Office of the Comptroller of the Currency

Economic Update

Mutual Savings Association Advisory Committee

April 27, 2021

Economic & Policy Analysis

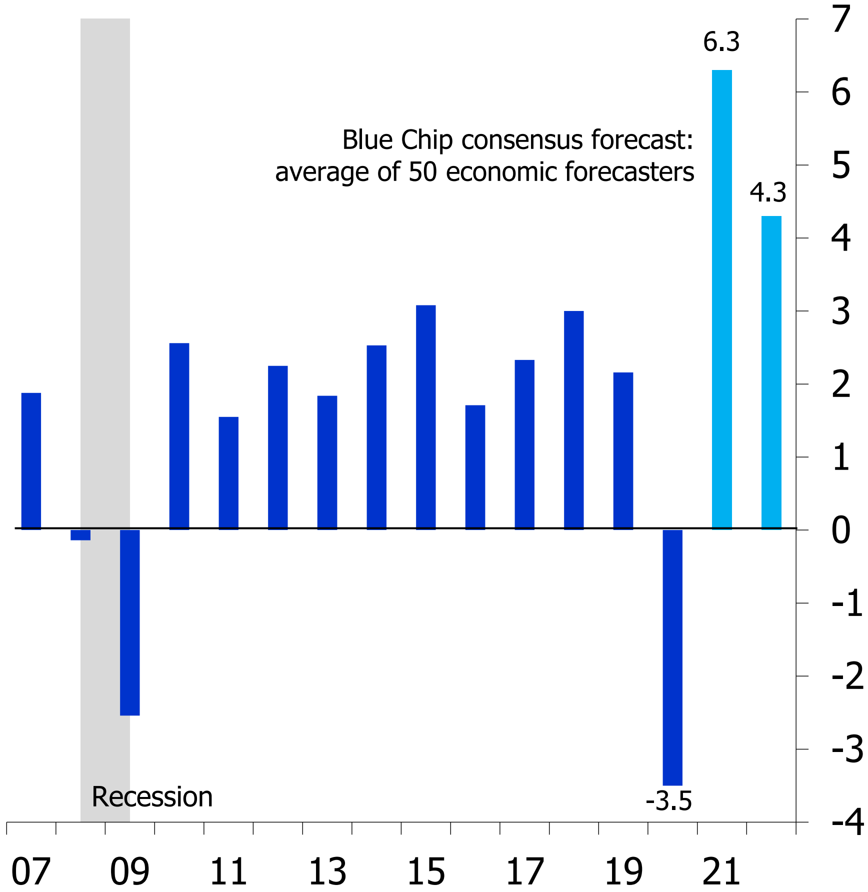
Daniel Grantham

Highlights

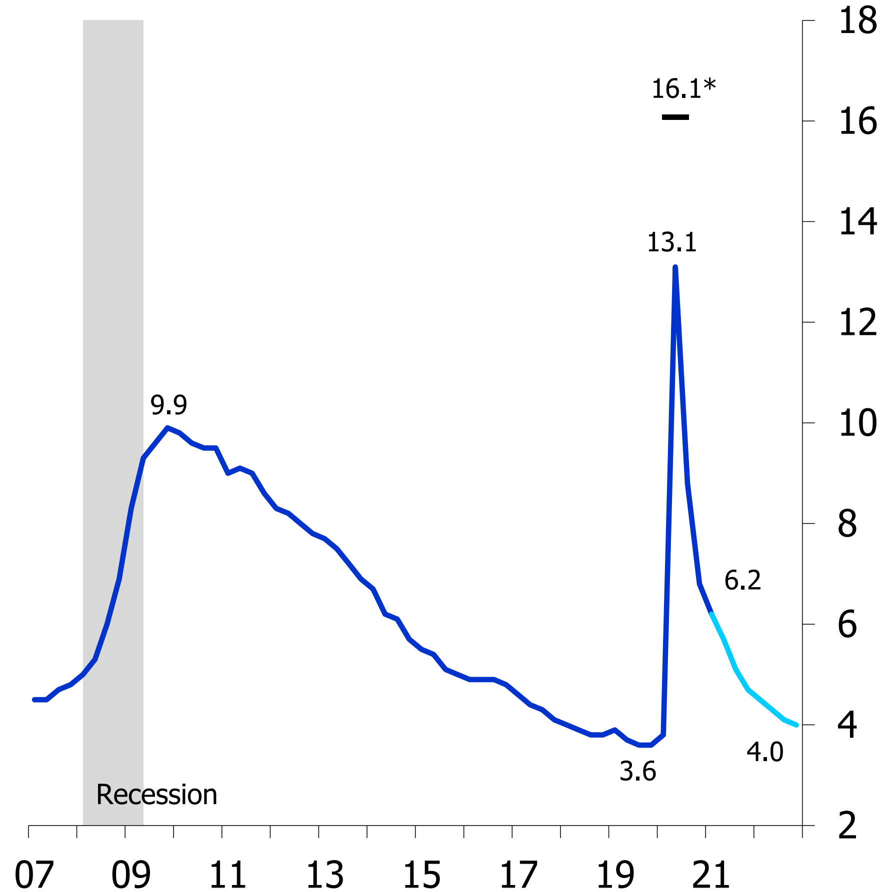
- Significant GDP growth expected this year based on renewed consumer spending and government stimulus
  - Robust economic growth and temporary inflation expected to lift long-term rates
- Strong residential real estate performance
  - Lower interest rates and limited housing supply spur home price appreciation
  - CARES Act and higher levels of home equity should prevent widespread foreclosures
- Mutuals' performance declined in 2020 but rebounded to pre-COVID levels by year-end
  - Loan sales boost noninterest income
  - Net interest margins contract as rates fall and the share of liquid assets rise

Consensus forecast indicates strongest growth since 1984; unemployment to sharply decline

Real GDP, % change annual rate



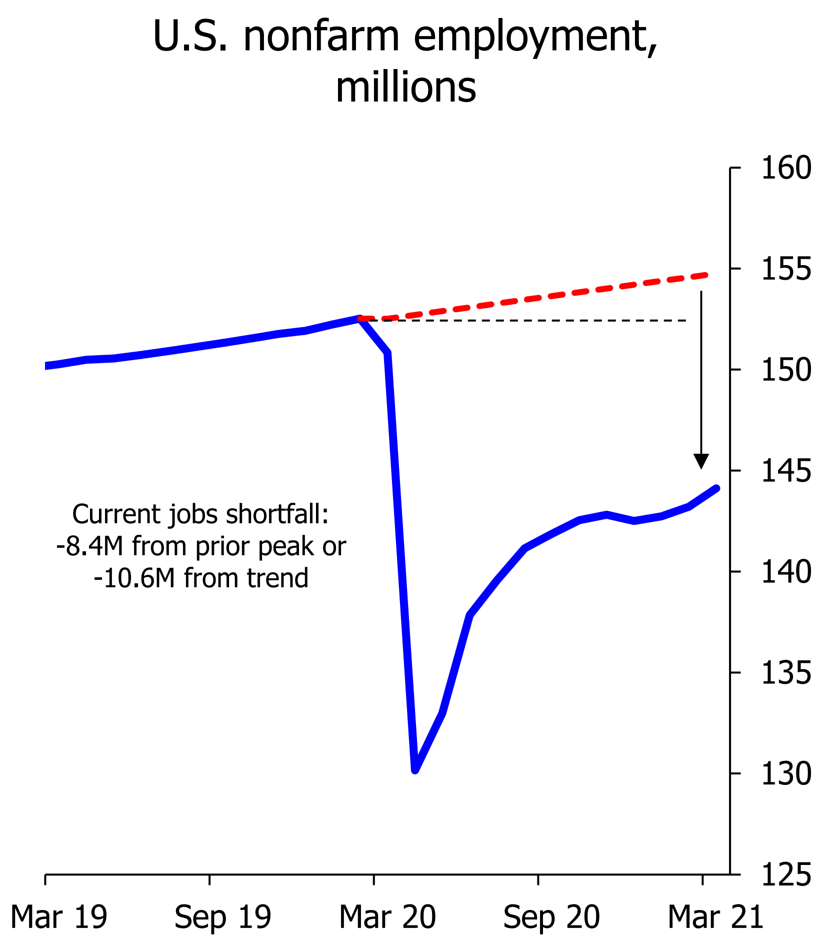
Quarterly average unemployment rate, %

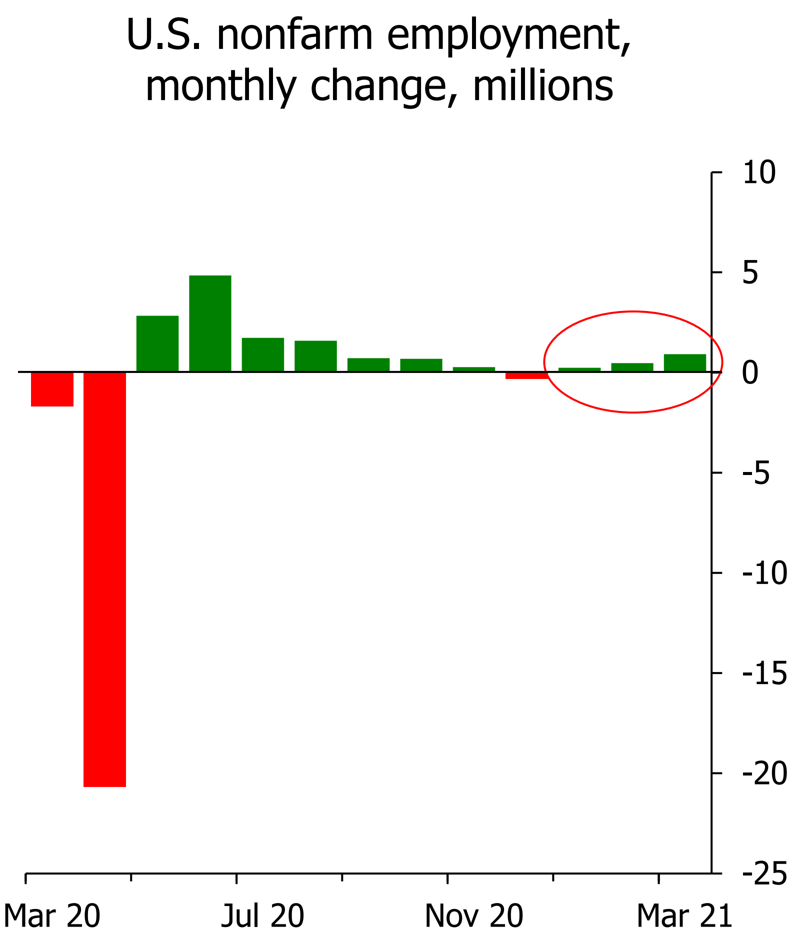


Sources: BEA, BLS (historical data through 4Q:2020); Blue Chip Economic Indicators (April 2021)

*Quarterly official U.S. unemployment rate adjusted for misclassification errors noted by BLS.

