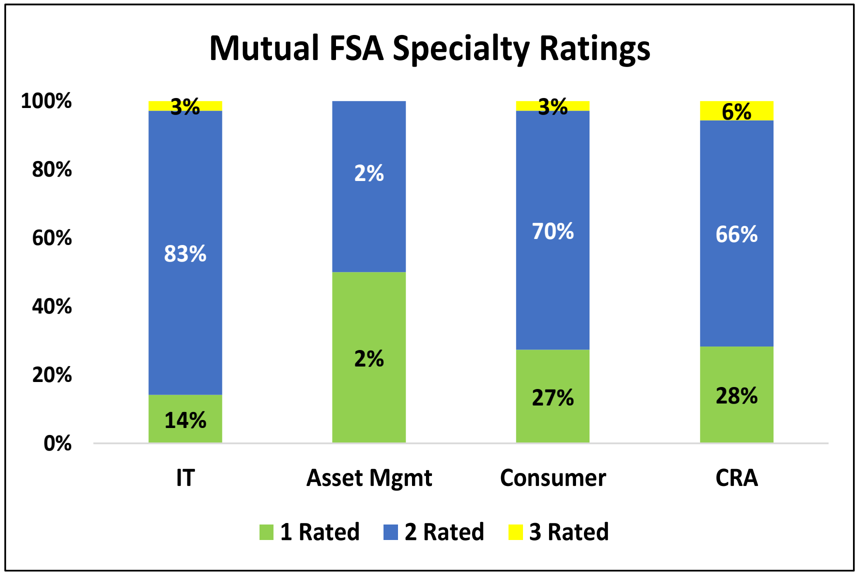


Composite and Specialty Ratings

- Composite ratings are strong; 95 percent of mutual FSAs are rated composite 1 or 2. There are no mutual FSAs rated 4 or 5 this year.

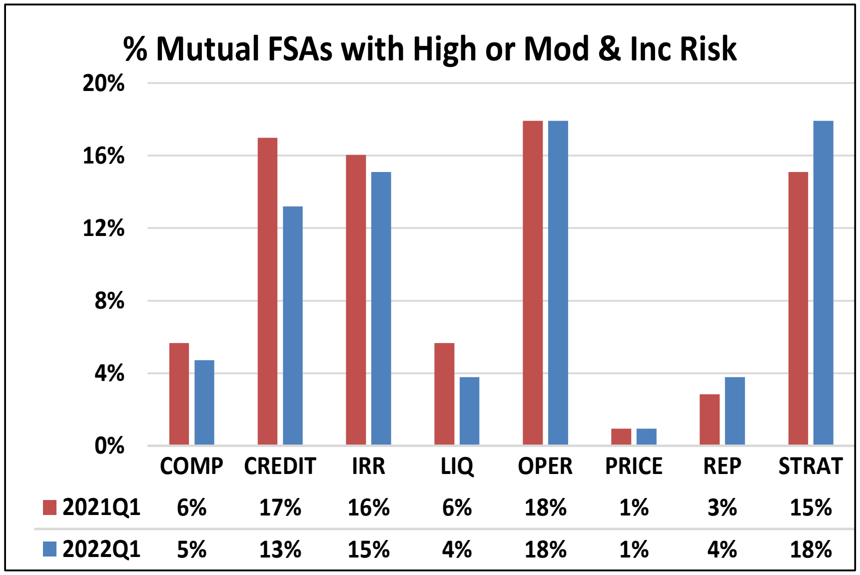


- Specialty ratings are satisfactory. No mutual FSA is rated worse than 3. Only four mutual FSAs have trust powers and 96 percent are not rated for asset management.

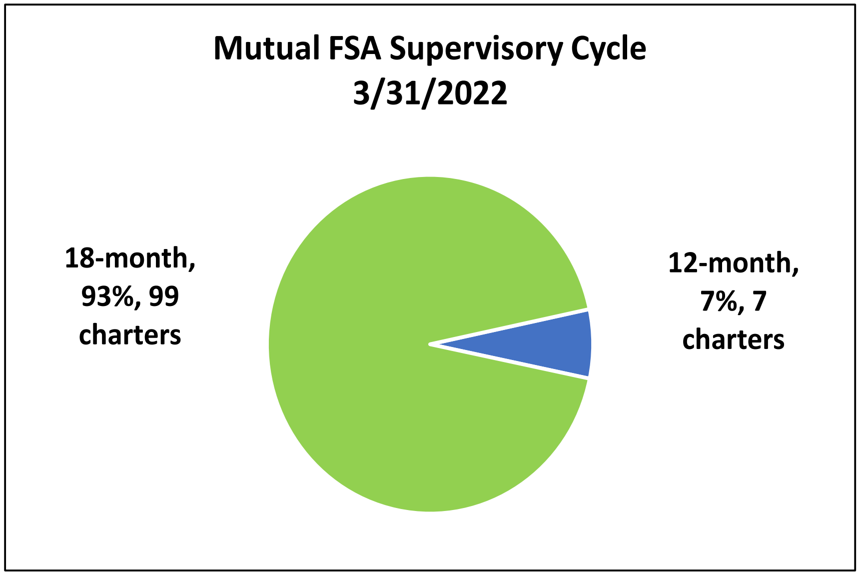


Risk Ratings and Supervisory Cycle

- The top three risks for mutual FSAs are strategic (increasing), operational (stable), and Interest rate risk (decreasing).

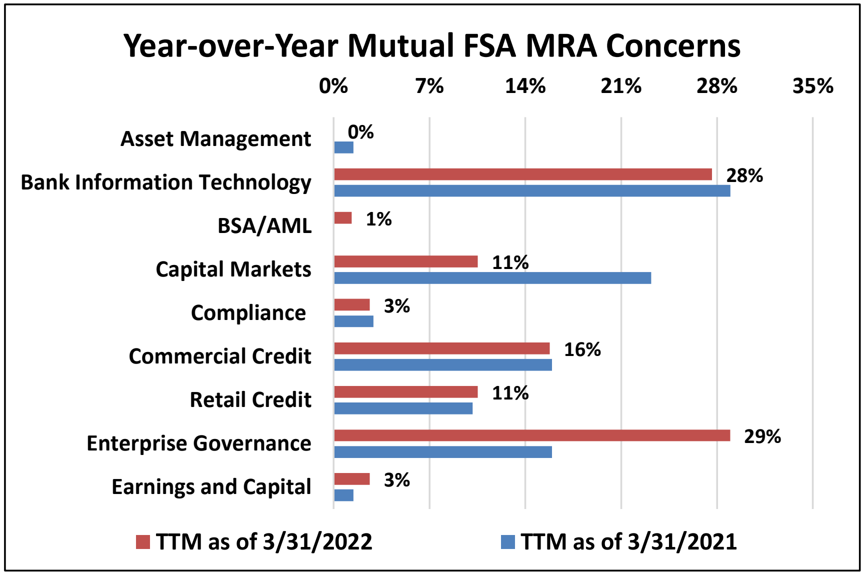


- Qualifying banks with less than $3 billion in total assets are eligible for an 18-month examination cycle. Ninety-three percent of mutual FSAs are on the 18-month supervisory cycle.

