THRIFT INDUSTRY HIGHLIGHTS
FOURTH QUARTER 2009

Office of Thrift Supervision / February 24, 2010

SUMMARY

The nation's thrift industry posted break-even annual profits in 2009 of $29 million, or 0.00 percent of average assets (ROA), as net income in the last half of the year offset losses in the first two quarters. In the fourth quarter, the industry reported a profit of $505 million, or 0.22 percent of average assets. This was the second consecutive profitable quarter for the industry. Fourth quarter profits were down from $1.2 billion in the third quarter. However, $1.1 billion of the third quarter profits 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. In the fourth quarter one year ago, thrifts reported losses of $5.36 billion, or a negative 1.82 percent of average assets.

Though trending down from very high levels in 2008, loan loss provisions remained at elevated levels through 2009 and in the fourth quarter. The industry added $3.9 billion, or 1.65 percent of average assets, to loan loss provisions in the fourth quarter – the eighth highest on record. Provisions measured 1.86 percent of average assets in the third quarter and 3.18 percent in the fourth quarter one year ago.

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

Although the substantial additions to loan loss reserves dampened earnings for 2009, 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 – 96.9 percent – held capital exceeding the "well-capitalized" regulatory standards. And these thrifts' combined assets represented 98.0 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 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 high unemployment. Troubled assets (noncurrent loans and repossessed assets) fell to 3.25 percent of assets from 3.65 percent in the prior quarter, but were up from 2.54 percent one year ago. The fourth quarter decline was attributable to the departure of three large thrifts that merged into their parent banking organizations in the fourth quarter.

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 64 percent of the industry's current troubled assets, with an additional 27 percent consisting of commercial real estate loans (nonresidential mortgages, multifamily complexes, and construction loans), and nine 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 765 with assets of $941.7 billion at the end of 2009. In addition, OTS supervised 446 holding company enterprises with approximately $5.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 406 thrifts with total assets of $722 billion, or 77 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income for 2009 was $29 million, the first annual net income reported by the thrift industry since 2006. Net income in 2009 was up from net losses of $15.89 billion in 2008 and $649 million in 2007.

- Net income was $505 million in the fourth quarter 2009, up from net losses of $5.36 billion in the fourth quarter one year ago, but down from net income of $1.24 billion in the prior quarter.

- Profitability, as measured by return on average assets (ROA), was 0.00 percent for the year 2009, an improvement from a negative 1.17 percent in 2008 and from a negative 0.04 percent in 2007. In the fourth quarter, profitability was 0.22 percent, up from a negative 1.82 percent in the fourth quarter one year ago, but down from 0.46 percent in the third quarter. The median fourth quarter ROA was unchanged from prior quarter at 0.33 percent, but was up from 0.29 percent in the fourth quarter one year ago.

- Return on average equity (ROE) was 2.00 percent in the fourth quarter, improved from a negative 20.00 percent in the fourth quarter one year ago, but down from 4.40 percent in the prior quarter.

ANALYSIS OF ROA

- Earnings improvement over the year was primarily due to higher net interest margins and lower loan loss provisions. These improvements were partially offset by lower gains on the sale of assets held for sale and higher taxes.

- In the fourth quarter, lower earnings from the prior quarter were primarily due to lower loan loss provisions and higher fee income. Partially offsetting these improvements in earnings were lower net interest margins, lower gains on assets held for sale, and higher noninterest expense.

- Net interest margin for the year increased to 302 basis points from 282 basis points in 2008. In the fourth quarter, net interest margin increased to 300 basis points from 268 basis points in the fourth quarter a year ago, but was down from 311 basis points in the prior quarter.

- Lower loan loss provisions for the year and in the fourth quarter had a positive impact on thrift earning. During 2009 the industry added $19.5 billion, or 1.80 percent of average assets, to loan loss provisions. In the fourth quarter, thrifts added $3.9 billion, or 1.65 percent of average assets, to loan loss provisions – the eighth highest on record. Provisions measured 1.86 percent of average assets in the third quarter and 3.18 percent in the fourth 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 1.24 of average assets for the year 2009, up one basis point from 2008. In the fourth quarter, total fee income was 1.40 percent of average assets, up from 1.01 percent in the comparable quarter one year ago, and from 1.24 percent in the prior quarter.

- Other noninterest income improved to 0.35 percent of average assets in 2009 from 0.15 percent of average assets in 2008. In the fourth quarter, other noninterest income was 0.55 percent of average assets, up from 0.34 percent in the fourth quarter 2008, and from 0.43 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 2.56 percent of average assets in 2009 from 2.87 percent in 2008. In the fourth quarter, noninterest expense was 2.87 percent of average assets, down from 3.04 percent in the fourth quarter one year ago, but up from 2.10 percent in the prior quarter.

