



State of Mutual FSAs

Information as of June 30, 2024

ERNIE KNOTT
October 22, 2024



Today's Agenda



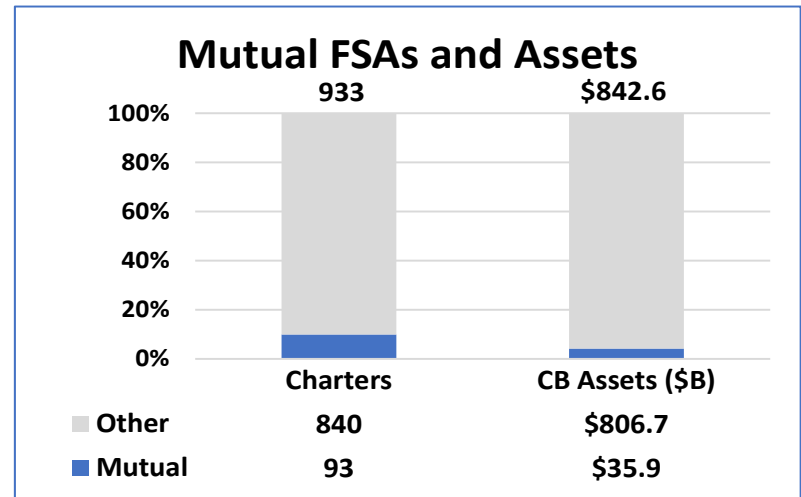
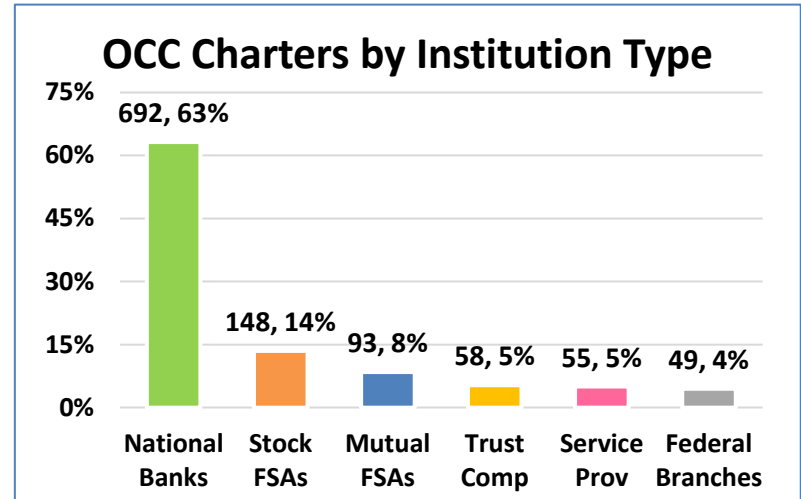
- 01 — Portfolio Demographics
- 02 — Supervisory Information
- 03 — Financial Performance
- 04 — Economic Challenges

Preface: This presentation analyzes mutual banks active as of June 30, 2024. For many of the performance metrics, this population is “held constant.” Most charts use the median and others use weighted averages.

Mutual FSA Charters and Assets

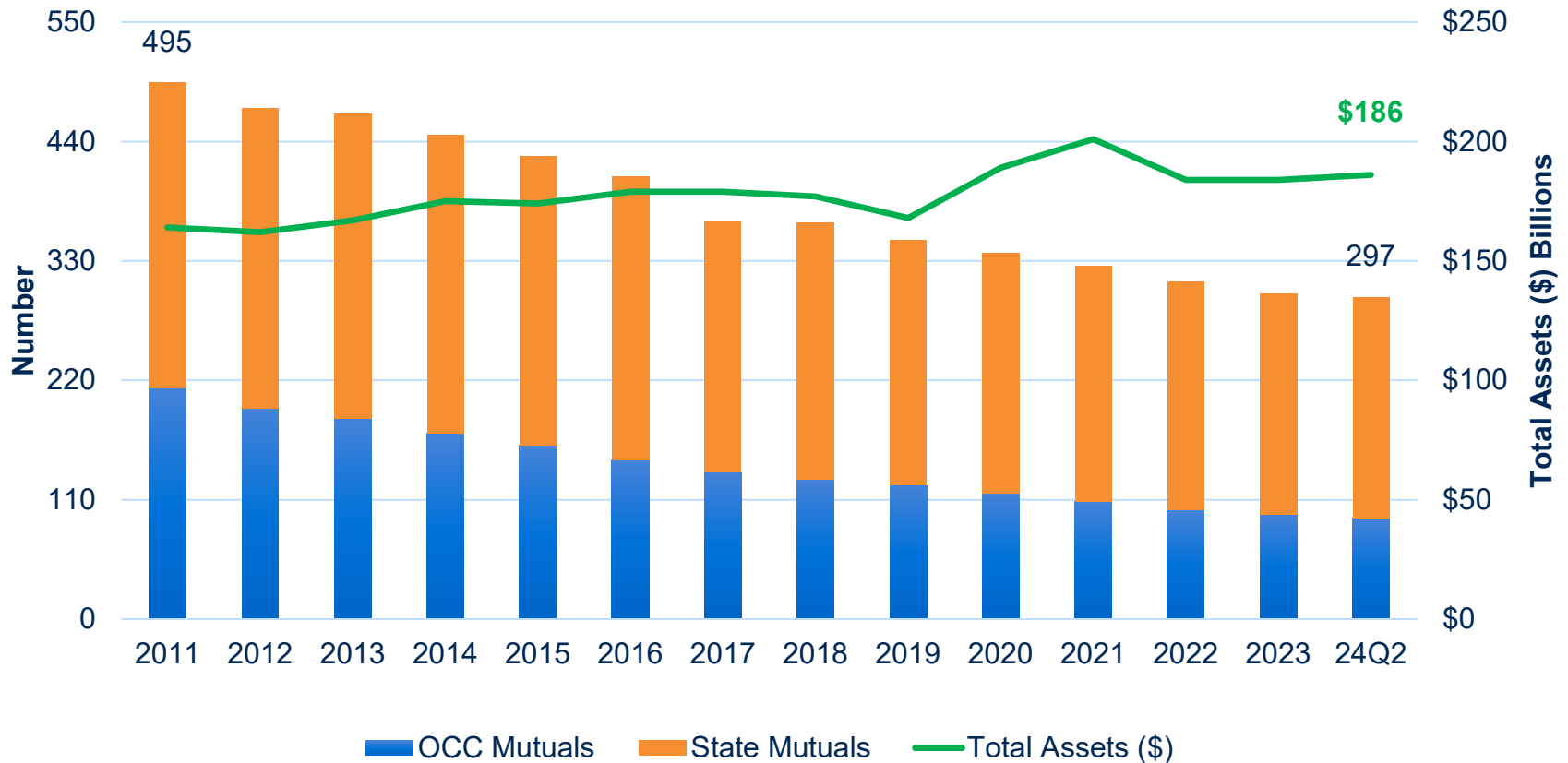
OCC supervised 1,095 total institutions or 933 non-trust bank charters (first 3 columns) as of June 30, 2024.

Mutual FSAs represent 10.0 percent of OCC-supervised non-trust bank charters and \$35.9 billion or 4.3 percent of OCC-supervised community bank assets as of June 30, 2024.