Pandemic job losses still significant, but continued job gains fuel optimism on recovery

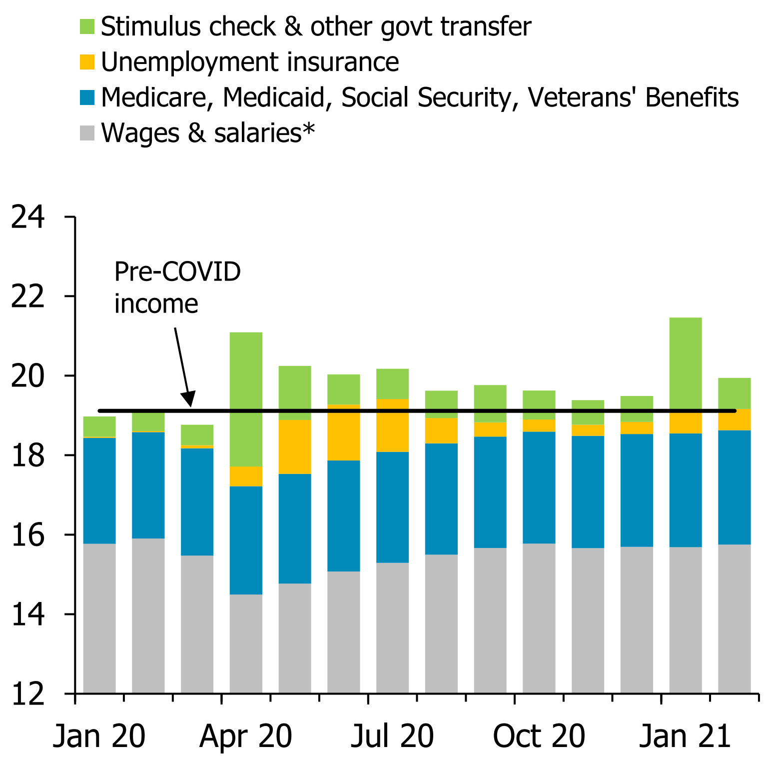




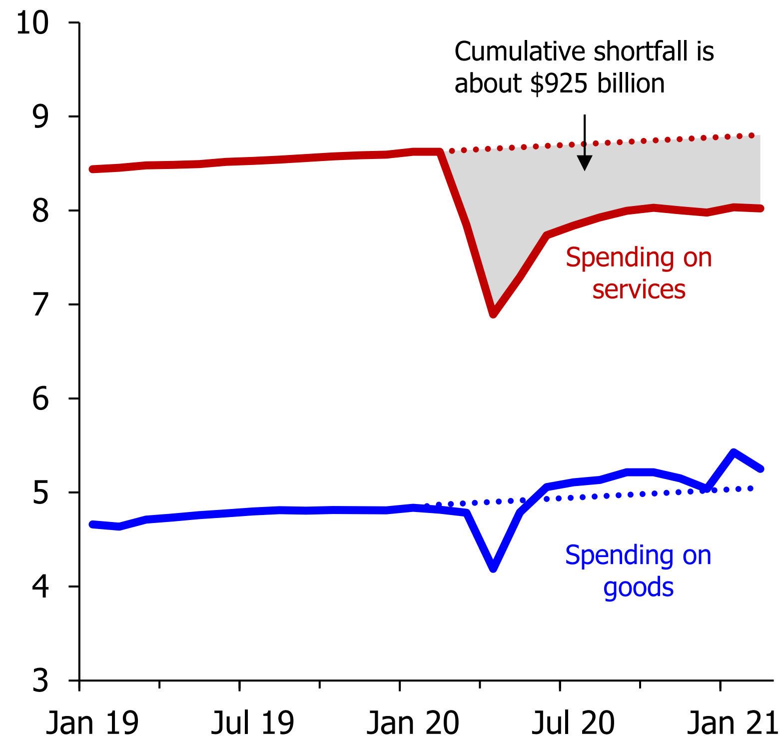
Source: BLS (data through March 2021)

Stimulus & automatic stabilizers lifted incomes; potential for large consumption rebound

Real personal income by components
SAAR, trillions in 2012 $'s



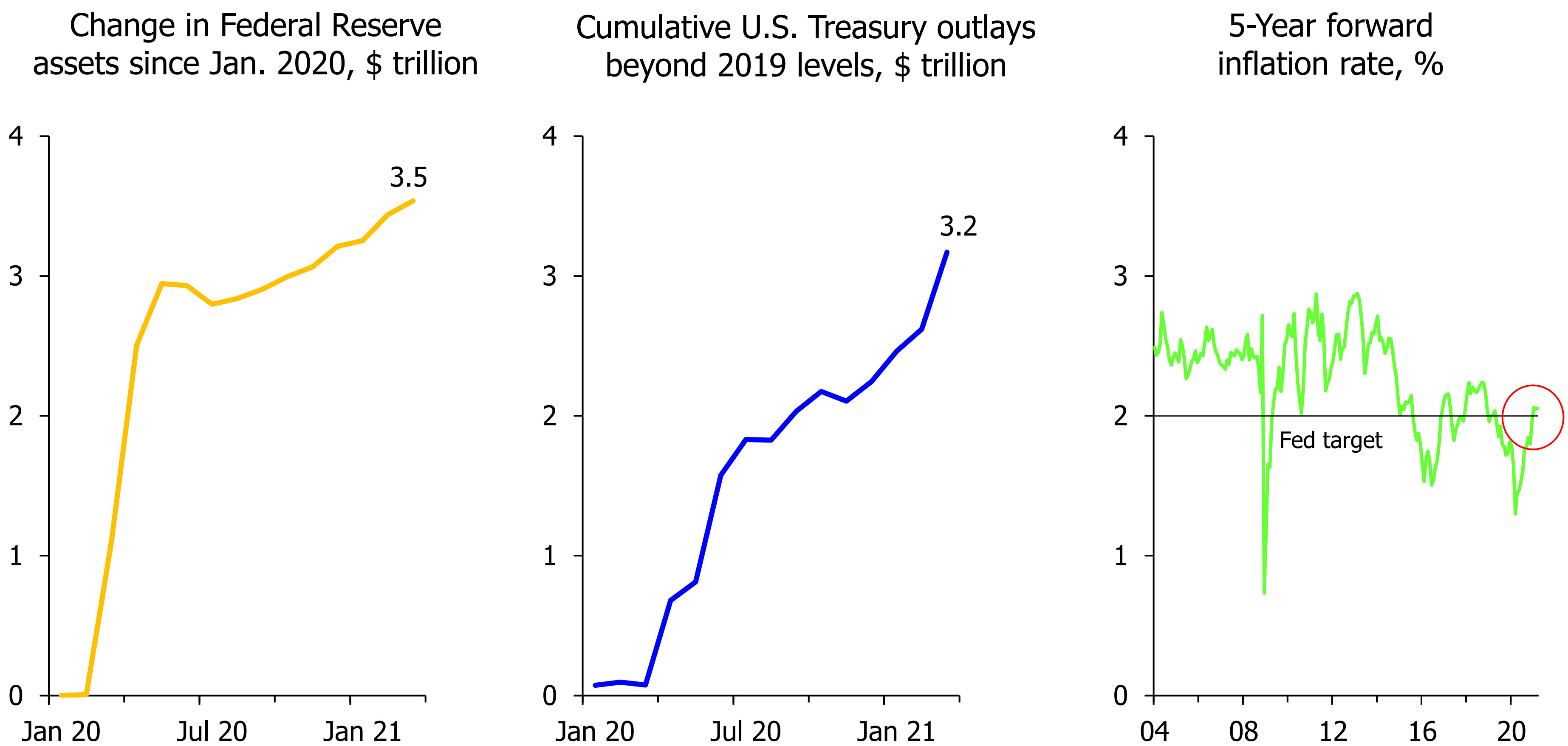
Real personal consumption expenditures
SAAR, trillions in 2012 $'s



Source: BEA (data through February 2021), Moody's Analytics

* Wages & salaries includes proprietors' income, rental income, and receipts on assets, less contributions for government social insurance

Inflation expectations rise modestly following unprecedented monetary and fiscal stimulus

