



ABA Mutual Bank Survey

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**ABA Mutual Community
Bank Conference**
March 15-16, 2010



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Acknowledgements

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Mutual Industry and Survey Overview

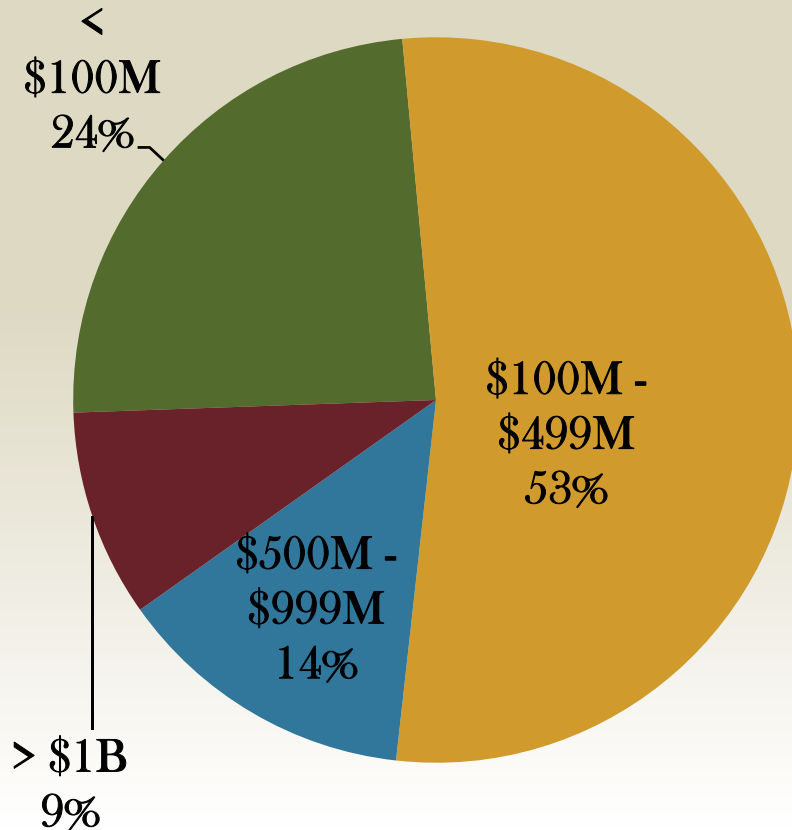
Mutual institutions represent a strong voice within the banking industry. With a deep tradition of consumer-oriented community banking, these organizations include 689 mutual, community-based institutions, including 167 mutual holding companies, and held more than \$269 billion in assets as of September 30, 2009. The median asset size of our mutual members was \$175 million, and there are more than 220 mutuals with assets under \$100 million. Mutuals are well-managed, conservatively run institutions that are strongly capitalized, profitable and give back to their community. The ABA Mutual Institutions Council consists of 110 actively engaged mutual bankers from around the country.

Survey Overview:

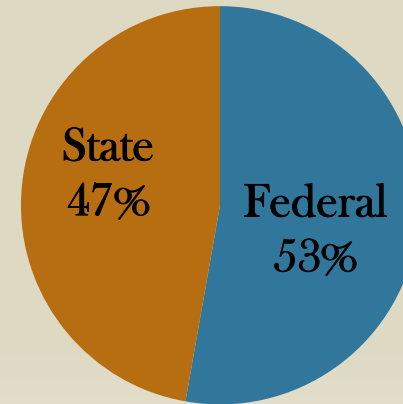
The ABA Mutual Institutions Council's Mutual Banks Survey captured responses from banks ranging across all asset sizes, geographic locations, charter types, organizational structures and primary regulator affiliations. Data was collected from 216 respondents, although not all respondents answered each of the 23 questions. Additionally, many of the questions allowed for comments, but not all respondents chose to do so, which resulted in a variation of the sample size for each question.