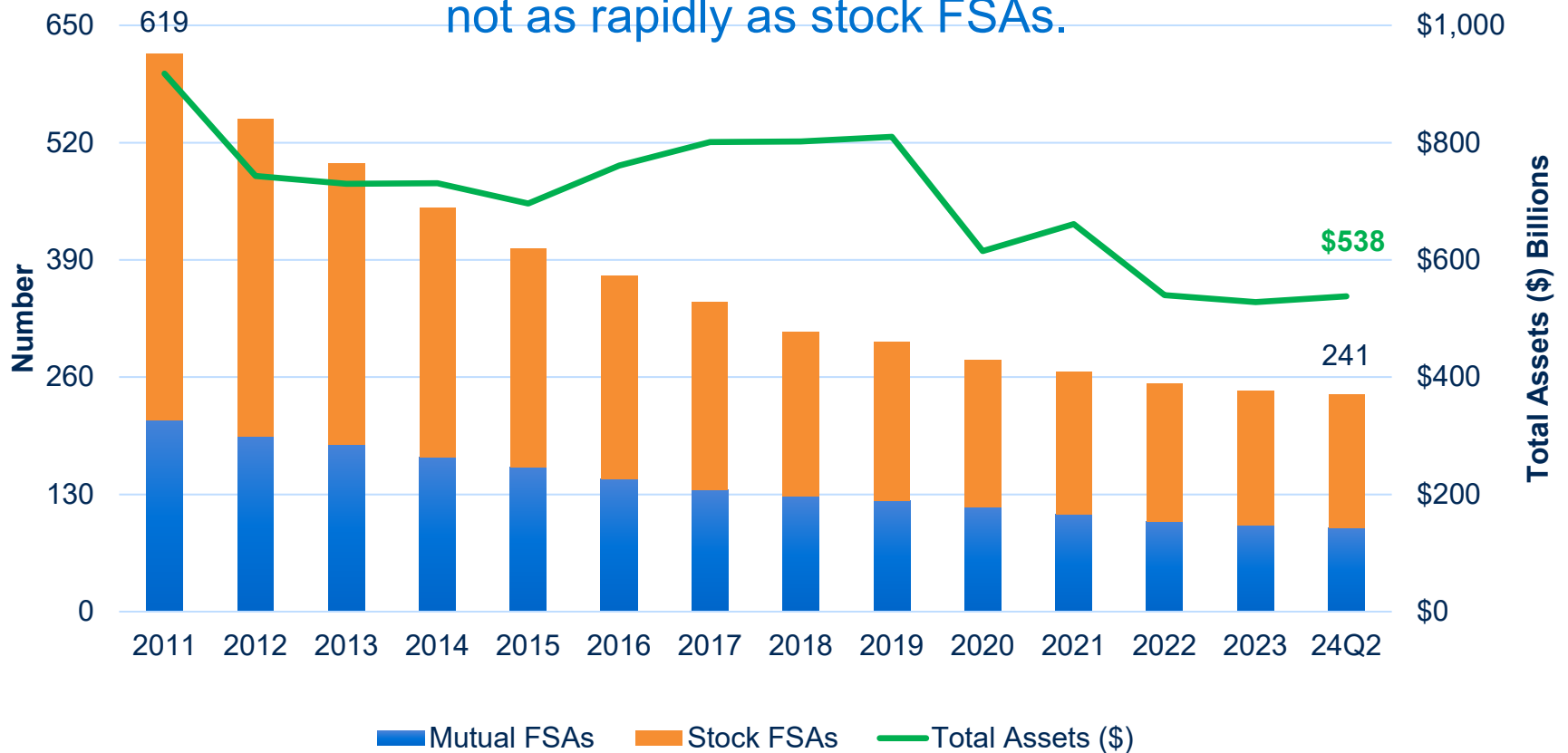
Trend in Mutual Savings Banks

The banking industry continues to consolidate. Since 2011, the number of mutual banks declined by 40.0 percent, but assets are 13.4 percent higher.



Trend in FSA Charters

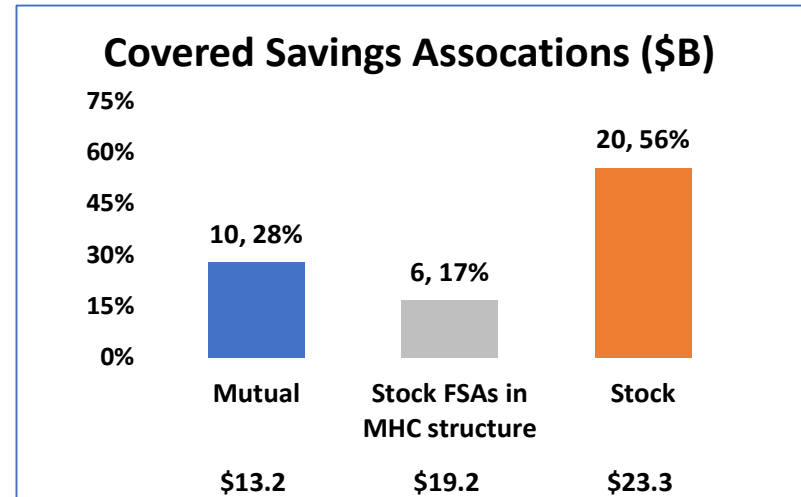
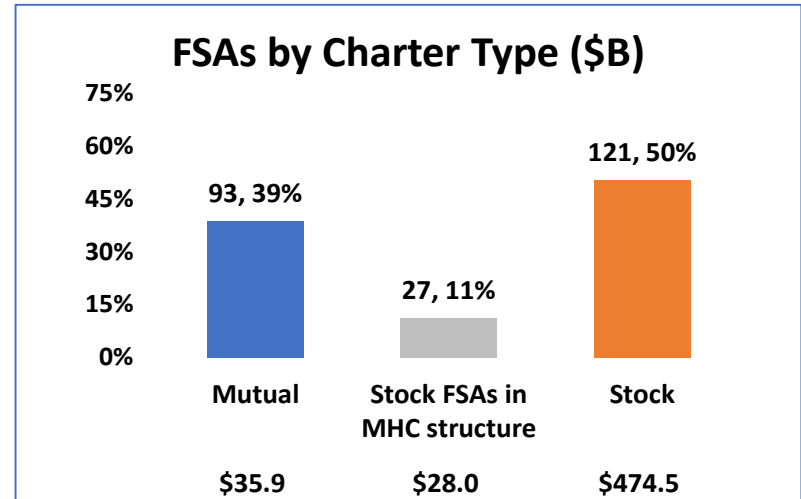
Since 2011, the number of FSAs declined by 61.1 percent and total assets declined by 41.5 percent. The number of mutuals continues to decline but not as rapidly as stock FSAs.



FSA by Type

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

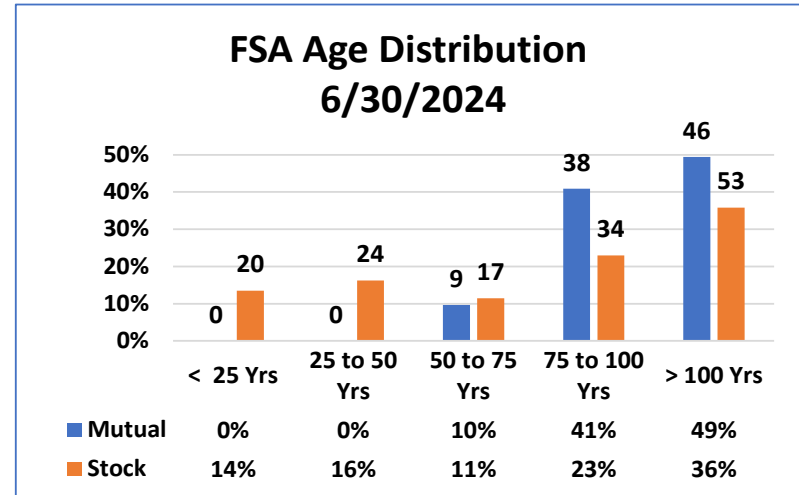
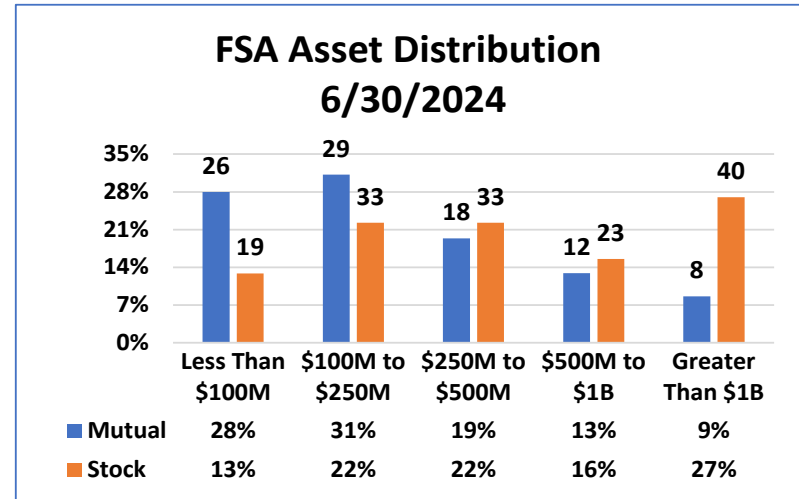
FSAs with total assets of \$20 billion or less as of December 31, 2017, may elect to operate as covered savings associations (CSAs). CSAs represented 36 or 14.9 percent of FSA charters and \$55.7 billion or 10.4 percent of FSA assets.



FSA Asset Size and Age

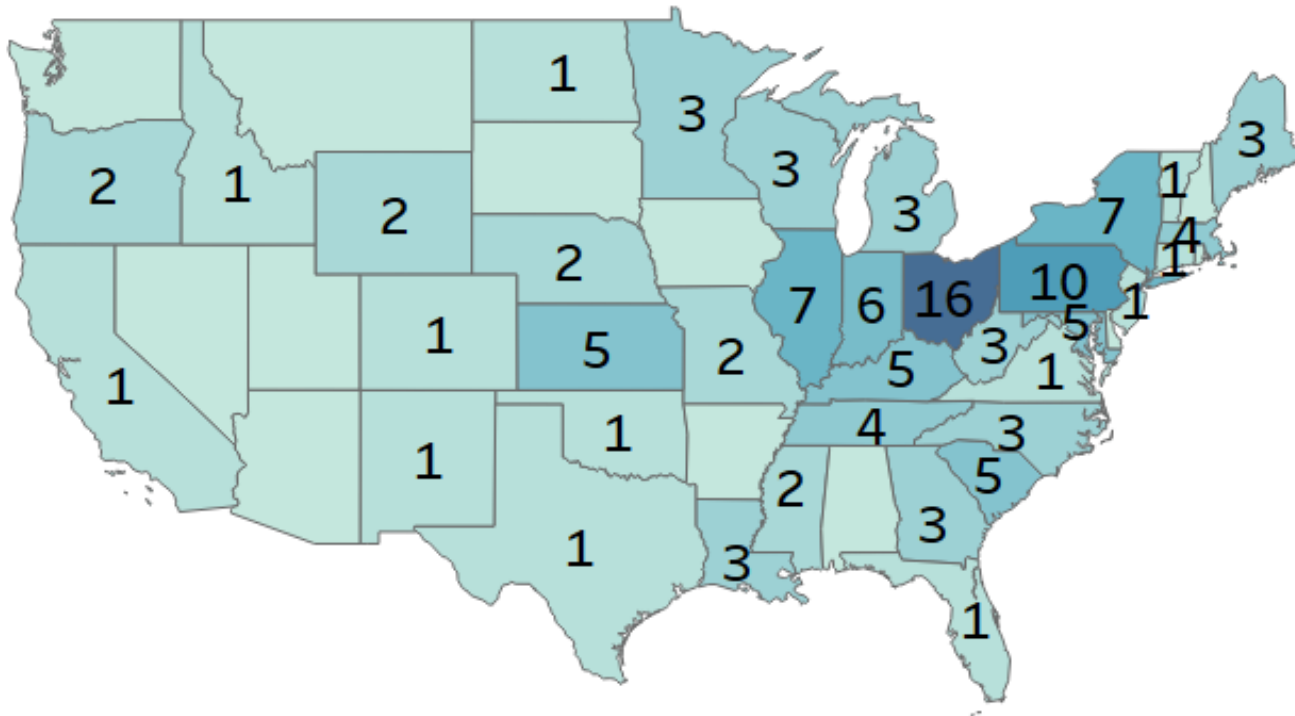
Mutual FSAs are typically smaller in size than their stock counterparts. Only 9 percent of mutual FSAs have total assets greater than \$1 billion versus 27 percent of stock FSAs.

