2018 ABA Mutual Survey

April 2018
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledgements</td>
<td>3</td>
</tr>
<tr>
<td>Mutual Industry and Survey Overview</td>
<td>4</td>
</tr>
<tr>
<td>Profile of Respondents</td>
<td>6</td>
</tr>
<tr>
<td>Mutual Identity</td>
<td>8</td>
</tr>
<tr>
<td>Distinct from Competition</td>
<td>9</td>
</tr>
<tr>
<td>Executive Compensation</td>
<td>10</td>
</tr>
<tr>
<td>Merging and Partnerships</td>
<td>14</td>
</tr>
<tr>
<td>Commitment to Mutuality</td>
<td>16</td>
</tr>
<tr>
<td>Capital Management</td>
<td>17</td>
</tr>
<tr>
<td>Liquidity Challenges</td>
<td>18</td>
</tr>
<tr>
<td>Business Line Expectations</td>
<td>20</td>
</tr>
<tr>
<td>Bank Performance Expectations for 2018</td>
<td>21</td>
</tr>
<tr>
<td>Examination Experience</td>
<td>25</td>
</tr>
</tbody>
</table>
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Mutual Industry Overview

Mutual institutions represent a strong voice within the banking industry. With a deep tradition of consumer-oriented community banking, these organizations include 494 mutual, community-based institutions, including 160 mutual holding companies. SNL Financial reports that mutual banks held a total of $126.8 billion in assets, and banks held by mutual holding companies held a total of $141.8 billion in assets, giving us a combined total of $268.6 billion in assets as of December 31, 2017. The median asset size for mutual banks was $164.6 million. There were 114 mutual banks with under $100 million in assets. There were 22 mutual banks with assets over $1 billion. The median asset size for a mutual holding company was $468.3 million. There were 17 mutual holding companies with under $100 million in assets. There were 38 mutual holding companies with assets over $1 billion.

Mutuals constituted 8.7 percent of all FDIC-insured banks at the end of 2017, up from 8.2 percent a decade earlier. The proportion increased because mutuals failed at a lower rate than other banks during the recession, and since have combined at a slower rate as well.

Mutuals are well-managed, conservatively run institutions that are strongly capitalized, profitable and give back to their communities. The ABA Mutual Institutions Council consists of over a hundred actively engaged mutual bankers from around the country.
Mutual Survey Overview

The ABA Mutual Institutions Council’s Mutual Bank Survey captured responses from 95 mutual institutions ranging across all asset sizes (85% were under $499m.), geographic locations, charter types (63% state; 37% federal), organizational structures and primary regulators (36% OCC; 60% FDIC; 4% Fed).

• 87% of the respondents felt that mutuality played a part in their bank’s differentiation strategy.
• 77% felt their commercial loan activity would increase over the next 3 years.
• 34% of respondents considered merging with another mutual during the past year.
• 77% of respondents felt that their regulator understood the concept of mutuality.
• 81% of respondents felt comfortable in raising issues based on their examination with their respective regulator’s field, district or Washington office for further consideration.
• 71% felt they would achieve earnings primarily through traditional businesses in which their institution has expertise.
• 66% characterize their institution’s liquidity as about right.
• 22% were concerned about Basel III and maintaining adequate capital.
• Commercial and mortgage loans rank high as sources of earnings growth for business plans.
Profile of Respondents

Asset Distribution of Respondents

- $1 billion or more: 15%
- $100 million - $499 million: 45%
- $500 million - $999 million: 18%
- Less than $100 million: 22%

Charter Types

- Federal: 37%
- State: 63%

Primary Federal Regulator

- FDIC: 60%
- OCC: 36%
- Federal Reserve: 4%
### Profile of Respondents

**Where is your bank headquartered?**

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, Vermont)</td>
<td>33%</td>
</tr>
<tr>
<td>Mid-Atlantic (D.C., Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia)</td>
<td>21%</td>
</tr>
<tr>
<td>Middle Southeast (Kentucky, North Carolina, South Carolina, Tennessee, West Virginia)</td>
<td>6%</td>
</tr>
<tr>
<td>Lower Southeast (Alabama, Florida, Georgia, Mississippi)</td>
<td>1%</td>
</tr>
<tr>
<td>Great Lakes (Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin)</td>
<td>26%</td>
</tr>
<tr>
<td>South (Louisiana, New Mexico, Oklahoma, Texas, Arkansas)</td>
<td>2%</td>
</tr>
<tr>
<td>Plains (Iowa, Kansas, Missouri, North Dakota, Nebraska, South Dakota)</td>
<td>6%</td>
</tr>
<tr>
<td>Mountain (Colorado, Idaho, Montana, Utah, Wyoming)</td>
<td>0%</td>
</tr>
<tr>
<td>Southwest (Arizona, California, Nevada)</td>
<td>1%</td>
</tr>
<tr>
<td>Northwest (Alaska, Oregon, Washington)</td>
<td>3%</td>
</tr>
</tbody>
</table>
Mutual Identity

Are you organized as a MHC?

