Office of the
Comptroller of the Currency

RMA New England Annual Meeting

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Condition of the Banking Industry

Financial Information as of March 31, 2021

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America's Banks:
Resilient Through the Pandemic

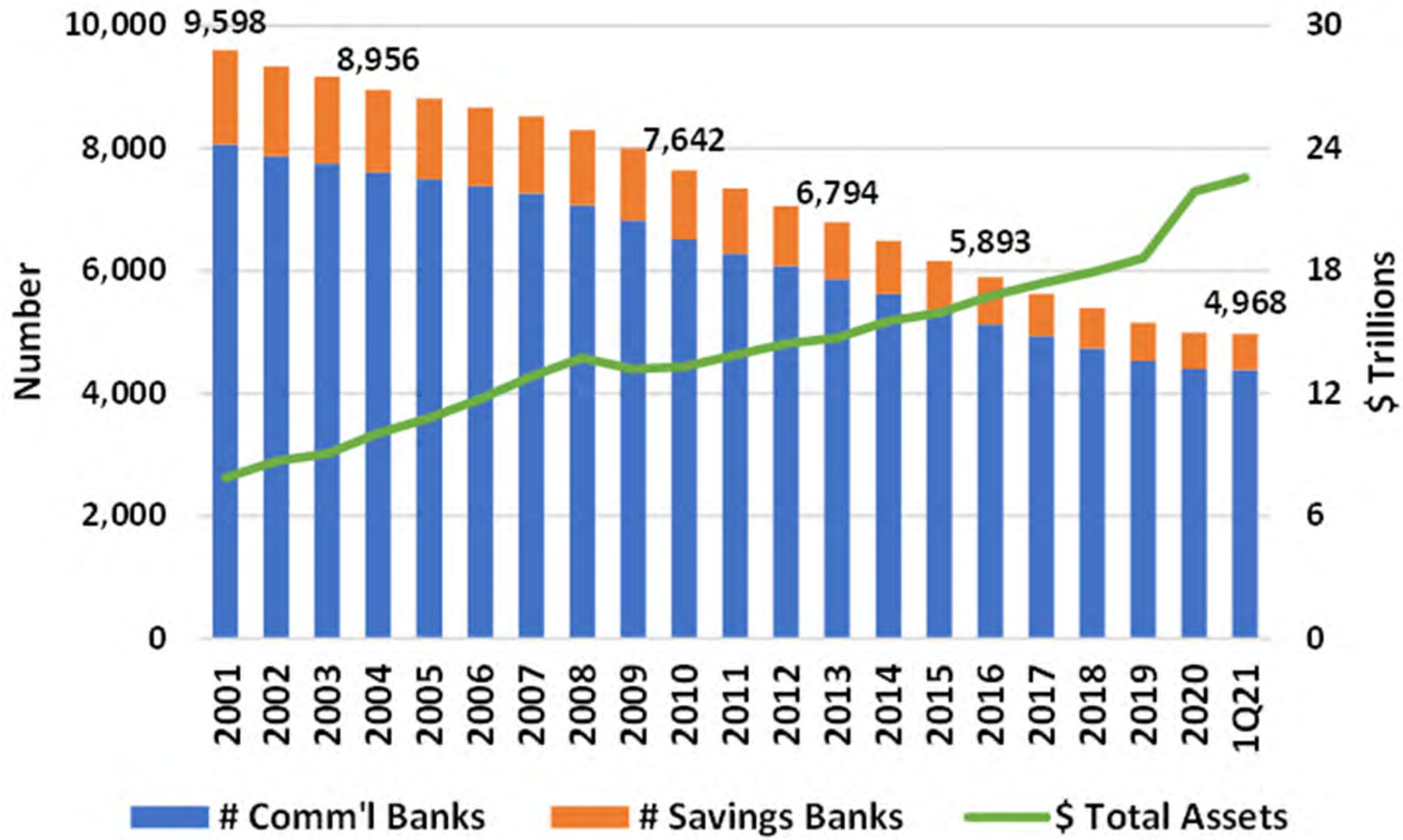
This presentation will focus on:

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

Preface: This presentation analyzes federally insured banks active as of March 31, 2021. For many of the performance metrics, this population is "held constant." Most charts use the median and others use weighted averages. Since most Federal Savings Associations did not begin filing call reports until 2012, the OCC created "unified" calculations for certain ratios when the former Thrift Financial Report had the necessary elements.

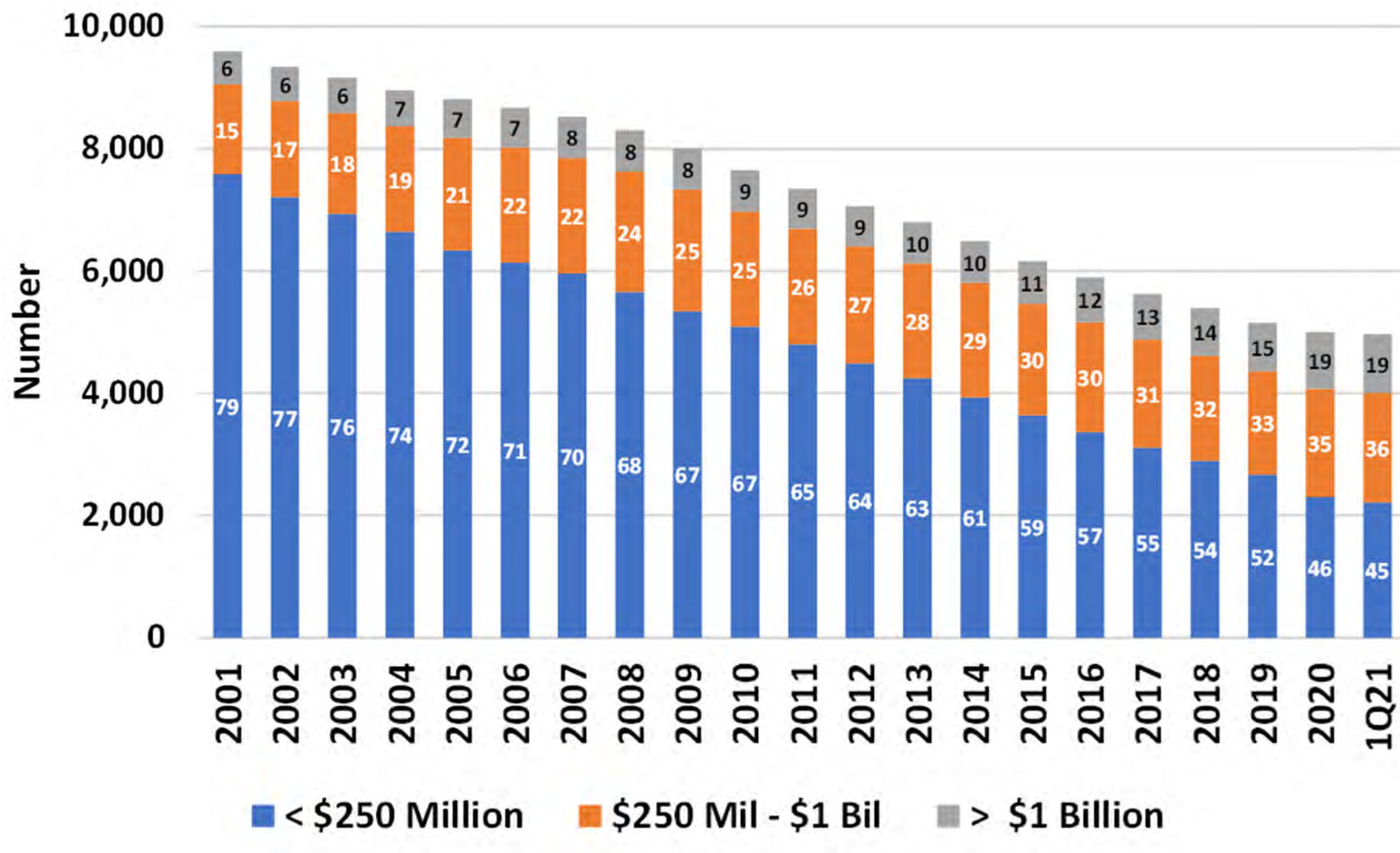
Trends in Bank Charters

The banking industry continues to consolidate. The total number of charters declined by 48 percent since 2001 and 3 percent in 2020. Total assets continue to increase steadily.



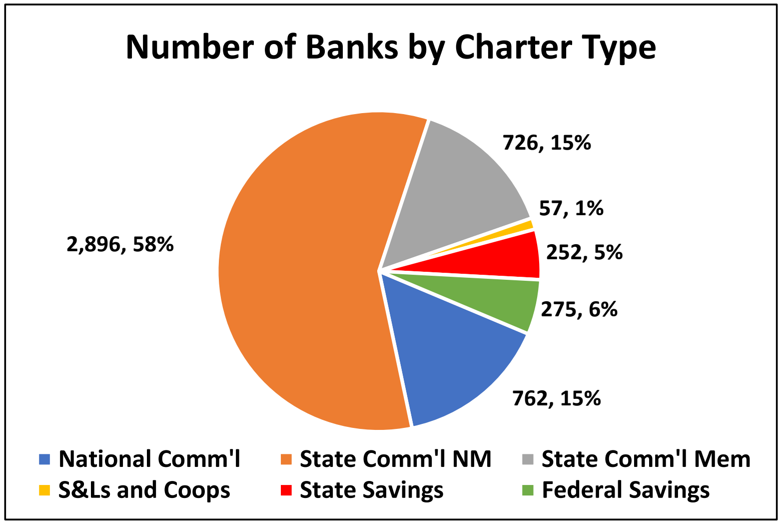
Trends in Bank Size

The growth in assets combined with fewer de novo charters has resulted in a shift of the mix toward larger institutions. In 2021, 45 percent of banks are less than $250 million in size versus 79 percent in 2001.

