THRIFT INDUSTRY HIGHLIGHTS SECOND QUARTER 2009

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SUMMARY

The industry posted break-even results for the second quarter – a profit of $4 million, or 0.00 percent of average assets (ROA). These results were an improvement from the first quarter 2009 loss of $1.62 billion, or a negative 0.53 percent of average assets.

In the second quarter 2009, OTS-regulated thrifts accrued an estimated $500 million expense for the special assessment levied by the FDIC. This expense reduced after-tax net income by an estimated $325 million, second quarter ROA by approximately 12 basis points, and year-to-date ROA by 6 basis points. A restatement of first quarter 2009 results by one large thrift increased losses by $1.6 billion and lowered first quarter ROA by 51 basis points.

The earnings improvement was primarily due to higher net interest margins, lower provisions for loan losses, higher fee income, and lower other-than-temporary impairment charges in the second quarter. Partially offsetting these improvements in earnings were lower gains on the sale of assets and higher noninterest expense.

As an annualized percent of average assets, provisions measured 1.71 percent in the second quarter, a decline from 1.91 percent in the first quarter, and from 3.70 percent one year ago.

Despite the decline, provisions for losses remained at elevated levels. Second quarter provisions were the sixth highest on record – higher than all other quarters except for the five preceding quarters. Loss provisioning is expected to continue at elevated levels and to dampen industry earnings until inventories of for-sale homes appreciably decline, home prices firm, and the employment picture brightens.

Although the substantial additions to loan loss reserves dampened earnings for the most recent two 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 second quarter. The majority of thrifts – 96.2 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 1.59 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 3.52 percent of assets, up from 3.35 percent in the prior quarter, and 2.68 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 68 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 ten 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 794 with assets of $1.10 trillion at the end of the second quarter. In addition, OTS supervised 459 holding company enterprises with approximately $5.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 420 thrifts with total assets of $737 billion, or 67 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was $4 million in the second quarter 2009, up from net losses of $5.45 billion in the second quarter one year ago and from net losses of $1.62 billion in the prior quarter. Net income in the second 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 0.00 percent in the second quarter 2009, an improvement from a negative 1.43 percent in the second quarter one year ago and from a negative 0.53 percent in the prior quarter. The median ROA declined to 0.27 percent in the second quarter from

0.40 percent in the second quarter one year ago, and was down from 0.36 percent in the prior quarter.

- Return on average equity (ROE) was 0.01 percent in the second quarter, improved from a negative 16.29 percent in the second quarter one year ago, and from a negative 5.69 percent in the prior quarter.

ANALYSIS OF ROA

- Lower loan loss provisions improved second quarter income and profitability. Loan loss provisions were 1.71 percent of average assets in the second quarter, down from 3.70 percent in the in the second quarter one year ago and from 1.91 percent in the prior quarter. Recent high levels of loss provisions reflect the increase in noncurrent loans stemming from the housing market downturn 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.

- Net interest margin increased in the second quarter to 304 basis points from 291 basis points in the comparable quarter a year ago and from 294 basis points in the prior quarter.

- Total fee income, including mortgage loan servicing fee income and other fee income, was 1.28 percent of average assets in the second quarter 2009, down from 1.56 percent in the second quarter one year ago, but up from 1.05 percent in the prior quarter.

- Other noninterest income improved to 0.26 percent of average assets in the second quarter from a negative 0.19 percent of average assets in the second quarter one year ago and from 0.21 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 2.72 percent of average assets in the second quarter from 2.80 percent in the second quarter one year ago, but was up from 2.57 percent in the prior quarter.

- Taxes increased to 0.16 percent of average assets in the second quarter from a negative 0.81 percent in the comparable quarter a year ago, but were down from 0.24 percent in the prior quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) in the second quarter decreased to $70.5 billion from $128.3 billion in the second quarter one year ago, and were down from $96.1 billion in the prior quarter. Second quarter 1-4 family mortgage originations by thrifts were $62.4 billion, down 42 percent from $107.5 billion in the second quarter one year ago, and were down 29 percent from the $88.1 billion originated in the prior quarter.

- The volume of mortgage refinancing, as a percentage of total originations, was unchanged 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 55 percent of thrift originations in the second quarter, unchanged from the prior quarter, and up from 41 percent in the second 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 second quarter.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.52 percent of assets at the end of the second quarter 2009, up from 2.68 percent one year ago and from 3.35 percent at the end of the prior quarter. Repossessed assets were up seven basis points from the prior quarter at 0.41 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 3.11 percent of assets at the end of the second quarter, up from 3.00 percent at the end of the first quarter, and from 2.35 percent one year ago. Noncurrent loan rates for 1-4 family loans were 5.51 percent of all 1-4 family loans at the end of the second quarter, up from 5.15 percent in the prior quarter and from 3.83 percent one year ago. Noncurrent multifamily loans increased to 1.97 percent of all multifamily loans from 0.66 percent one year ago. Noncurrent consumer loans increased from 1.28 percent of all consumer loans one year ago to 1.72 percent at the end of the second quarter. Noncurrent nonresidential mortgages increased to 2.53 percent of all nonresidential mortgages from 0.90 percent one year ago. Noncurrent construction and land loans were 12.54 percent of all construction and land loans at the end of the second quarter, up from 7.19 percent one year ago. Noncurrent commercial loans increased to 2.82 percent of all commercial loans at the end of the second quarter from 1.39 percent a year ago.

- Loans past due by 30 to 89 days relative to total assets were higher over the year, but down from the prior quarter. Total loans past due by 30 to 89 days at the end of the second quarter were $16.5 billion, or 1.50 percent of assets compared to $21.3 billion, or 1.41 percent of assets, one year ago, but were down from $21.1 billion, or 1.72 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by 27 percent over the year to $1.10 trillion from $1.51 trillion reflecting the loss of several large thrift failures over the year. Thrifts remain focused on residential mortgage lending, with 39.9 percent of assets invested in 1-4 family mortgage loans at the end of the second quarter, down from 49.5 percent one year ago. Of these 1-4 family mortgage loans, 4.9 percent are home equity lines of credit, down from 7.9 percent one year ago. Holdings of consumer loans increased to 6.5 percent of assets from 5.8 percent a year ago. Multifamily mortgages decreased over the year from 4.3 percent of assets to 3.2 percent at the end of the second quarter. Commercial loans increased to 5.5 percent of assets at the end of the second quarter from 3.9 percent one year ago.

- Deposits and escrows fell by 22 percent over the year to $722 billion from $929 billion. As a percentage of total assets, deposits and escrows increased to 65.7 percent from 61.5 percent one year ago. Federal Home Loan Bank advances were down from 19.7 percent one year ago to 12.8 percent of total assets at the end of the second 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 second quarter was 10.37 percent of assets, up from 8.65 percent one year ago. At the end of the second quarter, over 96 percent of the industry exceeded well-capitalized standards and 15 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 17 thrifts one year ago and 31 thrifts in the prior quarter to 40 thrifts at the end of the second quarter 2009.

STRUCTURAL CHANGES

- A total of two “de novo” thrifts were chartered during the second quarter 2009. Three thrifts converted to commercial bank charters over the second quarter and non-OTS regulated institutions acquired three thrifts. In addition, three thrifts failed during the second quarter.