Mutual FSAs represent some of the oldest financial institutions in the United States. Forty-nine percent of mutual FSAs were formed more than 100 years ago.



Mutual FSAs by State

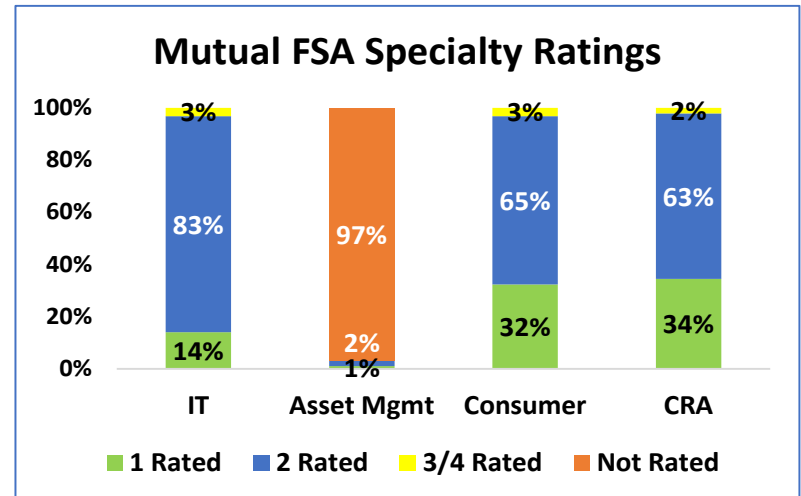
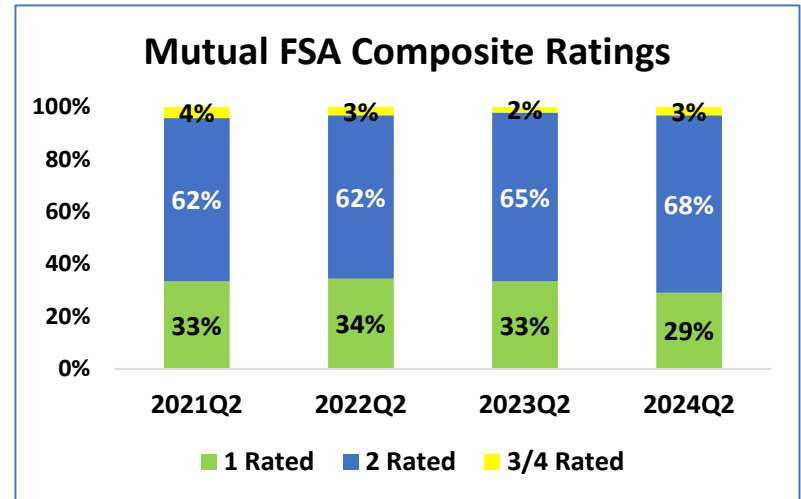
Mutual FSAs are concentrated in the Midwest and Northeast. This map displays the 93 mutual FSAs and the 27 no-shares stock FSAs operating in an MHC structure.



Supervisory Ratings

Composite ratings are satisfactory; 97 percent of mutual FSAs are rated composite 1 or 2.

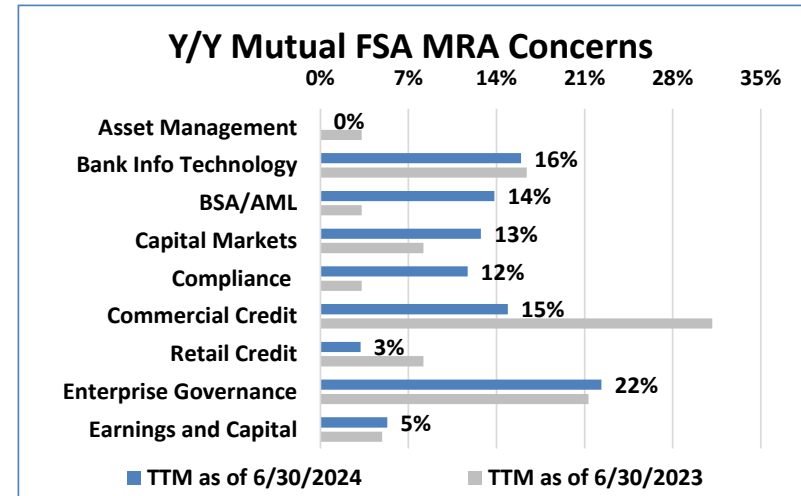
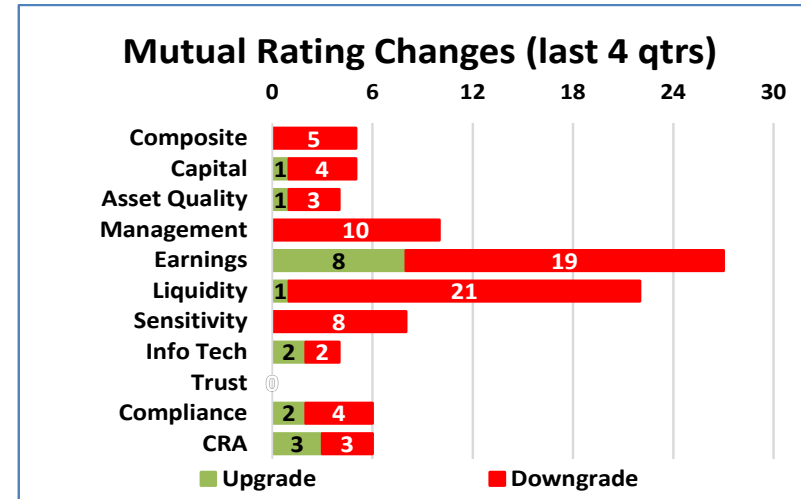
Specialty ratings are satisfactory. Only 3 percent of mutual FSAs have trust powers. For purposes of this chart, a CRA rating of outstanding is 1, satisfactory is 2, and needs to improve is 3.



Rating Changes and MRAs

Over the last year, there were 18 upgrades and 79 downgrades, for a net rating downgrade of 61. Most downgrades were for liquidity and earnings.

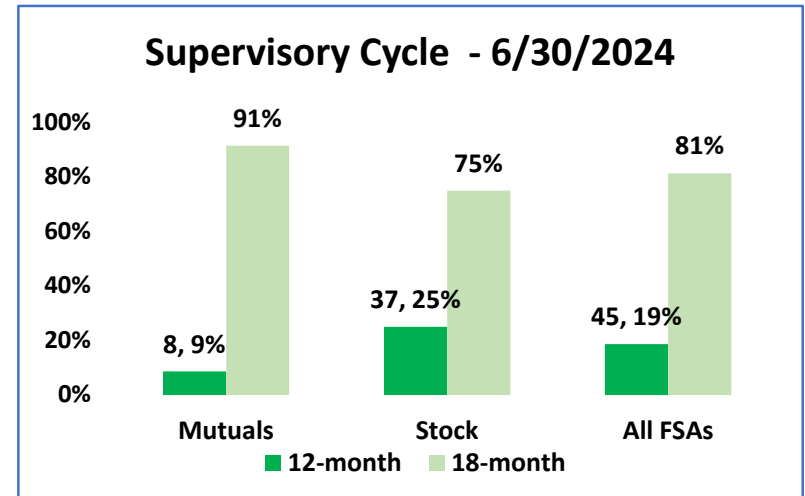
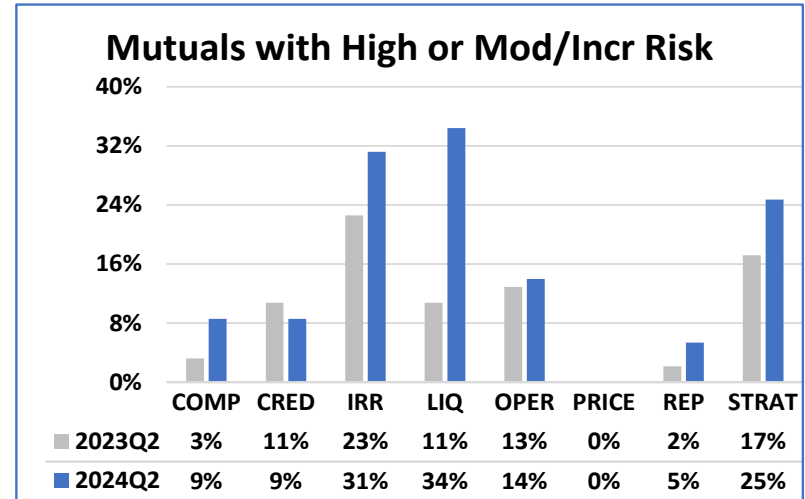
MRA volume increased for the trailing 12 months ending June 30, 2024. MRAs increased the most for BSA/AML. MRAs decreased the most for Commercial Credit.