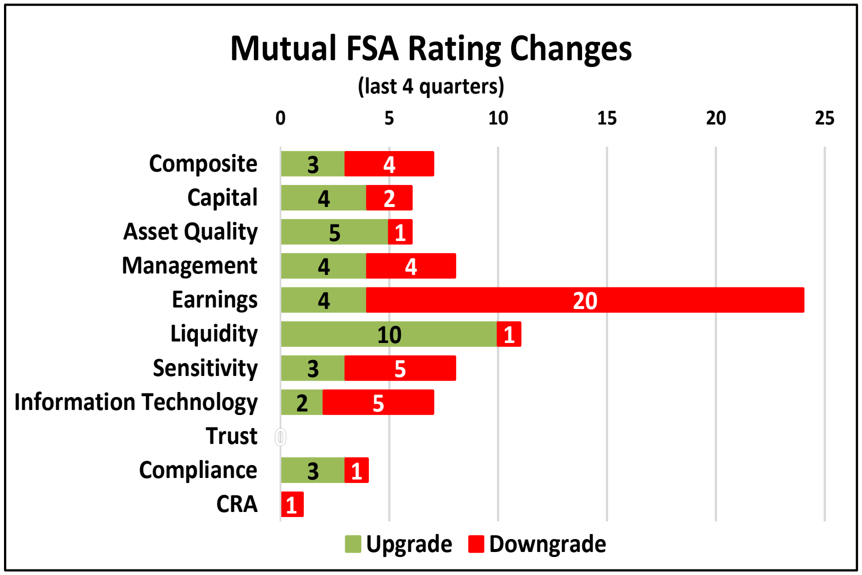


MRAs and Rating Changes

- MRAs rose 10 percent in the trailing 12 months ending March 31, 2022. Enterprise Governance & Operations saw the largest increase with concerns centered in internal audit and strategic planning.

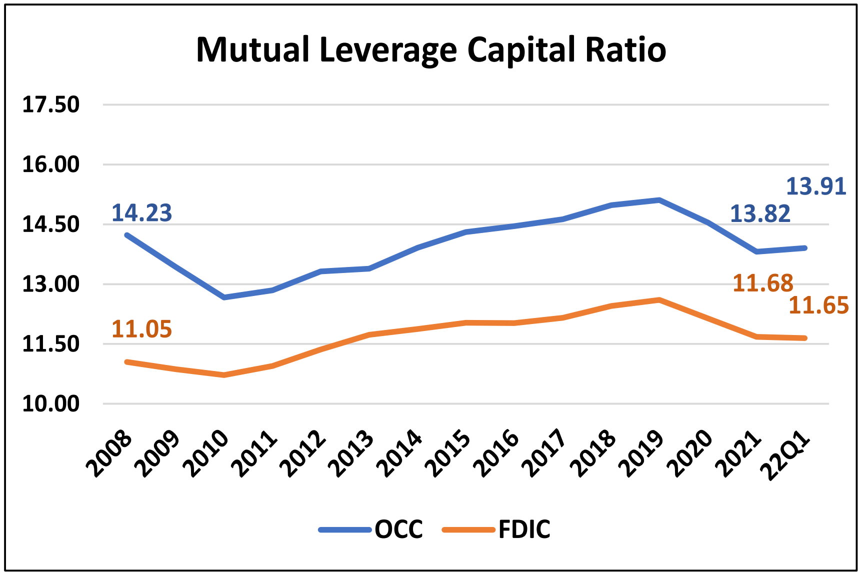


- Over the last year, there were 38 upgrades and 44 downgrades, for a net downgrade total of six. Most downgrades were for earnings. Most upgrades were for liquidity.

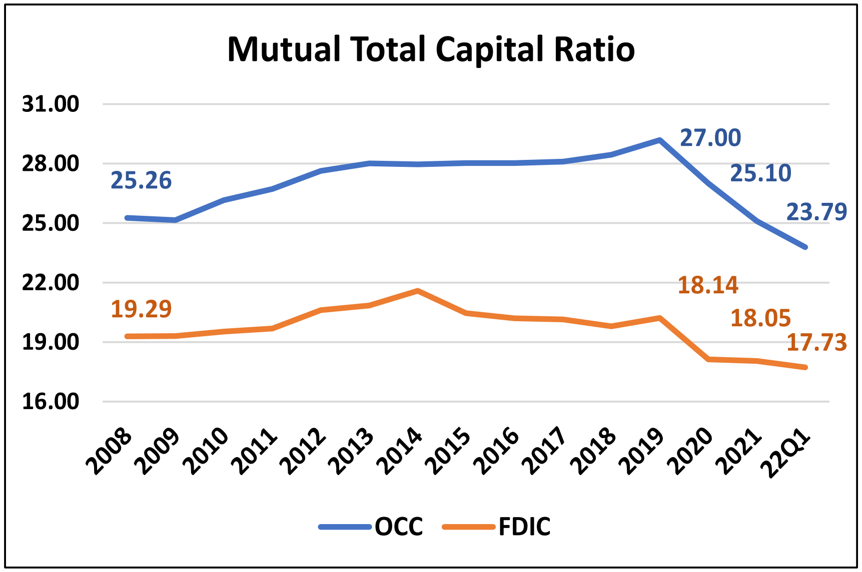


Capital Levels Remain Solid

- Mutual FSA leverage capital levels remain strong and edged higher. The gap between federal and state charters widened to 226 basis points.

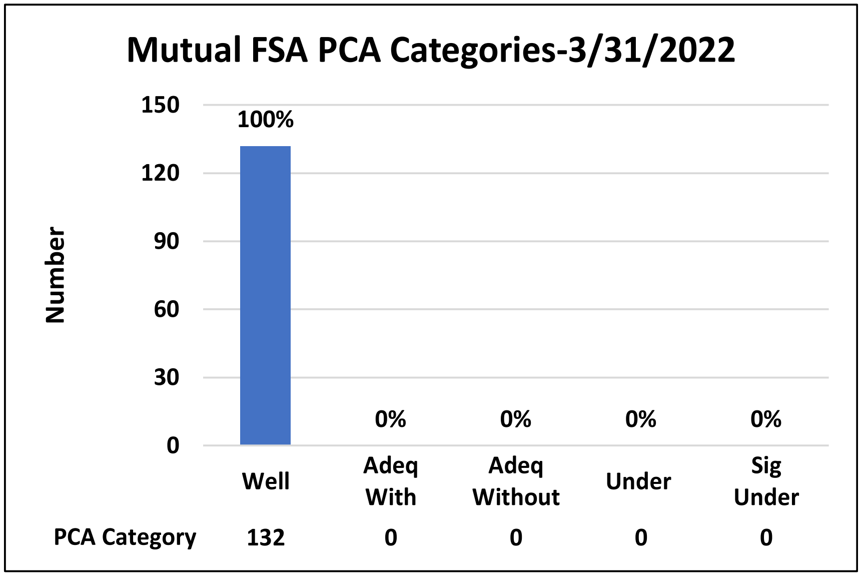


- Mutual FSA total capital levels decreased in 2022 but remain well above the FDIC peer.