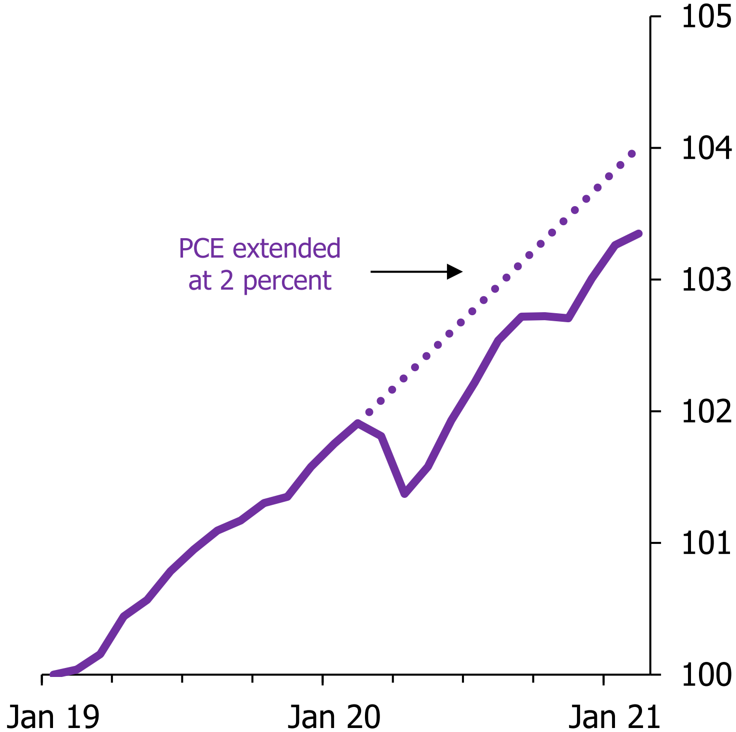


Source: Federal Reserve, U.S. Treasury, Federal Reserve Bank of St. Louis (data through March 2021)

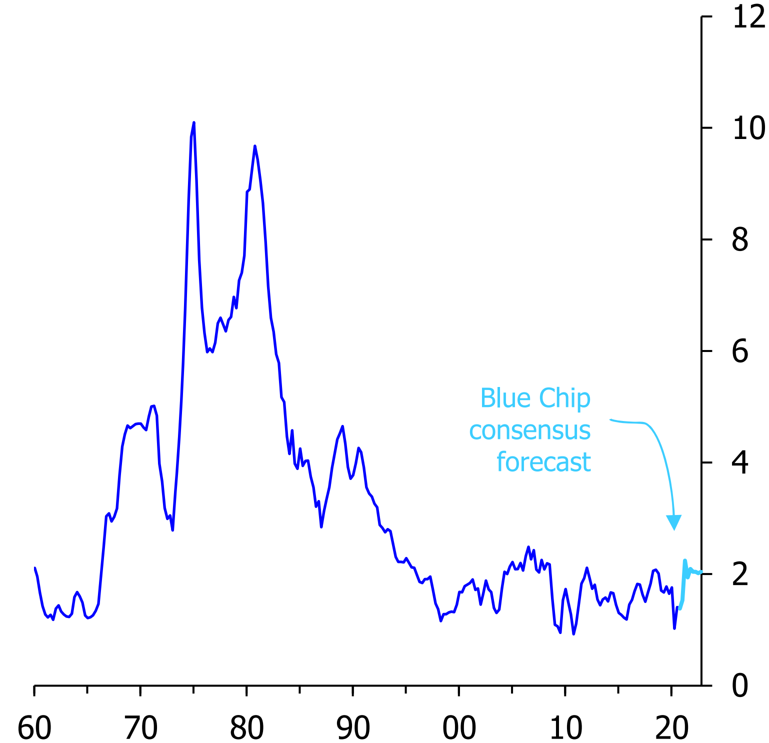
5-year forward inflation rate is a measure of expected inflation (on average) over the five-year period that begins five years from today

Inflation is forecasted to rise in 2021 and then stabilize as supply constraints ease

Core personal consumption expenditures, Jan. 2019 = 100



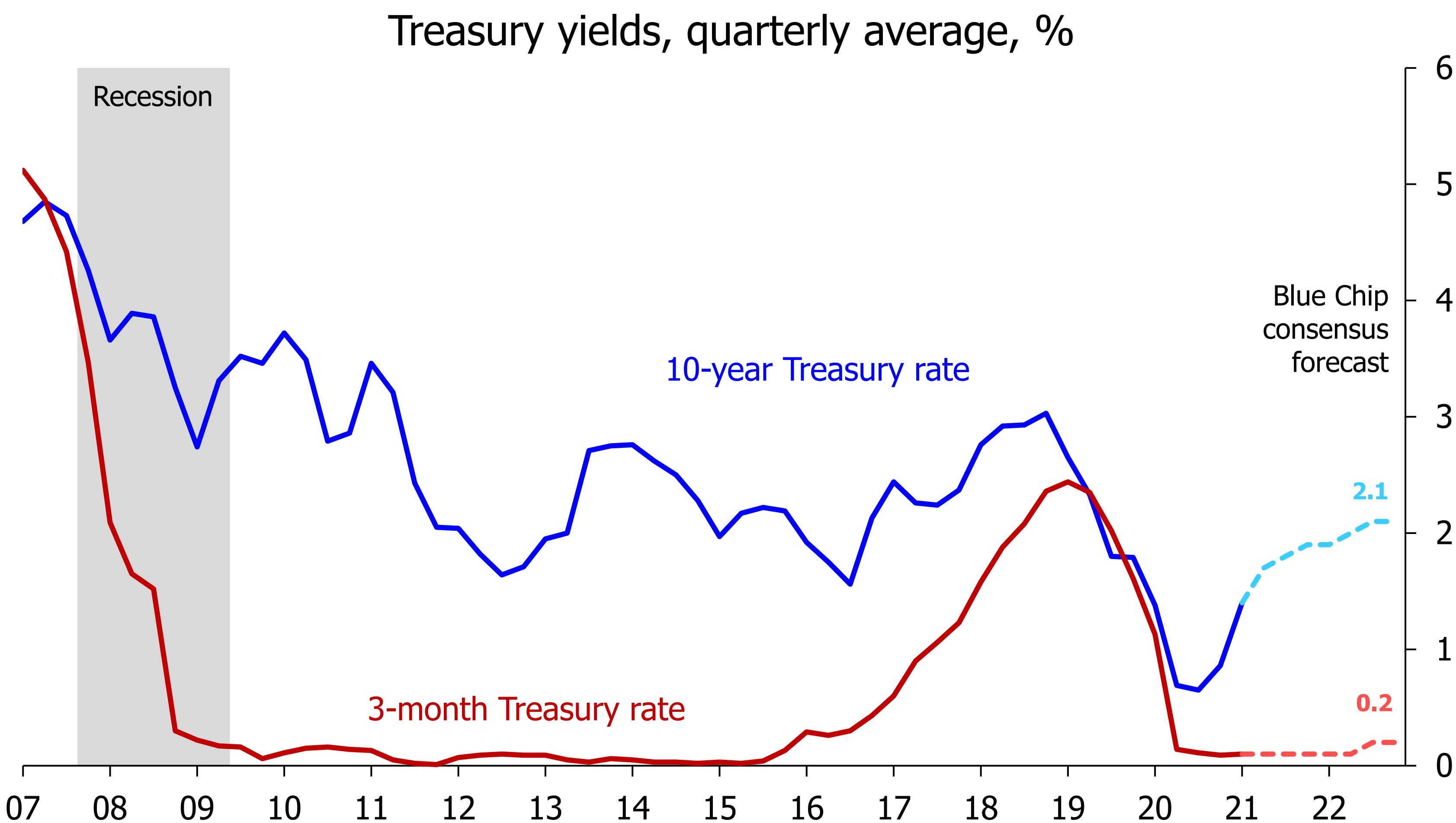
Year-over-year percent change in core personal consumption expenditures, %



Source: BEA (historical data through 4Q:2020); Blue Chip Economic Indicators (April 2021)

Core PCE excludes food and energy, and is the Fed's preferred measure of inflation

Strong economic growth and rising inflation expected to increase long-term rates



Sources: Federal Reserve Board (historical through 1Q:2021); Blue Chip Economic Indicators (April 2021)