Risks Ratings and Exam Cycle

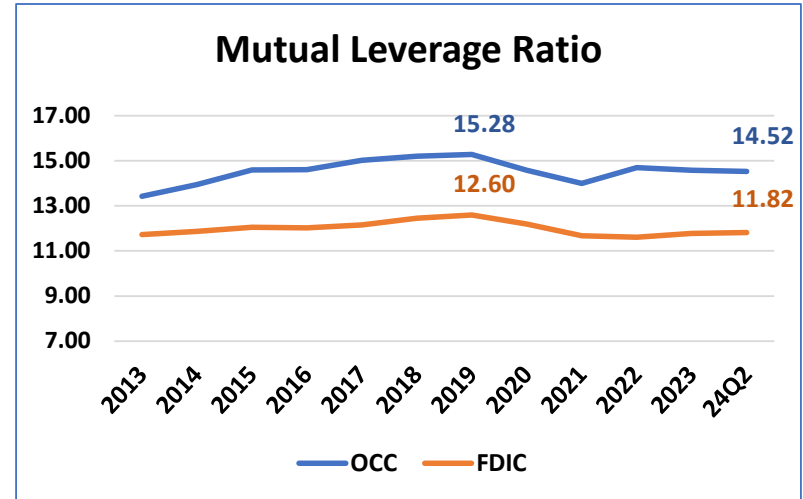
The top three risks for mutual FSAs are liquidity (increasing), interest rate risk (increasing), and strategic (increasing).

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



Capital Levels Remain Solid

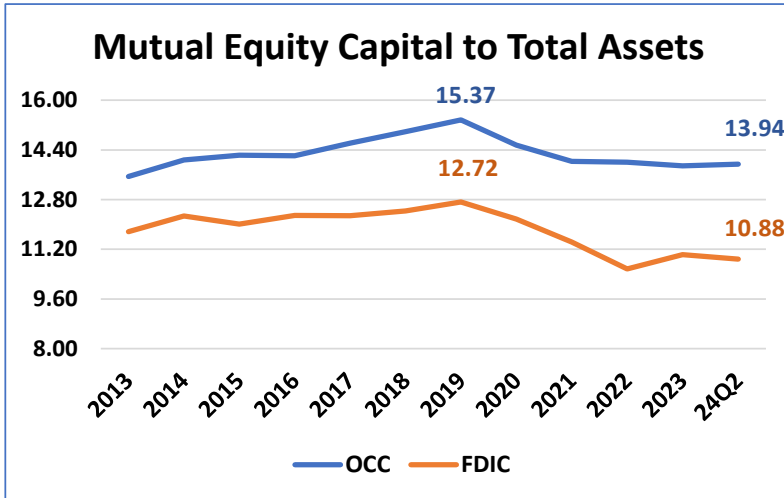
The mutual FSA leverage ratio remains solid and well above peer. The gap between the OCC and FDIC leverage ratio widened slightly since 2019.



Leverage Ratio - Jun 30, 2024

Asset Category	FDIC	OCC
Under \$50MM	12.93	16.49
\$50MM - \$100MM	14.07	21.23
\$100MM - \$250MM	11.41	14.26
\$250MM - \$500MM	13.38	14.11
\$500MM - \$1B	11.92	12.12
Greater than \$1B	10.38	13.93

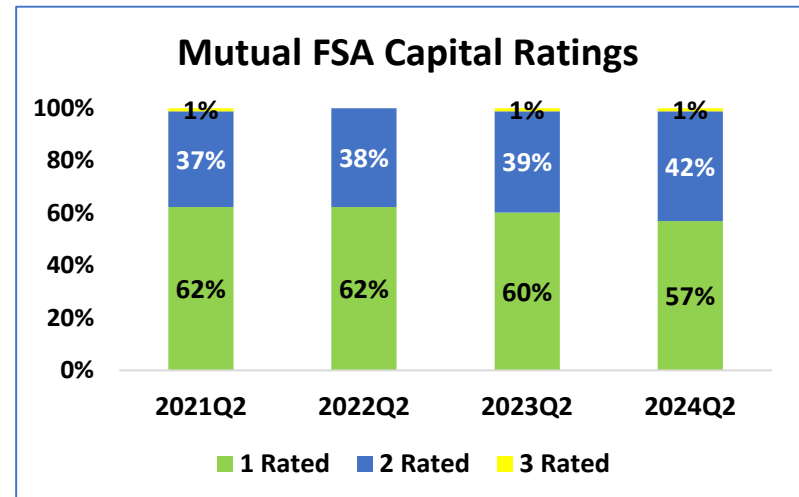
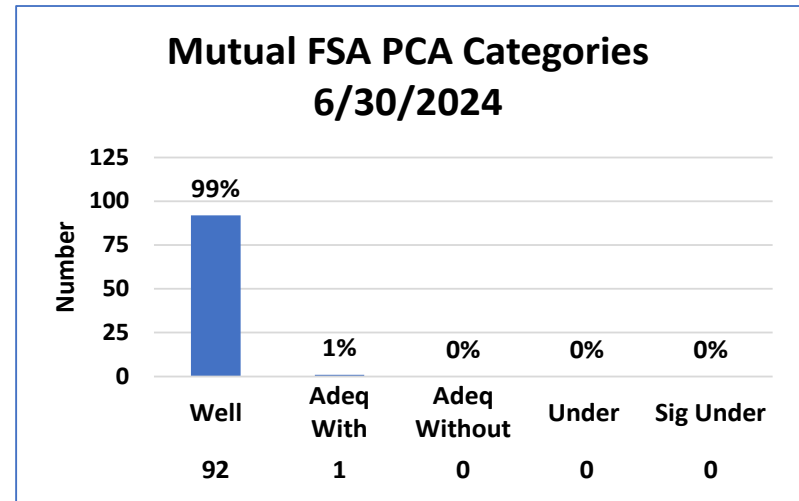
Median	11.82	14.52
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Capital Ratings Remain Strong

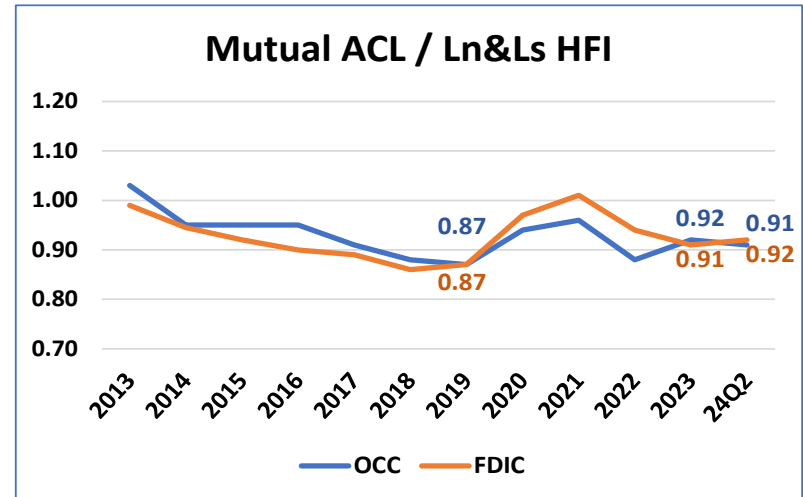
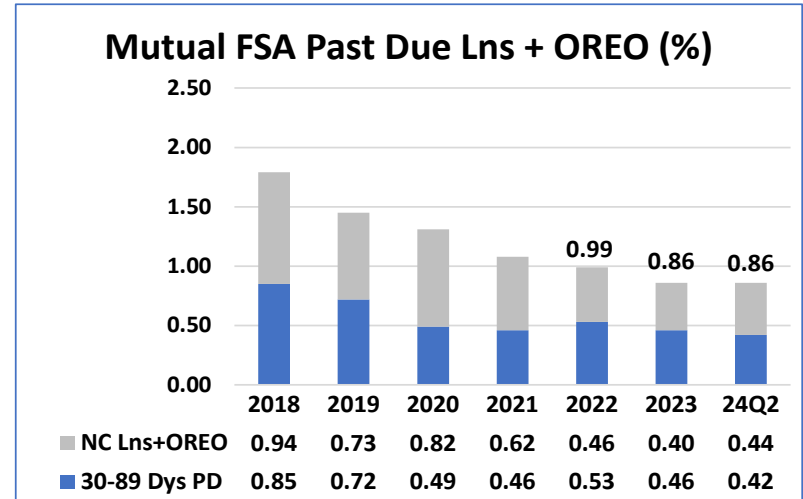
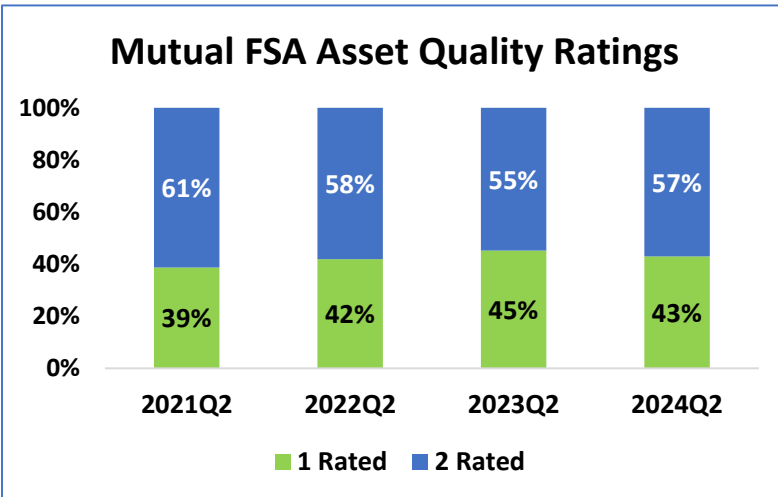
Ninety-nine percent of Mutual FSAs are well capitalized per Prompt Corrective Action.