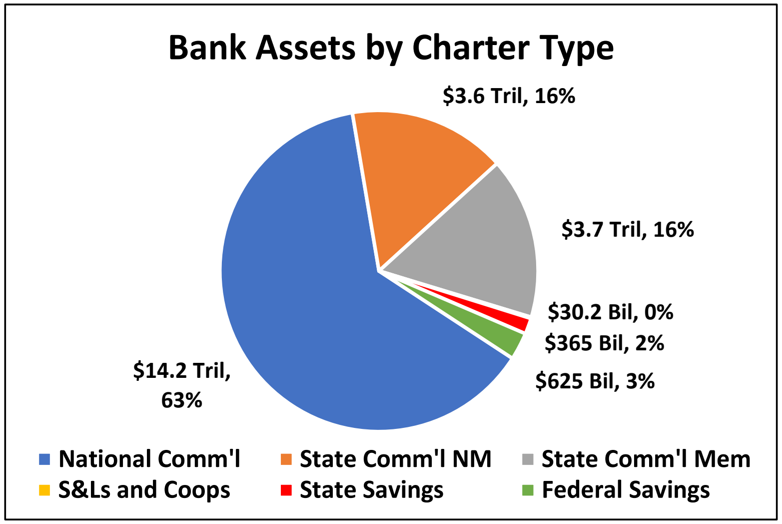


Banks by Charter Type

- There were 4,968 active insured banks as of March 31, 2021. Most charters or 58 percent are state commercial nonmembers of the Federal Reserve System.

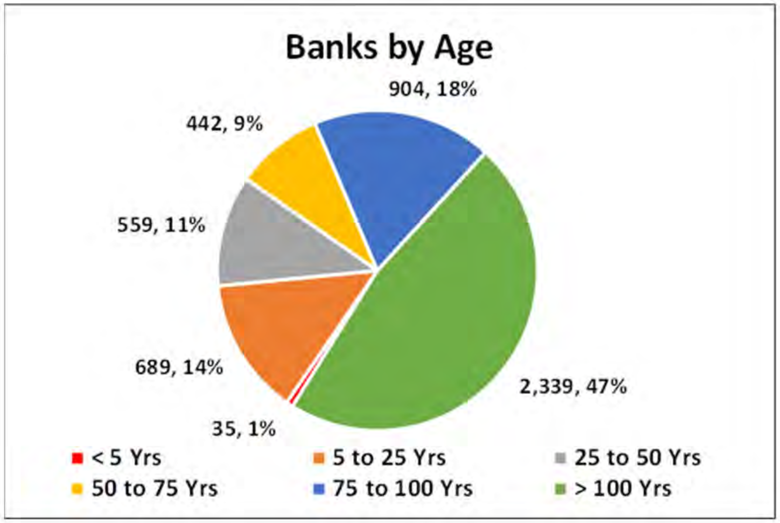


- Bank assets totaled $22.6 trillion as of March 31, 2021. Most assets or 63 percent are held by national commercial banks.

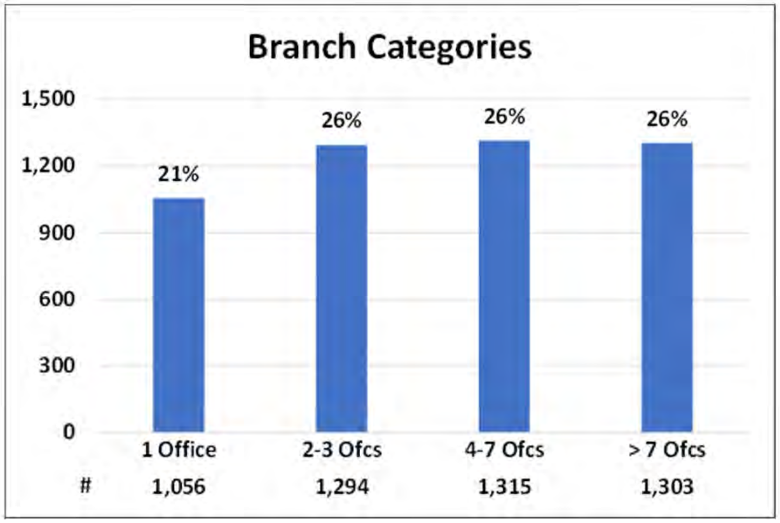


Banks by Age and Branch Network

- Most insured banks or 47 percent have operated for over 100 years. Only 1 percent have been operating for less than 5 years.

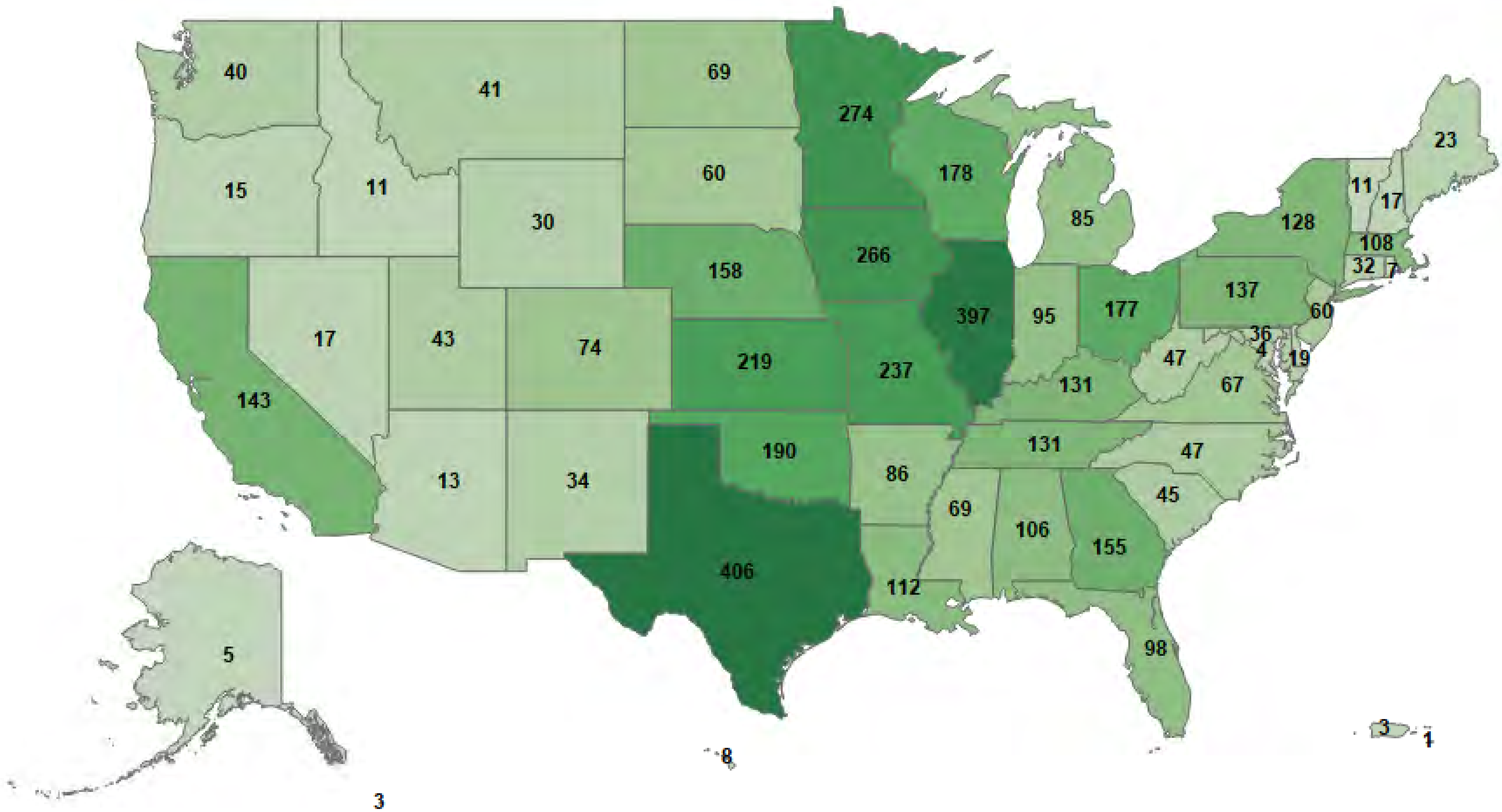


- About 21 percent of insured banks operate from one location, and 47 percent have three locations or less.



Banks by State

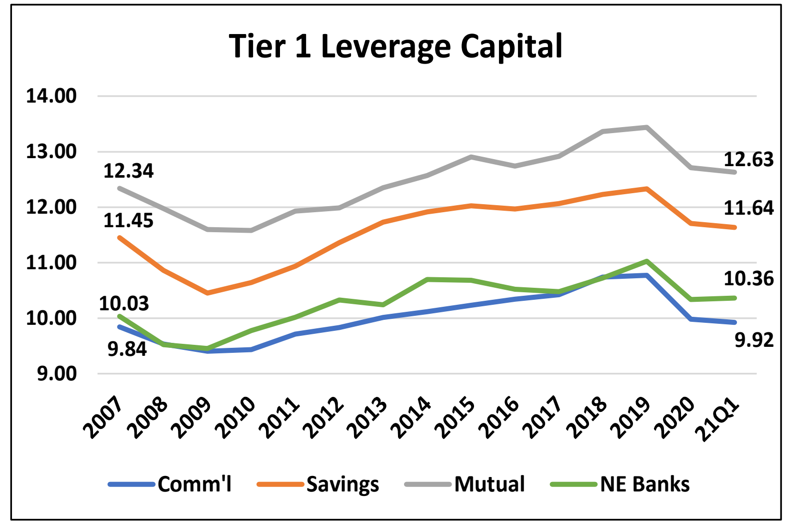
Insured banks are concentrated in the Midwest and Texas. There are six states - Texas, Illinois, Minnesota, Iowa, Missouri, and Kansas - with 200 or more charters. These states are home to 36 percent of all insured banks.



Capital Levels Remain Solid

- Capital levels are strong. The industry is better capitalized today versus pre-crisis. Leverage capital fell 85 basis points for commercial banks and 69 basis points for savings banks since 2019 due to pandemic-related asset growth.

- In general, smaller banks hold higher levels of capital.