Profile of Respondents

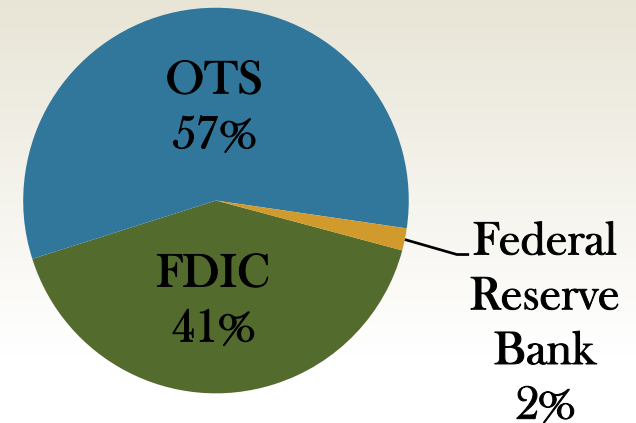
Asset Distribution of Respondents



Charter Types

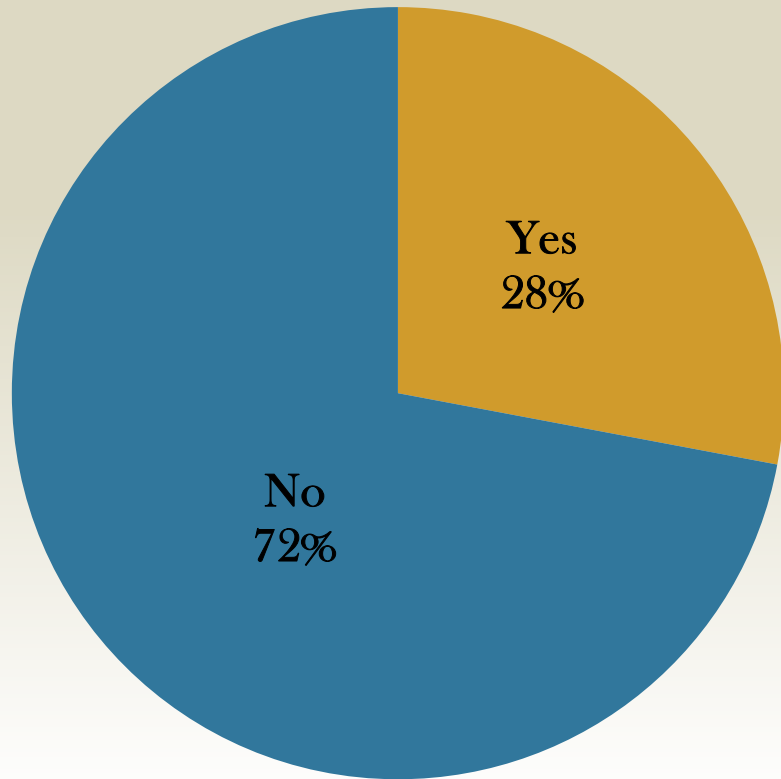


Primary Federal Regulator

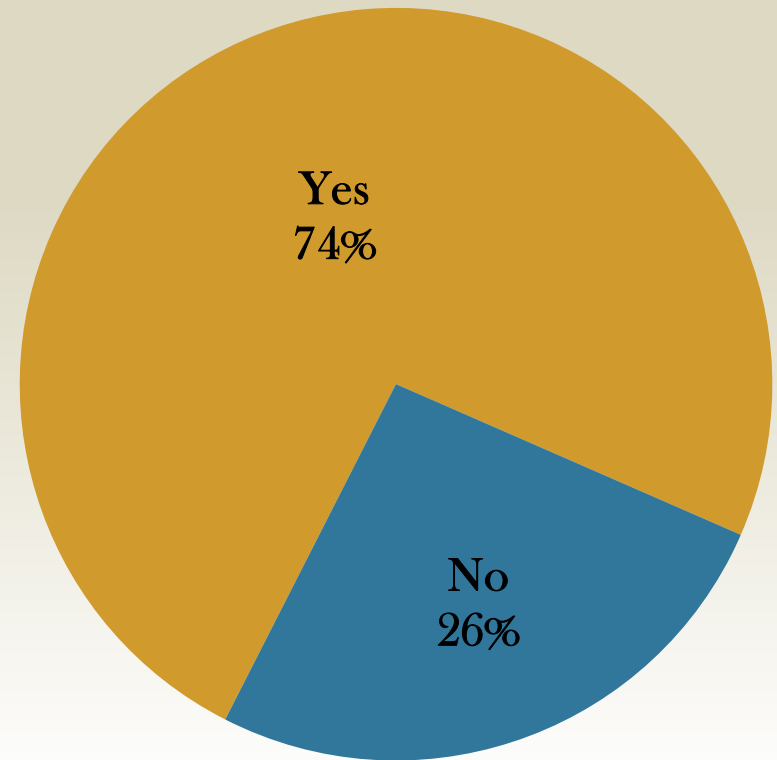


Mutual Identity

Are you organized as a MHC?



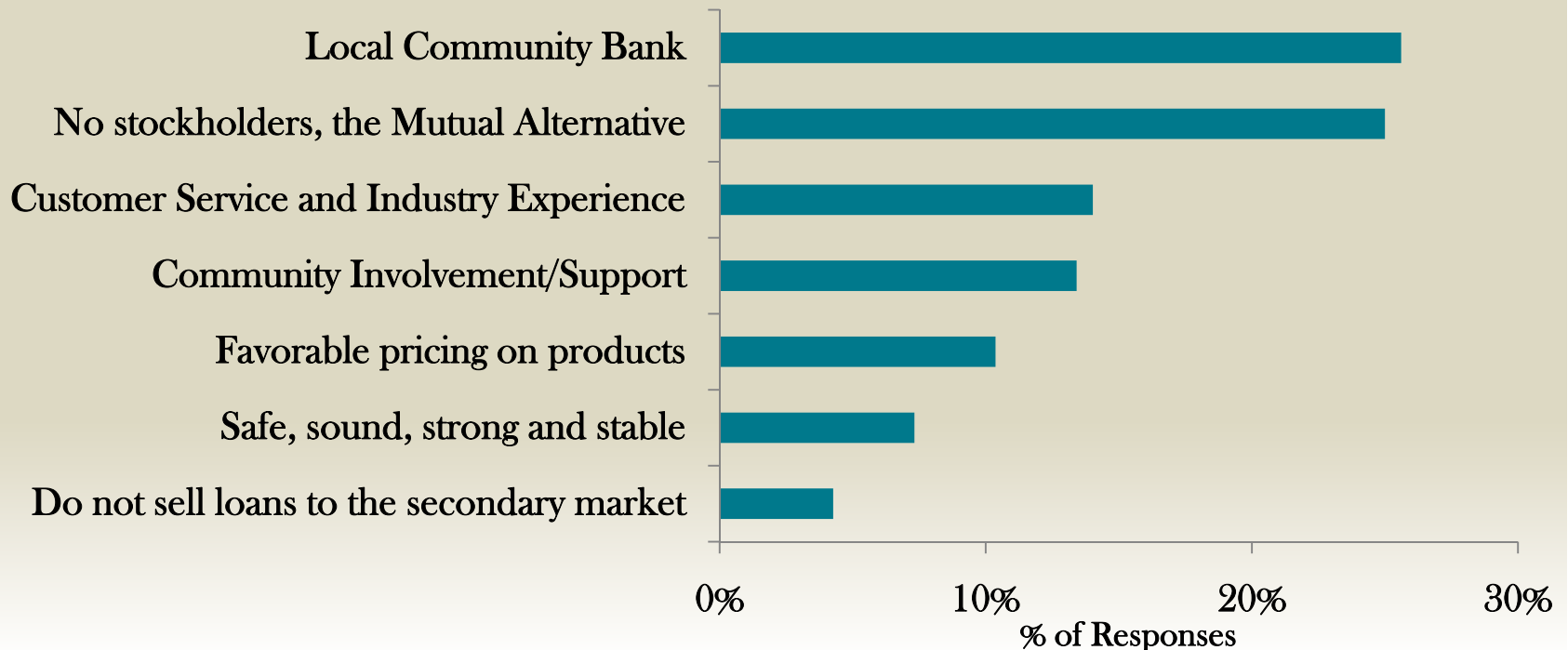
Do you promote your bank as a mutual?



Distinct from the Competition

Out of the 164 respondents that commented on this question, over 50% referenced community banking and their mutuality as the way their institution differentiated itself from its competitors.