Capital ratings remain strong; 57 percent of mutuals are rated 1.



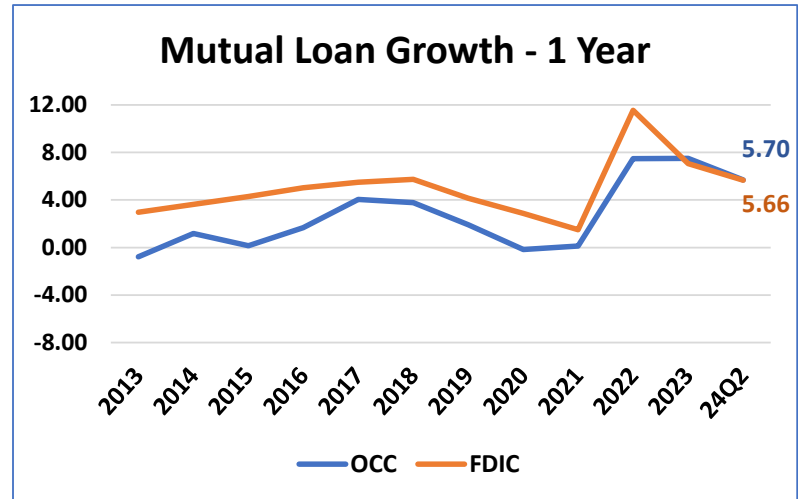
Asset Quality is Resilient

Asset quality ratings are good. Past due loans remain low and stable. Early-stage delinquencies declined this year. The allowance for credit losses is stable and slightly higher versus pre-pandemic.

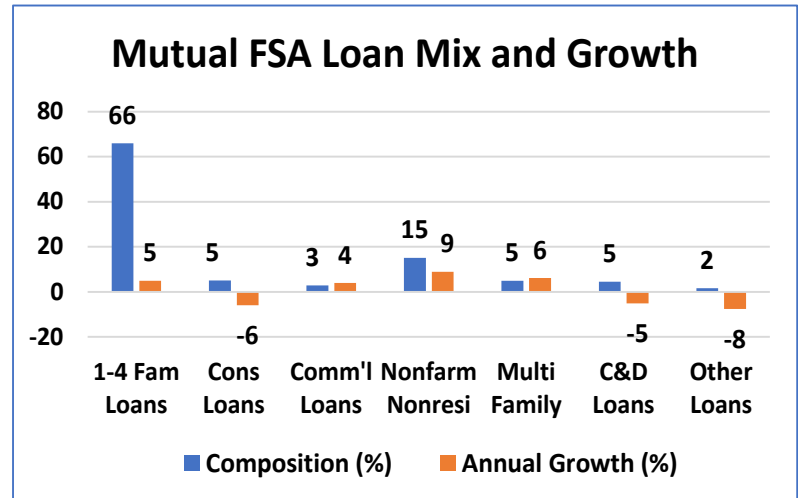


Loan Growth Remains Moderate

Loan growth declined this year for mutual banks.



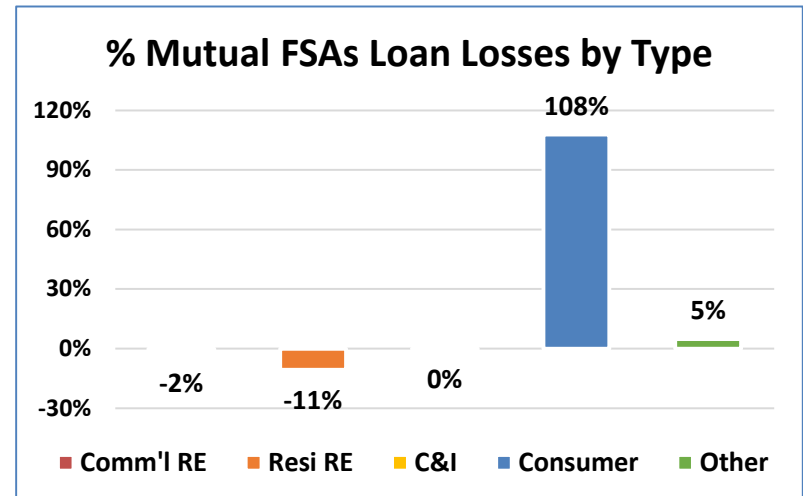
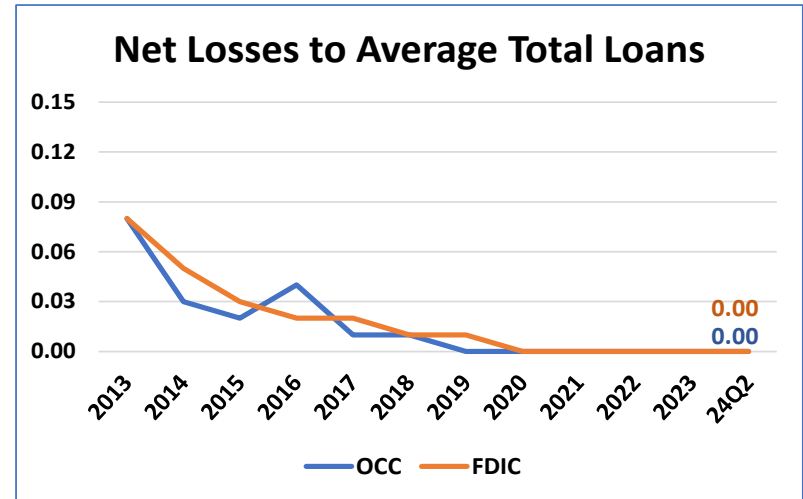
Mutual FSA loans are heavily concentrated in residential mortgages. Consumer, construction & development, and other loans contracted.



Loan Losses Remain Low

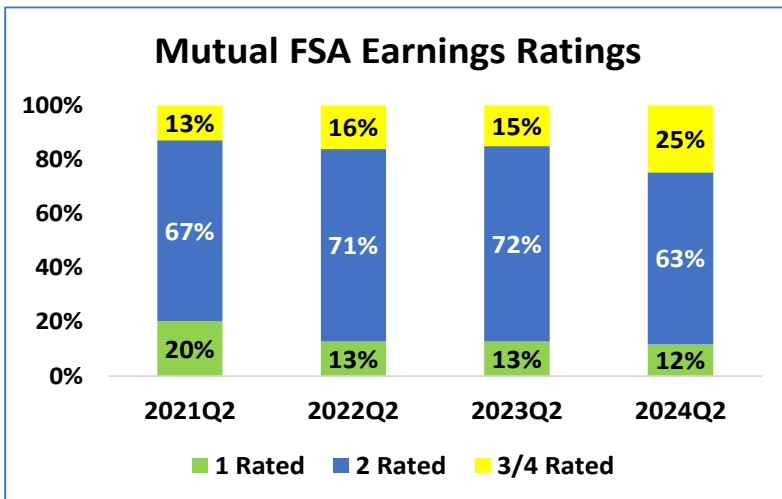
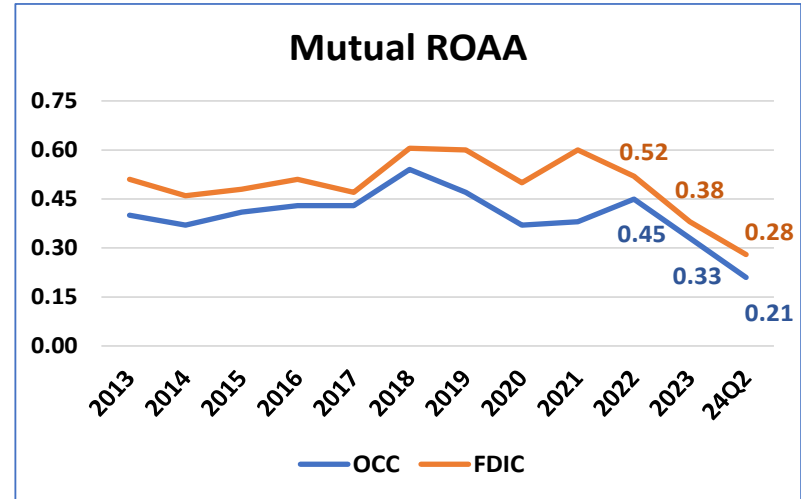
Loan losses remain low. While the median is zero, the Mutual FSA weighted average net loss ratio remains stable at 0.02 percent in 2024.

Consumer accounts for 5 percent of loans and 108 percent of losses.



Mutual ROAA is Lower

Earnings ratings weakened and continue to lag ratings in other safety and soundness areas. Return on Average Assets (ROAA) for mutual FSAs is satisfactory but declined for the second consecutive year.



