THRIFT INDUSTRY HIGHLIGHTS
THIRD QUARTER 2007

Office of Thrift Supervision / November 20, 2007

SUMMARY

The thrift industry reported a decline in earnings and profitability in the third quarter of 2007 due to continuing weaknesses in the housing and credit markets. The earnings decline was focused primarily in a small number of thrifts heavily engaged in originating mortgages for sale. Strong capital levels and appropriate loan loss provisions will assist thrifts in weathering any further weakening in the housing markets.

Strong refinancing volumes augmented total mortgage origination volume during the quarter. Originations were up ten percent from the third quarter one year ago, but were down five percent from the prior quarter. Delinquencies for most loan types increased over the past year and continued to rise in the third quarter. The largest increases in delinquency rates were in 1-4 family mortgages and construction loans, and these increases reflect the continued weakness in the housing sector.

The industry's aggregate ROA was down from the prior quarter and comparable year ago quarters. Higher provisioning and losses on asset sales drove the decrease in the third quarter. The industry's equity capital ratio was 10.16 percent at the end of the third quarter, down from a record 10.80 percent in the prior quarter.

The number of private sector thrifts supervised by OTS stood at 831 at the end of the third quarter. In addition, OTS supervised 470 holding company enterprises with approximately $8.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 436 thrifts with total assets of $1.31 trillion, or 83 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was $704 million in the third quarter, down 84 percent from $4.29 billion in the third quarter one year ago, and down 82 percent from $3.83 billion in the prior quarter.

- Profitability, as measured by return on average assets (ROA), was 0.18 percent in the third quarter, down from 1.08 percent in the comparable year ago quarter, and down from 1.02 percent in the prior quarter. The median ROA declined to

0.48 percent in the third quarter from 0.62 percent in the third quarter one year ago, and was down from 0.53 percent in the prior quarter.

- Return on average equity (ROE) was 1.77 percent in the third quarter, down from 11.72 percent in the third quarter one year ago and from 9.54 percent in the prior quarter.

ANALYSIS OF ROA

- Higher loan loss provisions and losses on sales of assets drove the decrease in third quarter ROA from the prior quarter.

- In the third quarter, net interest margin was down five basis points from the third quarter one year ago to 260 basis points (or 2.60 percent of average assets), and was down from 276 basis points in the prior quarter.

- Loan loss provisions increased to 0.92 percent of average assets in the third quarter from 0.22 percent in the third quarter one year ago and from 0.38 percent in the prior quarter. The recent increases in loss provisions reflects the increase in noncurrent loans stemming from the slower housing market and the deterioration of loans originated in the past several years. 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, increased to 1.18 percent of average assets in the third quarter compared to 0.91 percent in the third quarter one year ago, but was down from 1.42 percent in the prior quarter. Servicing fee income was 0.08 percent of average assets in the third quarter, up from a negative 0.05 percent in the third quarter one year ago, but down from 0.23 percent in the prior quarter. Other fee income rose 14 basis points from the comparable year ago quarter to 1.10 percent of average assets, but was down from 1.19 percent in the prior quarter.

- Other noninterest income was 0.12 percent of average assets in the third quarter, down from 0.81 percent in the third quarter one year ago and from 0.48 percent in the prior quarter. Other noninterest income primarily includes gains on sales of assets and income from leasing office space. 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 increased to 2.74 percent of average assets in the third quarter as compared to 2.54 percent in the comparable year ago quarter and 2.72 percent in the prior quarter. General and administrative expense, the largest component of noninterest expense, decreased three basis points to 2.46

percent of average assets in the third quarter from 2.49 percent in the comparable year ago quarter.

- Taxes were down 48 basis points over the year to 0.05 percent of average assets, and were down from 0.55 percent in the second quarter. Over the past two years, taxes have averaged 0.57 percent of average assets, or about 35 percent of pretax income.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) were $185.7 billion in the third quarter, up eight percent from $172.1 billion in the third quarter one year ago, but down five percent from $194.6 billion in the prior quarter. Third quarter 1-4 family mortgage originations by thrifts were $165.1 billion, up ten percent from $149.9 billion in the third quarter one year ago, but down five percent from the $173.3 billion originated in the prior quarter.