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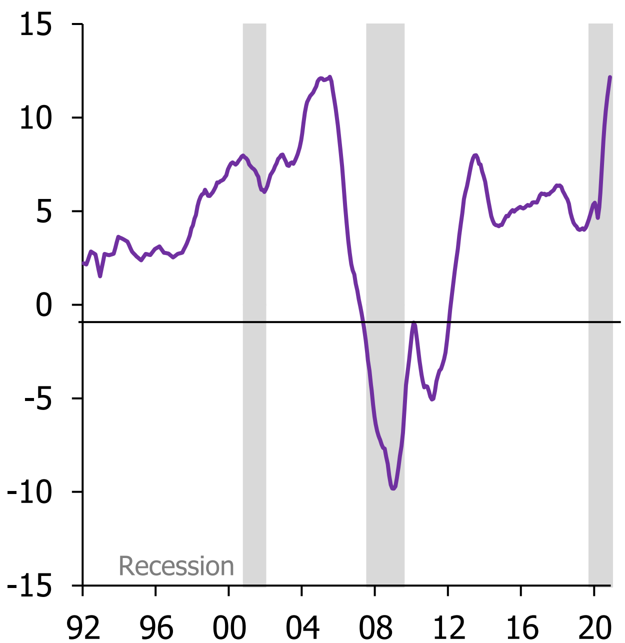
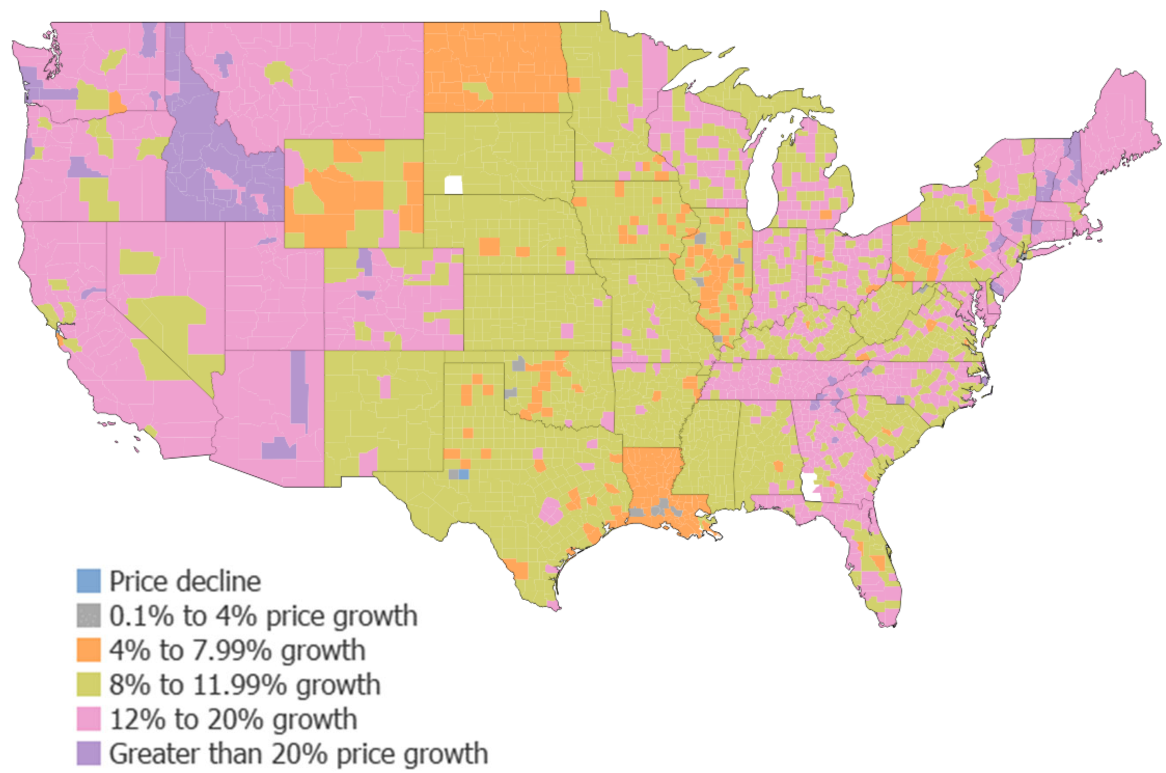
Home price appreciation continues despite recession; all but 3 counties register YoY growth

Year-over-year single-family home price percent change, %



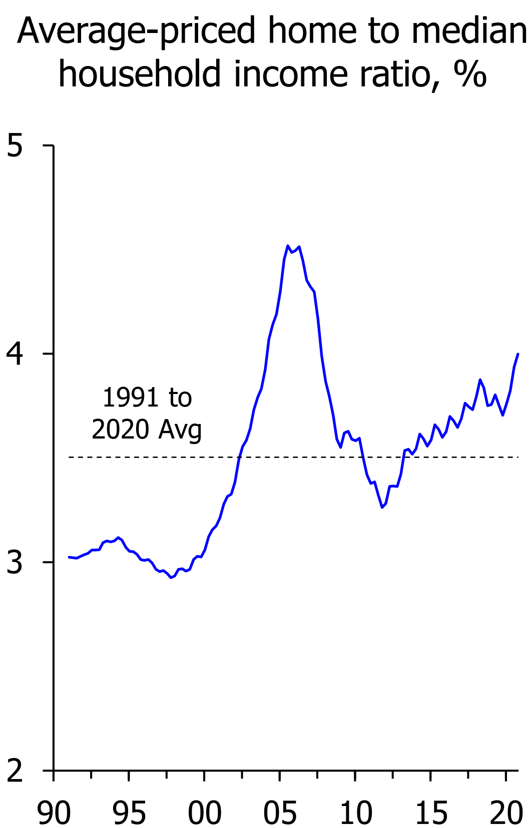
Single-family home price change Jan 2020 to Jan 2021, %

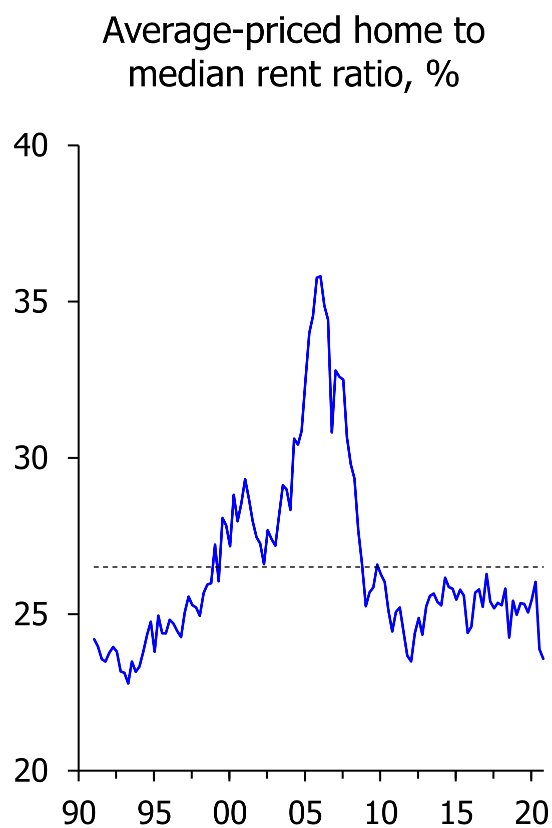


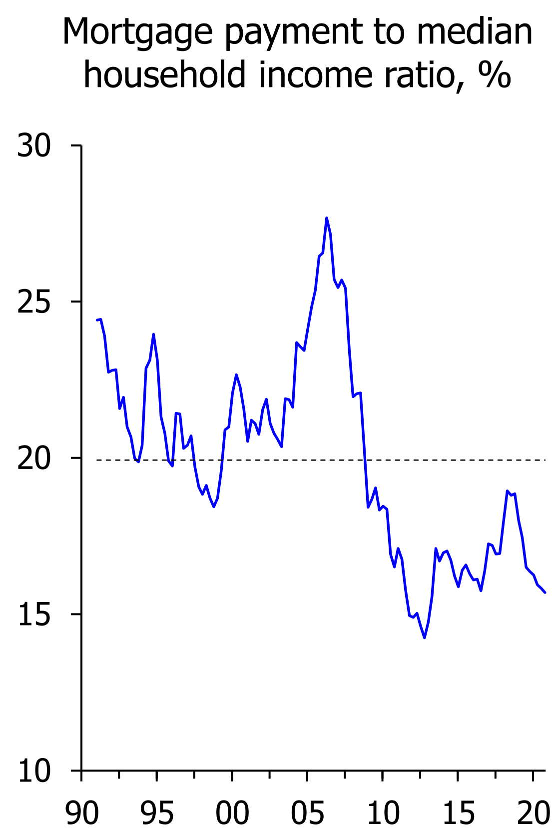
Source: Black Knight (data through January 2021)

The three counties with price declines were: New York County, NY (-2.2%), Midland County, TX (-0.7%), San Francisco County, CA (-0.5%)

Growing concern over home price sustainability; intrinsic real estate measures are mixed





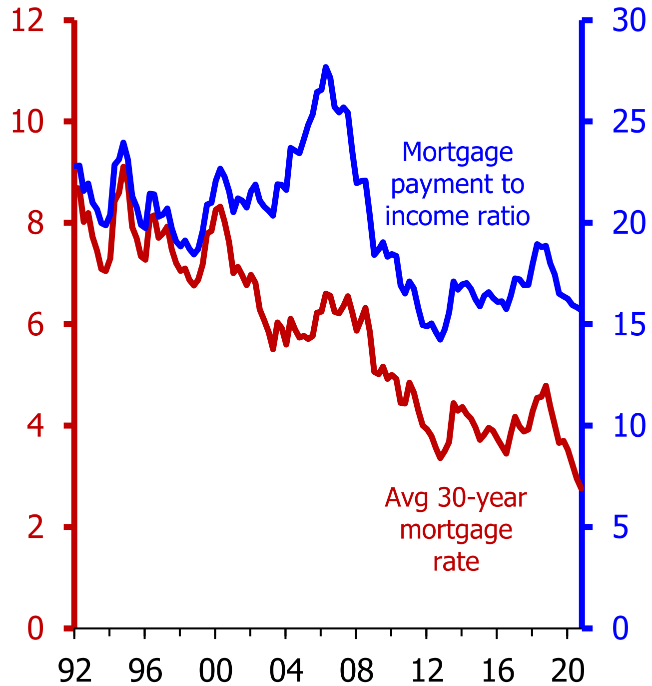


Source: Census; Freddie Mac; Moody's Analytics; Black Knight (data through 4Q:20)