Leverage Ratio - March 31, 2021

Asset Category	Savings	Comm'l
Under $50MM	17.50	11.08
$50MM - $100MM	13.54	10.81
$100MM - $250MM	12.00	10.20
$250MM - $500MM	12.05	9.85
$500MM - $1B	11.16	9.58
Greater than $1B	10.58	9.40
Median	**11.64**	**9.92**

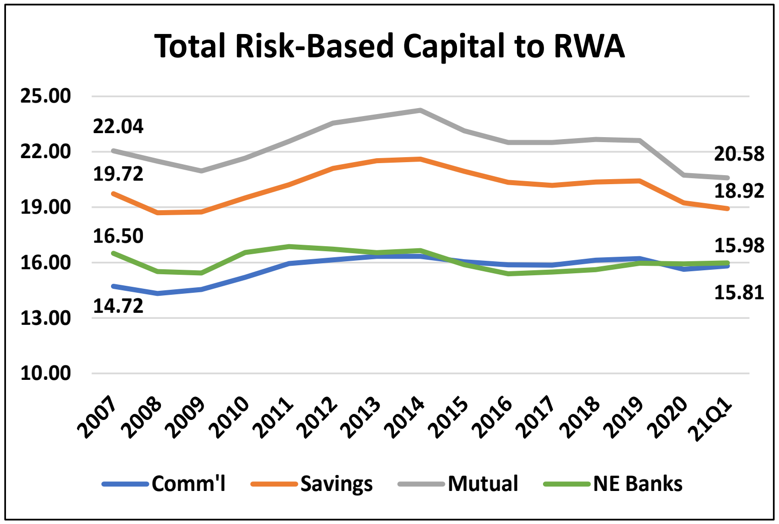
CBLR Framework; Now Phased In

Community Bank Leverage Ratio (CBLR) is an optional simple leverage capital measure that took effect January 1, 2020. The CARES Act provided temporary relief and a gradual phase-in through 2022 due to the pandemic.

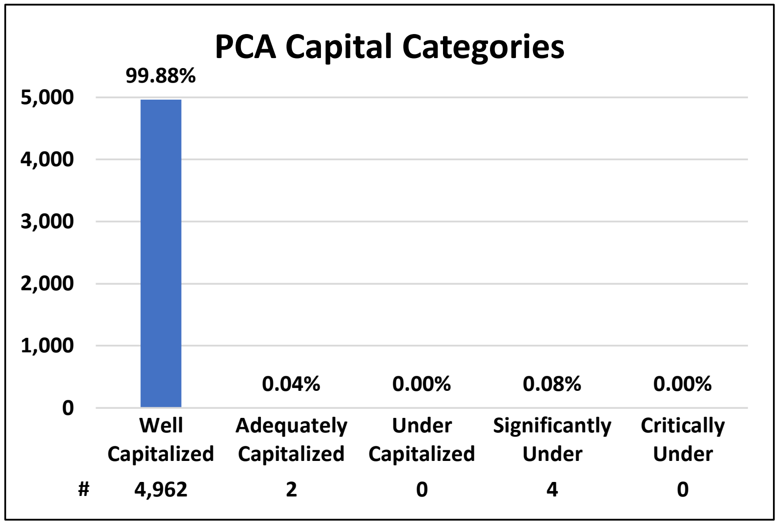
- Cannot be an advanced approaches banking organization
- **Leverage ratio greater than 8 percent (2020); 8.5 percent (2021) and 9 percent (202**
- Total consolidated assets of less than $10 billion
- Total trading assets plus liabilities of 5 percent or less of consolidated assets
- Total off-balan sheet (OBS) exposures of 25 percent or less of consolidated assets

The Industry is "Well-Capitalized"

- Total risk-based capital ratios are stable but down from 2019 levels due to pandemic-related asset growth and the CBLR framework. Thirty-eight percent of banks opted into the new CBLR framework.

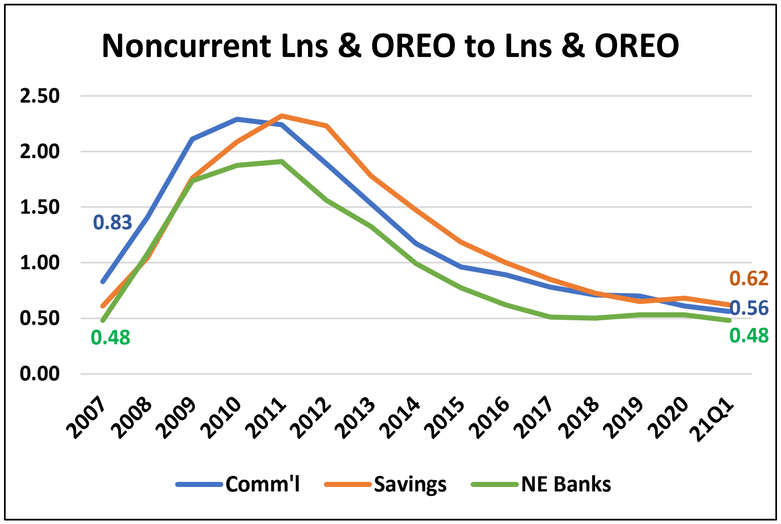


- Based on capital ratios, 99.9 percent of banks are "well-capitalized" per Prompt Corrective Action as of March 31, 2021.



Noncurrent Loans Decline

- Noncurrent loans continued to decline through the pandemic. Commercial and savings banks reached new cyclical lows.



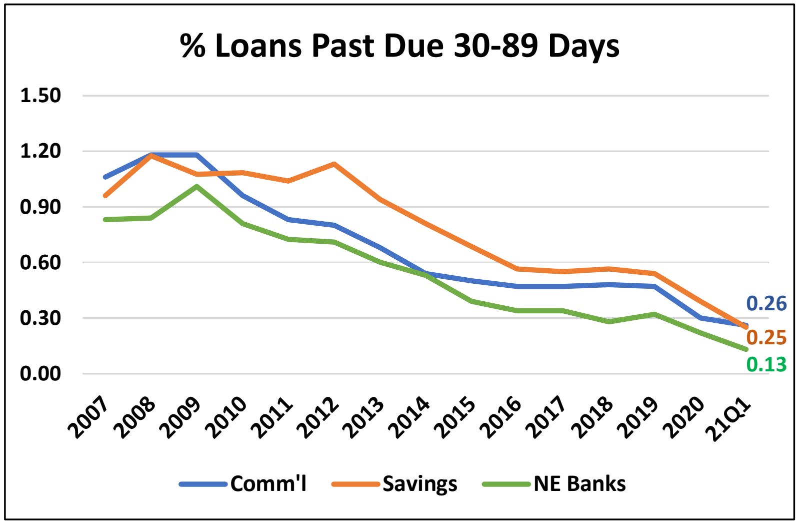
- While past due levels remain low, CARES Act modification programs have established rules for COVID-19 forbearance, which could delay delinquency for some credits.

Noncurrent Loans (> 10% of Capital)

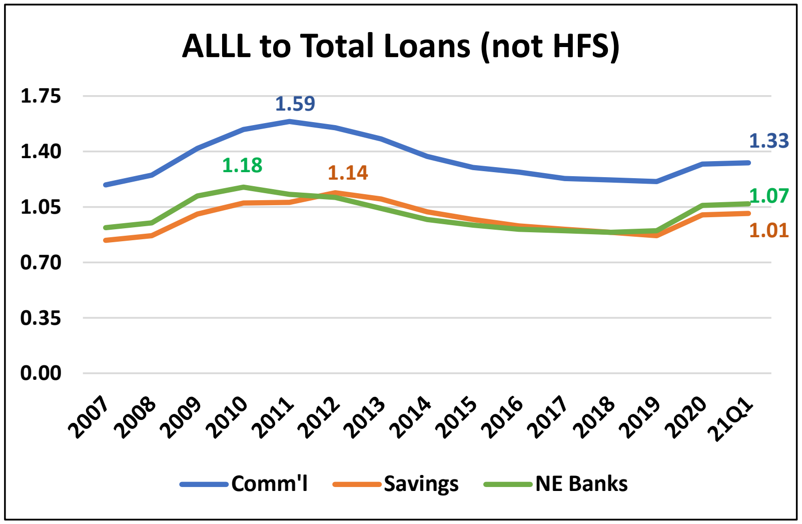
Loan Category	% Banks	Noncurr
1-4 Fam First Lien Loans	93.5%	0.37
1-4 Fam Junior Lien Loans	7.8%	0.00
Consumer Loans	57.0%	0.12
Commercial & Industrial	92.4%	0.07
Nonfarm Nonresidential	92.8%	0.00
Multifamily Loans	49.7%	0.00
C & D Loans	70.0%	0.00
Other Loans	8.2%	0.00

30-89 Days Past Due Low and ALLL Stable

- Loans past due 30 to 89 days are also low and declining. Commercial bank past dues fell 4 basis points to 0.26 percent and savings banks fell 14 basis points to 0.25 percent.



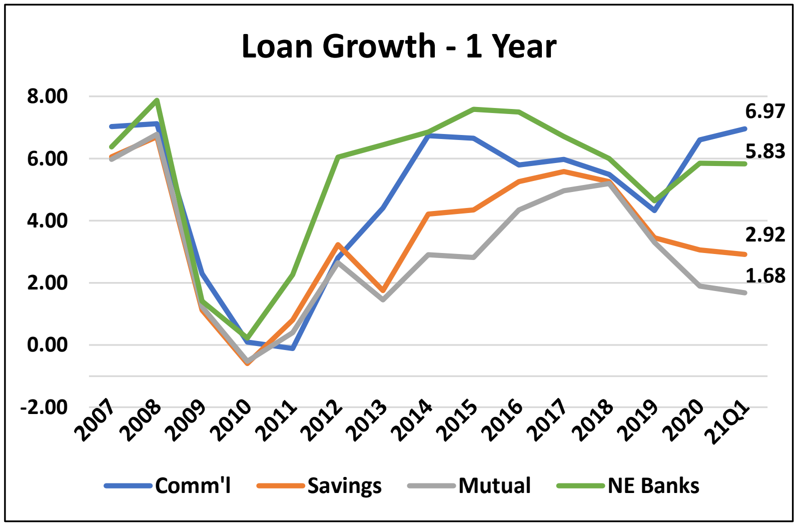
- While 8 percent of banks recorded negative provisions and another 14 percent released reserves by losses exceeding provision expense, the ALLL remained stable in the first quarter of 2021. Half of banks still report loans with Section 4013-eligible modifications.