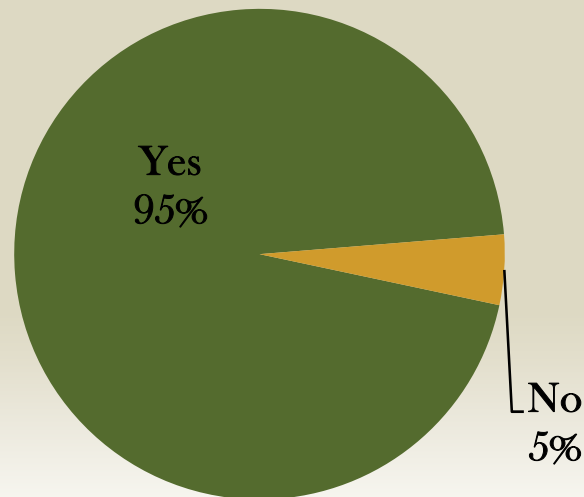
How do you differentiate yourself from your competitors?



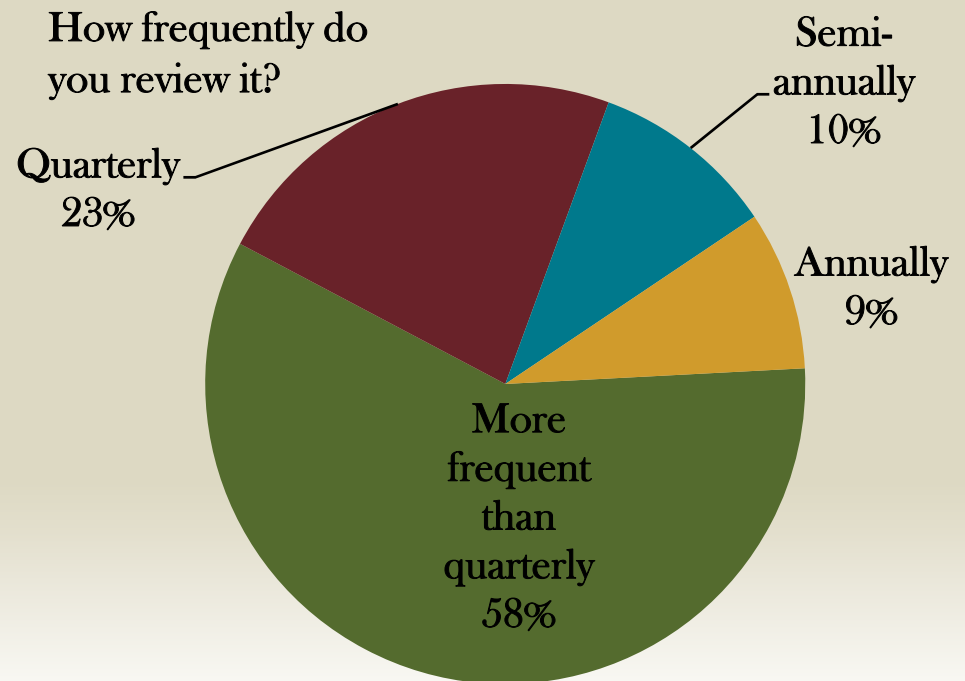
Strategic Plans

Of the 173 individuals that responded to the question, 95% responded that they are actively executing a strategic plan. Of those that responded “Yes”, nearly sixty percent review their plans more frequently than every quarter. Just under three-quarters of the respondents update their plan at least on a quarterly basis.

Do you have a strategic plan?



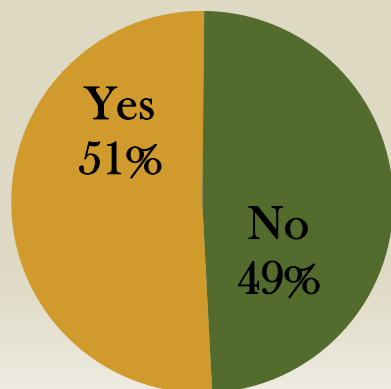
How frequently do you review it?



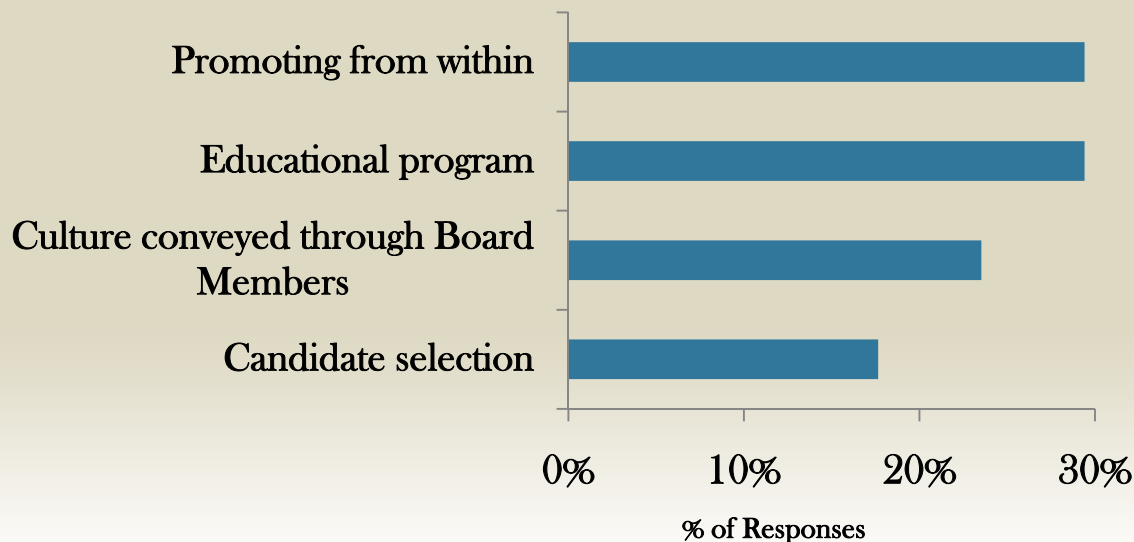
Management Succession

The percentage of institutions with management succession plans that preserve mutuality was roughly split amongst the 172 respondents. Of those that expanded on how they ensured the preservation of mutuality, nearly 60 percent used a tactic of either promoting from within the organization or through staff training and educational programs.

Does your management succession plan preserve mutuality?