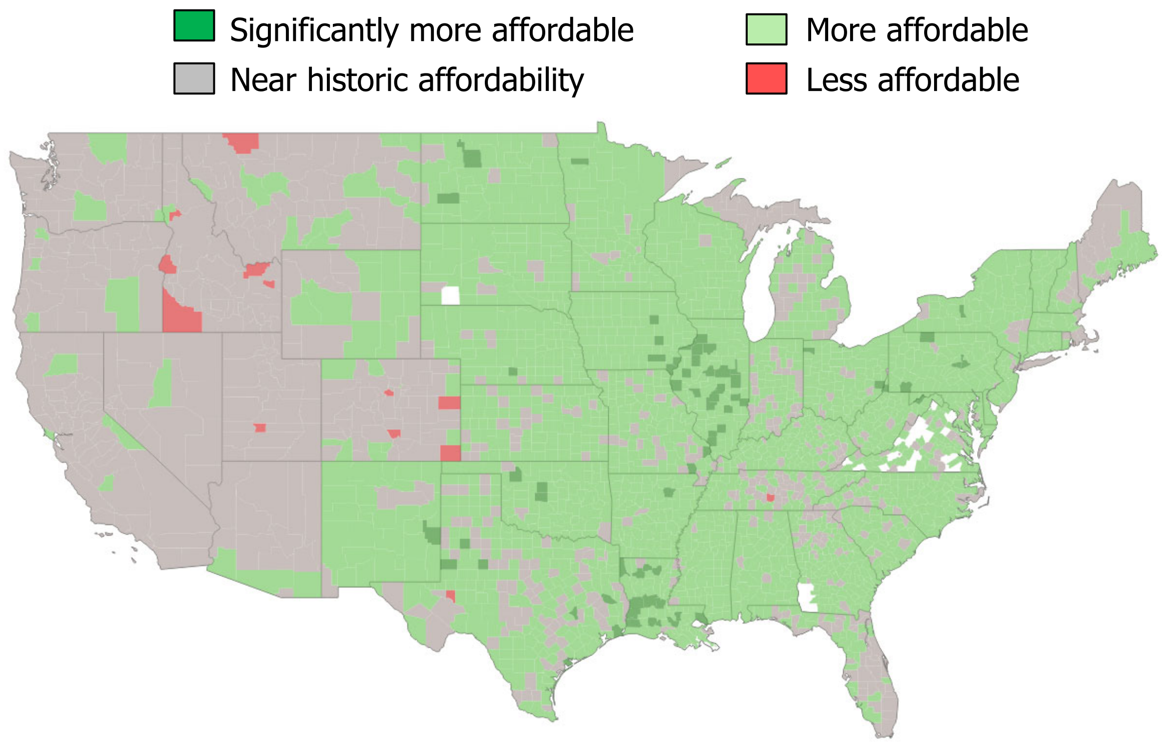
Mortgage payment estimated using the average-price single-family home at the prevailing 30-year fixed-rate mortgage interest rate with 20 percent down payment (P & I only) relative to median household income.

Lower rates ease payment burdens; most areas are more affordable than historical averages

National mortgage payment to median household income, %



Mortgage payment to median household income, Dec. 2020



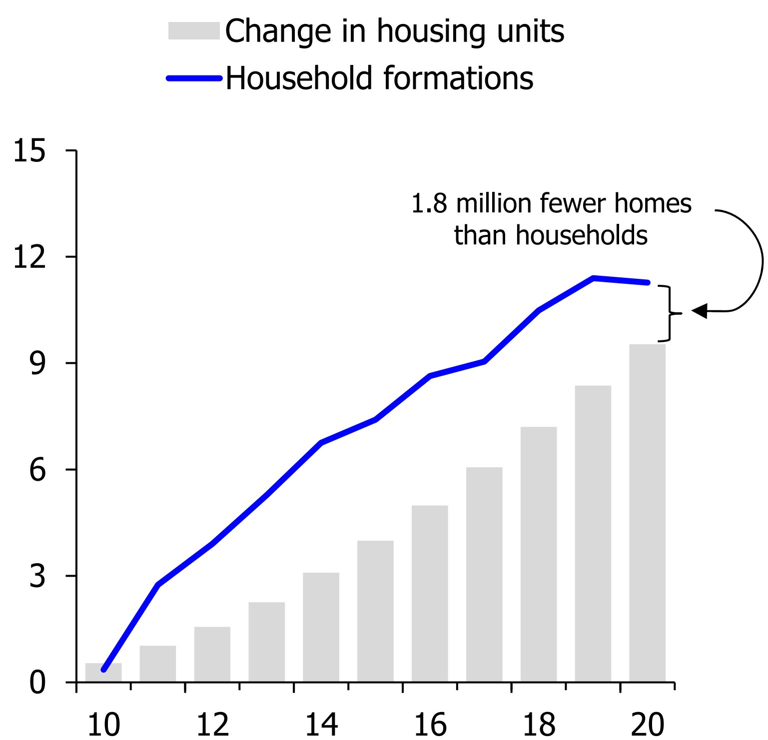
Significantly more affordable = 2 or more standard deviations more affordable county's 1Q:91 to 4Q:20 history
More affordable = 1 to 1.99 standard deviations more affordable
Near historic affordability = Within 1 standard deviation of county's affordability
Less affordable = 1 or more standard deviation less affordable

Sources: Black Knight; Freddie Mac; Census Bureau, Moody's Analytics (data through 4Q:20)

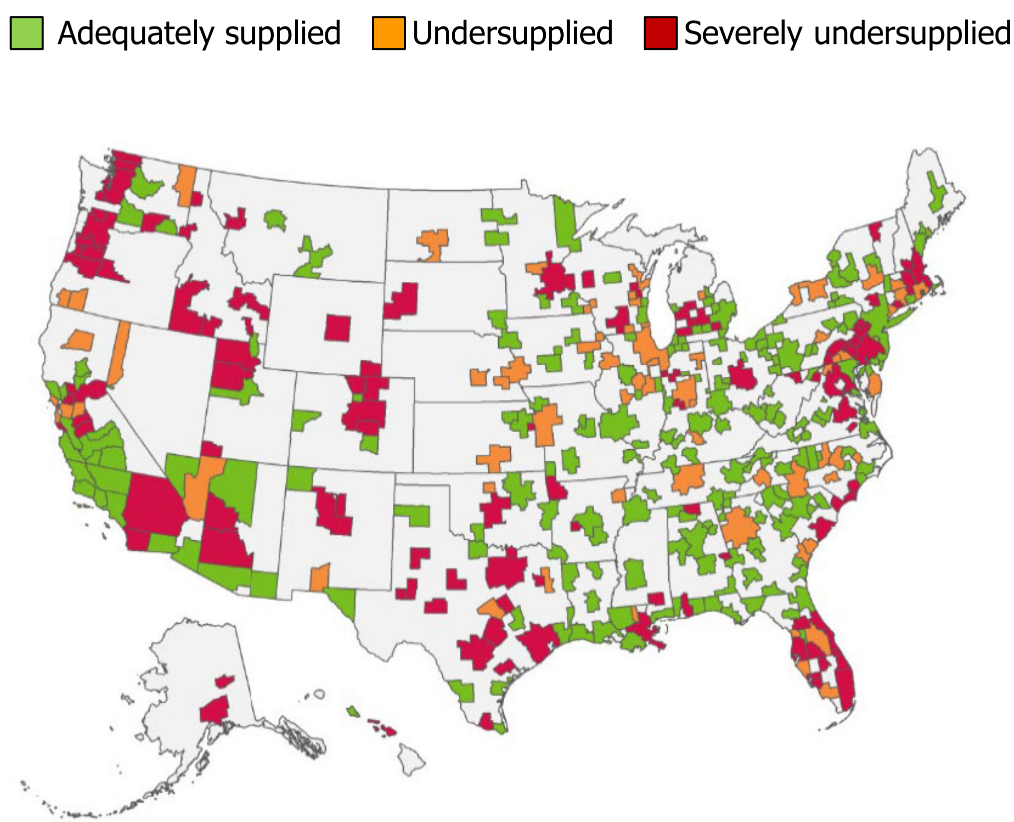
Mortgage payment on average priced home in market using a 30-year fixed-rate mortgage with 20 percent down payment (P & I only) relative to median household income.

Household formation outpacing homebuilding; regional housing supply varies

Cumulative household formations and change in housing units* since 2010, million units



Moody's Analytics' estimated housing supply by metro

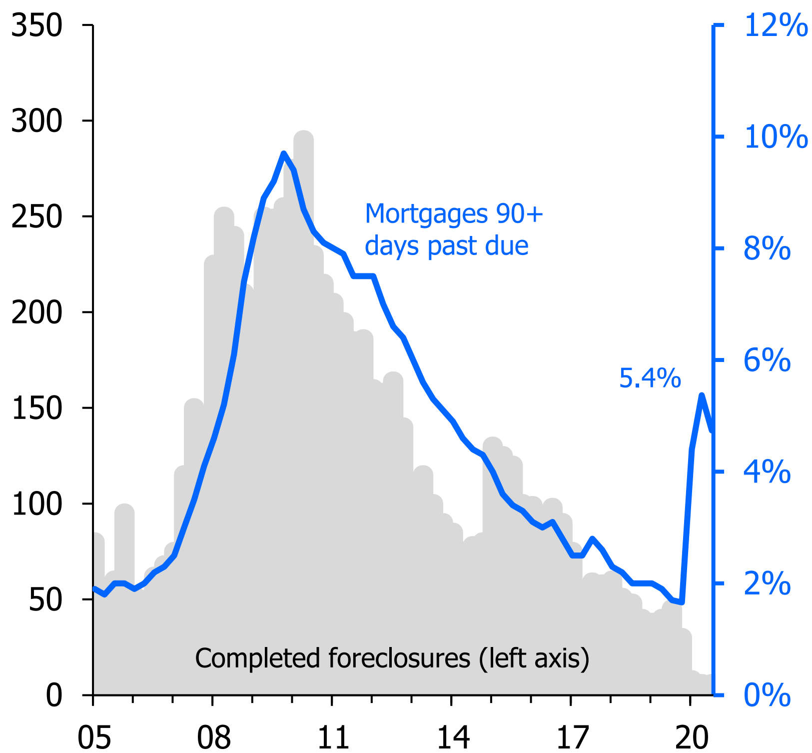


Sources: U.S. Census Bureau (data through); Housing supply estimates from Moody's Analytics (Overcoming the Nation's Daunting Housing Supply Shortage, March 2021)

*Includes new home completions and extinguished housing stock

CARES Act keeping foreclosures at bay despite surge in missed payments

Share of mortgages 90 days past due and completed foreclosures, in thousands



Note: Unlike other sources, the MBA asks servicers to report violations of the original loan agreement, regardless whether a loan is in forbearance. In this way, the MBA is currently measuring payment rather than delinquency rates.