Loan Growth Weak

- Loan growth is more difficult to interpret due to the Paycheck Protection Program. After adjusting for the PPP, median loan growth was -0.07 percent for commercial banks and -0.09 percent for savings banks.

- Loan growth was highest for banks with total assets over $500 million and lowest for banks with total assets under $50 million.

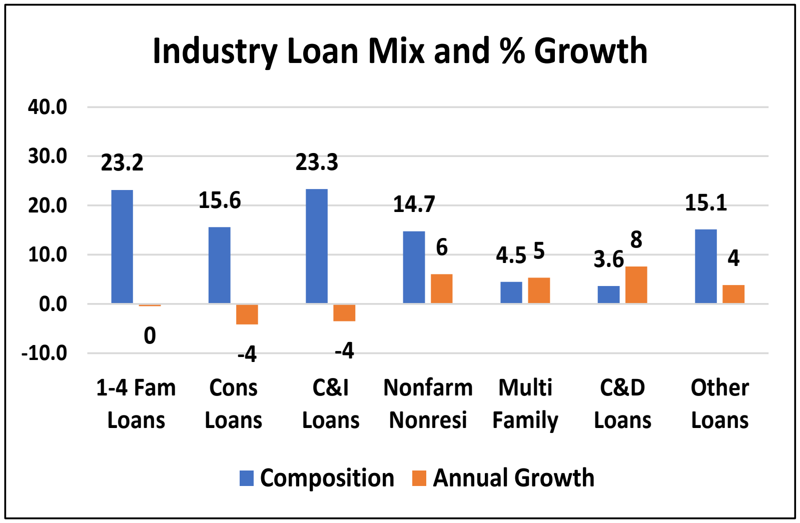


Loan Growth Ratio - March 31, 2021

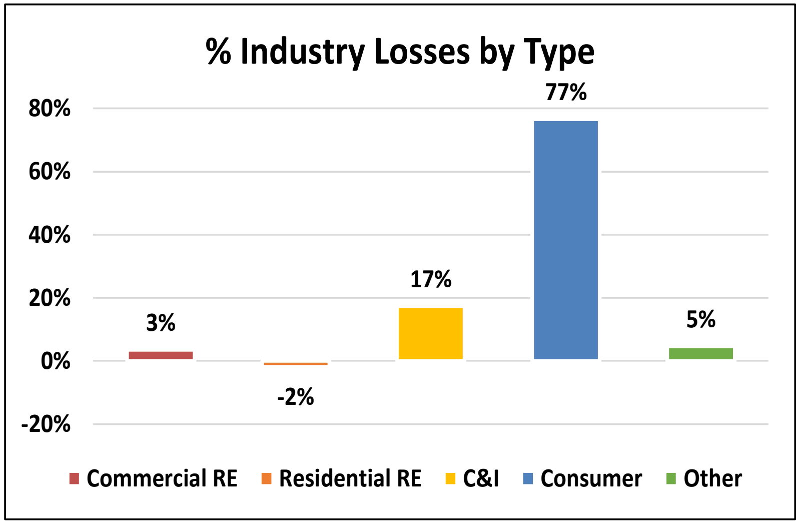
Asset Category	Savings	Comm'l
Under $50MM	-1.75	-1.59
$50MM - $100MM	1.50	1.43
$100MM - $250MM	1.20	5.31
$250MM - $500MM	1.44	8.32
$500MM - $1B	6.40	10.71
Greater than $1B	7.21	10.61
Median	**2.92**	**6.97**

Loan Mix and Losses

- Loan balances shrunk by $35.6 billion or 0.3 percent in 2021. The annual decline in loan volume was due to a 12.7 percent reduction in credit card balances and a 3.5 percent reduction in C&I loans.

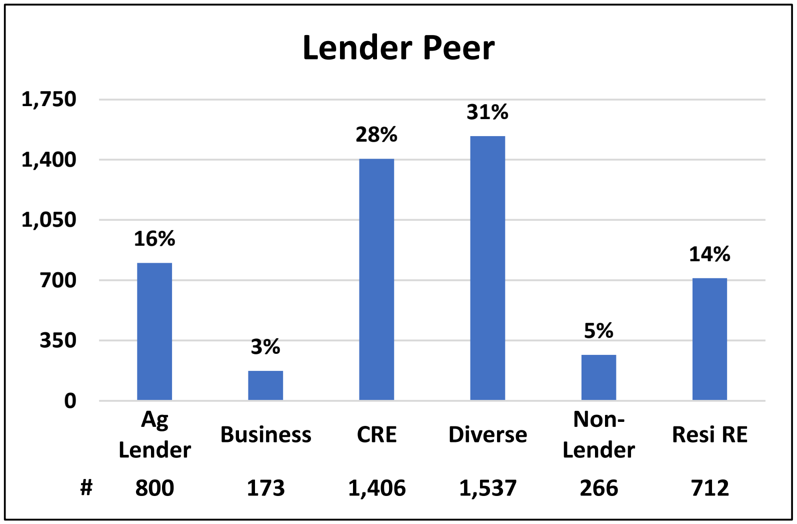


- Loan losses remain low and declined to 0.35 percent in 2021. Consumer loans account for 15.6 percent of loans and 77 percent of the losses. On the other hand, 1-4 family real estate loans account for 23.2 percent of the loans and reported a net recovery in 2021.

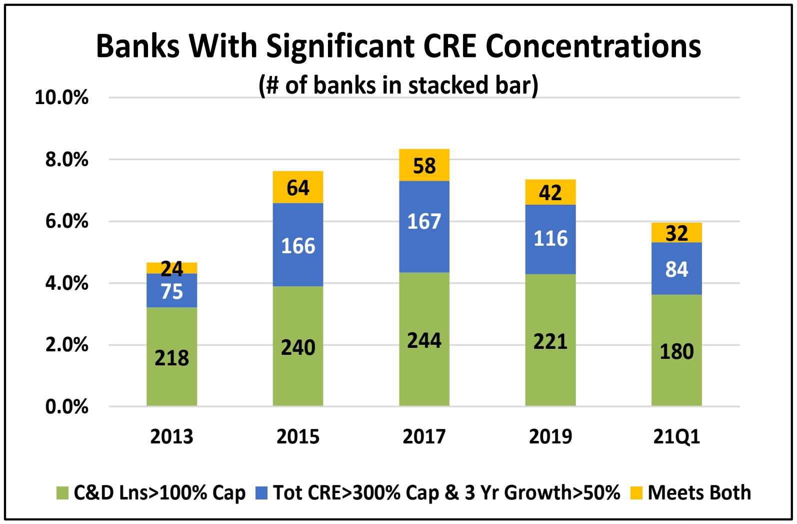


Lender Peer and CRE Concentrations

- About 59 percent of banks are Diversified or Commercial Real Estate (CRE) Lenders. While not pictured in the chart, Consumer Non-Mortgage Lenders (56) make up about 1 percent of the banks.

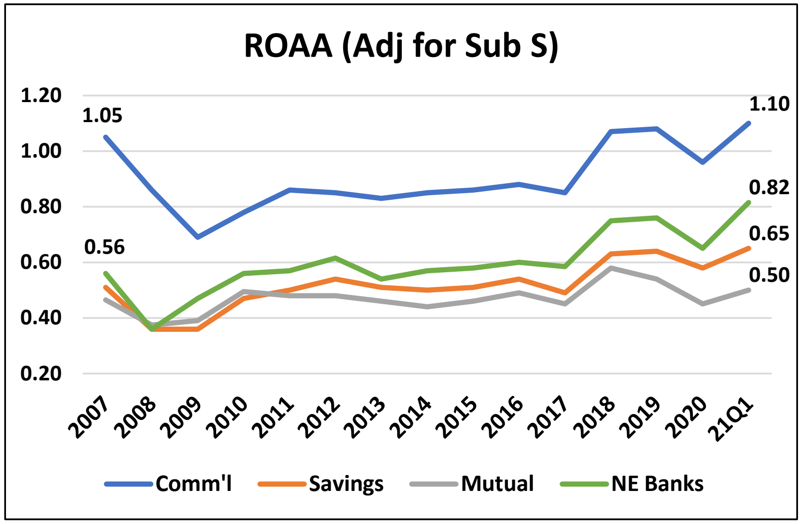


- Six percent of banks exceed the supervisory thresholds in the Interagency CRE Guidance (Dec 2006). Banks have a **significant** CRE concentration if C&D loans exceed 100 percent of capital or Total CRE exceeds 300 percent of capital **and** CRE loans grew more than 50 percent in the prior 3 years.

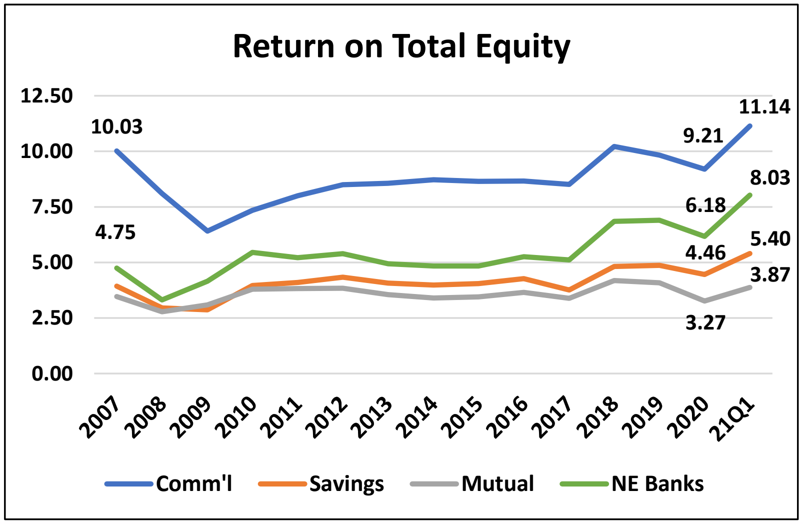


ROAA and ROE Up in 2021

- ROAA rose 14 basis points for commercial banks, 7 basis points for savings banks, and 5 basis points for mutual banks in 2021.