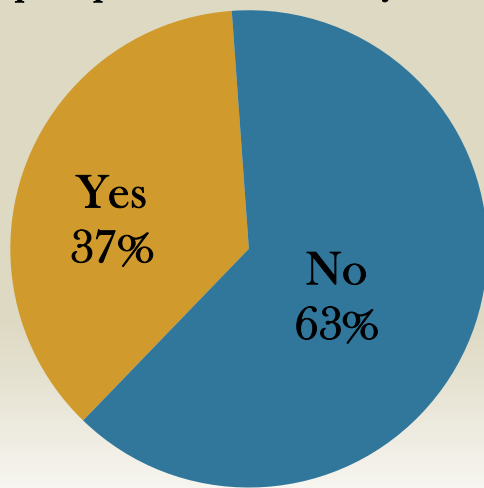
How do you ensure the preservation of mutuality in succession?



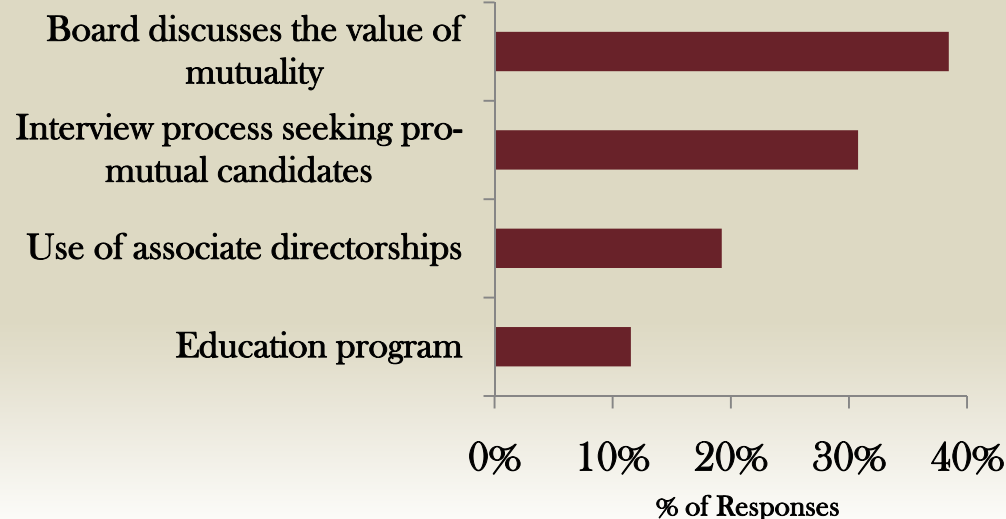
Board Succession

Of the 174 respondents to the question, only 37% have a board succession plan that preserves mutuality. Amongst those that said “Yes” and commented, 38% of those surveyed said that their board held discussions about the value of their charter as a way to express the importance of mutuality. Thirty-one percent stated that they sought out pro-mutual candidates in their interview process, while 19% used an associate directorship program and 12% used a formal education program.

Does your board succession plan preserves mutuality?



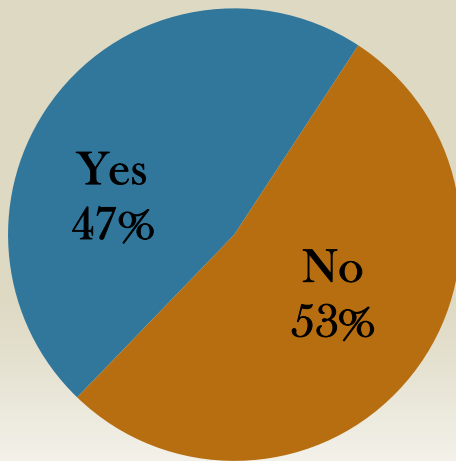
How do you ensure the preservation of mutuality in succession?



Merging and Partnerships

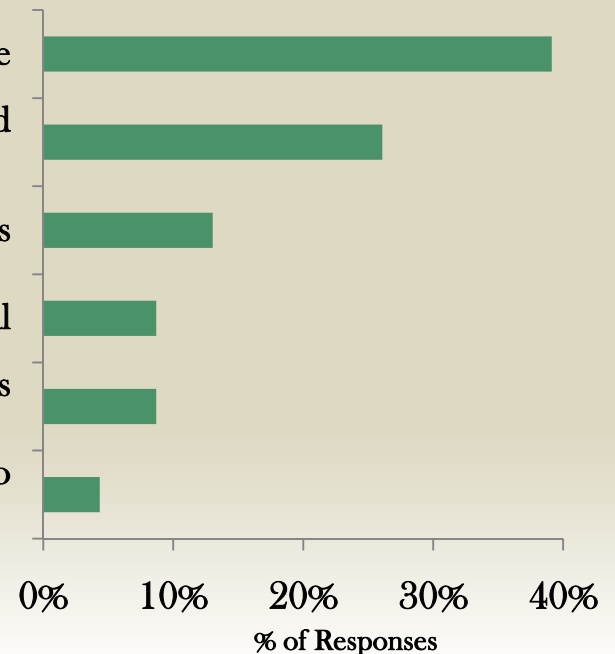
Of 176 respondents, the bankers were split on consideration of mergers. Of those that said “Yes” and commented, the most frequent ways to preserve their bank’s culture and mutuality in a merger was through looking for a partner with a similar mutual structure, seeking a mutual with a shared philosophy and/or integrating Boards.

Have you considered merging with another mutual?



How do you plan to preserve your bank’s culture and mutuality?

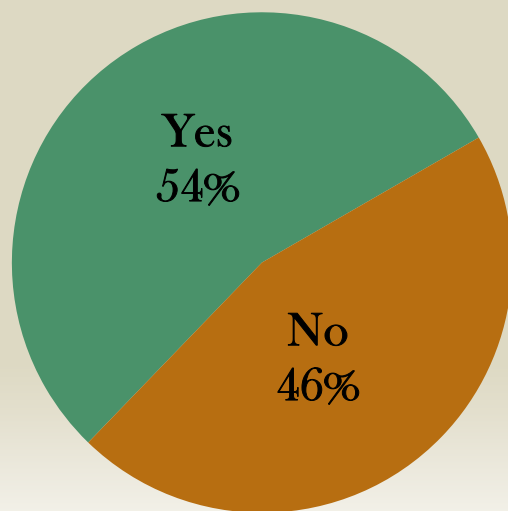
- Seek a similar mutual structure
- Seek shared values, culture and strategy
- Integrate Boards
- Combine with a local mutual
- Merge, but each bank keeps independent identity
- Require super majority vote to change MHC structure