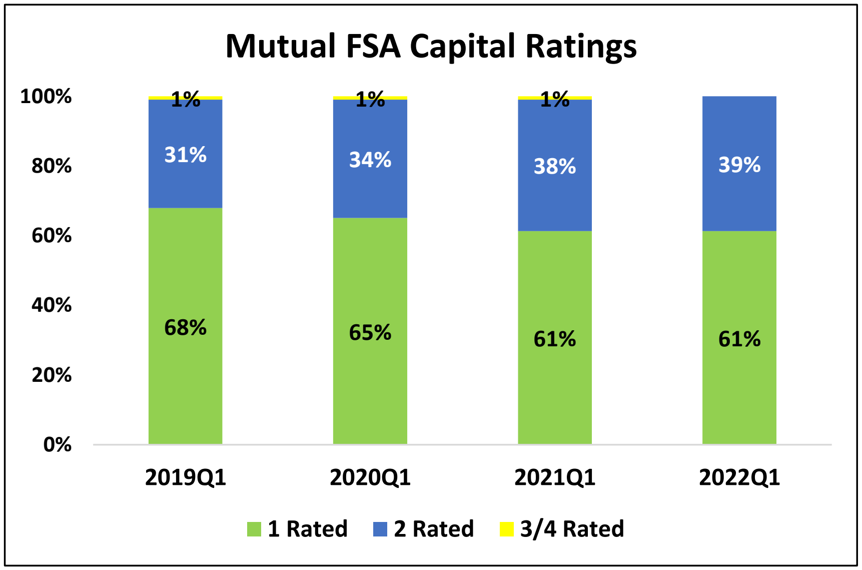


Mutual FSAs are "Well-Capitalized"

- All mutual FSAs met the "well-capitalized" definition contained in Prompt Corrective Action as of March 31, 2022.

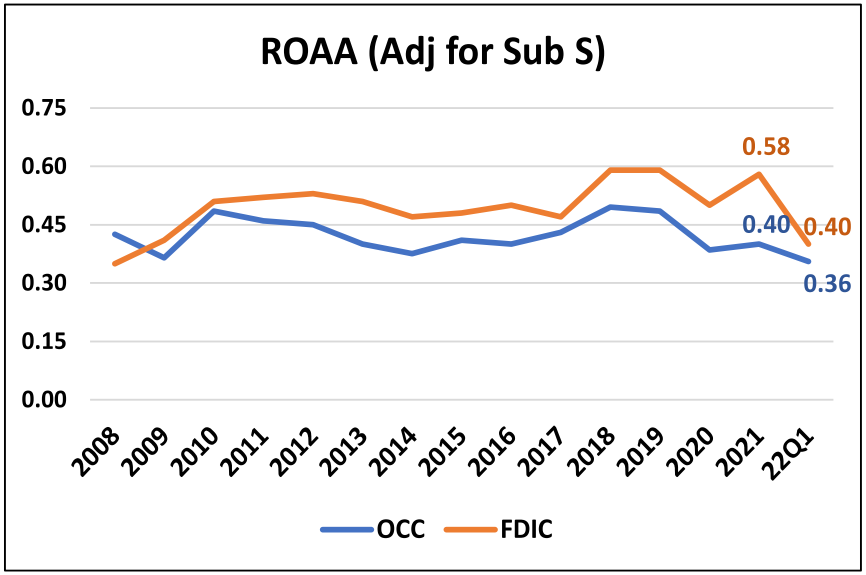


- All mutual FSAs are rated 1 or 2 for capital. Fifty-nine or 45 percent of mutual FSAs opted into the CBLR framework this quarter.



ROAA Lower This Year

- ROAAs for mutual FSAs decreased four basis points to 0.36 percent in 2022. While ROAAs still lag the FDIC peer, the gap has narrowed.



- In general, the larger mutual banks have better ROAAs.

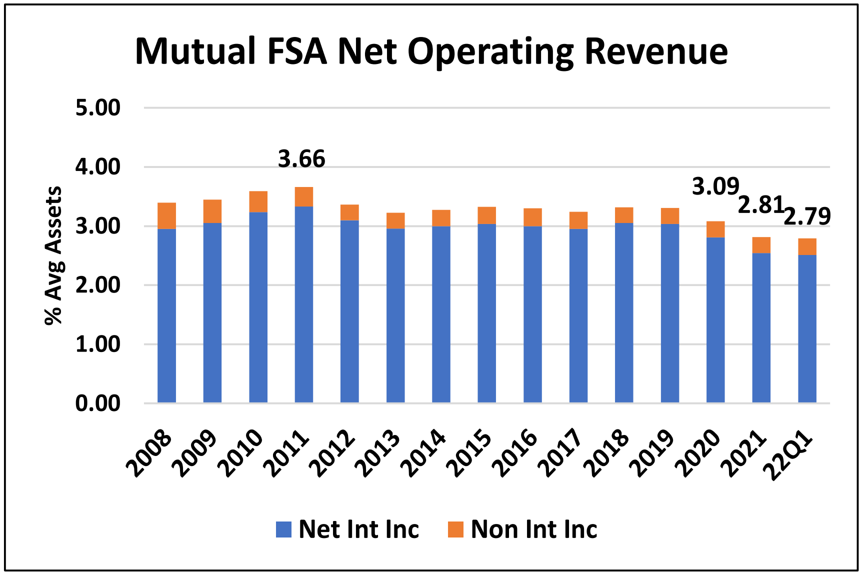
Mutual FSA ROAA by Asset Group

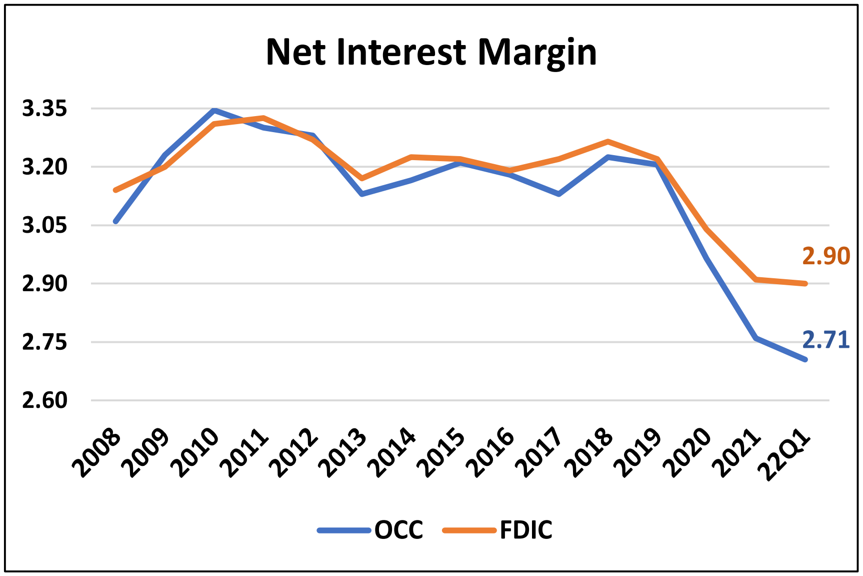
Asset Category	2022Q1	2021Q4
Under $50MM	0.26	0.14
$50MM - $100MM	0.20	0.24
$100MM - $250MM	0.36	0.35
$250MM - $500MM	0.46	0.50
$500MM - $1B	0.46	0.60
Greater than $1B	0.41	0.58
Median	**0.36**	**0.40**

Net Interest Margin Lower but Stabilizing

- Mutual FSA net operating revenue fell 30 basis points since 2020. Net interest income fell 30 basis points to 2.51 percent. Fee income remained unchanged at 0.28 percent. Higher fee income remains a key distinction between smaller and larger banks.

- Mutual FSA net interest margins (NIM) continue to compress but at a slower rate this year. NIMs fell 50 basis points since 2019, 26 basis points since 2020, and five basis points since last quarter.