Government action curbing potential foreclosures

- Coronavirus Aid, Relief, and Economic Security (CARES) Act provides protections to mortgages insured or sponsored by the federal government (two-thirds of outstanding mortgages)
    - Foreclosure moratorium through March 31, 2021 for Fannie/Freddie and June 30, 2021 for FHA, VA, and USDA loans
    - Up to twelve months of forbearance with no lump sum payment due upon exit (later extended up to 18 months)
    - When forbearance ends, borrowers may roll foregone payments into the loan balance
- Non-federal loans, which comprise the other third of mortgages, are not entitled to the same relief. However, most non-federal mortgage lenders are depository institutions that offer some type of accommodations.

Sources: ATTOM Data Processing; Mortgage Bankers Association (data through December 2020)

The initial CARES Act 12-month forbearance duration was extended in response to persistent borrower hardship. On February 9, 2020, the GSE regulator, the Federal Housing Finance Agency, extended the duration of forbearance plans offered by Fannie Mae and Freddie Mac from 12 to 15 months for borrowers on forbearance as of February 28, 2021. As of February 16, 2021, FHA, VA and USDA borrowers who entered forbearance on or before June 30, 2020 became eligible to extend forbearance from 12 to 18 months in three-month increments.

Agenda

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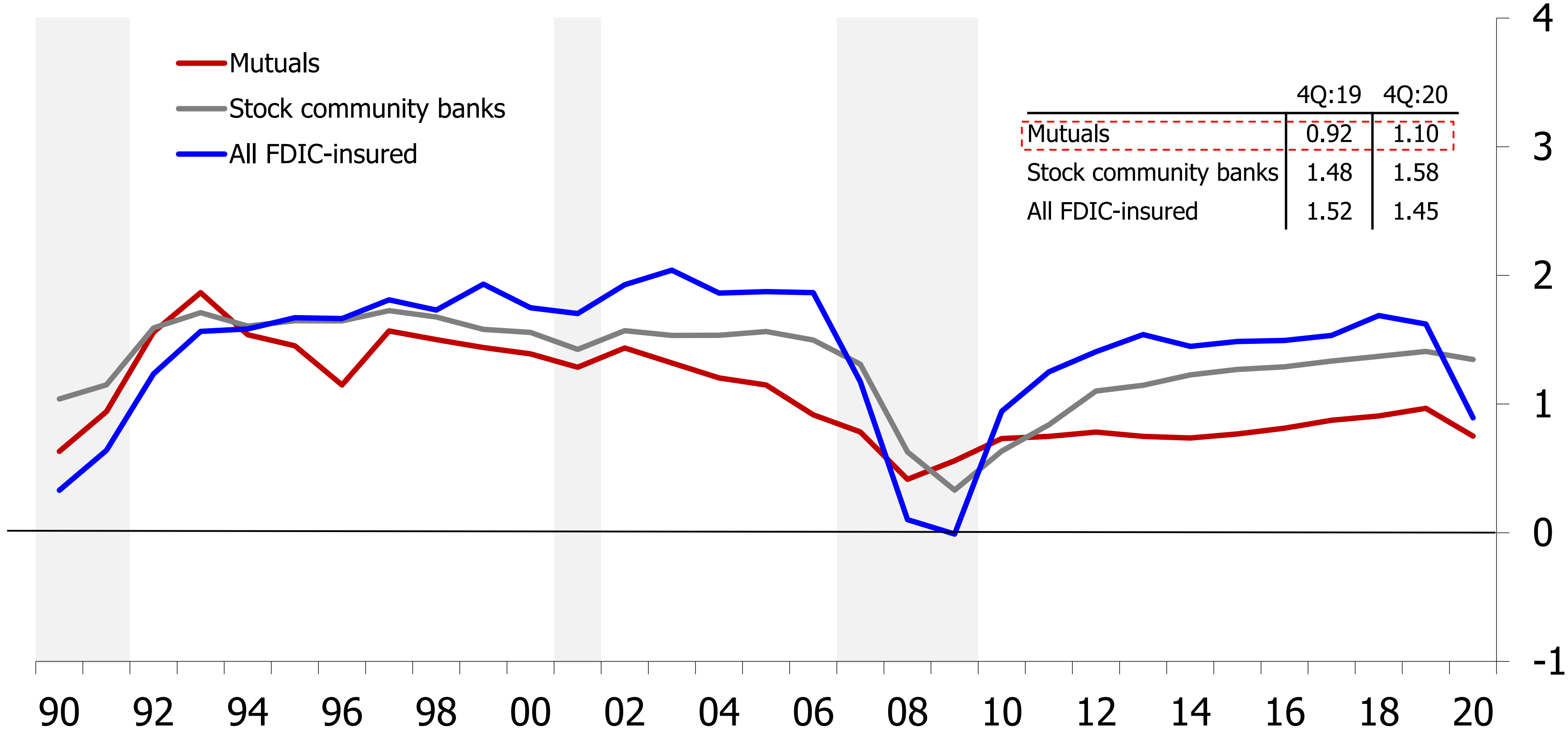
Mutuals' pretax return on assets fell in 2020, but performance rebounded by fourth quarter

Pretax return on assets, %



	4Q:19	4Q:20
Mutuals	0.92	1.10
Stock community banks	1.48	1.58
All FDIC-insured	1.52	1.45

Sources: Call/Thrift Reports from OCC Integrated Banking Information System

Data are annual values 1984-2020, and are merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:20. Stock community banks have assets < $2 billion and exclude specialists. Inset table data are quarterly annualized.

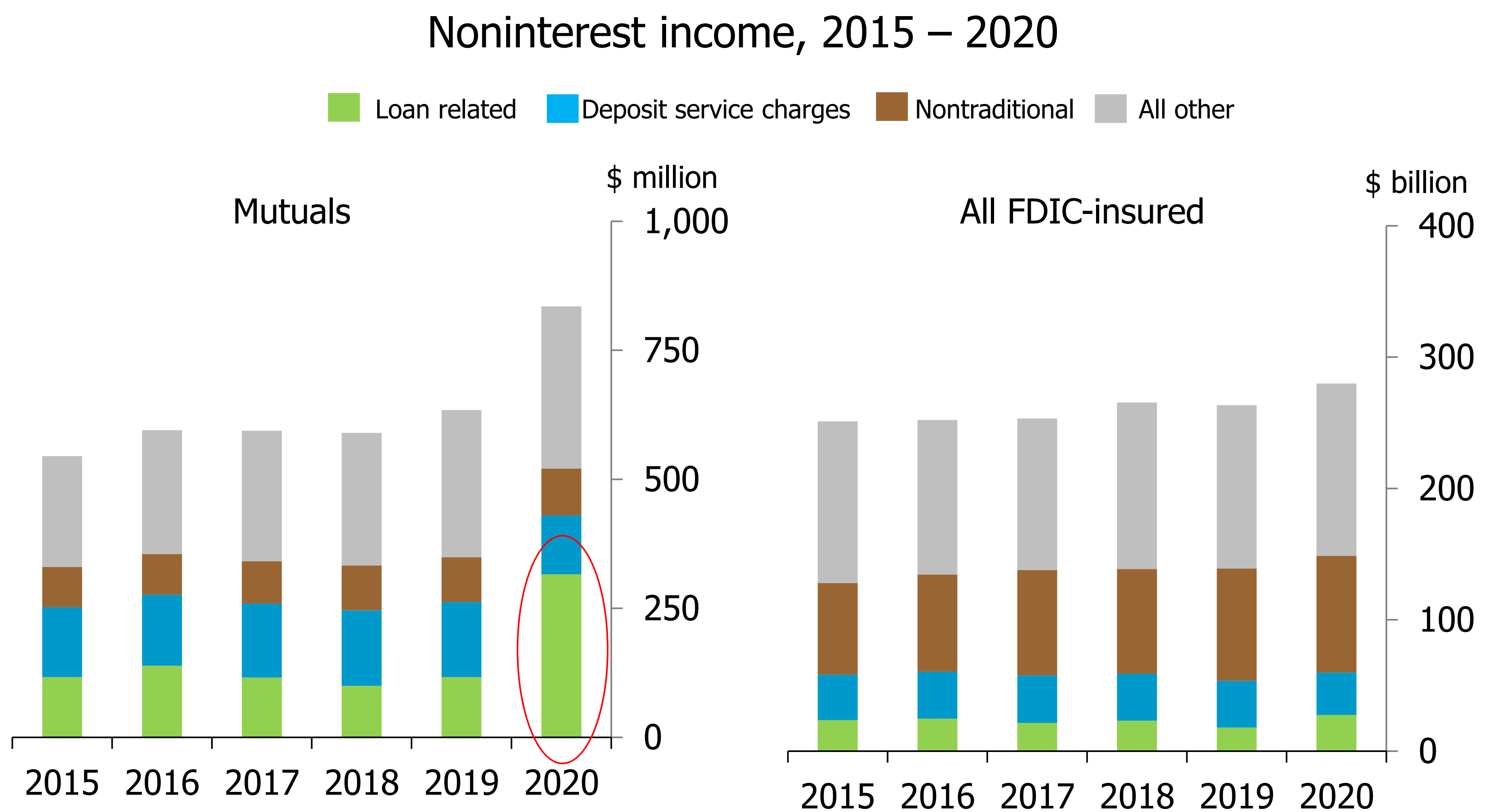
Noninterest income surge at mutuals offsets provisioning and rising noninterest expenses

	Mutuals, $ millions				All FDIC-insured, $ billions			
	4Q:2019	3Q:2020	4Q:2020	% change past 12 months	4Q:2019	3Q:2020	4Q:2020	% change past 12 months
Revenues								
Net interest income	893	884	911	2.0%	137	129	131	-4.0%
Noninterest income	178	244	238	33.6%	66	73	70	6.7%
Expenses								
Provisioning	19	64	52	179.2%	15	14	3	-76.6%
Noninterest expense	833	819	875	5.0%	122	124	125	2.7%
Net income	231	253	298	29.0%	55	51	60	9.4%

Sources: Call/Thrift Reports from OCC Integrated Banking Information System

Data are quarterly and merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:20.

