THRIFT INDUSTRY HIGHLIGHTS
FIRST QUARTER 2010

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SUMMARY

The nation's thrift industry posted profits of $1.82 billion in the first quarter 2010, or 0.77 percent of average assets (ROA). This was the third consecutive profitable quarter for the industry. First quarter profits were up from $442 million in the fourth quarter of 2009. In the first quarter one year earlier, thrifts reported losses of $1.62 billion, or a negative 0.53 percent of average assets.

Though trending down from very high levels in 2008, loan loss provisions remained at elevated levels in the first quarter. The industry added $2.71 billion (1.15% of average assets) to loan loss provisions in the first quarter. Provisions measured 1.70 percent of average assets in the prior quarter and 1.91 percent in the first quarter one year earlier. The substantial additions to loan loss reserves have bolstered the industry's reserve levels to at, or near, record levels.

Higher than average levels of loss provisioning are due to high unemployment and persistent declines in home prices. The need for loss provisions in upcoming quarters will largely depend on trends in employment, home prices and the commercial real estate markets.

The industry's financial fundamentals remained solid in the first quarter. The majority of thrifts – 97.2 percent – reported capital exceeding the "well-capitalized" regulatory standards. And these thrifts' combined assets represented 98.3 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 first operating earnings were 1.72 percent of average assets, compared with 1.70 percent for 2009 and 1.29 percent for 2008. 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 3.27 percent of assets from 3.29 percent in the prior quarter, and were down from 3.35 percent one year earlier.

The current troubled asset ratio is similar to the ratio 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 65 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 8 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 757 with assets of $949.8 billion at the end of the first quarter. In addition, OTS supervised 442 holding company enterprises with approximately $4.0 trillion in U.S. domiciled consolidated assets. These enterprises owned 402 thrifts with total assets of $728 billion, or 77 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was $1.82 billion in the first quarter of 2010, up from net losses of $1.62 billion in the first quarter one year earlier, and up from net income of $442 million in the prior quarter.

- Profitability, as measured by return on average assets (ROA), was 0.77 percent in the first quarter, up from a negative 0.53 percent in the first quarter one year earlier and up from 0.19 percent in the prior quarter. The median ROA in the first quarter was 0.41 percent, up from 0.36 percent in the first quarter one year earlier, and up from 0.31 percent in the prior quarter.

- Return on average equity (ROE) was 7.09 percent in the first quarter, improved from a negative 5.69 percent in the first quarter one year earlier, and up from 1.76 percent in the prior quarter.

ANALYSIS OF ROA

- Earnings improvement during the first quarter was primarily due to lower loan loss provisions and noninterest expense, as well as higher gains on the sale of assets held for sale. These improvements were partially offset by lower gains on financial assets carried at fair value and higher taxes.

- Net interest margin in the first quarter improved to 305 basis points from 294 basis points in the first quarter one year earlier, and was up from 300 basis points in the prior quarter.

- Lower loan loss provisions in the first quarter had a positive impact on thrift earnings. In the first quarter, thrifts added $2.7 billion, or 1.15 percent of average assets, to loan loss provisions – the tenth highest on record. Provisions measured 1.70 percent of average assets in the fourth quarter of 2009 and 1.91 percent in the first quarter one year earlier. 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 1.30 percent of average assets in the first quarter, up from 1.05 percent in the comparable quarter one year earlier, but down from 1.40 percent in the prior quarter.

- Other noninterest income improved to 0.64 percent of average assets in the first quarter from 0.21 percent in the first quarter of 2009, and was up from 0.56 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 increased to 2.66 percent of average assets in the first quarter from 2.57 percent in the first quarter one year earlier, but was down from 2.89 percent in the prior quarter.

- Taxes increased to 0.43 percent of average assets in the first quarter from 0.24 percent in the first quarter one year earlier and from 0.18 percent in the prior quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) during the first quarter totaled $32.4 billion, down 66 percent from $96.1 billion in the first quarter one year earlier, and down 20 percent from $40.7 billion in the prior quarter.

- Total originations of 1-4 family mortgages by thrifts during the first quarter were $27.2 billion, down 69 percent from $88.1 billion in the first quarter one year earlier, and down 21 percent from the $34.3 billion originated in the fourth quarter of 2009.

- Refinancing activity accounted for 51 percent of thrift originations in the first quarter, up from 45 percent in the prior quarter, but down from 55 percent in the first quarter one year earlier. The record for thrift mortgage refinancing was 59.2 percent in the first quarter of 2003.

ASSET QUALITY

- Delinquencies for most loan types except consumer loans were higher over the year.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.27 percent of assets at the end of the first quarter, down from 3.35 percent one year earlier, and down from 3.29 percent at the end of the prior quarter. Repossessed assets were up 18 basis points over the year from 0.34 percent of assets to 0.52 percent, and were up from 0.48 percent at the end of the prior quarter.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) fell to 2.75 percent of assets at the end of the first quarter from 3.00 percent at the end of the first quarter one year earlier, and were down from 2.80 percent at the end of the prior quarter. Noncurrent loan rates for 1-4 family loans were 5.16 percent of all 1-4 family loans at the end of the first quarter, up from 5.15 percent one year earlier, and from 5.13 percent in the prior quarter. Noncurrent multifamily loans increased to 3.39 percent of all multifamily loans from 1.56 percent one year earlier. Noncurrent consumer loans decreased to 1.41 percent of all consumer loans in the first quarter from 1.78 percent at the end of first quarter one year earlier. Noncurrent nonresidential mortgages increased to 3.44 percent of all nonresidential mortgages from 2.03 percent one year earlier. Noncurrent construction and land loans were 14.42 percent of all construction and land loans at the end of the first quarter, up from 11.53 percent one year earlier. Noncurrent commercial loans increased to 2.66 percent of all commercial loans at the end of the first quarter from 2.64 percent a year earlier.

- 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 first quarter were $11.6 billion, or 1.22 percent of assets, compared to $21.1 billion, or 1.72 percent of assets, one year earlier, and were down from $11.9 billion, or 1.26 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by 22 percent over the year to $950 billion from $1.22 trillion. Thrifts remain focused on residential mortgage lending, with 34.8 percent of assets invested in 1-4 family mortgage loans at the end of the first quarter, down from 43.2 percent one year earlier. Of these 1-4 family mortgage loans, 4.8 percent were home equity lines of credit, down from 5.4 percent one year earlier. Holdings of consumer loans increased to 7.8 percent of assets from 6.1 percent a year earlier. Multifamily mortgages increased over the year from 2.8 percent of assets to 3.3 percent at the end of the first quarter. Commercial loans increased from 5.2 percent of assets one year earlier to 5.4 percent.

- Deposits and escrows fell by 11 percent over the year to $667 billion from $752 billion. As a percentage of total assets, deposits and escrows increased to 70.2 percent from 61.4 percent one year earlier. Federal Home Loan Bank advances were down from 15.9 percent one year earlier to 9.0 percent of total assets at the end of the first 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 first quarter was 11.02 percent of assets, up from 9.80 percent one year earlier. At the end of the first quarter, 97.2 percent of the industry exceeded well-capitalized standards and 16 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 31 thrifts one year earlier to 50 thrifts at the end of the first quarter 2010, and was up from 43 thrifts at the end of 2009.

STRUCTURAL CHANGES

- A total of nine thrifts left OTS regulation over the first quarter. One thrift converted to a bank charter over the first quarter, one thrift was acquired by a non-OTS regulated institution, two thrifts merged into other OTS-regulated thrifts and one thrift completed a voluntary dissolution. In addition, four thrifts failed during the first quarter. One new thrift began operations in the first quarter.