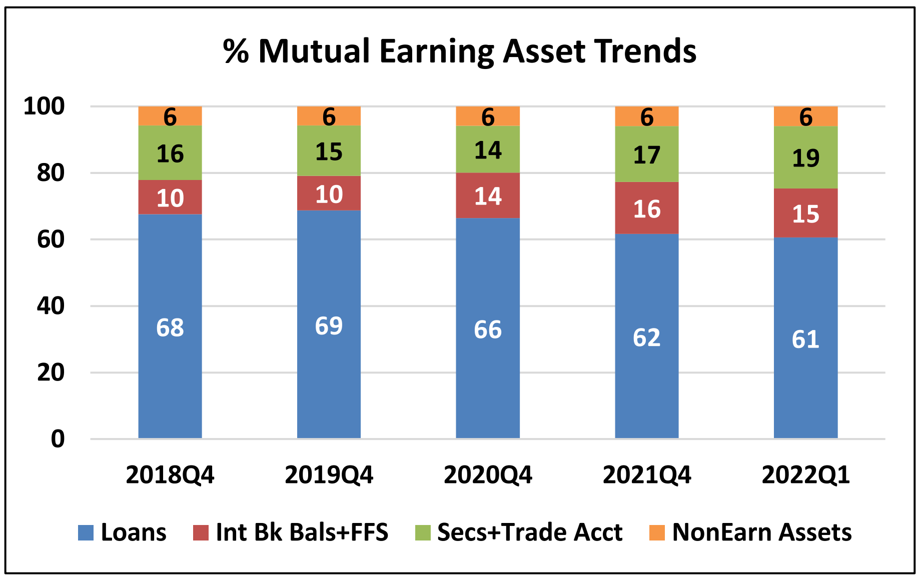


Mutual Net Income Down 14.4 Percent

- Despite a solid increase in net interest income, mutual FSA net income declined due to a contraction in noninterest income, which was driven by much lower gains on loan sales.

Mutual FSA Income Statement ($000's)

	2022Q1	2021Q1	Δ 1 Yr $	Δ 1 Yr %
Int Income	416,179	420,973	-4,794	-1.14
Int Expense	42,387	62,126	-19,739	-31.77
Net Int Inc	373,792	358,847	14,945	4.16
Non Int Inc	75,406	89,784	-14,378	-16.01
Non Int Exp	358,403	346,650	11,753	3.39
Prov Exp	3,555	3,691	-136	-3.68
Gains on Secs	-453	4,159	-4,612	-110.89
Income Tax	19,585	23,952	-4,367	-18.23
Net Income	67,202	78,497	-11,295	-14.39

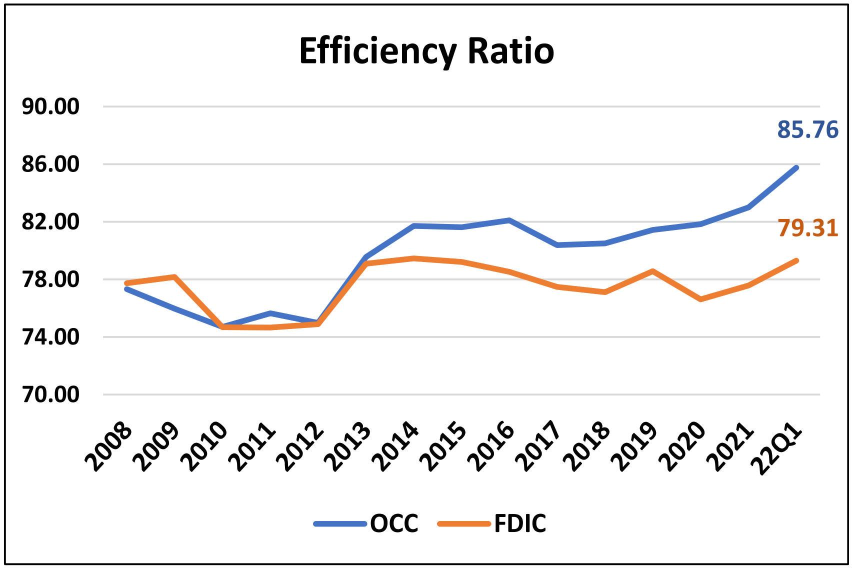


Mutual ROAA Detail - as of March 31st

	2022 ($ 000's)	2021 ($ 000's)	Δ 1 Yr
Int Income	2.79	2.98	
Int Expense	0.28	0.44	
Net Int Inc	2.50	2.54	-0.04
Non Int Inc	0.51	0.64	-0.13
Non Int Exp	2.40	2.46	0.06
Prov Exp	0.02	0.03	0.00
Gns on Secs	0.00	0.03	-0.03
Income Tax	0.13	0.17	0.04
ROAA	0.45	0.56	-0.11

Efficiency Ratio Higher

- The mutual FSA efficiency ratio increased to its highest level this decade.



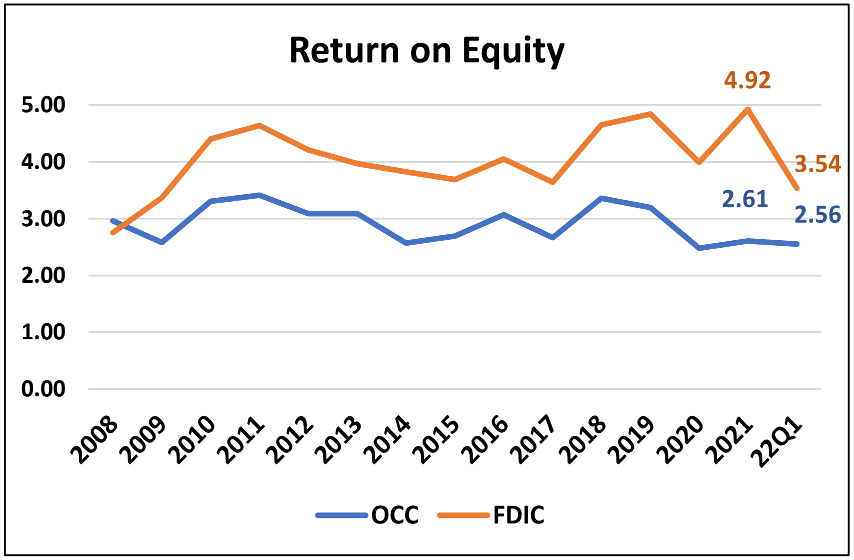
- In general, the smaller mutual charters have the highest efficiency ratios. Forty-two of 132 mutual FSAs or 32 percent reported efficiency ratios over 90 percent this quarter.

Efficiency Ratio - March 31, 2022

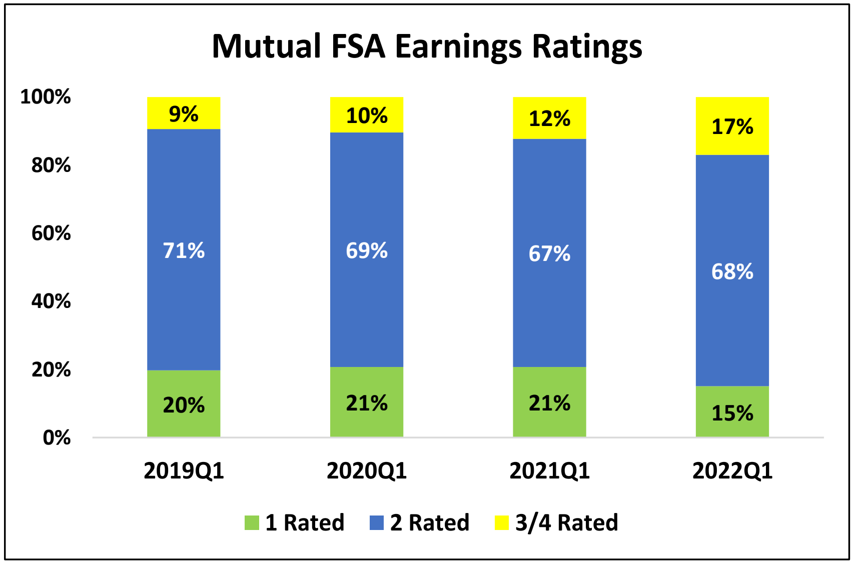
Asset Category	FDIC	OCC
Under $50MM	94.18	89.99
$50MM - $100MM	85.24	90.88
$100MM - $250MM	86.67	85.23
$250MM - $500MM	77.65	83.58
$500MM - $1B	75.29	78.17
Greater than $1B	73.13	78.83
Median	**79.31**	**85.76**

Earnings Ratings Worsen

- Return on equity is lower this year for both groups but mutual FSAs have a more consistent return since 2020.