- Taxes increased to 0.24 percent of average assets in 2009 from a negative 0.42 percent in 200. In the fourth quarter, taxes were 0.21 percent average assets, up from a negative 0.37 percent in the fourth quarter one year ago, but down from 0.46 percent in the prior quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) during 2009 totaled $254.2 billion, down 37 percent from $404.9 billion in 2008. In the fourth quarter, total mortgage originations were $40.8 billion, down 35 percent from $63.2 billion in the fourth quarter one year ago, and down 13 percent from $46.8 billion in the prior quarter.

- Total originations of 1-4 family mortgages by thrifts during 2009 were $224.3 billion, down 34 percent from $341.4 billion in 2008. In the fourth quarter, 1-4 family mortgage originations were $34.4 billion, down 35 percent from the $52.5 billion originated in the fourth quarter one year ago, and down 13 percent from the $39.5 billion originated in the prior quarter.

- The volume of mortgage refinancing, as a percentage of total originations, was down slightly 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 44 percent of thrift originations in the fourth quarter, down from 45 percent in the prior quarter, and up from 42 percent in the fourth 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 over the year.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.25 percent of assets at the end of 2009, up from 2.54 percent one year ago, but down from 3.65 percent at the end of the third quarter. Repossessed assets were up 16 basis points from over the year to 0.49 percent of assets, up slightly from 0.48 percent at the end of the prior quarter.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) increased to 2.76 percent of assets at the end of 2009 from 2.21 percent at the end of 2008, but were down from 3.17 percent at the end of the third quarter. Noncurrent loan rates for 1-4 family loans were 4.99 percent of all 1-4 family loans at the end of 2009, up from 3.69 percent one year ago, but down from 5.76 percent in the third quarter. Noncurrent multifamily loans increased to 3.38 percent of all multifamily loans from 1.20 percent one year ago. Noncurrent consumer loans increased from 1.40 percent of all consumer loans one year ago to 1.59 percent at the end of 2009. Noncurrent nonresidential mortgages increased to 3.38 percent of all nonresidential mortgages from 1.45 percent one year ago. Noncurrent construction and land loans were 13.80 percent of all construction and land loans at the end of 2009, up from 8.26 percent one year ago. Noncurrent commercial loans increased to 2.71 percent of all commercial loans at the end of 2009 from 1.83 percent a year ago.

- Loans past due by 30 to 89 days relative to total assets were lower over the year and from the prior quarter. Total loans past due by 30 to 89 days at the end of 2009 were $11.9 billion, or 1.27 percent of assets, compared to $20.9 billion, or 1.74 percent of assets, one year ago, and were down from $16.1 billion, or 1.50 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by 21 percent over the year to $942 billion from $1.20 trillion reflecting the losses from thrift failures over the year. Thrifts remain focused on residential mortgage lending, with 35.5 percent of assets invested in 1-4 family mortgage loans at the end of the fourth quarter, down from 43.6 percent one year ago. Of these 1-4 family mortgage loans, 4.9 percent are home equity lines of credit, down from 5.4 percent one year ago. Holdings of consumer loans increased to 7.8 percent of assets from 6.8 percent a year ago. Multifamily mortgages increased over the year from 2.8 percent of assets to 3.3 percent at the end of the fourth quarter. Commercial loans increased from 5.2 percent of assets one year ago to 5.4 percent.

- Deposits and escrows fell by ten percent over the year to $659 billion from $732 billion. As a percentage of total assets, deposits and escrows increased to 70.0 percent from 61.2 percent one year ago. Federal Home Loan Bank advances were down from 17.5 percent one year ago to 9.5 percent of total assets at the end of 2009.

- Capital measures for the industry continue to be strong, stable, and well in excess of minimum requirements. Equity capital at the end of the fourth quarter was 10.74 percent of assets, up from 8.93 percent one year ago. At the end of the fourth quarter, 96.9 percent of the industry exceeded well-capitalized standards and 19 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 26 thrifts one year ago to 43 thrifts at the end of the fourth quarter 2009. This number was unchanged from the prior quarter.

STRUCTURAL CHANGES

- A total of 15 thrifts left OTS regulation over the fourth quarter. Three thrifts converted to bank charters over the fourth quarter and non-OTS regulated institutions acquired four thrifts. In addition, eight thrifts failed during the fourth quarter.