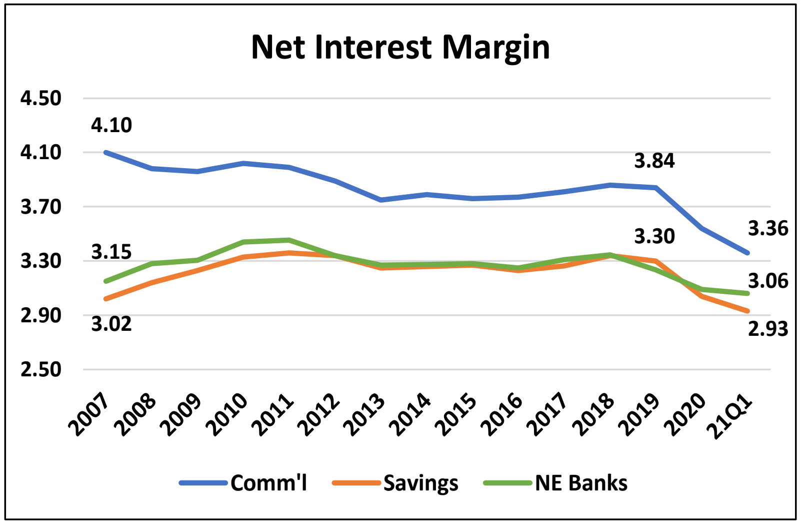
- Return on equity is also up for all groups in 2021 and at its highest level in more than a decade.



Net Interest Margin Fell Sharply

- Net interest margins plummeted to a new record low. Since 2019 margins are down 37 basis points for savings banks and nearly 50 basis points for commercial banks.

- The pinch of margin compression is felt more by the smallest banks. NIM compression usually leads to more industry consolidation and cost cutting by banks of all sizes.



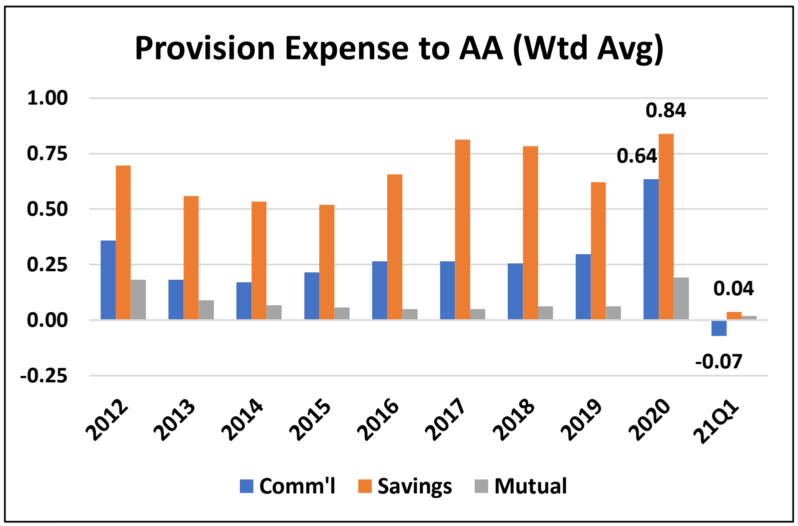
Net Interest Margin - March 31, 2021

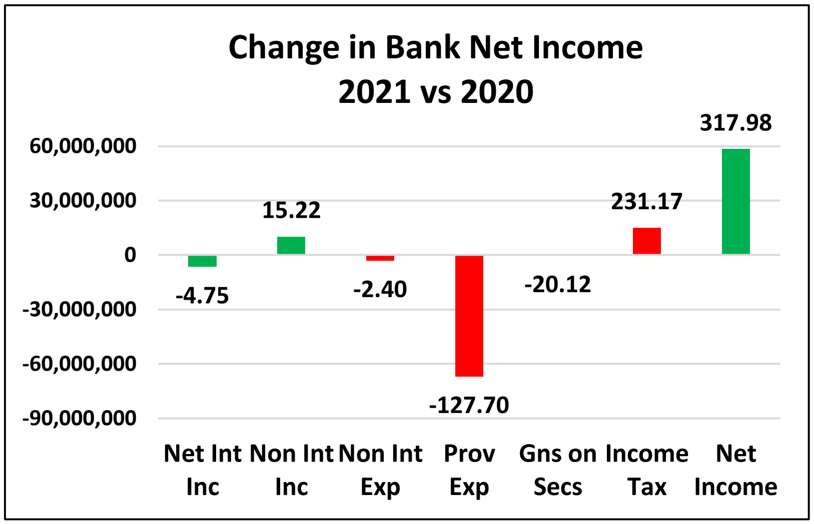
Asset Category	Savings	Comm'l
Under $50MM	2.70	3.03
$50MM - $100MM	3.05	3.40
$100MM - $250MM	2.89	3.43
$250MM - $500MM	2.91	3.41
$500MM - $1B	2.94	3.38
Greater than $1B	2.99	3.24
Median	**2.93**	**3.36**

Net Income More Than Tripled in 2021

- Despite the sharp drop in the net interest margin, the bottom line jumped 318 percent due to a negative provision of $14.5 billion and a rise in noninterest income.

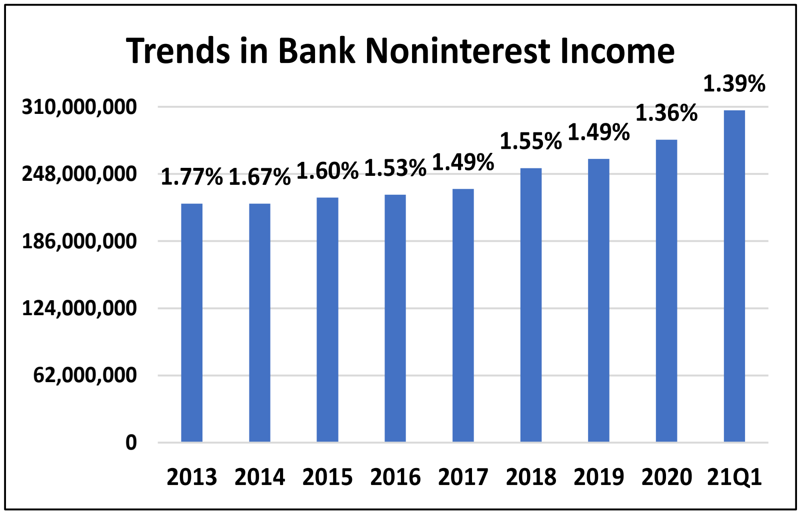
Banking Industry ($000's)				
	2021Q1	2020Q1	Δ 1 Yr $	Δ 1 Yr %
Tot Int Inc	140,511,588	168,840,492	-28,328,904	-16.78
Tot Int Exp	10,084,758	31,915,313	-21,830,555	-68.40
Net Int Inc	130,426,830	136,925,179	-6,498,349	-4.75
Non Int Inc	76,661,870	66,535,591	10,126,279	15.22
Non Int Exp	124,767,068	127,838,714	-3,071,646	-2.40
Prov Exp	-14,532,251	52,464,345	-66,996,596	-127.70
Gns on Secs	1,395,002	1,746,264	-351,262	-20.12
Income Tax	21,452,824	6,477,912	14,974,912	231.17
Net Income	76,726,281	18,356,231	58,370,050	317.98



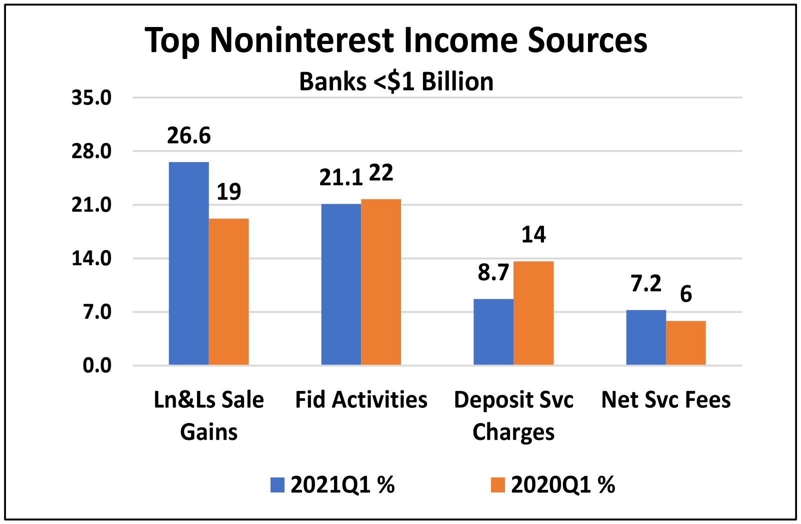


Noninterest Income Increased

- Fee income of just under $76.7 billion is up 15.2 percent compared to first quarter last year. Lack of fee income diversity has hurt the smaller banks. About 21 percent of charters reported 0.25 percent or less in fee income this quarter.

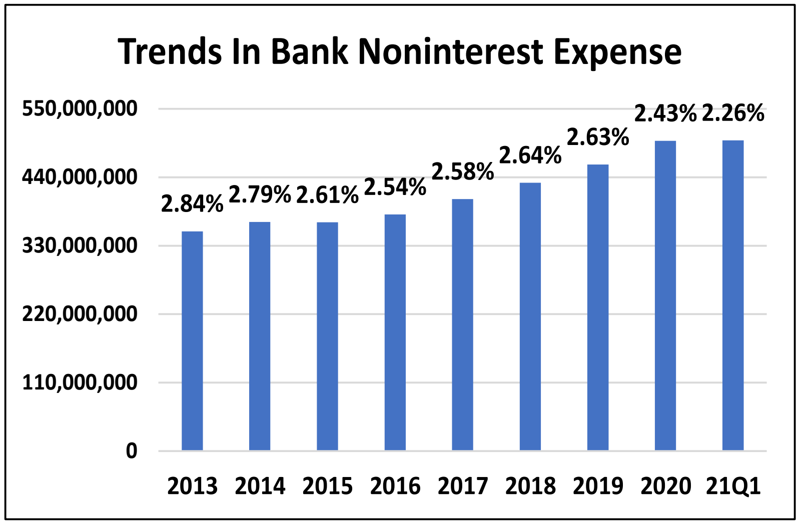


- The top source of fee income for the banking industry was trading revenue in first quarter 2021. For banks less than $1 billion, loan & lease sale gains was the top category and grew 58.1 percent from first quarter last year.