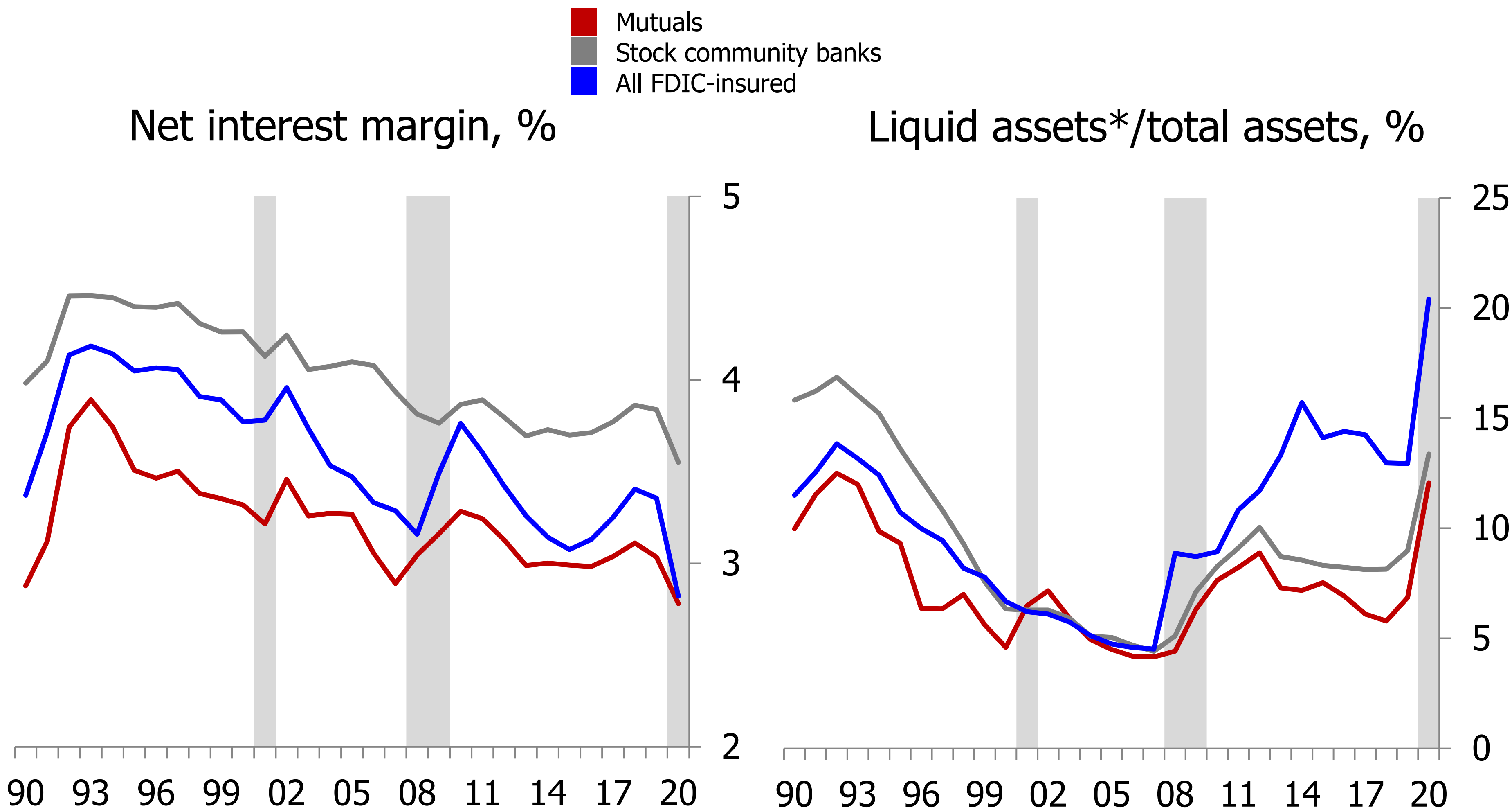
Net gains from loan sales drove mutuals' noninterest income in 2020



Sources: Call/Thrift Reports from OCC Integrated Banking Information System

Data are merger-adjusted and held constant for banks in continuous operation from the first quarter of 2015 to the fourth quarter of 2020. 'Loan related' includes servicing, securitization, and sales of loans; 'nontraditional' includes trading revenue, investment banking, fiduciary, and insurance.

NIM is historically low due, in part, to banks holding a greater share of liquid assets*



Sources: Call Reports from OCC Integrated Banking Information System

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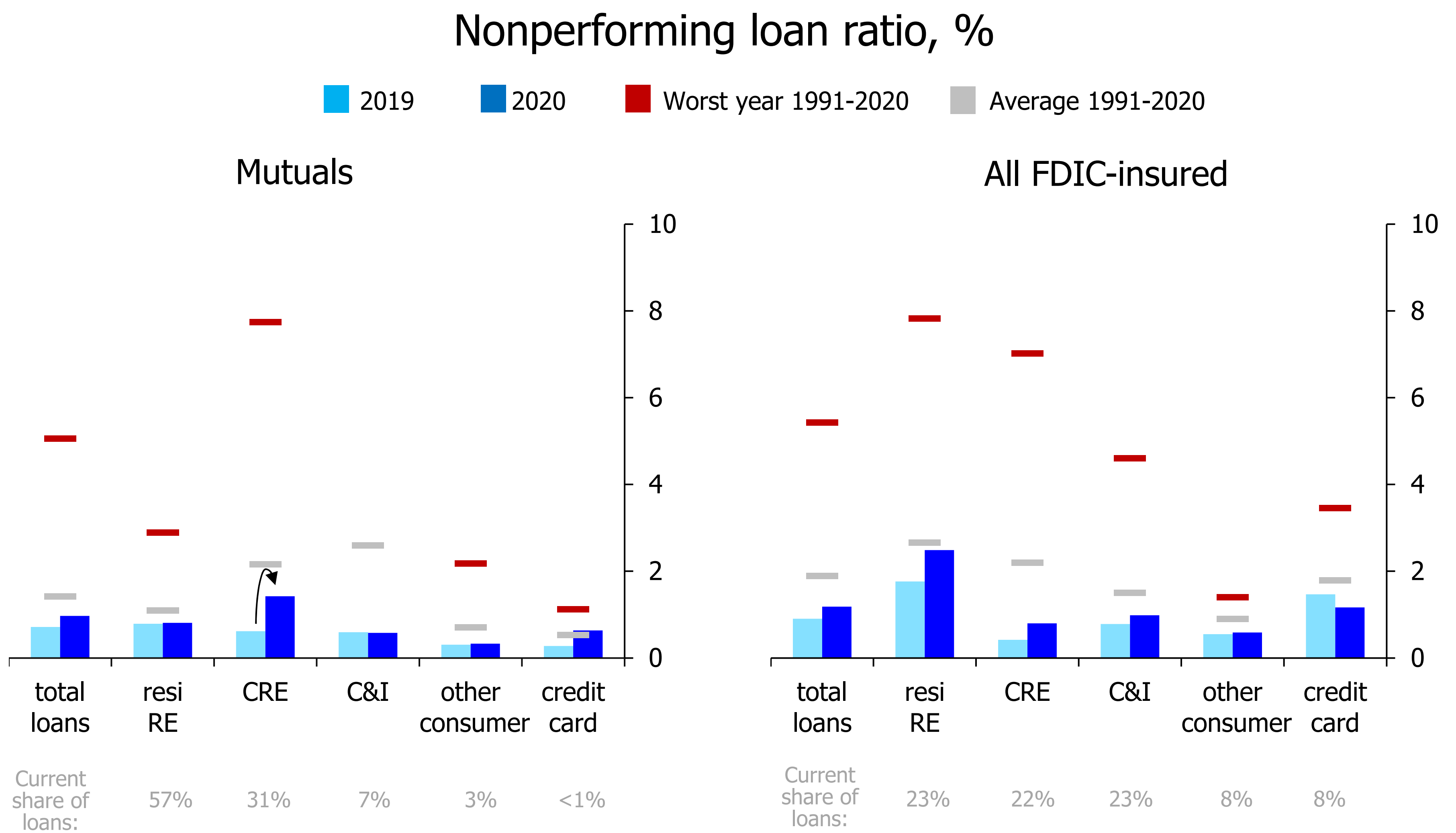
* Liquid assets include total cash balances and U.S. Treasury securities