Return on Assets - Jun 30, 2024

Asset Category	FDIC	OCC
Under \$50MM	0.03	0.05
\$50MM - \$100MM	0.10	0.21
\$100MM - \$250MM	0.18	0.21
\$250MM - \$500MM	0.42	0.18
\$500MM - \$1B	0.38	0.19
Greater than \$1B	0.40	0.32

Median	0.28	0.21
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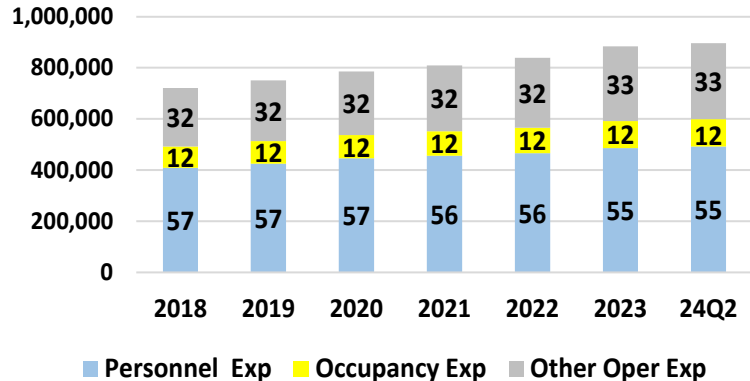
Net Income Down 37 Percent

Mutual FSA net income decreased sharply this year due to margin compression from the sharp rise in the cost of funds.

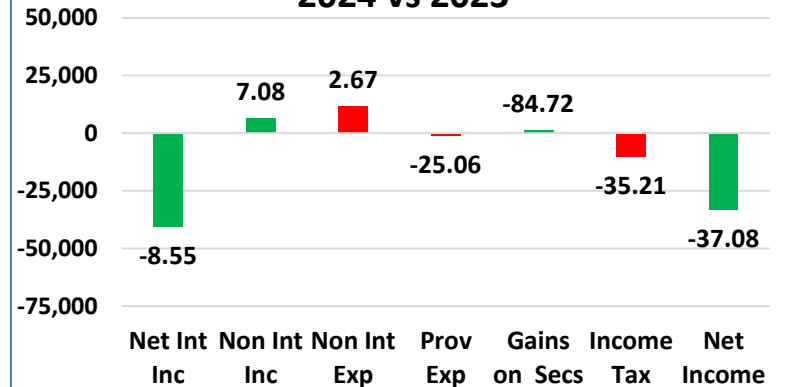
Mutual FSA Income Statement (\$000's)

	2024Q2	2023Q2	Δ 1 Yr \$	Δ 1 Yr %
Int Income	739,105	626,184	112,921	18.03
Int Expense	305,836	152,427	153,409	100.64
Net Int Inc	433,269	473,757	-40,488	-8.55
Non Int Inc	93,595	87,406	6,189	7.08
Non Int Exp	447,906	436,238	11,668	2.67
Prov Exp	3,350	4,470	-1,120	-25.06
Gains on Secs	-234	-1,531	1,297	-84.72
Income Tax	18,798	29,013	-10,215	-35.21
Net Income	56,563	89,898	-33,335	-37.08

Trends in Noninterest Expense



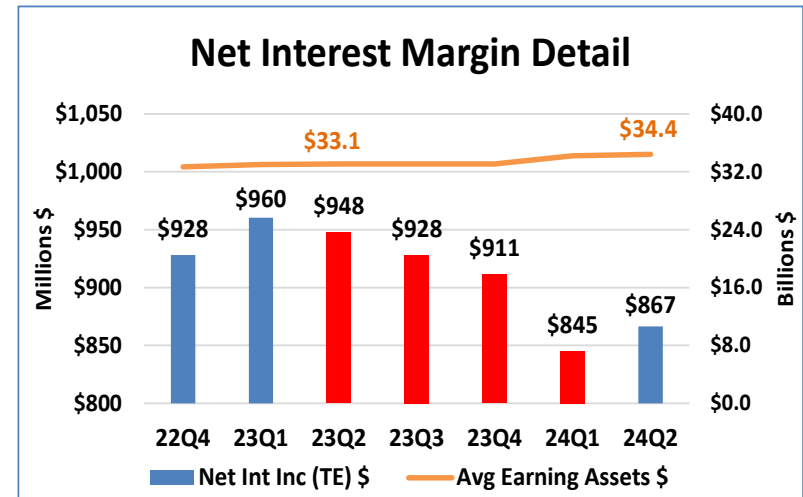
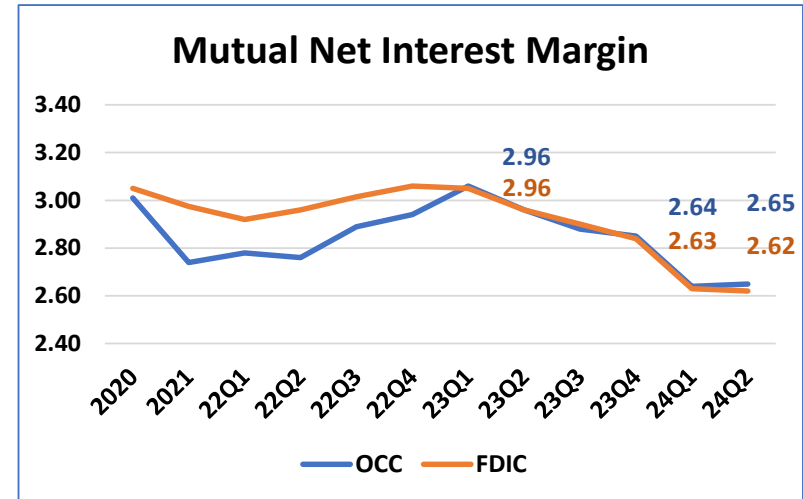
Change in Net Income 2024 vs 2023



Y/Y Net Interest Margin Contracts

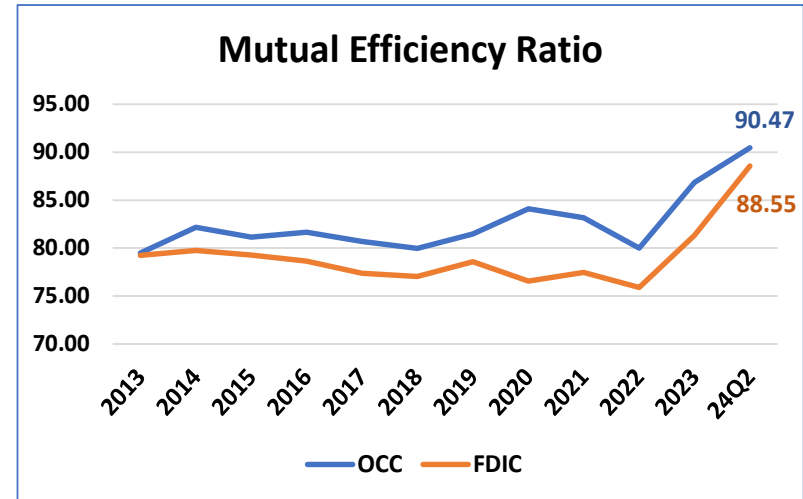
After contracting in 2023 and first quarter 2024 due to the sharp rise in the cost of funds, mutual margins began to stabilize and improve in second quarter 2024.

The weighted average NIM contracted 35 basis points since second quarter 2023 due to a decrease of \$81 million or 8.5 percent in net interest income while average earning assets grew 3.9 percent to \$34.4 billion.



Efficiency Ratio Higher

Mutual efficiency ratios worsened in 2024. About 28 percent or 26 mutual FSAs reported efficiency ratios over 100 percent.



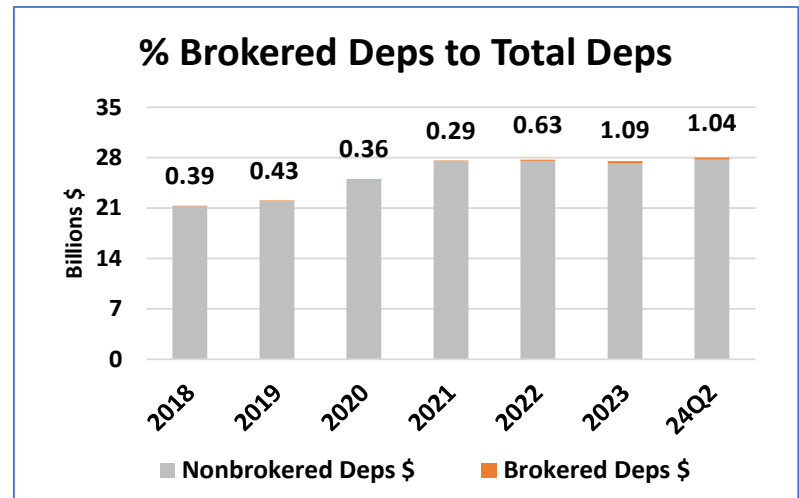
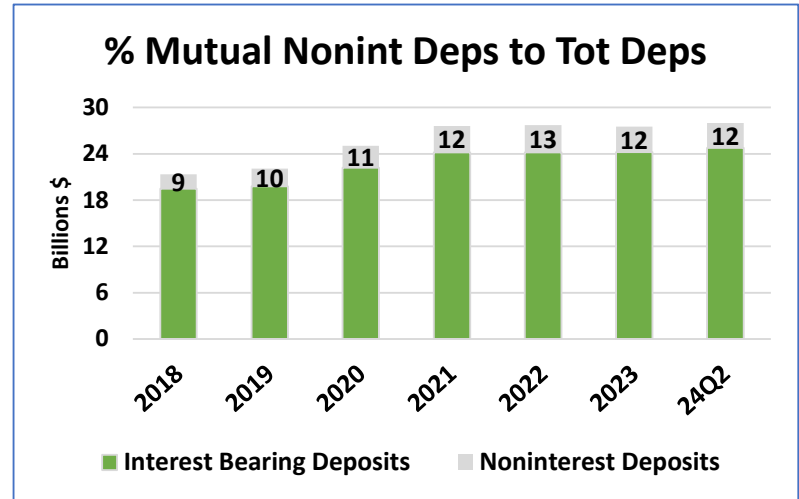
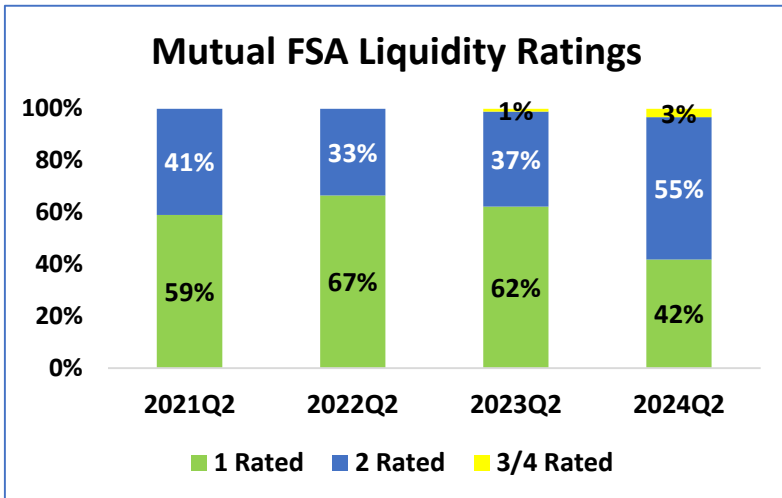
If you stratify the efficiency ratio by asset size, you will generally find the larger the bank, the lower the efficiency ratio.