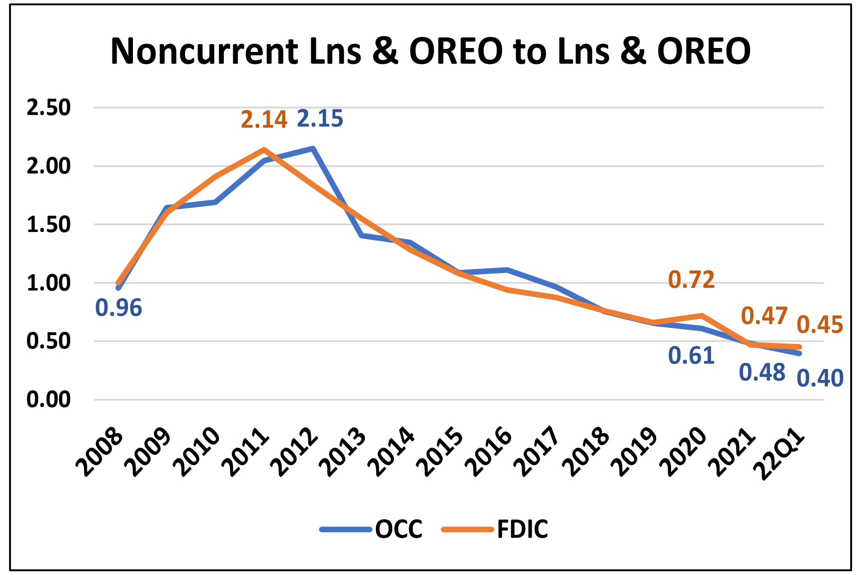


- Earnings ratings have shown some slippage and continue to lag ratings in other safety and soundness areas. Only 83 percent of mutual FSAs are rated 1 or 2 for earnings. Earnings is the ratings component most frequently downgraded over the last year.

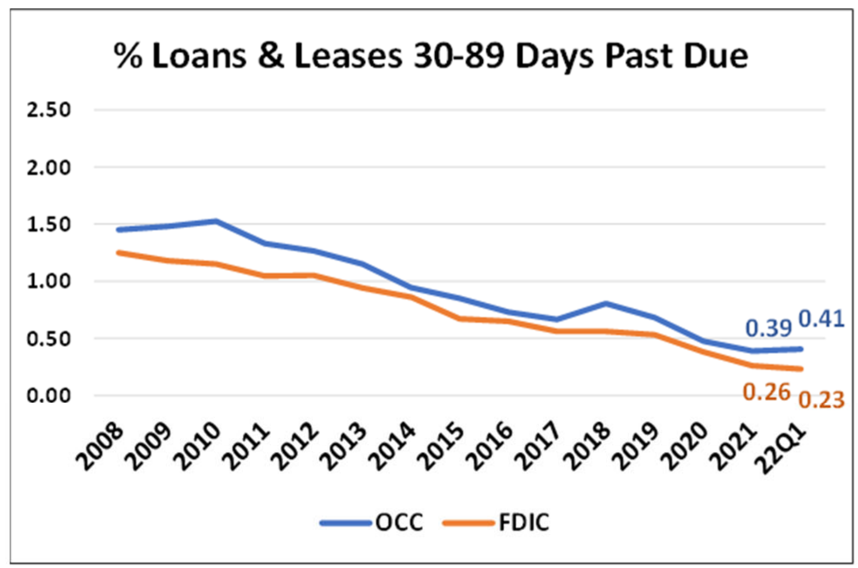


Past Due Levels Low

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

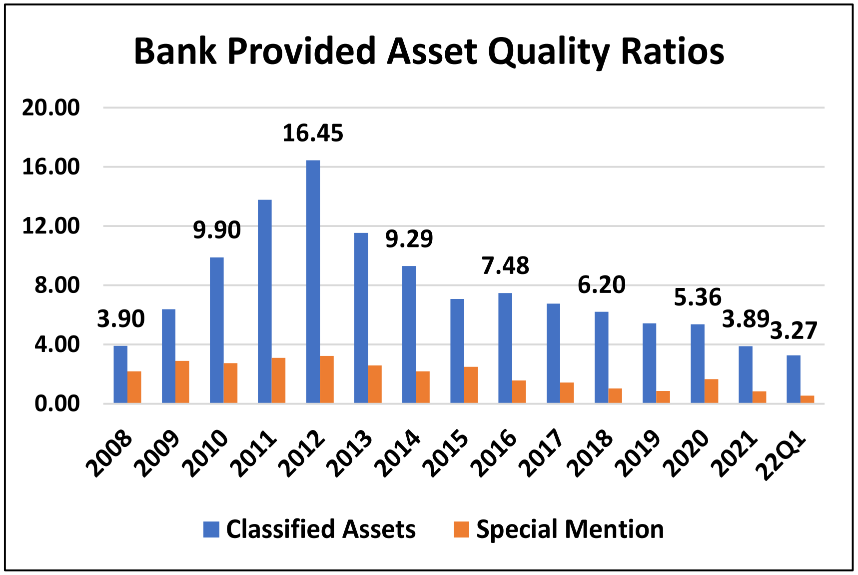


- While past due levels remain low, modification programs in the CARES Act are masking delinquencies for some credits. Fortunately, that pool of loans is declining.

