



## **THRIFT INDUSTRY HIGHLIGHTS FIRST QUARTER 2009**

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### **SUMMARY**

The industry posted near break-even results for the first quarter – a loss of \$47 million, or 0.02 percent annualized relative to average assets. These results were a substantial improvement from the fourth quarter 2008 loss of \$5.4 billion, or 1.82 percent.

The earnings improvement was primarily due to lower provisions for loan losses that dropped 38 percent to \$5.8 billion from \$9.3 billion in the prior quarter. As an annualized percent of average assets, provisions measured 1.88 percent in the first quarter, a decline from 3.18 percent in the fourth quarter 2008. The fourth quarter provision expense was the second highest in the industry's history; the second quarter 2008 provision of \$14.1 billion (3.70 percent) was the highest.

Despite the decline, provisions for losses remained at elevated levels. First quarter provisions were the fifth highest on record – higher than all other quarters except for the four quarters of 2008. 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 quarter 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 first quarter. The majority of thrifts – 96.5 percent – held capital exceeding the "well-capitalized" regulatory standards. And these thrifts' combined assets represented 95.8 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 quarter operating earnings remained stable and measured 1.52 percent of average assets compared to 1.38 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 3.35 percent of assets, up from 2.54 percent in the prior quarter, and 2.06 percent one year ago. The first quarter's dollar level of troubled assets is a record at \$41.0 billion, surpassing the prior record of \$40.5 billion in the second quarter of 2008. The first quarter ratio of troubled assets to total assets is not a record, however. That record stands at 3.86 percent set in the first quarter of 1991.

However the composition of thrift troubled assets is currently much different than in the early 1990s. Mortgages on 1-4 family properties comprise approximately 81 percent of the industry's current troubled assets, with an additional 13 percent consisting of commercial real estate loans (nonresidential mortgages, multifamily complexes, and construction loans), and six 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 801 with assets of \$1.23 trillion at the end of the first quarter. In addition, OTS supervised 463 holding company enterprises with approximately \$5.0 trillion in U.S. domiciled consolidated assets. These enterprises owned 424 thrifts with total assets of \$736 billion, or 60 percent of total thrift industry assets.

Other highlights include:

## **EARNINGS AND PROFITABILITY**

- Net losses were \$47 million in the first quarter 2009, down from net losses of \$627 million in the first quarter one year ago and from net losses of \$5.36 billion in the fourth quarter 2008. Losses in the first quarter 2009 were the lowest of the six consecutive quarterly losses reported by the thrift industry.
- Profitability, as measured by return on average assets (ROA), was a negative 0.02 percent in the first quarter 2009, down from a negative 0.17 percent in the first quarter one year ago and from a negative 1.82 percent in the prior quarter. The median ROA declined to 0.36 percent in the first quarter from 0.43 percent in the first quarter one year ago, but was up from 0.29 percent in the prior quarter.
- Return on average equity (ROE) was a negative 0.17 percent in the first quarter, improved from a negative 1.83 percent in the first quarter one year ago, and from a negative 20.00 percent in the prior quarter.

## ANALYSIS OF ROA

- Lower loan loss provisions drove the improvement in first quarter losses and profitability. Loan loss provisions were 1.88 percent of average assets in the first quarter, down from 2.02 percent in the in the first quarter one year ago and from 3.18 percent in the fourth quarter 2008. Recent increases in 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 first quarter to 294 basis points (or 2.94 percent of average assets) from 277 basis points in the comparable quarter a year ago and from 268 basis points in the prior quarter.
- Total fee income, including mortgage loan servicing fee income and other fee income, was 1.06 percent of average assets in the first quarter 2009, down from 1.11 percent in the first quarter one year ago, but up from 1.01 percent in the prior quarter.
- Other noninterest income improved to 0.62 percent of average assets in the first quarter from 0.60 percent of average assets in the first quarter one year ago and from 0.34 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 2.52 percent of average assets in the first quarter from 2.77 percent in the first quarter one year ago and from 3.04 percent in the prior quarter.
- Taxes increased to 0.22 percent of average assets in the first quarter from a negative 0.14 percent in the comparable quarter a year ago and from a negative 0.37 percent in the prior quarter.

## MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) in the first quarter decreased to \$95.9 billion from \$133.8 billion in the first quarter one year ago, but were up from \$63.2 billion in the prior quarter. First quarter 1-4 family mortgage originations by thrifts were \$88.0 billion, down 24 percent from \$115.3 billion in the first quarter one year ago, but up 68 percent from the \$52.5 billion originated in the prior quarter.