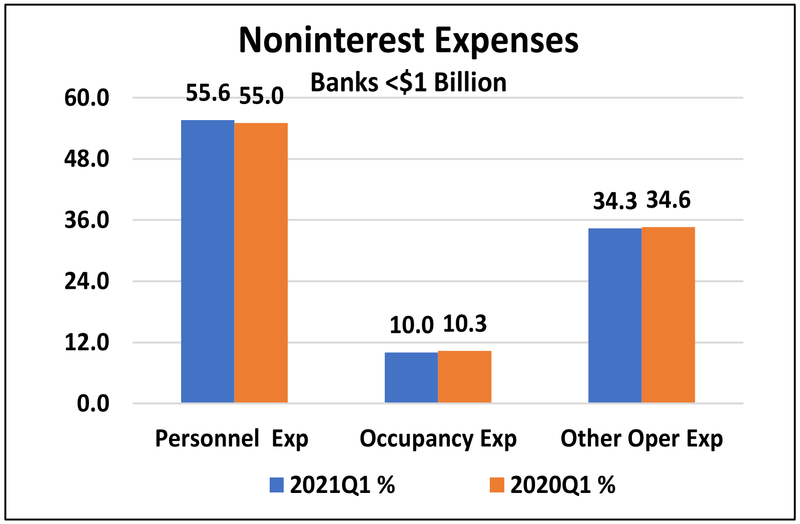


Noninterest Expense Declined

- Noninterest expense of $124.8 billion is down 2.4 percent compared to first quarter last year due to a decline in other operating expenses (goodwill).

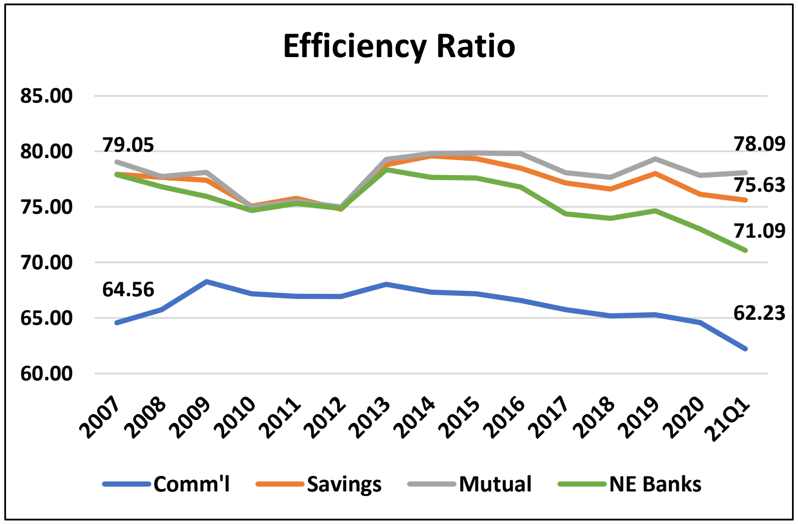


- For banks less than $1 billion, personnel expense at 55.6 percent is the top noninterest expense category. It increased 9.6 percent since last year. Occupancy expense is much lower at 10.0 percent and increased 5.4 percent since last year.



Efficiency Ratio Lower

- The efficiency ratio has reduced in first quarter 2021. While 61 percent of banks reported a lower efficiency ratio this quarter, 3.6 percent or 181 banks reported efficiency ratios over 100 percent.



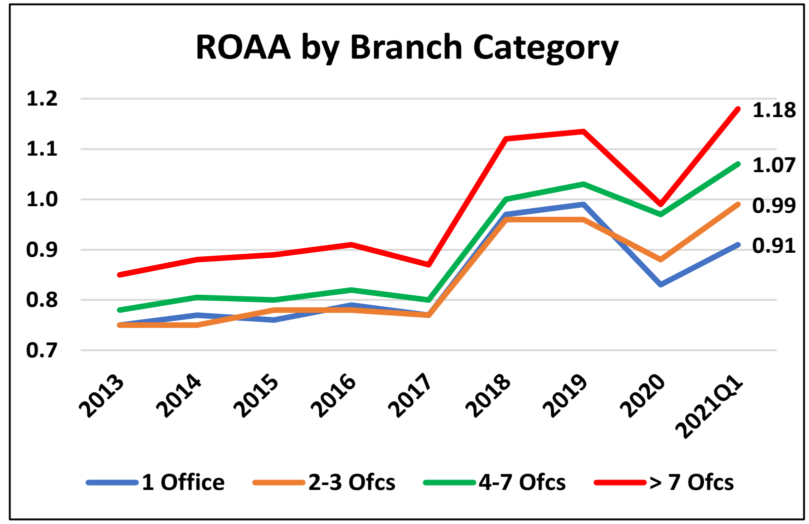
- If you stratify the efficiency ratio by asset size, you will generally find the larger the bank, the lower the efficiency ratio.

Efficiency Ratio - March 31, 2021

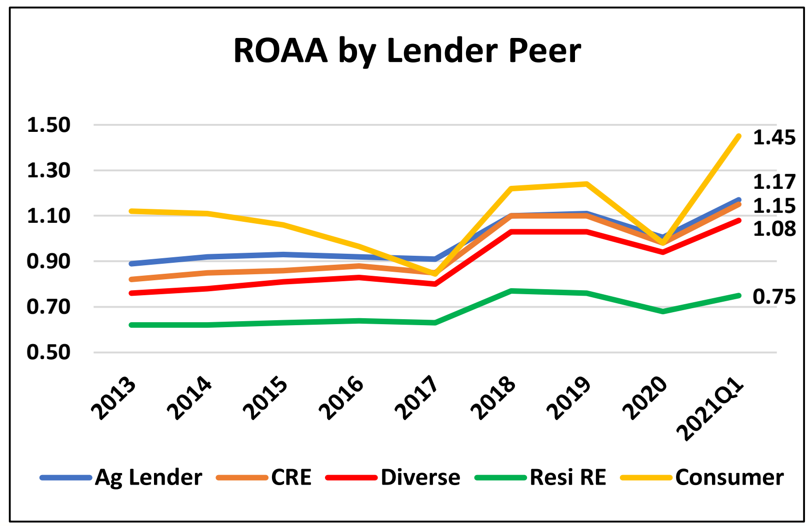
Asset Category	Savings	Comm'l
Under $50MM	95.72	77.39
$50MM - $100MM	85.18	67.77
$100MM - $250MM	79.68	64.42
$250MM - $500MM	75.97	61.17
$500MM - $1B	71.79	61.25
Greater than $1B	64.49	58.15
Median	**75.63**	**62.23**

ROAA by Branch Network and Lender Peer

- Banks with a larger number of branches reported the highest ROAA.



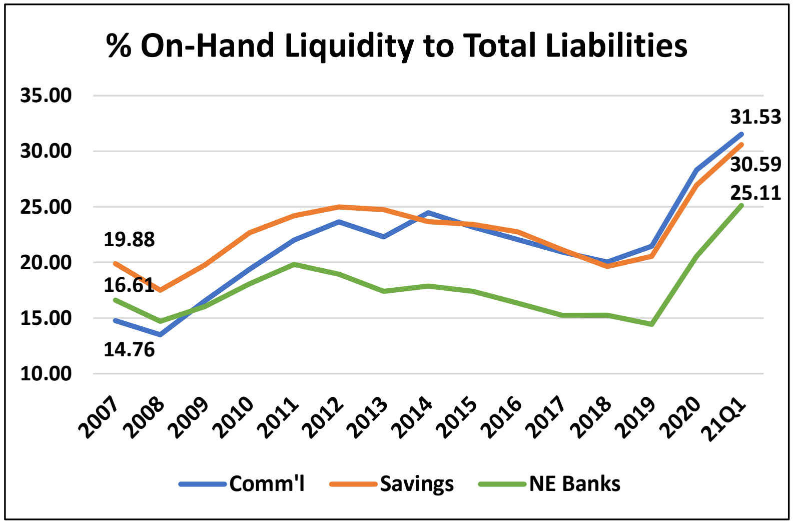
- Consumer lenders enjoyed the single best ROAA since 2013; however, these lenders experienced more volatility than the other peer groups.



On-Hand Liquidity Up Sharply

- Liquidity levels rose sharply since 2019 due to pandemic-related deposits. Banks benefitted from an inflow of stimulus checks, PPP funds, and a higher consumer saving rate.

- If you stratify the on-hand liquidity ratio by asset size, you will generally find the larger the bank, the lower the on-hand liquidity ratio.