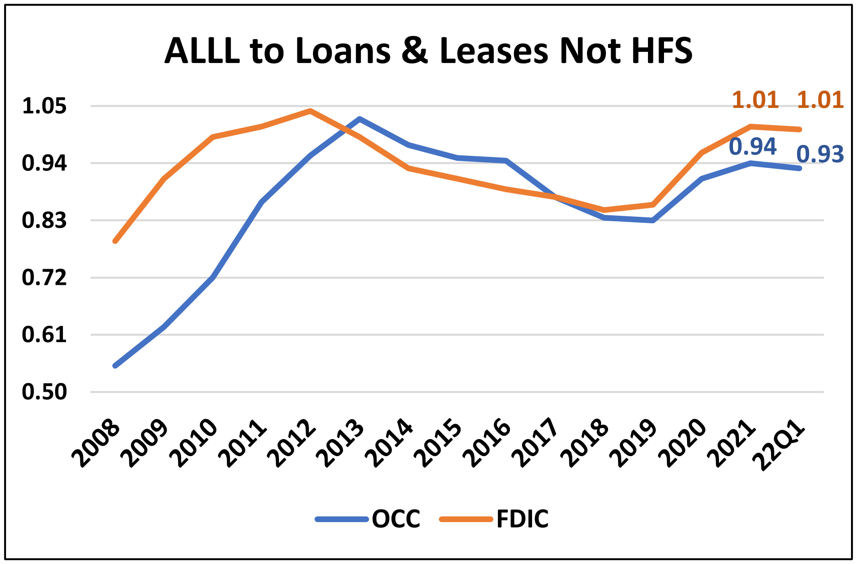


Classified Lower; ALLL Elevated

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

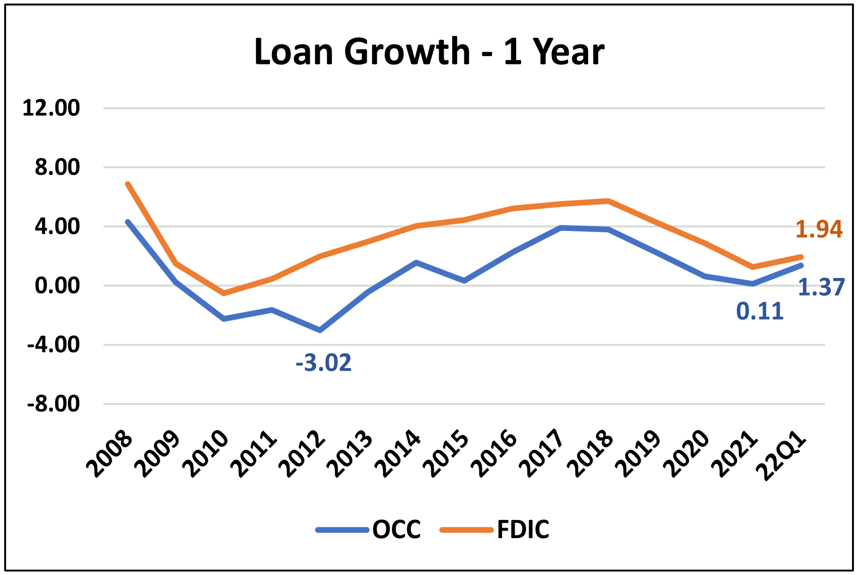


- ALLL levels for mutual FSAs remain directionally consistent and stable this year at 0.93 percent of total loans.

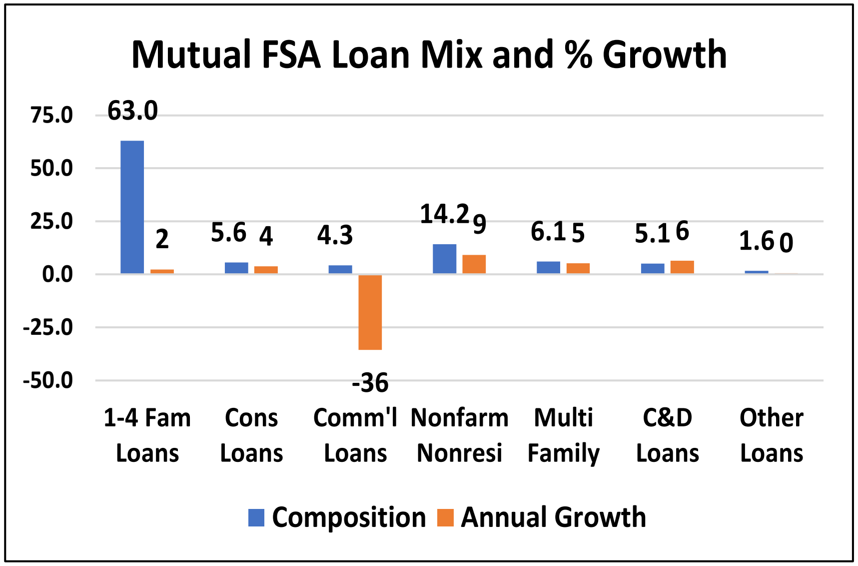


Loan Growth Weak but Improving

- Mutual FSA loan growth improved to 1.37 percent this year. If you adjust for the Paycheck Protection Program (PPP), mutual FSA loan growth increases to 3.08 percent.

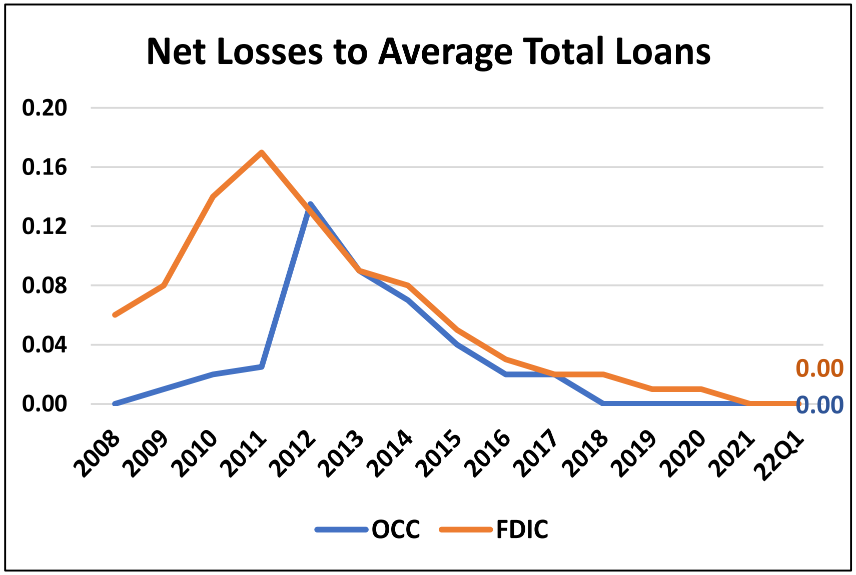


- Loan growth was highest for nonfarm nonresidential at 9 percent and lowest for commercial loans due to PPP lending.

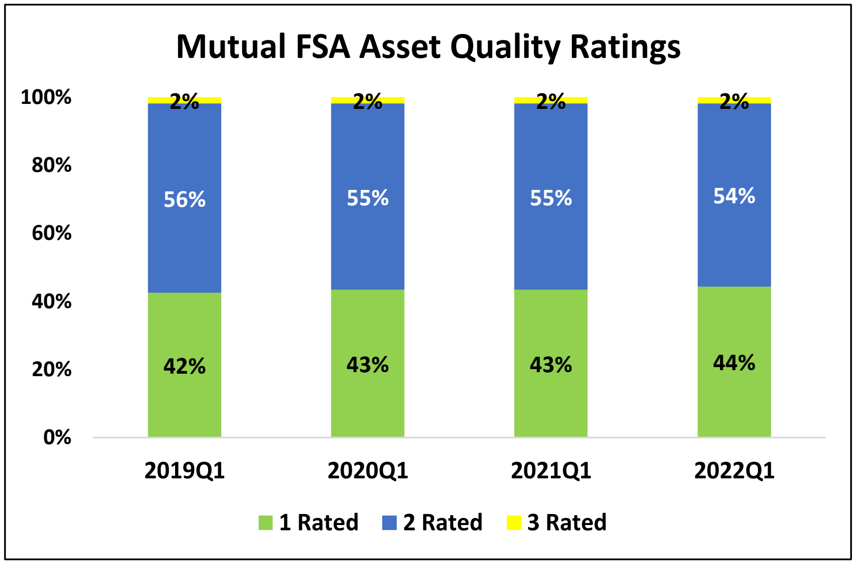


Asset Quality Remains Good

- Net loan losses are at decade-low levels with a median of 0.00 percent and a weighted average of 0.00 percent and 0.05 percent for mutual FSAs and FDIC-regulated mutuals, respectively.