- Yes: 32% (31%)
- No: 68% (69%)

If you are organized as a MHC, do you issue stock?

- Yes: 11% (5%)
- No: 89% (95%)

Numbers in red represent data from the 2016 ABA Mutual Survey
Eighty-seven percent responded that mutuality played a part in their bank differentiation strategy. Of those so responding, the following differentiating factors were emphasized:

- Emphasize economic development/investing in the community: 17%
- Philanthropic giving/employee volunteerism: 19%
- Not an investor-owned bank: 16%
- Stress customer service and industry experience: 20%
- Offer favorable pricing on products: 8%
- Promote being safe, sound, and stable: 18%
- Other: 3%
Executive Compensation

Compensation Offered to Executives (other than Base Salary):

- Bonus awards: 31%
- Profit sharing: 17%
- Stock options: 1%
- Retirement benefits (401k, etc.): 36%
- Other perks (paid transportation, etc.): 15%
Executive Compensation

What are bonuses/profit sharing based on?

- Individual performance: 27%
- Salary level: 14%
- Bank performance: 45%
- Branch performance: 4%
- Department/group performance: 7%
- Length of service: 3%
Executive Compensation

Do you offer executive employment contracts?

- Yes: 24%
- No: 76%
Executive Compensation

Are there any efforts in your state to force public disclosure of mutual executive compensation?

- Yes: 11%
- No: 89%
Mergers and Partnerships

During the past year, has your bank considered merging with another mutual?

2016

No: 56%
Yes: 44%

2018

No: 66%
Yes: 34%
# Mergers and Partnerships

## What form(s) have you considered if planning a merger?

<table>
<thead>
<tr>
<th>Form</th>
<th>Considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger with other institutions</td>
<td>66% (76%)</td>
</tr>
<tr>
<td>Acquisition by other institution</td>
<td>9% (9%)</td>
</tr>
<tr>
<td>Form MHC with other institutions for cost savings purposes</td>
<td>25% (15%)</td>
</tr>
</tbody>
</table>

## Reasons considered for combining with another mutual

<table>
<thead>
<tr>
<th>Reason</th>
<th>Considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>To better compete, preserve your values, or maintain culture?</td>
<td>45% (49%)</td>
</tr>
<tr>
<td>Due to economic or regulatory pressures?</td>
<td>45% (42%)</td>
</tr>
<tr>
<td>N/A</td>
<td>9% (8%)</td>
</tr>
</tbody>
</table>

Numbers in red represent data from the 2016 ABA Mutual Survey
What is the likelihood your mutual will combine with another mutual in 3-5 years?

- Possible but not likely: 40% (45%)
- 50/50 chance: 53% (34%)
- 100% certain: 8% (21%)

Numbers in red represent data from the 2016 ABA Mutual Survey.
Commitment to Mutuality

Do you consider commitment to mutuality when recruiting new board and senior staff resources?

- Yes: 89%
- No: 11%
### Operational and Financial Issues

Given Basel III implementation, do you have any concerns about maintaining adequate capital in your institution?

<table>
<thead>
<tr>
<th>Concern</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22%</td>
<td>78%</td>
</tr>
</tbody>
</table>

Numbers in red represent data from the 2016 ABA Mutual Survey

If yes, how do you plan to address your concern about maintaining adequate capital?

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing growth</td>
<td>32% (28%)</td>
</tr>
<tr>
<td>Shrinking balance sheet</td>
<td>3% (6%)</td>
</tr>
<tr>
<td>Improving net interest income</td>
<td>29% (20%)</td>
</tr>
<tr>
<td>Improving non-interest income</td>
<td>16% (18%)</td>
</tr>
<tr>
<td>Merging</td>
<td>6% (8%)</td>
</tr>
<tr>
<td>If established by pending legislation, issuance of mutual capital certificates</td>
<td>8% (13%)</td>
</tr>
<tr>
<td>Forming a mutual holding company</td>
<td>2% (2%)</td>
</tr>
<tr>
<td>Converting to a stock-owned company</td>
<td>2% (5%)</td>
</tr>
<tr>
<td>Other</td>
<td>2% (1%)</td>
</tr>
</tbody>
</table>
Liquidity

How would you characterize your institution's liquidity?