Efficiency Ratio - Jun 30, 2024

<u>Asset Category</u>	<u>FDIC</u>	<u>OCC</u>
Under \$50MM	100.03	99.50
\$50MM - \$100MM	99.15	93.45
\$100MM - \$250MM	92.89	88.75
\$250MM - \$500MM	82.99	91.94
\$500MM - \$1B	87.42	91.48
Greater than \$1B	81.96	83.87
Median	88.55	90.47

Liquidity is Satisfactory

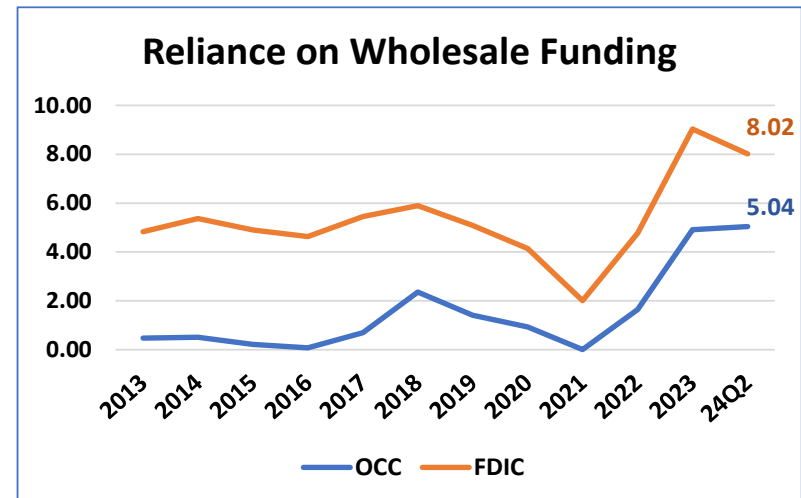
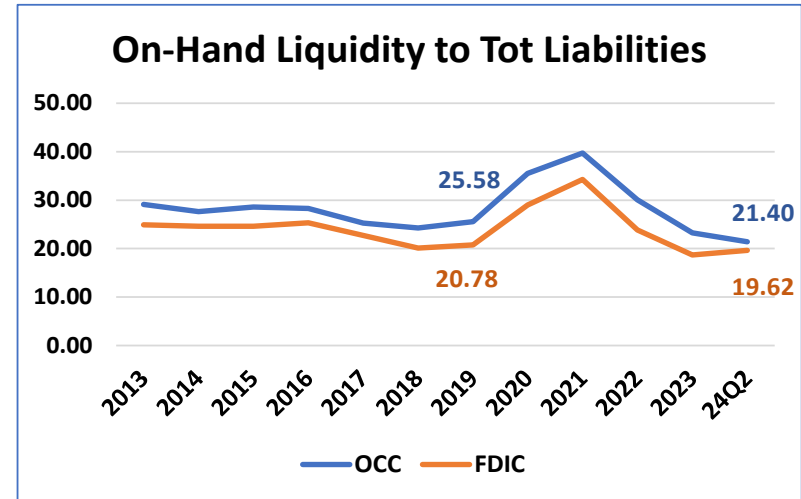
Liquidity ratings remain satisfactory but saw a huge shift from the 1- to 2-rated category. Total Mutual FSA deposits remain positive and increased 0.38 percent for the quarter and 2.46 percent for the year.



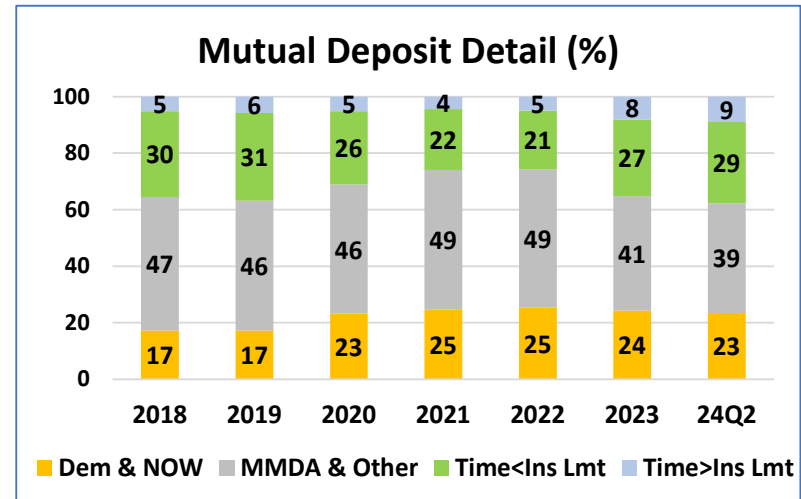
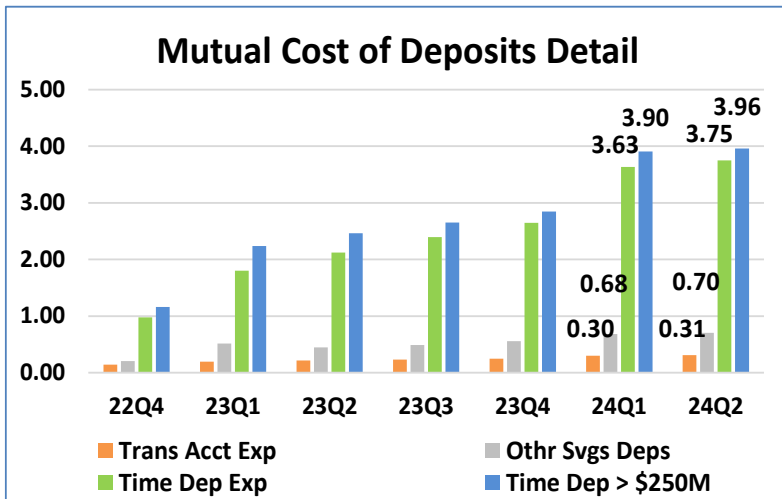
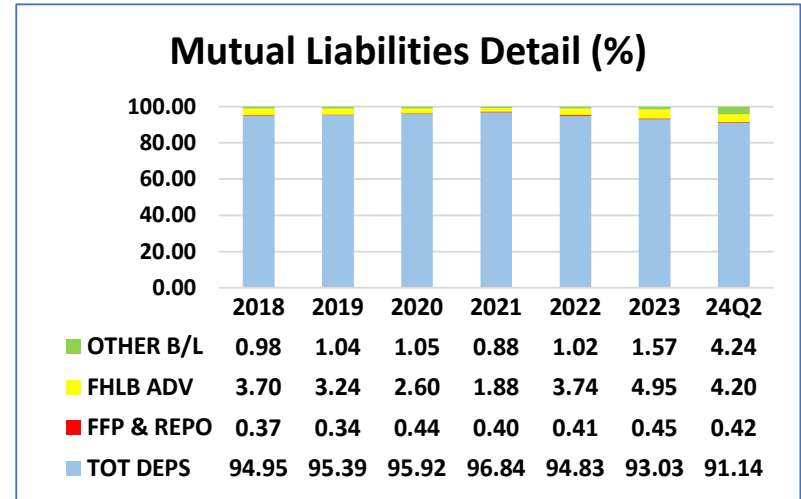
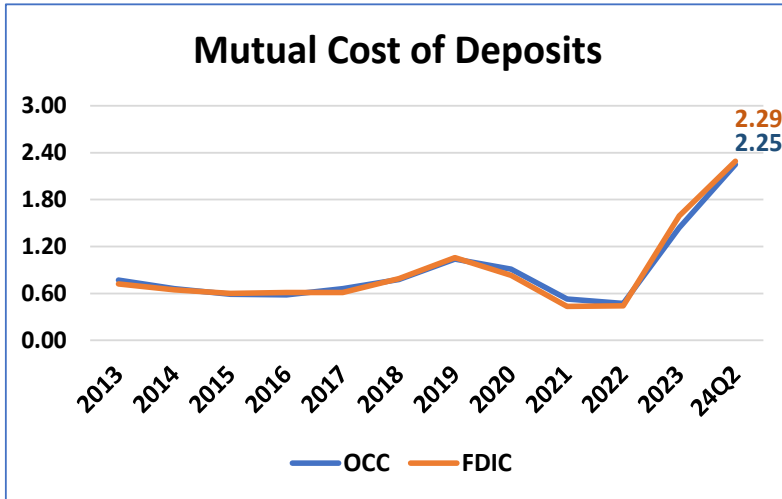
On-Hand Liquidity Lower

After reaching a cyclical peak in 2021, mutual FSA on-hand liquidity ratios fell for three consecutive years and remain below pre-pandemic levels.