- Thrifts accounted for approximately 20 percent of total 1-4 family originations nationwide in the first quarter of 2009,<sup>1</sup> down from 26 percent in the comparable year ago quarter, but up from 19 percent in the prior quarter. An estimated less than one percent of thrift originations were ARMs in the first quarter, unchanged from the prior quarter and down from 11 percent in the comparable year ago quarter. The ARM share for all lenders was estimated at three percent in the first and prior quarters, down from eight percent in the prior first quarter one year ago.<sup>2</sup>
- The volume of mortgage refinancing, as a percentage of total originations, was up from the prior and comparable year ago quarters as borrowers converted adjustable rate mortgages to fixed rate mortgages. Refinancing activity accounted for 55 percent of thrift originations in the first quarter, up from 50 percent in the first quarter one year ago and from 42 percent in the prior quarter.

## ASSET QUALITY

- Delinquencies for most loan types were higher in the first quarter.
- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.35 percent of assets at the end of the first quarter 2009, up from 2.06 percent one year ago and from 2.54 percent at the end of 2008. Repossessed assets were up one basis point from the prior quarter at 0.34 percent of assets, and were up from 0.27 percent one year ago.
- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) increased to 3.00 percent of assets at the end of the first quarter, up from 2.21 percent at the end of 2008, and from 1.78 percent one year ago. 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 3.69 percent in the prior quarter and from 2.85 percent one year ago. Noncurrent multifamily loans increased to 1.56 percent of all multifamily loans from 0.50 percent one year ago. Noncurrent consumer loans increased from 1.12 percent of all consumer loans one year ago to 1.78 percent at the end of the first quarter. Noncurrent nonresidential mortgages increased to 1.97 percent of all nonresidential mortgages from 0.80 percent one year ago. Noncurrent construction and land loans were 11.60 percent of all construction and land loans at the end of the first quarter, up from 6.01 percent one year ago. Noncurrent commercial loans increased to 2.66 percent of all commercial loans at the end of the first quarter from 1.14 percent a year ago.
- Loans past due by 30 to 89 days were higher over the year. Total loans past due by 30 to 89 days at the end of the first quarter were \$21.0 billion, or 1.72 percent

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<sup>1</sup> Total 1-4 family mortgage originations estimated by the Mortgage Bankers Association of America.

<sup>2</sup> Data are from the Federal Housing Finance Agency's monthly *Mortgage Interest Rate Survey*.

of assets compared to \$20.2 billion, or 1.33 percent of assets, one year ago, and were up from \$20.9 billion, or 1.74 percent of assets, in the prior quarter.

## **ASSETS, LIABILITIES, AND CAPITAL**

- Industry assets decreased by 19 percent over the year to \$1.23 trillion from \$1.52 trillion reflecting the loss of one large thrift that failed in the third quarter 2008. Thrifts remain focused on residential mortgage lending, with 43.1 percent of assets invested in 1-4 family mortgage loans at the end of the first quarter, down from 49.4 percent one year ago. Of these 1-4 family mortgage loans, 5.4 percent are home equity lines of credit, down from 7.8 percent one year ago. Holdings of consumer loans increased to 6.1 percent of assets from 5.6 percent a year ago. Multifamily mortgages decreased over the year from 4.2 percent of assets to 2.8 percent at the end of the first quarter. Commercial loans increased to 5.2 percent of assets at the end of the first quarter from 4.0 percent one year ago.
- Deposits and escrows fell by 18 percent over the year to \$752 billion from \$913 billion. As a percentage of total assets, deposits and escrows increased to 61.4 percent from 60.3 percent one year ago. Federal Home Loan Bank advances were down from 20.4 percent one year ago to 15.9 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 9.88 percent of assets, up from 9.05 percent one year ago. At the end of the first quarter, over 96 percent of the industry exceeded well-capitalized standards and ten 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 12 thrifts one year ago to 31 thrifts at the end of the first quarter 2009.

## **STRUCTURAL CHANGES**

- A total of three “de novo” thrifts were chartered during the first quarter 2009. One thrift converted to a commercial bank charter over the first quarter. Also during the quarter, six OTS-regulated thrifts merged with other OTS-regulated thrifts and non-OTS regulated institutions acquired three thrifts. In addition, one thrift completed a voluntary dissolution and one thrift failed during the first quarter.