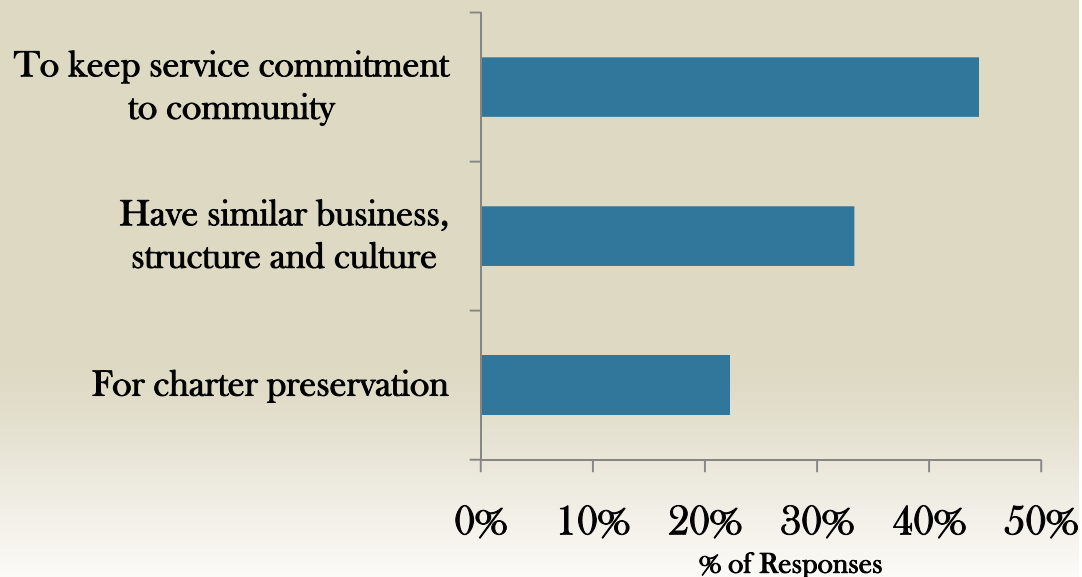
Acquisitions of Failed Mutuals

Fifty-four percent (out of 170 respondents) agreed that the FDIC should give mutuals the first opportunity to acquire a failed mutual. Many of the respondents who agreed, added that they understood the FDIC's need to seek a least cost resolution that benefits the insurance fund, but they supported mutual-to-mutual acquisitions for three reasons:

Should mutuals get the 1st opportunity to acquire a failed mutual?



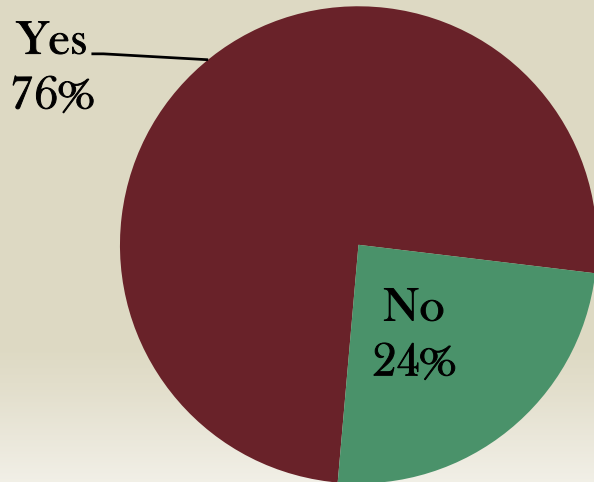
Why should FDIC give mutuals the 1st Opportunity to acquire a failed mutual?



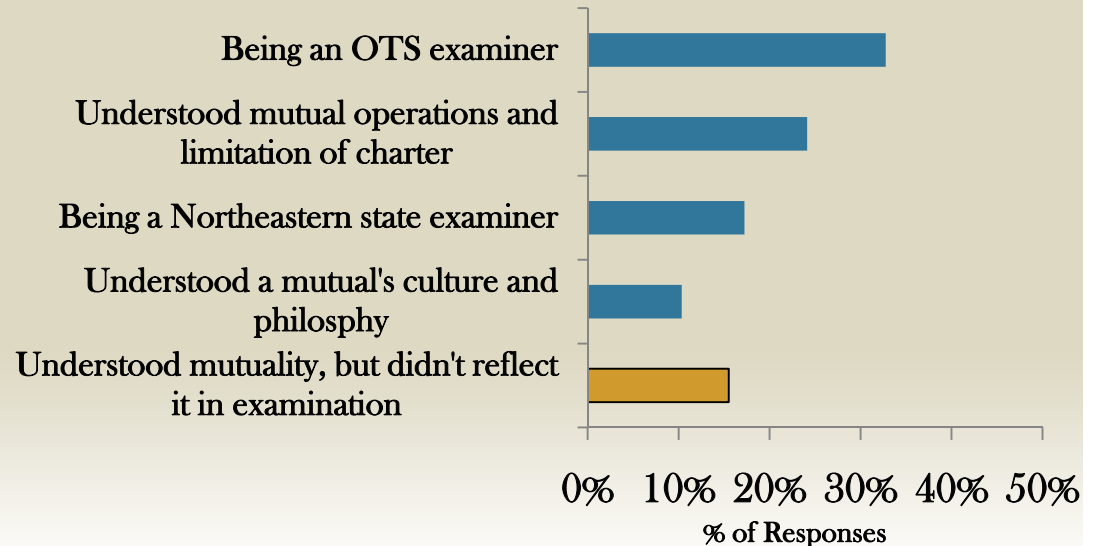
Bank Examiners

Over 75% of respondents (175 responded) felt their examiner understood mutuality, but of those who answered “Yes” and commented, 16% did not feel their understanding was reflected in the examination. In contrast, many credited the OTS (33%) and state examiners for their awareness mutuality (17%). Others recognized examiners’ understanding of mutual operations and limitations (24%) as well as the charter’s culture and philosophy (10%). It should also be noted that 57% of those surveyed had OTS as their primary federal regulator and 47% were state chartered.

Do you feel the examiners understand the concept of mutuality?