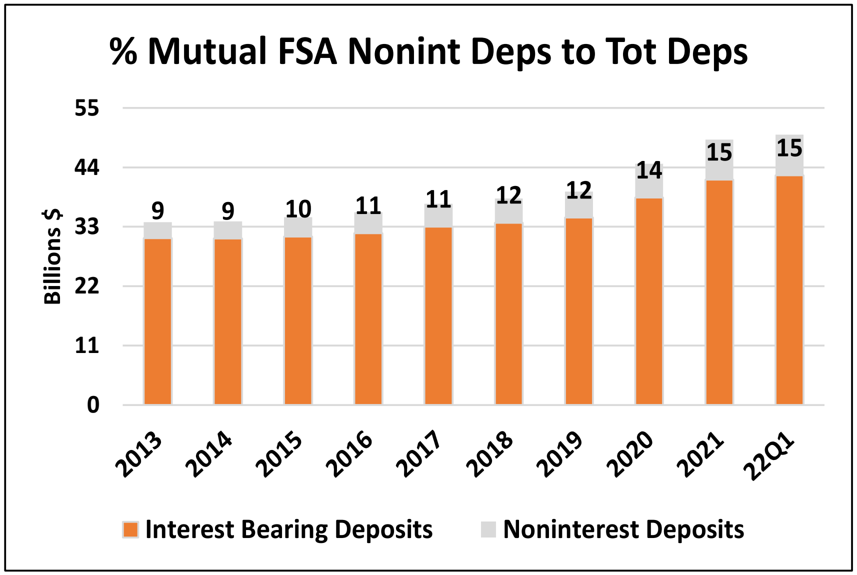
- Ninety-eight percent of mutual FSAs are rated 1 or 2 for asset quality. No mutual FSA is rated worse than 3.

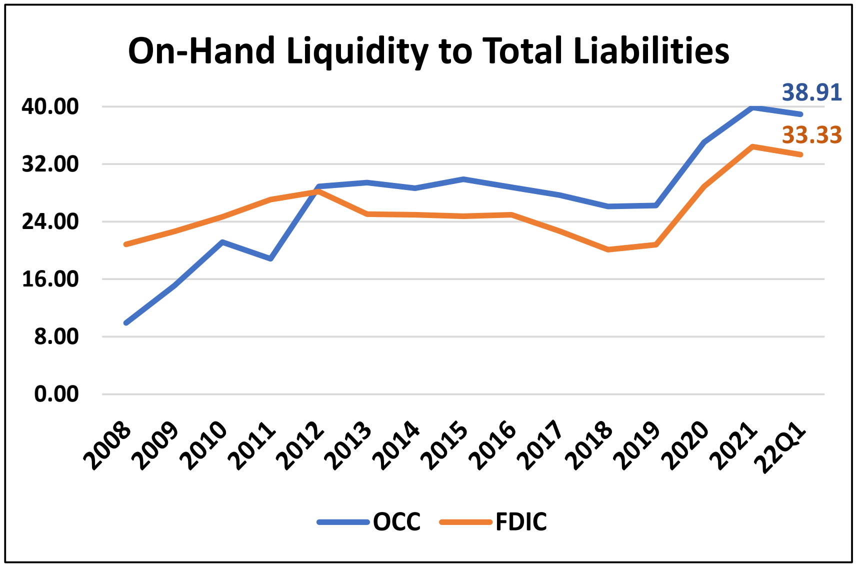


Mutuals are Flush with Liquidity

- Mutual FSA deposits grew 6.6 percent over the last year (down from 10.0 percent last quarter) due to pandemic-related deposits (stimulus checks, PPP funds) and a higher consumer saving rate.

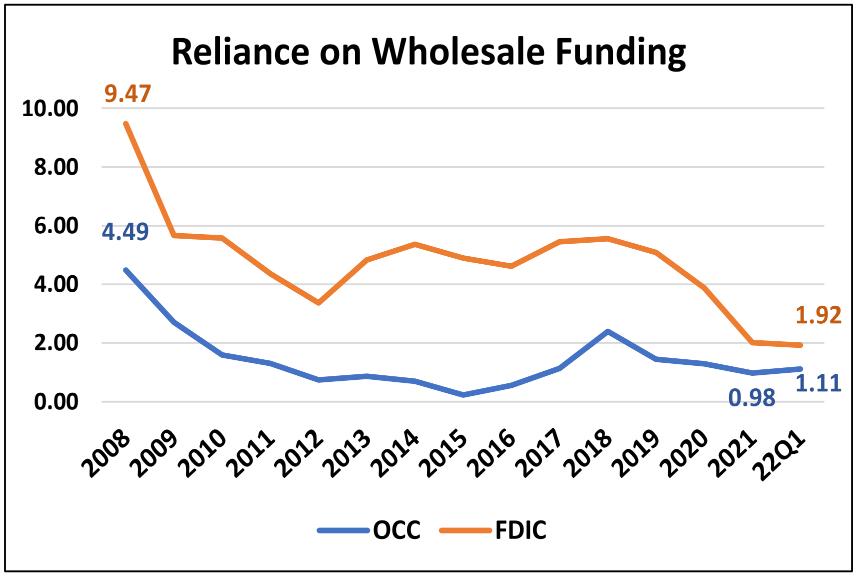
- On-hand liquidity ratios remain sharply higher but have leveled off this year.



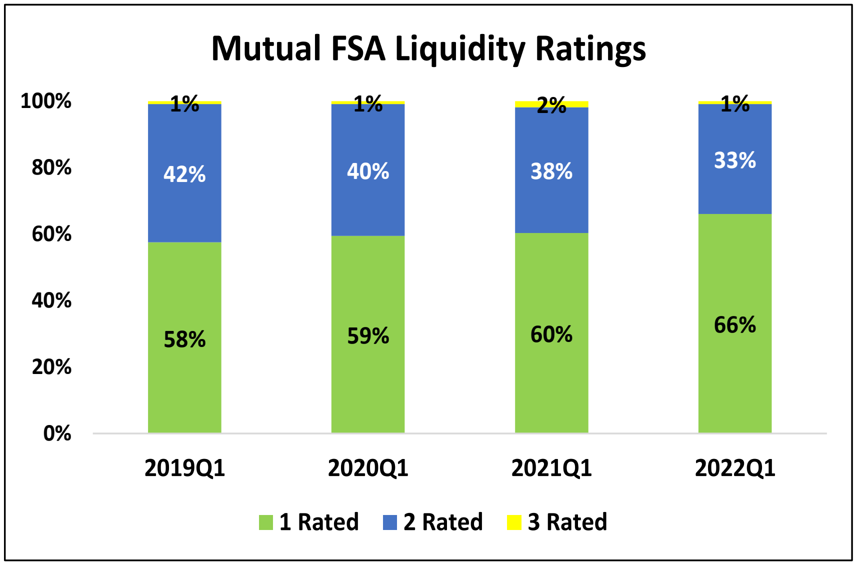


Liquidity is Strong

- Because of the excess liquidity, mutual FSAs are relying less on wholesale funding sources.



