THRIFT INDUSTRY HIGHLIGHTS
THIRD QUARTER 2009

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SUMMARY

The thrift industry reported a profit of $1.3 billion for the third quarter, or 0.49 percent of average assets (ROA). However, $1.1 billion of that amount was due to one thrift's large nonoperating gain. Absent that nonoperating gain, net income would have been at breakeven – about $200 million, or about 0.07 percent of average assets – marking the second consecutive quarter of breakeven results. Third quarter results were an improvement from the third quarter one year ago when the industry reported losses of $4.4 billion, or 1.48 percent of average assets.

Second quarter 2009 earnings were revised downward from a $4 million profit to a loss of $94 million. But that amount included the $325 million after-tax FDIC special assessment expense. Absent that nonoperating charge, net income would have been approximately $230 million, or 0.08 percent of average assets.

The third quarter earnings improvement was primarily due to higher net interest margins, higher other noninterest income, and lower noninterest expense. Partially offsetting these improvements in earnings were higher loan loss provisions, lower fee income, and higher taxes.

Elevated levels of loan loss provisions continue to dominate the thrift industry's earnings story. The industry added $4.9 billion, or 1.85 percent of average assets, to loan loss provisions in the third quarter – the sixth highest on record. Provisions measured 1.74 percent of average assets in the second quarter and 2.80 percent in the third quarter one year ago.

Higher than average levels of loss provisioning are due to climbing unemployment and persistent declines in home prices. Loss provisioning will likely continue at elevated levels and dampen industry earnings home prices firm, and the employment picture brightens.

Although the substantial additions to loan loss reserves dampened earnings for the most recent three quarters and through 2008, they bolstered the industry's reserve levels to at, or near, record levels.

The industry's financial fundamentals remained solid in the third quarter. The majority of thrifts – 95.8 percent – held capital exceeding the "well-capitalized"

regulatory standards. And these thrifts' combined assets represented 95.9 percent of industry aggregate assets.

To better gauge and assess earnings, many analysts are increasingly focusing attention on "core" or "operating" earnings. Operating earnings measures exclude volatile items and one-time events such as branch sale gains or acquisition charges. Operating earnings measures also exclude charges for provisions for loan losses.

The thrift industry's year-to-date 2009 operating earnings improved to 1.73 percent of average assets compared to 1.29 percent for 2008, and 1.37 percent for 2007. The combination of solid capital, bolstered loan loss reserves, and solid, stable operating earnings will help the industry weather the economic and housing market distress facing the nation.

Recent increases in problem assets are also a direct result of the continued housing market downturn and rising unemployment. Troubled assets (noncurrent loans and repossessed assets) rose to 3.63 percent of assets, up from 3.50 percent in the prior quarter, and 2.40 percent one year ago.

The current troubled asset ratio is similar to those experienced in the 1990/1991 period. However the composition of thrift troubled assets is currently much different than during that period. Mortgages on 1-4 family properties comprise approximately 70 percent of the industry's current troubled assets, with an additional 22 percent consisting of commercial real estate loans (nonresidential mortgages, multifamily complexes, and construction loans), and eight percent in nonmortgage loans. In contrast, commercial real estate loans comprised the majority, or 68 percent, of thrift troubled assets at the end of 1990, with 1-4 family mortgages (23 percent) and nonmortgage loans (9 percent) comprising the remainder.

The number of private sector thrifts supervised by OTS stood at 780 with assets of $1.07 trillion at the end of the third quarter. In addition, OTS supervised 452 holding company enterprises with approximately $5.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 413 thrifts with total assets of $729 billion, or 68 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was $1.31 billion in the third quarter 2009, up from net losses of $4.38 billion in the third quarter one year ago and from net losses of $94 million in the prior quarter. Net income in the third quarter 2009 was the first quarterly net income reported by the thrift industry since the third quarter 2007.

- Profitability, as measured by return on average assets (ROA), was 0.49 percent in the third quarter 2009, an improvement from a negative 1.48 percent in the third quarter one year ago and from a negative 0.03 percent in the prior quarter. The median ROA declined to 0.34 percent in the third quarter from 0.35 percent in the third quarter one year ago, but was up from 0.25 percent in the prior quarter.

- Return on average equity (ROE) was 4.66 percent in the third quarter, improved from a negative 16.35 percent in the third quarter one year ago, and from a negative 0.34 percent in the prior quarter.

ANALYSIS OF ROA

- Earnings improvement in the third quarter was primarily due to higher net interest margins, higher other noninterest income, and lower noninterest expense. Partially offsetting these improvements in earnings were higher loan loss provisions, lower fee income, and higher taxes.

- Net interest margin increased in the third quarter to 311 basis points from 293 basis points in the comparable quarter a year ago and from 304 basis points in the prior quarter.

- Higher loan loss provisions had a negative impact on thrift earning compared to the prior quarter, but were down from the provisioning in the third quarter one year ago. The industry added $4.9 billion, or 1.85 percent of average assets, to loan loss provisions in the third quarter – the sixth highest on record. Provisions measured 1.74 percent of average assets in the second quarter and 2.80 percent in the third quarter one year ago. Loan loss provisions averaged 0.26 percent of average assets between 2001 and 2003 and generally trended lower from the beginning of 2003 through the first half of 2006, reflecting historically low levels of problem assets.