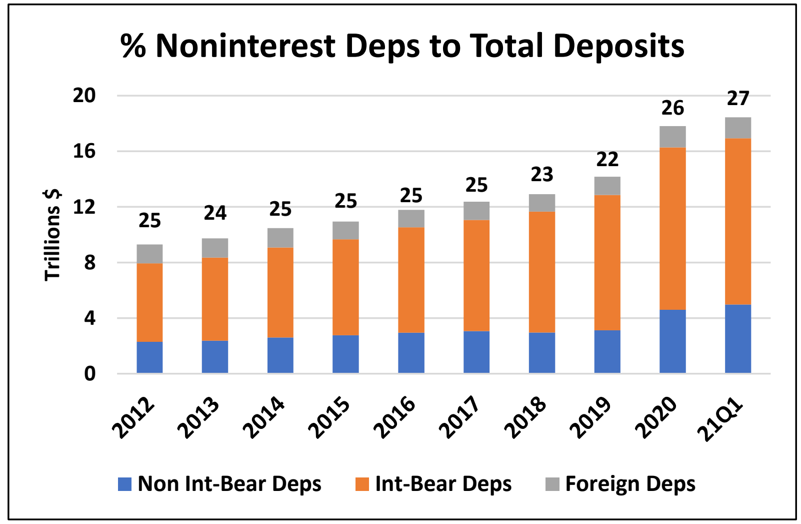


On-Hand Liquidity - March 31, 2021

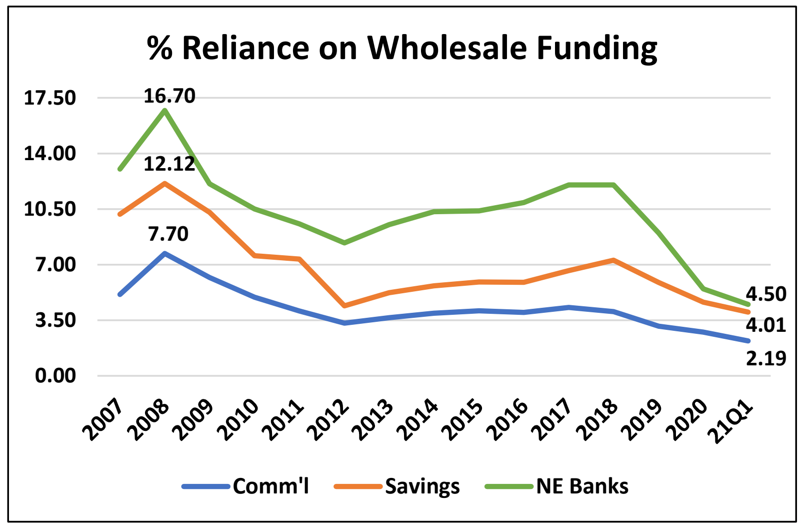
Asset Category	Savings	Comm'l
Under $50MM	39.39	51.77
$50MM - $100MM	37.57	40.47
$100MM - $250MM	36.13	35.03
$250MM - $500MM	30.36	30.43
$500MM - $1B	27.73	27.03
Greater than $1B	24.33	24.27
Median	**30.59**	**31.53**

Reliance on Wholesale Funding Lower

- Deposits grew 18 percent to $18.5 trillion since last year and free funds represent 27 percent.

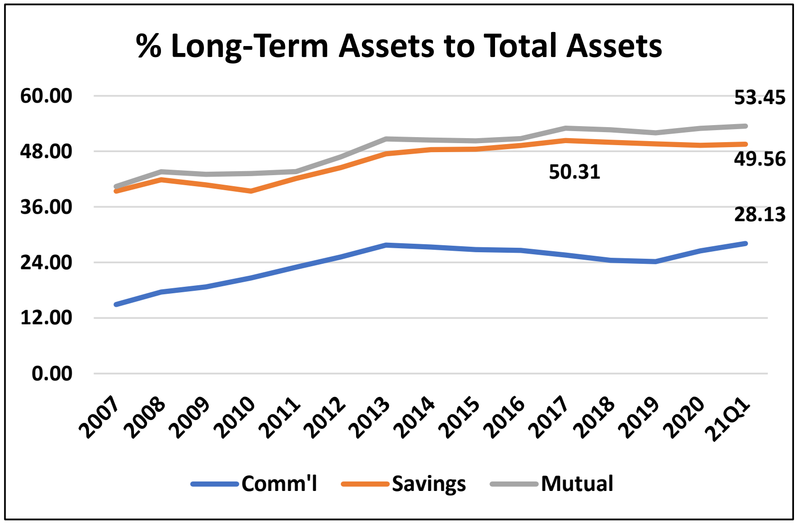


- Because of the sharp rise in deposits, banks are relying less on wholesale funding sources this year.

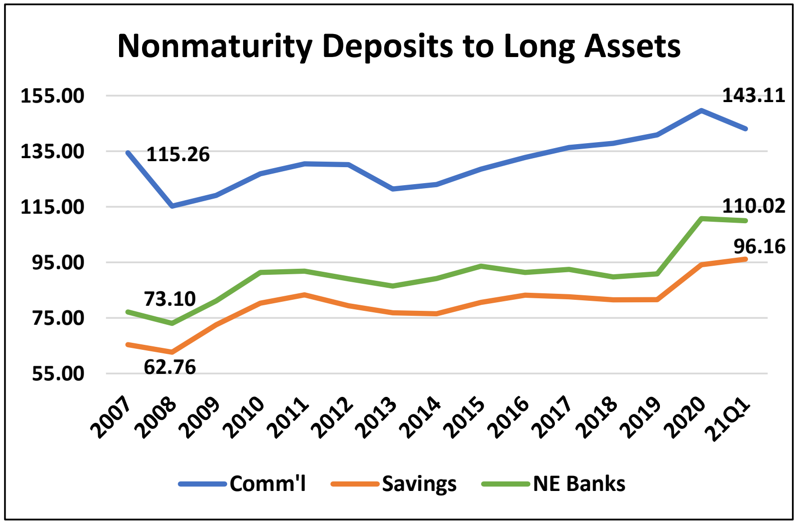


Nonmaturity Deposits Higher

- Long-term assets to total assets remain elevated and are at their highest levels for commercial and mutual banks.

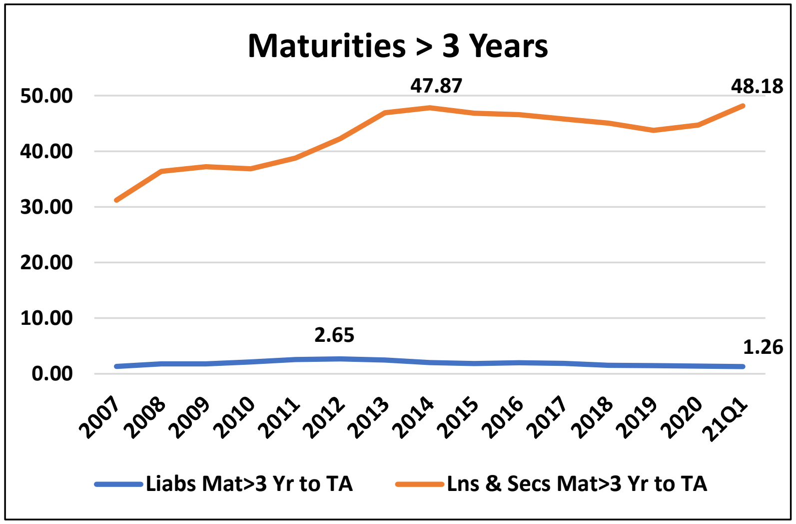


- Nonmaturity deposits to long-term assets are at their highest level in more than a decade. While ratios decreased this year for commercial banks, levels for this group remain near the cyclical high and well off their lows from 2008.

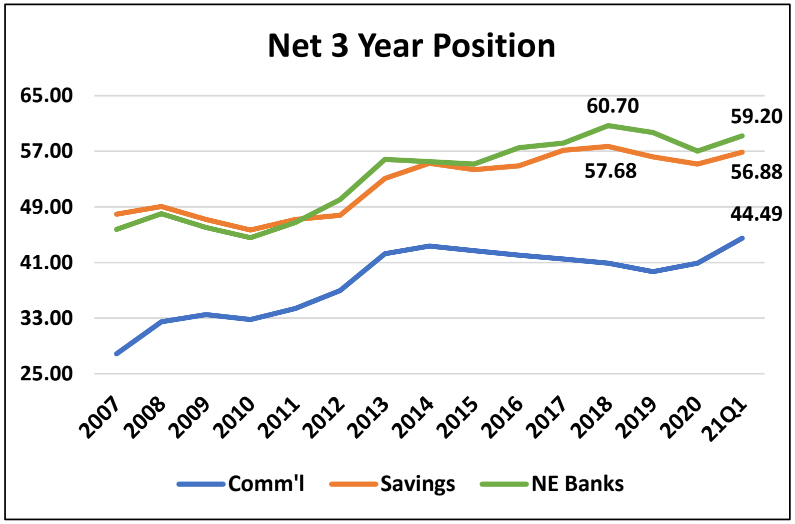


Funding Gap Expanding

- After declining for five consecutive years, loans and securities greater than three years increased in the last two years. Only 1.26 percent of liabilities mature or reprice in more than three years.