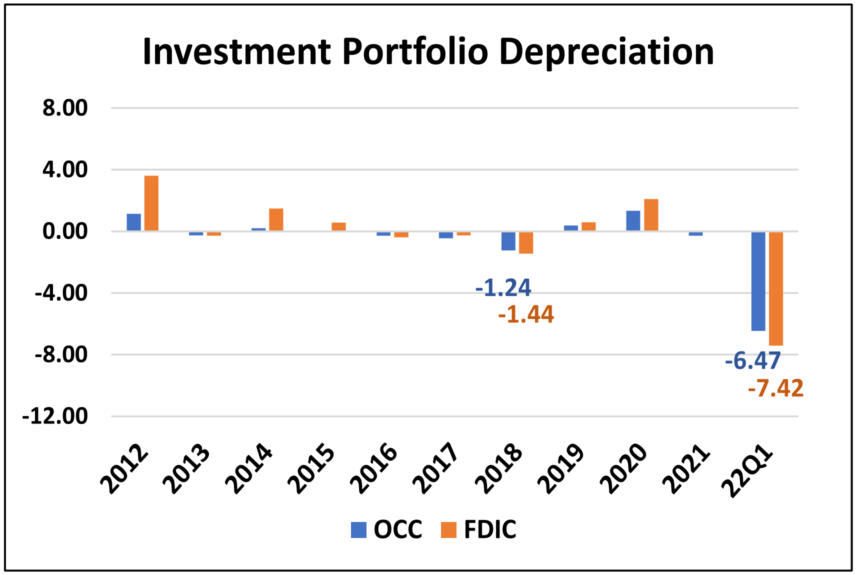
- Liquidity ratings remain strong; 99 percent of mutual FSAs are rated 1 or 2. Only one mutual FSA is rated 3. Liquidity is the ratings component most frequently upgraded over the last year.

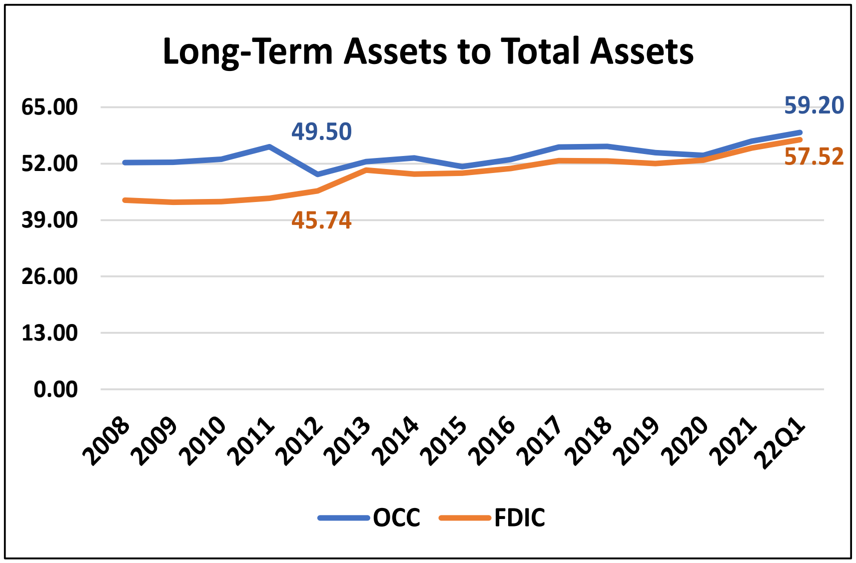


Investment Depreciation is Up Significantly

- Investment portfolio depreciation increased significantly during first quarter 2022 due primarily to the Federal Reserve raising interest rates and their announcement to begin “Quantitative Tightening.”

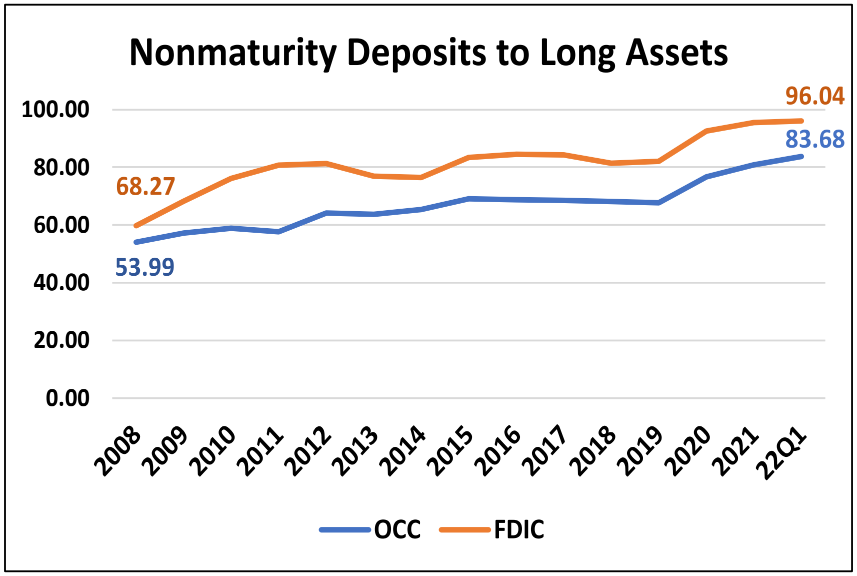
- Long-term assets as a percentage of total assets are at their highest levels this decade.



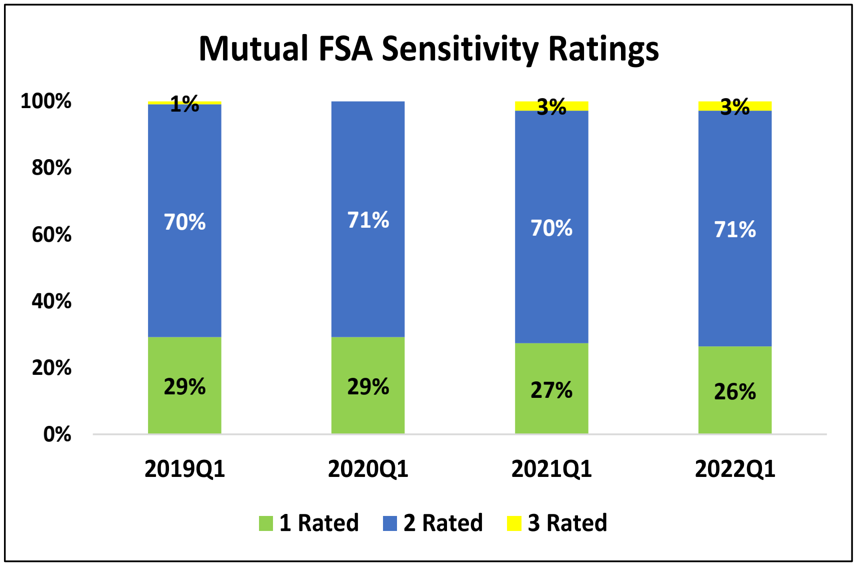


Sensitivity is Adequately Controlled

- Nonmaturity deposits to long-term assets have also increased since 2019 and are at their highest levels in more than a decade.



- Sensitivity to market risk remains adequately controlled; 97 percent of mutual FSAs are rated 1 or 2. No mutual FSA is rated worse than 3.



Key Observations – March 31, 2022

- **Mutual FSAs remain in satisfactory condition;** 95 percent have a composite rating of 1 or 2. No mutual FSA is rated composite 4 or 5.
- **Leverage capital remains strong and higher this year.**
- **Asset quality is satisfactory.** Total noncurrent loans are low and declining. Loan growth is weak but improving. The ALLL is adequate.
- **Earnings are adequate but lower**. ROAA declined in first quarter 2022 due mainly to a contraction in noninterest income. Earnings saw the most rating 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**. Investment portfolio deprecation increased significantly in first quarter 2022. Mutuals are holding higher levels of nonmaturity deposits relative to long-term assets making them less vulnerable to increases in interest rates.

Questions