- Total fee income, including mortgage loan servicing fee income and other fee income, was 1.22 percent of average assets in the third quarter 2009, up from 1.18 percent in the third quarter one year ago, but down from 1.28 percent in the prior quarter.

- Other noninterest income improved to 0.44 percent of average assets in the third quarter from a negative 0.17 percent of average assets in the third quarter one year ago and from 0.27 percent in the prior quarter. Other noninterest income is typically volatile since it includes realized gains or losses on assets held for sale and the results of balance sheet restructuring activities.

- Noninterest expense decreased to 2.09 percent of average assets in the third quarter from 2.94 percent in the third quarter one year ago, and was down from 2.72 percent in the prior quarter.

- Taxes increased to 0.34 percent of average assets in the third quarter from a negative 0.32 percent in the comparable quarter a year ago, and were up from 0.16 percent in the prior quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) in the third quarter decreased to $54.4 billion from $79.6 billion in the third quarter one year ago, and were down from $70.5 billion in the prior quarter. Third quarter 1-4 family mortgage originations by thrifts were $47.1 billion, down 29 percent from $66.1 billion in the third quarter one year ago, and were down 24 percent from the $62.3 billion originated in the prior quarter.

- The volume of mortgage refinancing, as a percentage of total originations, was down from the prior quarter and up from the comparable year ago quarter as borrowers converted adjustable rate mortgages to fixed rate mortgages. Refinancing activity accounted for 39 percent of thrift originations in the third quarter, down from the 55 percent in the prior quarter, and up from 34 percent in the third quarter one year ago. The record for thrift mortgage refinancing was 59.2 percent in the first quarter of 2003.

ASSET QUALITY

- Delinquencies for most loan types were higher in the third quarter.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.63 percent of assets at the end of the third quarter 2009, up from 2.40 percent one year ago and from 3.50 percent at the end of the prior quarter. Repossessed assets were up seven basis points from the prior quarter at 0.48 percent of assets, and were up from 0.33 percent one year ago.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) increased to 3.16 percent of assets at the end of the third quarter, up from 3.09 percent at the end of the second quarter, and from 2.07 percent one year ago. Noncurrent loan rates for 1-4 family loans were 5.76 percent of all 1-4 family loans at the end of the third quarter, up from 5.48 percent in the prior quarter and from 3.39 percent one year ago. Noncurrent multifamily loans increased to 2.52 percent of all multifamily loans from 0.93 percent one year ago. Noncurrent consumer loans increased from 1.17 percent of all consumer loans one year ago to 1.68 percent at the end of the third quarter. Noncurrent nonresidential mortgages increased to 2.72 percent of all nonresidential mortgages from 1.07 percent one year ago. Noncurrent construction and land loans were 13.07 percent of all construction and land loans at the end of the third quarter, up from 7.77 percent one year ago. Noncurrent commercial loans increased to 3.18

percent of all commercial loans at the end of the third quarter from 1.32 percent a year ago.

- Loans past due by 30 to 89 days relative to total assets were higher over the year and from the prior quarter. Total loans past due by 30 to 89 days at the end of the third quarter were $16.1 billion, or 1.50 percent of assets compared to $17.1 billion, or 1.44 percent of assets, one year ago, and were up from $16.4 billion, or 1.49 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by ten percent over the year to $1.07 trillion from $1.18 trillion reflecting the losses from thrift failures over the year. Thrifts remain focused on residential mortgage lending, with 39.2 percent of assets invested in 1-4 family mortgage loans at the end of the third quarter, down from 45.9 percent one year ago. Of these 1-4 family mortgage loans, 5.0 percent are home equity lines of credit, down from 5.3 percent one year ago. Holdings of consumer loans increased to 6.9 percent of assets from 6.4 percent a year ago. Multifamily mortgages increased over the year from 2.8 percent of assets to 3.2 percent at the end of the third quarter. Commercial loans remained steady from one year ago at 4.8 percent of assets.

- Deposits and escrows fell by four percent over the year to $698 billion from $727 billion. As a percentage of total assets, deposits and escrows increased to 65.3 percent from 61.5 percent one year ago. Federal Home Loan Bank advances were down from 20.5 percent one year ago to 12.2 percent of total assets at the end of the third quarter.

- Capital measures for the industry continue to be strong, stable, and well in excess of minimum requirements. Equity capital at the end of the third quarter was 10.71 percent of assets, up from 9.21 percent one year ago. At the end of the third quarter, 95.8 percent of the industry exceeded well-capitalized standards and 20 thrifts were less than adequately capitalized.

PROBLEM THRIFTS

- The number of problem thrifts – those with composite examination ratings of 4 or 5 – was up from 23 thrifts one year ago and 40 thrifts in the prior quarter to 43 thrifts at the end of the third quarter 2009.

STRUCTURAL CHANGES

- A total of 14 thrifts left OTS regulation over the third quarter. Two thrifts converted to bank charters over the third quarter, non-OTS regulated institutions acquired three thrifts, and one thrift completed a voluntary dissolution. In addition, eight thrifts failed during the third quarter.