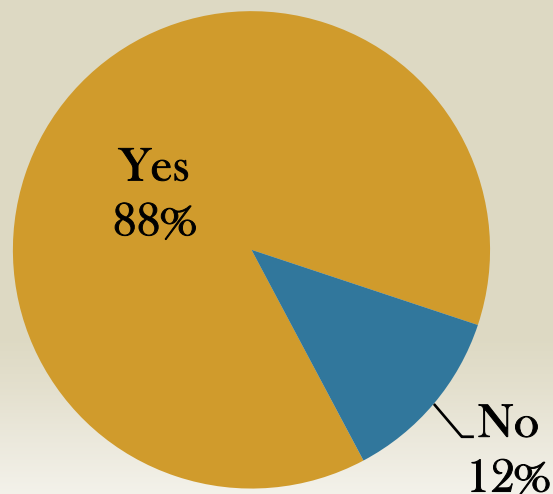
What do you think reflected their understanding of mutuality in their examination?



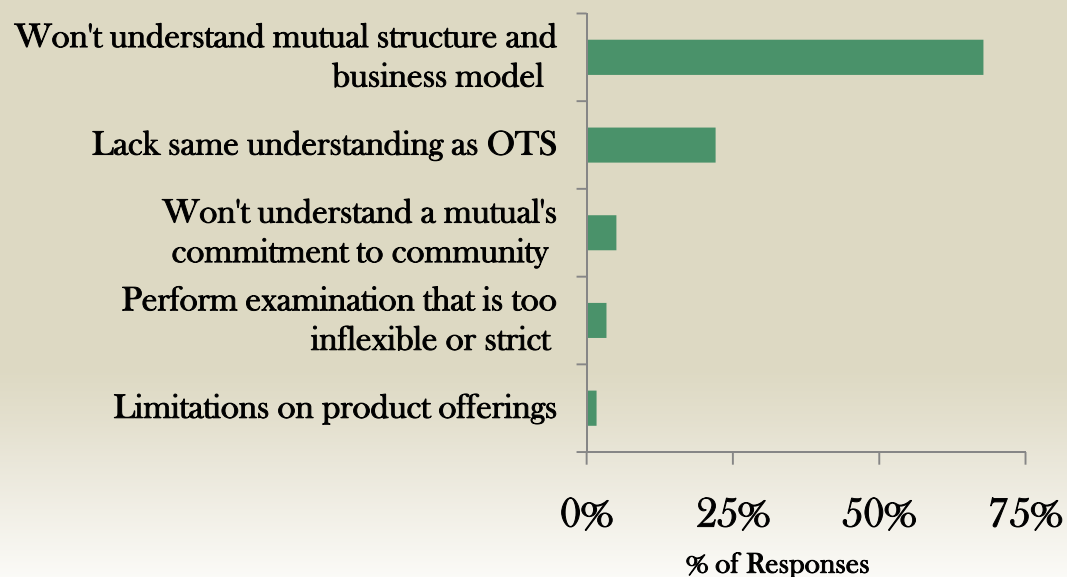
A New Bank Regulator

Nearly 90% (out of 176) of respondents were concerned about the prospect of having a new bank regulator. Of those that answered the question affirmatively and commented, 68% were concerned that the new regulator would not understand mutuality and the business model. The next most common responses were that the new regulator would lack the understanding of the OTS (22%).

Are you concerned that a new bank regulator may not understand mutuals?



What aspect most concerns you about a new bank regulator?



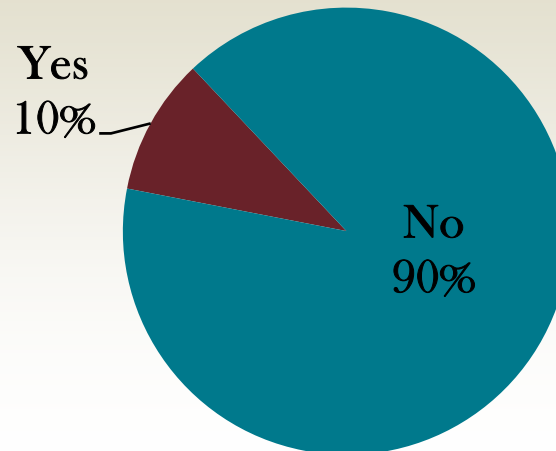
Liquidity Challenges

Of the 179 respondents, 90% answered that they did not have any current or anticipated liquidity challenges.

But of the 10% who answered “Yes” and commented, their concerns fell in the following categories:

- Interest Rate Risk
- Difficulty in accessing capital
- Increasing ALLL and potential capital hit
- Problems with FHLBs
- Reaching product growth limitations

Do you have any current or anticipated liquidity challenges that may adversely affect your mutual’s ability to grow?



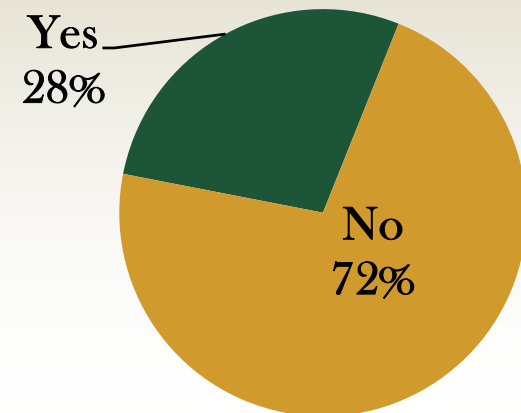
Capital Adequacy

Of the 184 who responded, over a quarter had concerns about having adequate capital in the next two years. The most common reason for their concern was fear of higher regulatory capital standards and apprehension over the sour economic climate.

Below are ways bankers planned to address their capital adequacy concerns:

- Managing growth
- Shrinking the balance sheet
- Improving earnings/lowering costs
- Emphasis on fee based services
- Managing credit quality
- Merging or acquiring businesses
- Forming a mutual holding company
- Converting to a stock company

Over the next 2 years, do you have any concerns about having adequate capital in your institution?