Because of declining balance sheet liquidity, mutual FSAs are relying more on wholesale funding sources.



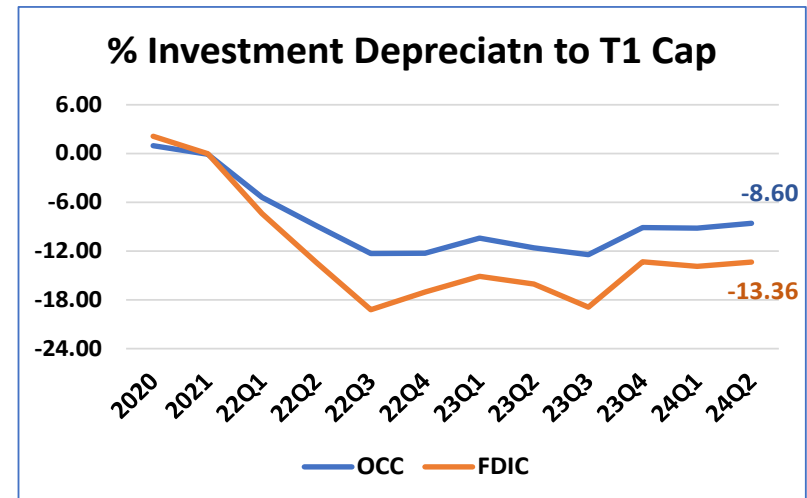
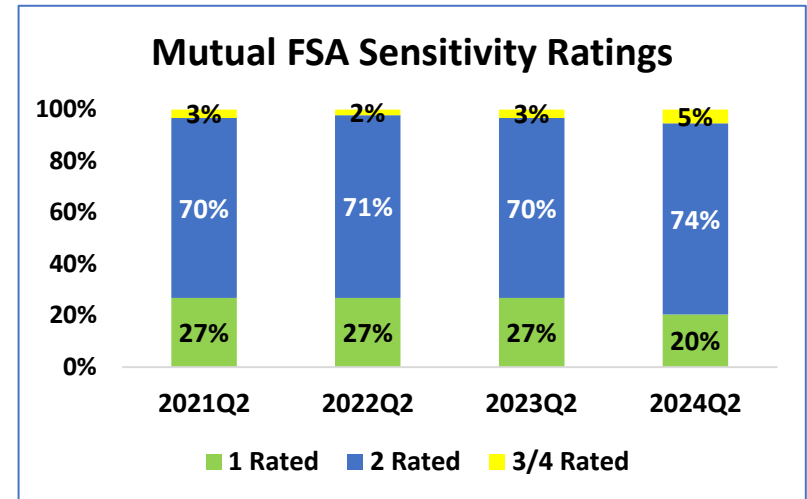
Cost of Deposits Jumps



Sensitivity is Adequately Controlled

Sensitivity to market risk ratings are satisfactory, with 94 percent of mutuals rated 1 or 2.

Due to the rise in rates and quantitative tightening, investment portfolio depreciation remains elevated.



Executive Summary – June 30, 2024



Mutual FSAs are in satisfactory condition; 97 percent are rated 1 or 2.



Capital levels remain strong and well above the FDIC peer.



Asset quality is resilient. Total past due loans plus OREO remain low.



Earnings are satisfactory but lower due to net interest margin compression.



Liquidity has become tighter due to the higher rate environment and stronger competition for deposits.



Sensitivity to market risk is adequately controlled. Investment portfolio depreciation has improved but remains elevated.

Summary of Economic Projections

The Fed’s dot plot from the September 17–18, 2024 FOMC meeting shows 100 basis points of rate cuts in 2024 up from 25 basis points.

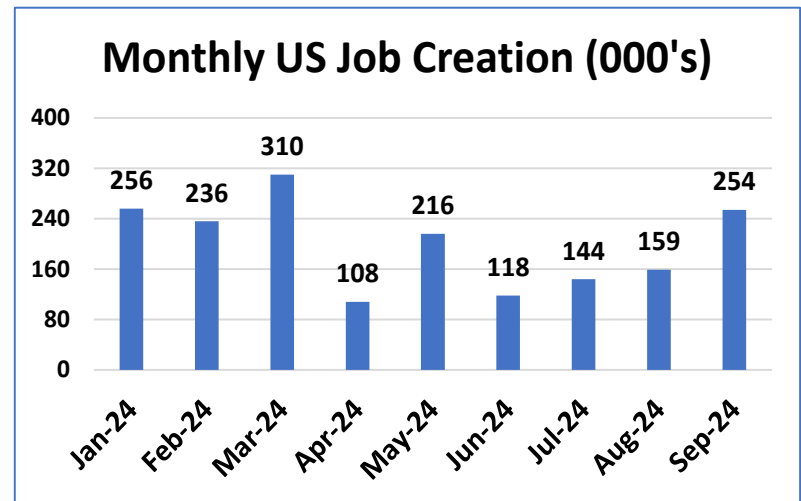
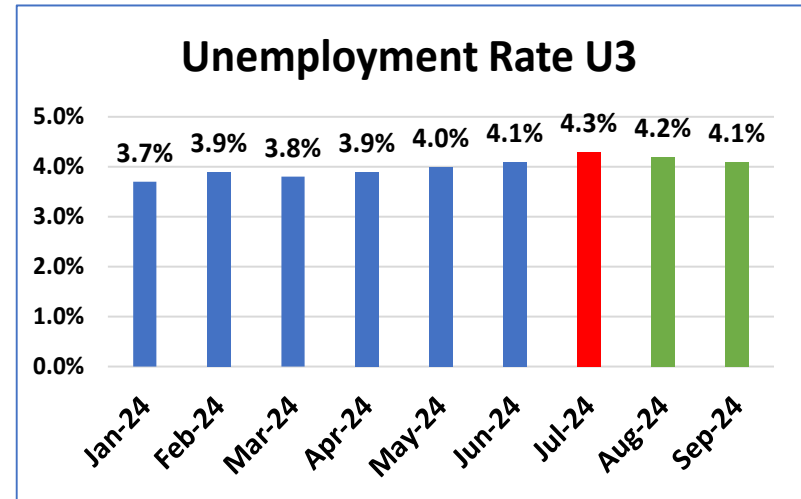
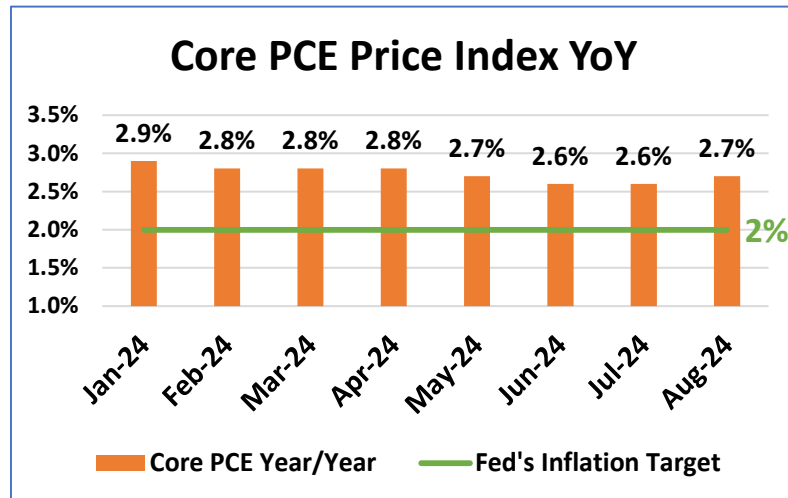
Percent

Variable	Median				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation ⁴	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

4. Longer-run projections for core PCE inflation are not collected.

Fed Focused on Jobs and Inflation

The US labor market remains solid, and recession is unlikely. US inflation continues its bumpy decline. The Fed views the Core PCE Price Index as the most accurate measure of US inflation.



Federal Funds Policy Rate: 4.75-5.00%

FOMC Meetings 2022	FOMC Rate Decision
Jan 26	0
Mar 16	+25 bps
May 4	+50 bps
Jun 15	+75 bps
Jul 27	+75 bps
Sep 21	+75 bps
Nov 2	+75 bps
Dec 14	+50 bps

FOMC Meetings 2023	FOMC Rate Decision
Feb 1	+25 bps
Mar 22	+25 bps
May 3	+25 bps
Jun 14	0
Jul 26	+25 bps
Sep 20	0
Nov 1	0
Dec 13	0

FOMC Meetings 2024	FOMC Rate Decision
Jan 31	0
Mar 20	0
May 1	0
Jun 12	0
Jul 31	0
Sep 18	-50 bps
Nov 7	-25 bps
Dec 18	-25 bps

[The Fed - Meeting calendars and information \(federalreserve.gov\)](https://www.federalreserve.gov)



Questions?