- Too little: 8% (5%)
- Too much: 26% (44%)
- About right: 66% (51%)

Numbers in red represent data from the 2016 ABA Mutual Survey
Do you agree that for the mutual model to thrive policy makers should consider further capital options for mutuals, including some form of mutual capital certificate?
Business Line Expectations

Do you anticipate the following loan categories/assets changing much in the next 3 years?

<table>
<thead>
<tr>
<th>Category</th>
<th>Increase</th>
<th>Decrease</th>
<th>Remain the Same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial loans</td>
<td>77%</td>
<td>3%</td>
<td>20%</td>
</tr>
<tr>
<td>Residential mortgage</td>
<td>51%</td>
<td>11%</td>
<td>39%</td>
</tr>
<tr>
<td>Consumer loans</td>
<td>32%</td>
<td>15%</td>
<td>53%</td>
</tr>
</tbody>
</table>
What are your expectations regarding the following barometers in 2018 at your institution?

<table>
<thead>
<tr>
<th>Barometer</th>
<th>Increase</th>
<th>Decrease</th>
<th>Remain the Same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset size</td>
<td>75%</td>
<td>1%</td>
<td>24%</td>
</tr>
<tr>
<td>Profitability</td>
<td>72%</td>
<td>7%</td>
<td>21%</td>
</tr>
<tr>
<td>Fee income</td>
<td>39%</td>
<td>4%</td>
<td>57%</td>
</tr>
<tr>
<td>Number of full-time equivalents</td>
<td>34%</td>
<td>6%</td>
<td>60%</td>
</tr>
<tr>
<td>Part time staff</td>
<td>24%</td>
<td>1%</td>
<td>75%</td>
</tr>
<tr>
<td>New hires</td>
<td>38%</td>
<td>5%</td>
<td>57%</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>43%</td>
<td>32%</td>
<td>25%</td>
</tr>
</tbody>
</table>

- Residential real estate delinquencies: 2% Increase, 14% Decrease, 84% Remain the Same
- Residential real estate foreclosures: 4% Increase, 13% Decrease, 83% Remain the Same
- Commercial real estate delinquencies: 6% Increase, 10% Decrease, 84% Remain the Same
- Commercial real estate foreclosures: 1% Increase, 12% Decrease, 87% Remain the Same
- Consumer delinquencies: 8% Increase, 7% Decrease, 84% Remain the Same
Bank Performance Expectations for 2018

The first and second most important sources of income growth cited by survey participants commercial and mortgage loans (full responses in Comments Section)

Do you expect to achieve earnings in:

- Traditional businesses in which your institution has expertise: 71%
- Businesses out-of-the-mainstream or new to your institution: 2%
- Both: 27%
Are additional charter options or charter flexibilities important to fully achieve your business plans?

Yes 21%
No 79%
Non-traditional Bank Products and Services

Do you offer other, non-traditional bank products and services (i.e., Wealth Management, Insurance, Warehouse Lending, etc.)?

- Yes: 27%
- No: 73%
Examination Experience

Do you feel the bank examiners who last examined your mutual understand the concept of mutuality?

- Yes: 77%
- No: 23%

Do you feel there has been adequate outreach to your institution by your federal regulatory agency?

- No: 15%
- Yes: 85%
Examination Experience

How would you rate the regulatory agency's fairness during your last exam?

- About right: 83%
- Too harsh: 17%
- Too lenient: 0%
Examination Experience

Was your last examination during 2017?

- Yes: 68%
- No: 32%

Were you provided sufficient time to develop examiner requested information?

- Yes: 96%
- No: 4%
Examination Experience

Were the examiners clear whether they required you to take action versus recommended you take action on issues raised during the examination?

- Yes: 91%
- No: 9%

When requiring or recommending you take specific corrective action, did examiners identify root causes to support their conclusions?

- Yes: 86%
- No: 14%
Examined Experience

If you disagree with examination conclusions, do you feel comfortable raising your issues to the agency’s field, district, or Washington Office for further consideration?

- Yes: 81%
- No: 19%

Did examiners focus their examination efforts on what you regard as the key risk areas at your institution?

- Yes: 80%
- No: 20%
Did the examiners develop their examination scope based on your or their assessment of your institution's risk profile?

- Examiner's assessment: 62%
- Both: 37%
- Our assessment: 1%
Examination Experience

Have you had an examination where the exam report was delivered later than 90 days after the examiners left your bank?

- Yes: 22%
- No: 78%

If the exam was delivered "late", did the examiners come back only a short time after receipt of the last exam report and expect that all of the "matters requiring attention" were complete?

- Yes: 22%
- No: 78%
When the report was received, was the rating different than the rating suggested when the examiners left your bank?

- Yes: 10%
- No: 90%
Did your institution discontinue offering any customer service(s) or product(s) because of compliance requirements or increased regulations?

- Yes: 16%
- No: 84%