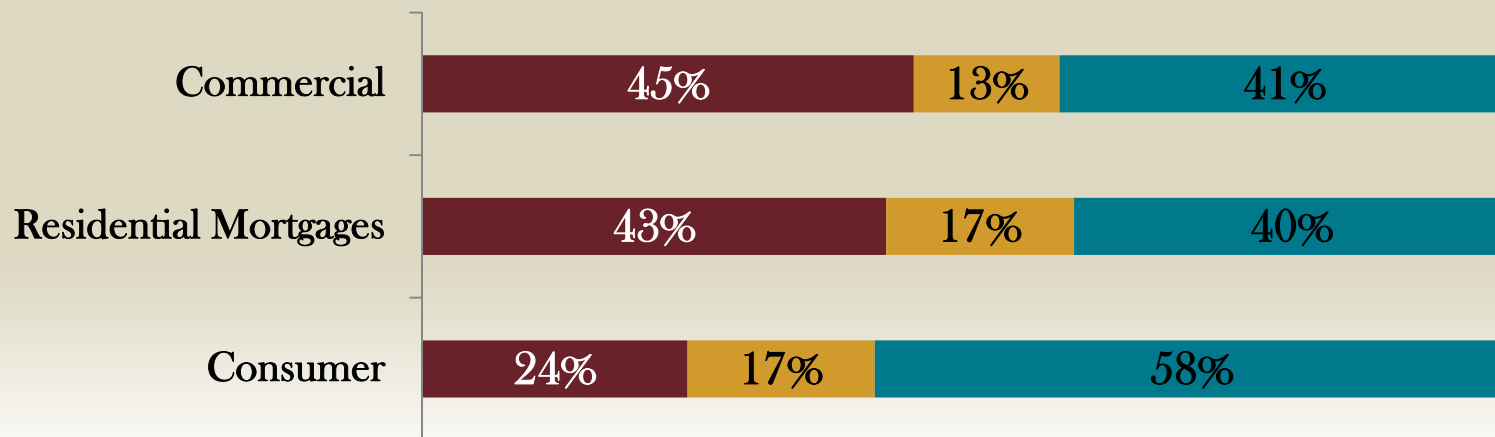


Business Line Expectations

Respondents (out of 180) were divided on the outlook for the commercial and residential lending markets over the next 3 years. Bankers were roughly split on whether commercial and residential mortgage products would see increases or remain the same - which shows some optimism for the economy. Those surveyed were less optimistic about the consumer market and felt they would not see a change in this sector.

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

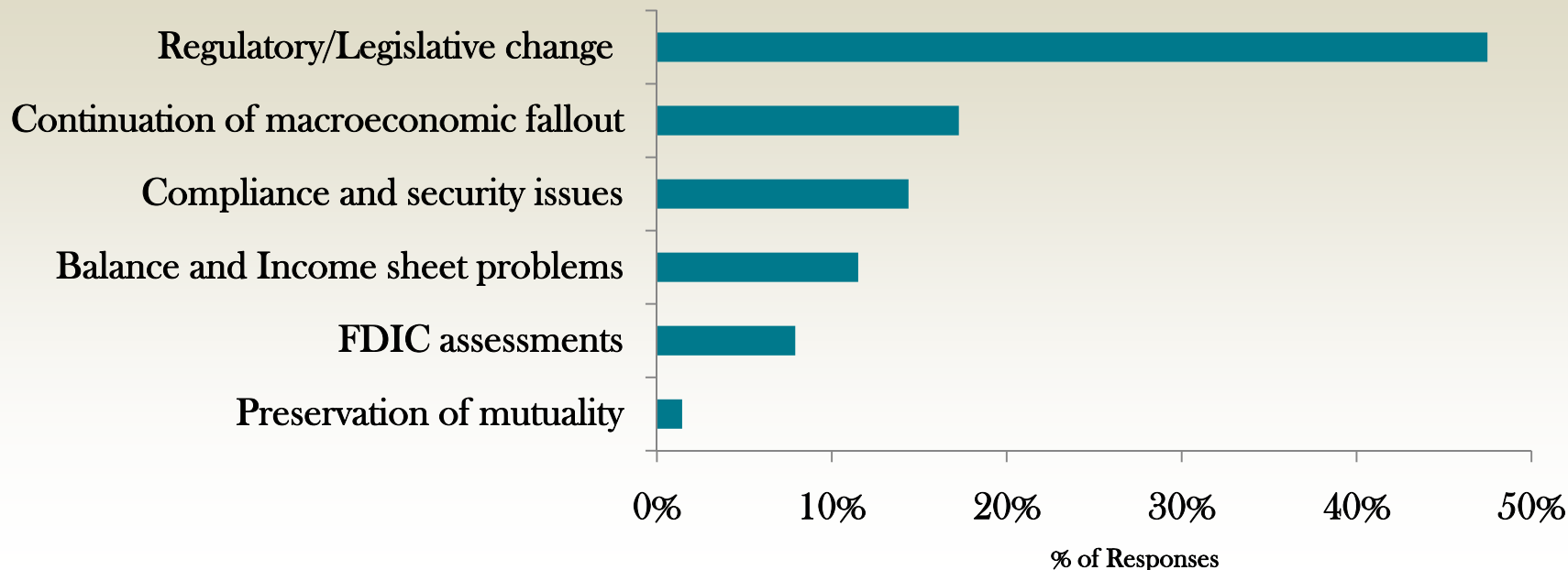
■ Increase ■ Decrease ■ Remain the Same



A Banker's Nightmare

The most frequent response (out of 153) was fear of regulatory and legislative changes (47%) that would have adverse impact on their business. The next biggest fear was continued economic problems (17%) and the implications to the banking industry. Only one percent of survey respondents indicated that the fears of elimination of the mutual charter kept them up at night.

