



THRIFT INDUSTRY HIGHLIGHTS SECOND QUARTER 2010

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SUMMARY

The nation's thrift industry posted profits of \$1.49 billion in the second quarter 2010, or 0.64 percent of average assets (ROA). This was the fourth consecutive profitable quarter for the industry. Second quarter profits were down from \$1.72 billion in the prior quarter. In the second quarter one year earlier, thrifts reported losses of \$94 million or a negative 0.03 percent of average assets.

Though trending down from very high levels in 2008, loan loss provisions remained at elevated levels in the second quarter. The industry added \$2.30 billion (0.99 percent of average assets) to loan loss provisions in the second quarter. Provisions measured 1.19 percent of average assets in the prior quarter and 1.55 percent in the second 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 persistently high unemployment, continued housing market weakness, and spreading weakness to nonresidential commercial real estate markets. The need for loss provisions in upcoming quarters will largely depend on trends in employment, home prices and sales, and the commercial real estate markets.

The industry's financial fundamentals remained solid in the second quarter. The majority of thrifts – 93.4 percent – reported capital exceeding the “well-capitalized” regulatory standards. And these thrifts' combined assets represented 96.9 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 operating earnings for the first six months of 2010 were 1.67 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 currently 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 3.21 percent of assets from 3.28 percent in the prior quarter, and were down from 3.50 percent one year earlier.

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The number of private sector thrifts supervised by OTS stood at 753 with assets of \$931.2 billion at the end of the second quarter. In addition, OTS supervised 441 holding company enterprises with approximately \$4.1 trillion in U.S. domiciled consolidated assets. These enterprises owned 402 thrifts with total assets of \$714 billion, or 77 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was \$1.49 billion in the second quarter of 2010, up from a net loss of \$94 million in the second quarter one year earlier, but down from net income of \$1.72 billion in the prior quarter.
- Profitability, as measured by return on average assets (ROA), was 0.64 percent in the second quarter, up from a negative 0.03 percent in the second quarter one year earlier, but down from 0.73 percent in the prior quarter. The median ROA in the second quarter was 0.41 percent, up from 0.25 percent in the second quarter one year earlier, and up from 0.40 percent in the prior quarter.
- Return on average equity (ROE) was 5.76 percent in the second quarter, improved from a negative 0.34 percent in the second quarter one year earlier, but down from 6.73 percent in the prior quarter.

ANALYSIS OF ROA

- Lower earnings in the second quarter were primarily due to higher noninterest expense and lower other noninterest income. These declines were partially offset by lower loan loss provisions and higher fee income.

- Net interest margin in the second quarter improved to 307 basis points from 304 basis points in the second quarter one year earlier, and was up from 305 basis points in the prior quarter.
- Lower loan loss provisions in the second quarter had a positive impact on thrift earnings. In the second quarter, thrifts added \$2.3 billion, or 0.99 percent of average assets, to loan loss provisions. Provisions measured 1.19 percent of average assets in the first quarter and 1.74 percent in the second 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 1.36 percent of average assets in the second quarter, up from 1.28 percent in the comparable quarter one year earlier, and up from 1.29 percent in the prior quarter.
- Other noninterest income improved to 0.52 percent of average assets in the second quarter from 0.27 percent in the second quarter of 2009, but was down from 0.63 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 2.90 percent of average assets in the second quarter from 2.72 percent in the second quarter one year earlier, and was up from 2.67 percent in the prior quarter.
- Taxes increased to 0.41 percent of average assets in the second quarter from 0.16 percent in the second quarter one year earlier, but were down from 0.42 percent in the prior quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) during the second quarter totaled \$36.6 billion, down 48 percent from \$70.5 billion in the second quarter one year earlier, but up 13 percent from \$32.2 billion in the prior quarter.
- Total originations of 1-4 family mortgages by thrifts during the second quarter were \$30.8 billion, down 51 percent from \$62.3 billion in the second quarter one year earlier, but up 13 percent from the \$27.1 billion originated in the first quarter. Much of thrifts' current 1-4 family mortgage production is being sold into the secondary markets. Sales of 1-4 family mortgages measured 91 percent 1-4 family originations in the second quarter, down slightly from 92 percent in the prior quarter.

- Refinancing activity accounted for 42 percent of thrift originations in the second quarter, down from 52 percent in the prior quarter, and from 55 percent in the second quarter one year earlier. The slight decline in second quarter refinancing activity was attributable to the rise in home sales spurred by the federal homebuyer tax credits. The record for thrift mortgage refinancing was 59.2 percent in the first quarter of 2003.

ASSET QUALITY

- Delinquencies for most loan types except 1-4 family mortgages and consumer loans were higher over the year.
- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.21 percent of assets at the end of the second quarter, down from 3.50 percent one year earlier, and down from 3.28 percent at the end of the prior quarter. Repossessed assets were up three basis points over the year from 0.41 percent of assets to 0.44 percent, but were down from 0.52 percent at the end of the prior quarter.
- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) fell to 2.77 percent of assets at the end of the second quarter from 3.09 percent at the end of the second quarter one year earlier, but were up from 2.76 percent at the end of the prior quarter. Noncurrent loan rates for 1-4 family loans were unchanged from the prior quarter at 5.17 percent of all 1-4 family loans, and were down from 5.48 percent one year earlier. Noncurrent multifamily loans increased to 3.06 percent of all multifamily loans from 2.03 percent one year earlier. Noncurrent consumer loans decreased to 1.27 percent of all consumer loans in the second quarter from 1.72 percent at the end of second quarter one year earlier. Noncurrent nonresidential mortgages increased to 3.81 percent of all nonresidential mortgages from 2.54 percent one year earlier. Noncurrent construction and land loans were 14.89 percent of all construction and land loans at the end of the second quarter, up from 12.50 percent one year earlier. Noncurrent commercial loans increased to 3.11 percent of all commercial loans at the end of the second quarter from 2.82 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 second quarter were \$10.5 billion, or 1.13 percent of assets, compared to \$16.4 billion, or 1.49 percent of assets, one year earlier, and were down from \$11.6 billion, or 1.22 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by 15 percent over the year to \$931 billion from \$1.1 trillion. Thrifts remain focused on residential mortgage lending, with 35.0 percent of assets invested in 1-4 family mortgage loans at the end of the second quarter, down from 39.9 percent one year earlier. The decline in the percent of residential loans was attributable to continued strong sales of loans into the secondary market and refinancing activity. Of total 1-4 family mortgage loans, 4.8 percent were home equity lines of credit, down from 4.9 percent one year earlier. Holdings of consumer loans increased to 8.3 percent of assets from 6.5 percent a year earlier. Multifamily mortgages increased over the year from 3.2 percent of assets to 3.3 percent at the end of the second quarter. Commercial loans decreased from 5.5 percent of assets one year earlier to 5.4 percent.
- Deposits and escrows fell by nine percent over the year to \$661 billion from \$722 billion. As a percentage of total assets, deposits and escrows increased to 71.0 percent from 65.7 percent one year earlier. Federal Home Loan Bank advances were down from 12.8 percent one year earlier to 9.0 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 11.27 percent of assets, up from 10.36 percent one year earlier. At the end of the second quarter, 93.4 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 40 thrifts one year earlier to 54 thrifts at the end of the second quarter, and was up from 50 thrifts at the end of the prior quarter.

STRUCTURAL CHANGES

- A total of four thrifts left OTS regulation over the second quarter. Two thrifts converted to a bank charter over the quarter and two thrifts failed.