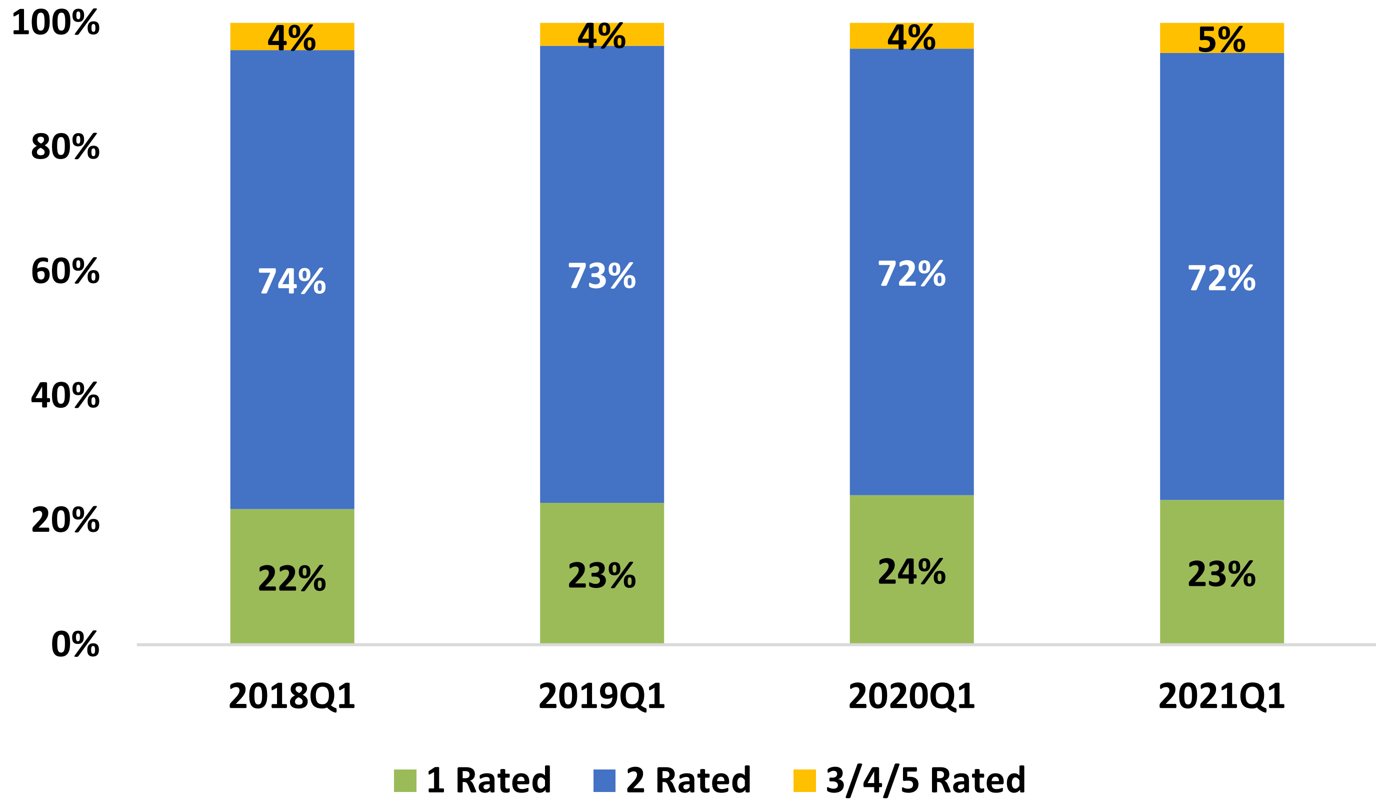


- The high level of longer-term assets compared with the low level of longer-term liabilities represents a funding gap. This gap is more pronounced for savings banks. The net 3-year position is higher for all groups in 2021.



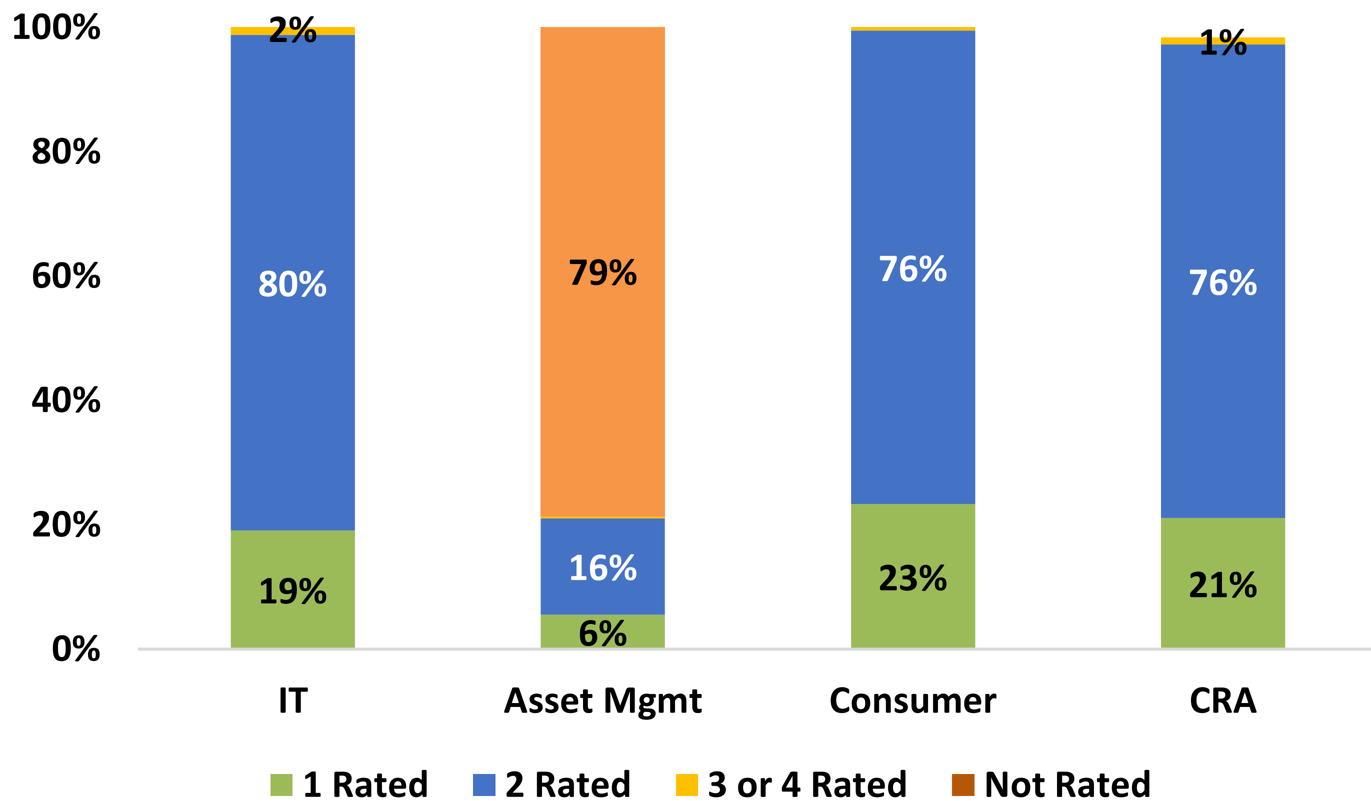
OCC Composite Ratings

Composite ratings are satisfactory and stable. Ninety-five percent of banks are rated composite 1 or 2.



OCC Specialty Ratings

Specialty ratings are satisfactory. About 22 percent of MCBS banks have trust powers. For purposes of this chart, a CRA rating of outstanding is 1, satisfactory is 2, and needs to improve is 3.



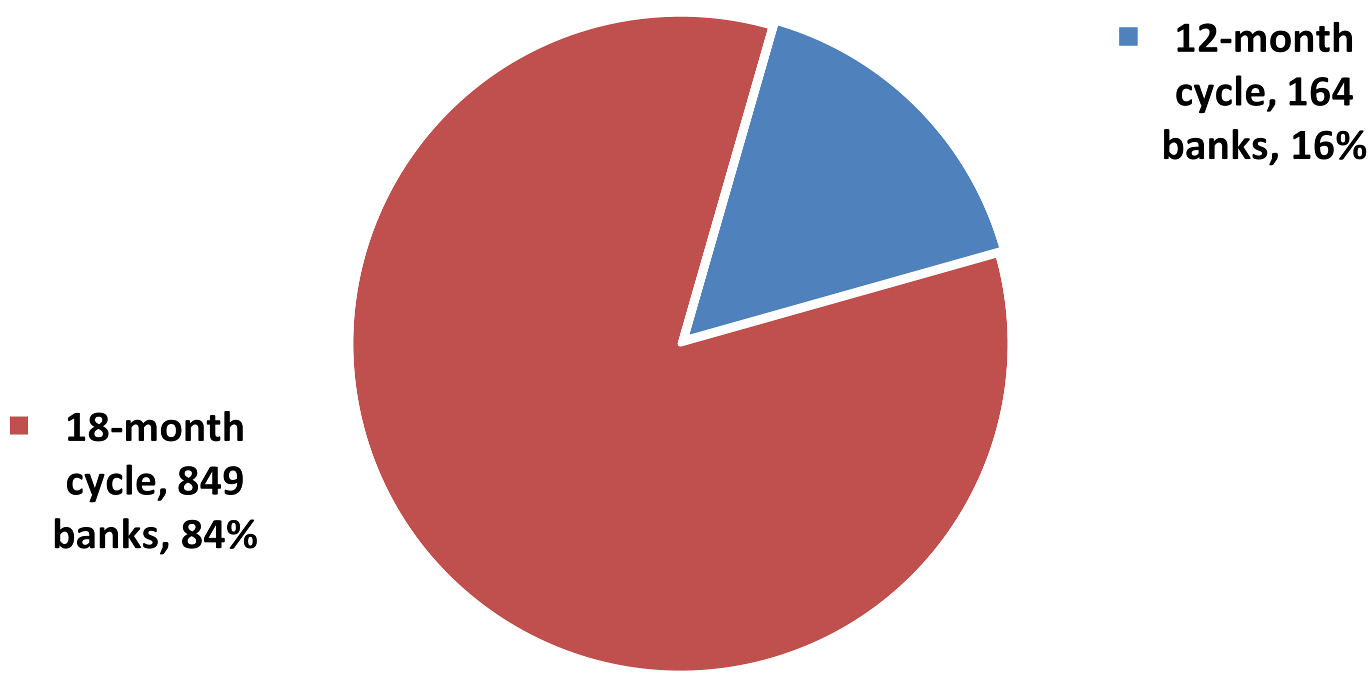
OCC Level of Risk Ratings

The credit and strategic categories have the most banks designated with high risk. Three of the eight risks are predominately rated as low.

	COMPL	CREDIT	IRR	LIQ	OPER	PRICE	REP	STRAT
Low	43%	31%	48%	56%	31%	91%	68%	40%
Moderate	53%	62%	49%	40%	63%	7%	28%	53%
High	3%	7%	2%	4%	5%	1%	4%	7%

OCC Supervisory Cycles

Qualifying banks with less than $3 billion in total assets are eligible for an 18-month examination cycle. Eighty-four percent of MCBS banks are on the 18-month cycle.



Summary of Condition-March 31, 2021

- The banking industry is comprised of a diverse group of 4,968 insured charters. The number of banks is decreasing at a 4 percent annual rate due to mergers and acquisitions.

- **Capital is strong.** Banks are better capitalized today compared to pre-crisis. Leverage capital ratios declined since 2019 due to pandemic-related asset growth.

- **Earnings have improved.** Despite margin compression, the industry ROAA is at its highest level in more than a decade due to a negative provision and strong growth in noninterest income.

- **Asset Quality remains resilient.** Noncurrent and 30-89 day past due loans are low and declining. The ALLL to Total Loan ratio remains stable. Loan growth is weak, and its return remains key for a healthy banking system.

- **Liquidity is abundant.** The on-hand liquidity ratio and bank deposits are up sharply this year. The pandemic has resulted in a deposit surge due to consumer stimulus checks, the PPP, and a higher consumer savings rate.

- **Sensitivity to market risk is adequately controlled and improving.** Most banks have higher nonmaturity deposits to long-term asset ratios this year, making them less vulnerable to increases in interest rates.

Questions?

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