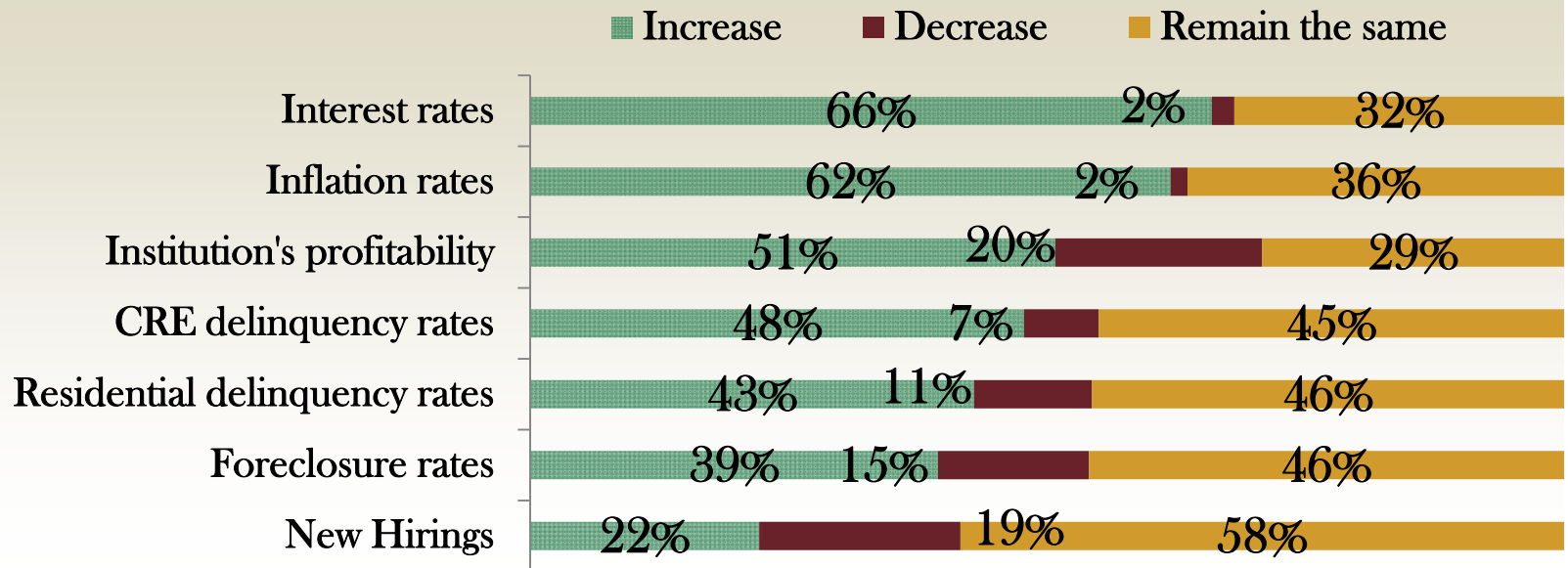
What banking issues keep you up at night?



Expectation for 2010

Based on the responses to the key barometers, bankers are most concerned about tightening monetary policy and raising inflation, but they are optimistic that profitability will increase in the coming year. Respondents sentiment was closely divided between an increase and no change in future delinquencies and foreclosures. Meanwhile, most bankers did not expect change in their hiring prospects.

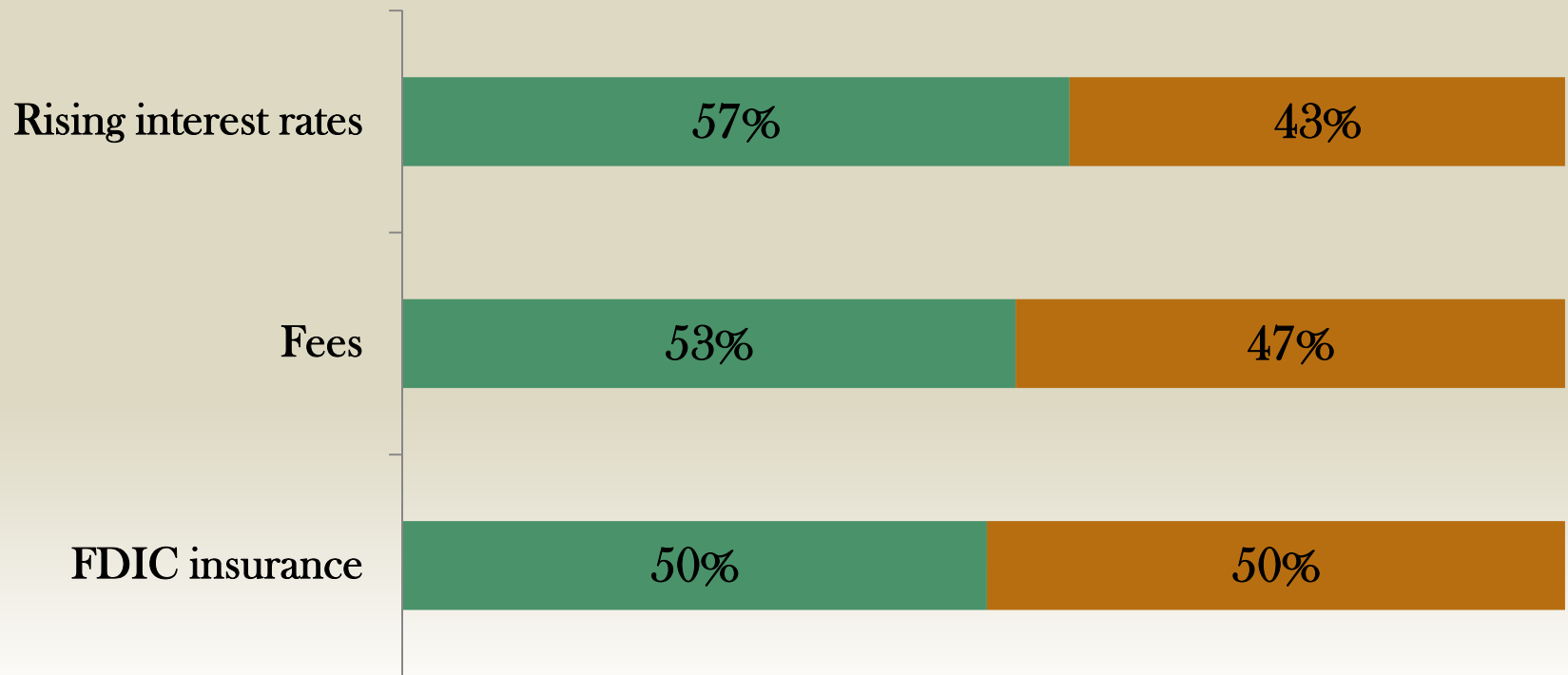
What are your expectations regarding the following barometers?



Customer Concerns

Do your customers share concerns with you on the following issues?

■ Yes ■ No



Other Important Issues for Mutuals

At the end of the survey, respondents were asked to write down other issues of importance to mutuals. Below is a listing of those issues :

- The option of mutuality and the dual banking system (33 respondents)
- New regulator and their understanding of mutuality (20)
- CU tax advantage and mutual parity (9)
- Raising capital (8)
- MHC dividend waivers (5)
- Regulatory compliance burden (5)
- Impact to DIF of big banks - rising premiums (4)
- Problems with GSEs and FHLB (2)
- Federal election law restrictions (2)
- State vs. Federal Charters for mutuals (1)
- Loan loss provisioning and earnings (1)
- Merger solutions - Mutuals to acquire mutuals (1)