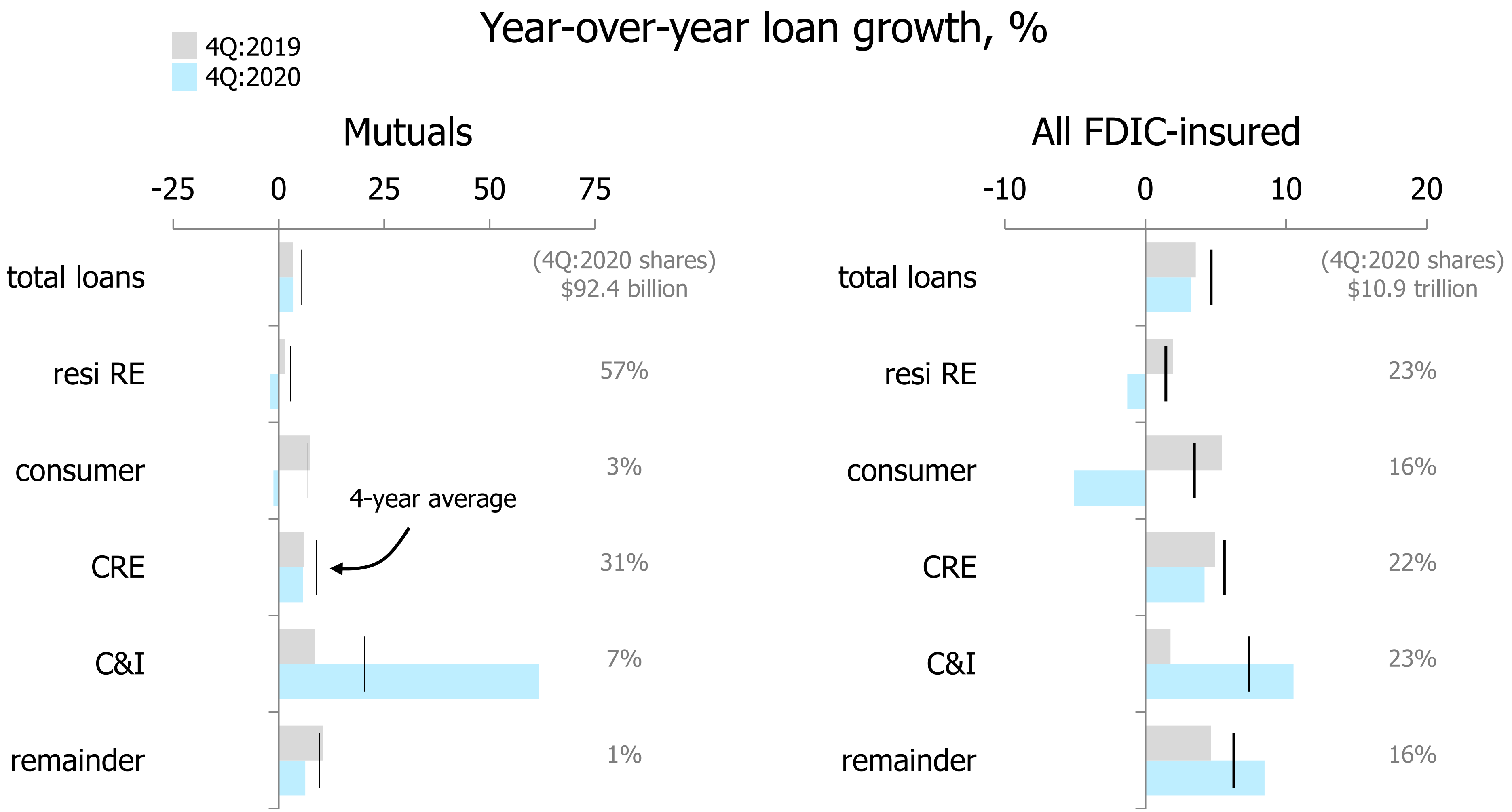
Modest mutual loan deterioration caused by CRE; but NPLS are still below 30-year averages



Sources: Call/Thrift Reports from OCC Integrated Banking Information System

Nonperforming loans are 90 days or more past due or in nonaccrual; CRE includes multifamily, nonfarm nonresidential and construction loans.

Tepid overall loan growth; Paycheck Protection Program boosts C&I for mutuals and system



Sources: Call/Thrift Reports from OCC Integrated Banking Information System

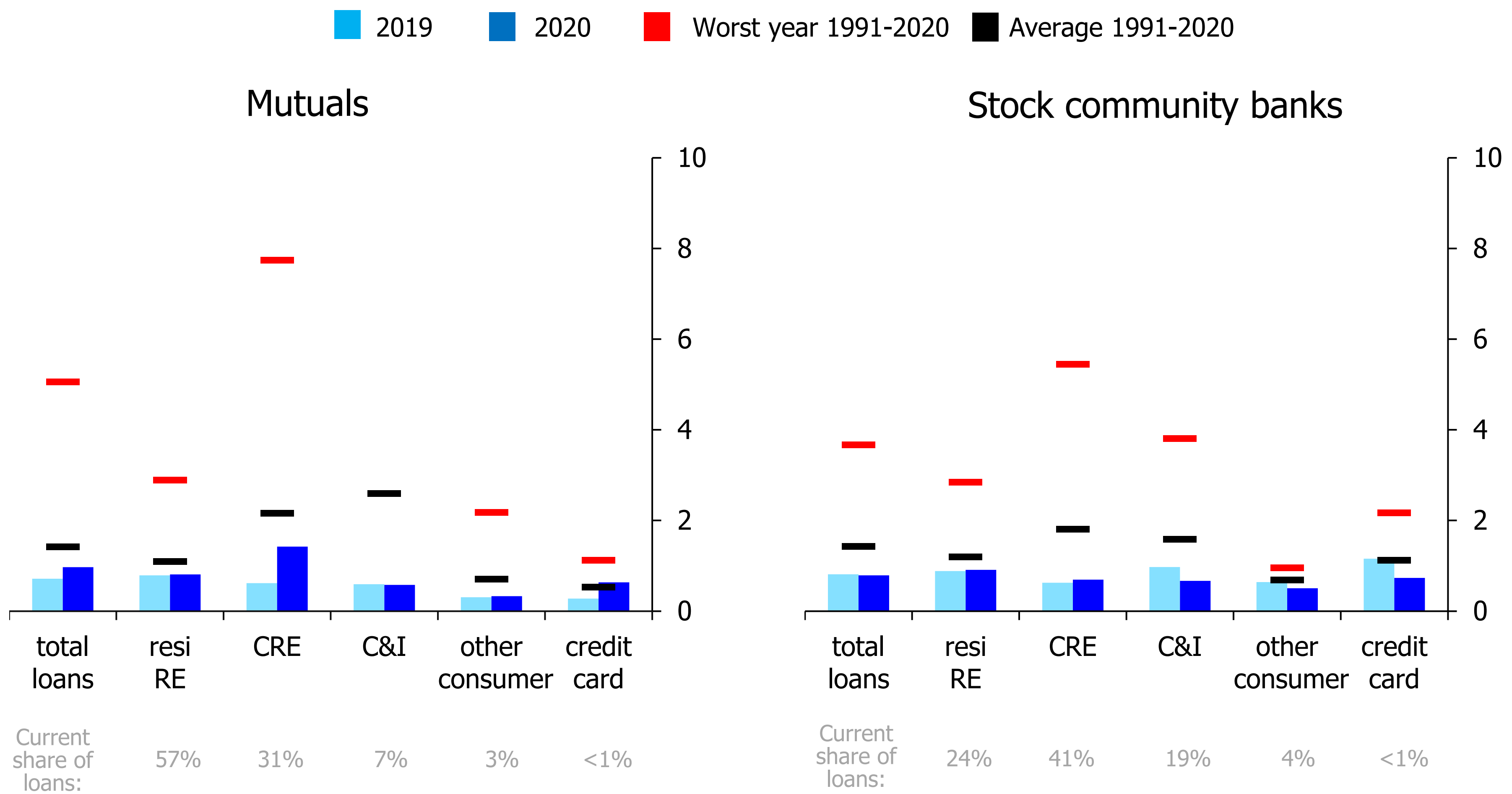
Data are merger adjusted for institutions in continuous operation between 1Q:15 and 4Q:20. Remainder includes ag loans, non-depository financial institutions, loans to governments, banks, municipalities, etc. CRE includes commercial mortgages and construction loans.

Conclusion

- Strong economic rebound expected in 2021 with massive government stimulus and pent-up consumer demand
- Lower interest rates, limited housing supply, and government actions bolster residential real estate
- Mutual savings banks' performance rebounded during 2H:20, but extremely low interest rates will continue to pressure net interest margins

Appendix

Nonperforming loan ratio, %



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	4Q:2019	3Q:2020	4Q:2020	% change past 12 months	4Q:2019	3Q:2020	4Q:2020	% change past 12 months
Revenues								
Net interest income	893	884	911	2.0%	12.1	12.6	13.1	7.9%
Noninterest income	178	244	238	33.6%	3.3	4.8	4.8	46.6%
Expenses								
Provisioning	19	64	52	179.2%	0.6	1.0	0.8	26.5%
Noninterest expense	833	819	875	5.0%	10.5	11.0	11.6	11.0%
Net income	231	253	298	29.0%	3.8	4.8	4.8	25.5%

Sources: Call/Thrift Reports from OCC Integrated Banking Information System

Data are quarterly and merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:20. Stock community banks have assets < $2 billion and exclude credit card and trust institutions.