- Thrifts accounted for approximately 30.0 percent of total 1-4 family originations nationwide in the third quarter of 2007,[1] up from 21.5 percent in the comparable year ago quarter, and from 25.0 percent in the prior quarter. An estimated 13 percent of thrift originations were ARMs in the third quarter, down from 26 percent in the comparable year ago quarter, but up from ten percent in the prior quarter. The ARM share for all lenders was estimated at 13 percent in the third quarter, 11 percent in the prior quarter, and 19 percent in the third quarter one year ago.[2]

- The volume of mortgage refinancing, as a percentage of total originations, was 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 third quarter, up from 27 percent in the third quarter one year ago, but down from 48 percent in the prior quarter.

ASSET QUALITY

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

- Troubled assets, which consist of noncurrent loans and repossessed assets, were up 24 basis points from the prior quarter at 1.19 percent of assets, and

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1 Total 1-4 family mortgage originations estimated by the Mortgage Bankers Association of America.
2 Data are from the Federal Housing Finance Board's monthly *Mortgage Interest Rate Survey*.

were up from 0.64 percent one year ago. Excluding repurchased GNMA[3] loans, troubled assets were up 24 basis points from the prior quarter at 1.14 percent of assets, and were up from 0.53 percent one year ago. Repossessed assets were up three basis points from the prior quarter at 0.16 percent of assets, and were up from 0.08 percent one year ago.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status), excluding repurchased GNMA loans, climbed 20 basis points from the prior quarter to 1.03 percent of assets at the end of the third quarter, and were up from 0.56 percent one year ago. Noncurrent loan rates for 1-4 family loans, excluding repurchased GNMA loans, were up 92 basis points from one year ago and 35 basis points from the prior quarter to 1.51 percent of all 1-4 family loans. Noncurrent multifamily loans increased to 0.37 percent of all multifamily loans from 0.16 percent one year ago. Noncurrent consumer loans increased from 0.78 percent of all consumer loans one year ago to 0.94 percent at the end of the third quarter. Noncurrent nonresidential mortgages increased to 0.68 percent of all nonresidential mortgages from 0.46 percent one year ago. Noncurrent construction and land loans were 2.72 percent of all construction and land loans at the end of the third quarter, up from 0.74 percent one year ago. Noncurrent commercial loans fell to 0.86 percent of all commercial loans at the end of the third quarter from 1.16 percent a year ago.

- Loans past due by 30 to 89 days were higher over the year for 1-4 and multifamily mortgage loans, consumer, nonresidential, and construction and land loans. Past due loan rates were lower from one year ago for commercial loans. Total loans past due by 30 to 89 days at the end of the third quarter, excluding repurchased GNMA loans, were $17.7 billion, or 1.12 percent of assets compared to $10.7 billion, or 0.66 percent of assets, one year ago, and $13.6 billion, or 0.90 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets increased by four percent in the third quarter to $1.57 trillion from $1.50 trillion in the second quarter. Thrifts remain focused on residential mortgage lending, with 50.7 percent of assets invested in 1-4 family mortgage loans at the end of the third quarter, down from 54.6 percent one year ago. Of these 1-4 family mortgage loans, 7.1 percent are home equity lines of credit, up from 6.0 percent one year ago. Holdings of consumer loans decreased to 5.3 percent of assets from 5.7 percent a year ago, and multifamily mortgages decreased over the year from 4.6 percent of assets to 4.1 percent at the end of the third quarter. Commercial loans increased to 3.5 percent of assets at the end of the third quarter from 3.1 percent one year ago.

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[3] GNMA mortgage-backed securities are fully guaranteed by the U.S. Government. Individual loans repurchased from GNMA pools are fully or partially guaranteed or insured by agencies of the U.S. Government.

- Deposits and escrows grew by 2.2 percent over the year to $955 billion from $934 billion. As a percentage of total assets, deposits and escrows increased to 60.8 percent from 57.2 percent one year ago. Federal Home Loan Bank advances were up from 17.5 percent one year ago to 18.5 percent of total assets.

- 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 10.16 percent of assets, up from 9.23 percent one year ago, but down from a record 10.80 percent in the prior quarter. At the end of the third quarter, nearly 99 percent of the industry exceeded well-capitalized standards and three 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 five thrifts one year ago to 12 thrifts at the end of the third quarter.

STRUCTURAL CHANGES

- Charter choice decisions resulted in seven institutions choosing a thrift charter during the third quarter – two were “de novo” institutions, three converted from existing state charters, and two converted from credit unions. One thrift converted to a commercial bank and one thrift converted to a state-chartered savings bank over the quarter. Also during the quarter, one OTS-regulated thrift merged with another OTS-regulated thrift and non-OTS regulated institutions acquired seven thrifts. There was one failure over the quarter.