

Overview of OTS-Regulated Mutual Thrifts

Thrift Industry Overview

- The economic downturn facing the nation has, to date, been focused on housing. So as can be expected, profitability of mortgage market participants has been especially hard-hit during this downturn. And OTS-regulated thrift profitability was no exception.
- Capital continues to be strong however, with equity (GAAP) capital of 9.88% of assets as of the end of March 2009. Also, 96% of all thrifts exceeded well-capital standards. Strong capital will help the industry weather further weakness in the housing market.
- Thrifts in general responded to continued housing market distress by significantly bolstering loan loss reserves. Thrifts set-aside a record \$39.3 billion in loss reserves in 2008, including a record \$14.1 billion in the second quarter, and added \$5.8 billion in the 1st quarter 2009.
- Due to these elevated levels of loan loss provisions, the industry posted a record net loss of \$15.8 billion for 2008. Losses narrowed in the first quarter 2009 to \$47 million.
 - 2007 earnings were \$(649) million (loss provisions were \$11.6 billion)
 - 2006 earnings were \$15.8 billion – second highest on record.
- Reflecting the continued housing market weakness and rising unemployment, troubled assets (loans more than 89 days delinquent, plus loans in nonaccrual status, plus repossessed assets) have increased to levels last seen in the early 1990s.
- Troubled assets were 3.35% of total assets at the end of March 2009, up from 2.06% one year ago. The record for troubled assets is 3.86% set in the first quarter of 1991.

Mutual Savings Associations

- Mutual institutions remain a key part of the OTS-regulated thrift industry and represent 37% of all OTS thrifts. Moreover, OTS is the primary regulator for the majority of all FDIC-insured mutual institutions and mutual holding companies as well.
 - As of the end of March 2009, OTS regulated 299 mutual thrifts with total assets of \$65 billion and 502 stock thrifts with total assets of \$1.16 trillion.
 - OTS regulated 299 (58%) of the 515 mutual FDIC-insured institutions.
 - The FDIC regulated 216 mutual savings banks with assets totaling \$82 billion.
- Most mutual thrifts remain concentrated in the Northeast and Midwest parts of the country, though Louisiana, Wisconsin, and Missouri also have large numbers of mutuals.
 - 59% or 176 of the 299 OTS mutual thrifts are concentrated in 10 states. States with 10 or more mutual thrifts are OH=42, MD=22, IL=22, PA=19, IN=14, NY=13, WI=13, MO=11, LA=10 MA=10
- Most mutual thrifts are smaller community-based institutions, and OTS examiners and supervision staff are very experienced with smaller institutions. Though large institutions seem to get all the press attention, the majority of the OTS-regulated thrift industry is comprised of small-to mid-size community institutions. At the end of March 2009, 85% of all OTS thrifts had assets less than \$1 billion, and 31% of thrifts had assets less than \$100 million.

- 92% of OTS mutual thrifts have assets under \$500 million compared to 65% of stock thrifts. The average assets size of a mutual thrift is \$217 million while the average size of a stock thrift is \$2.3 billion.
- The median size of a mutual thrift is \$105 million and the median size of a stock thrift is \$249 million.
- Mutual thrifts' capital is very strong – about 30% stronger than industry averages.
 - Mutual thrifts' weighted average equity capital-to-asset ratio is 12.9% compared to 9.6% for stock thrifts and 9.9% for the industry.
 - 68% of mutual thrifts have an equity capital-to-asset ratio of 10% or greater compared to 43% of stock thrifts.
- Though they remain focused on residential lending, mutual thrifts are not “one-trick ponies” and offer a variety of products for their communities.
 - Mutual thrifts hold 63% of assets in 1-4 family residential loans and mortgage-backed securities compared to 55% for stock thrifts.
 - In addition, mutual thrifts also hold 3% of assets in multi-family loans, 7% of assets in non-residential loans, 4% of assets in construction and land loans, 3% of assets in non-mortgage consumer loans, and 2% of assets in non-mortgage commercial loans.
- Thrift industry problem loans increased over the past two years reflecting the continued U.S. housing market weakness and increases in unemployment rates. This is especially true for areas that experienced large increases in home prices during the “housing boom”, and for institutions located in areas more dependent on the manufacturing sector. However, problem loans have increased among institutions of all sizes and all business models and charters.
 - Troubled assets is a general measure for asset quality and includes noncurrent loans (89+ days past due and nonaccrual loans) plus repossessed assets.
 - As of the end of March 2009, the level of troubled assets to total assets was 1.31% for mutual thrifts compared to 3.46% for stock thrifts.
- Funding sources for mutual thrifts are more retail oriented and more typical of community-based institutions.
 - Deposits funded 77% of mutual thrift assets versus 61% of stock thrifts.
 - FHLB advances and other borrowings funded only 9% of mutual thrift assets compared to 28% for stock thrifts.
- Mutual thrift earnings, as measured by return on average assets (ROA), have historically been lower than that of stock thrifts. The severe weakness in the housing and labor markets has had a much greater impact on the earnings of stock thrifts over the past year resulting in deficit net income for stock thrifts during this period.
 - For the year 2008, the thrift industry reported an ROA of (1.17%), primarily due to loss provisions measuring 2.92% of average assets. Mutual thrifts reported an ROA of 0.25% while stock thrifts reported a deficit ROA of 1.24%.
 - For the first quarter 2009, the thrift industry reported a ROA of (0.02%), reflecting loss provisions of 1.88% of average assets (annualized). Mutual thrifts reported a ROA of 0.42% while stock thrifts reported an ROA of (0.04%).

**Thrift "Held-Constant" View
Selected Financial Data for
Thrifts operating both in March 2005 and March 2009**

2005

Size Group	Mutual			Stock			Aggregate		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Number of Thrifts	145	128	20	47	171	137	192	299	157
Total Assets (\$bil)	6.9	26.1	22.5	3.1	33.4	667.8	10.0	59.5	690.3
Charge-Offs (% AA)	0.05	0.03	0.03	0.12	0.10	0.11	0.07	0.07	0.11
NIM (% AA)	3.22	3.03	2.95	3.41	3.22	2.66	3.28	3.14	2.67
Provisions (%AA)	0.07	0.06	0.03	0.17	0.19	0.12	0.10	0.13	0.12
Net Income (% AA)	0.63	0.69	0.87	0.85	0.65	1.12	0.70	0.67	1.11
Troubled Assets Ratio	0.79	0.42	0.33	0.95	0.67	0.36	0.84	0.56	0.36
Loss Coverage Ratio	23.23	18.93	19.79	20.39	15.40	12.17	22.41	16.93	12.40

2006

Size Group	Mutual			Stock			Aggregate		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Number of Thrifts	145	128	20	47	171	137	192	299	157
Total Assets (\$bil)	7.0	26.8	22.7	3.1	35.7	755.9	10.1	62.5	778.6
Charge-Offs (% AA)	0.06	0.03	0.03	0.14	0.12	0.15	0.08	0.08	0.14
NIM (% AA)	3.04	2.90	2.72	3.30	3.14	2.53	3.12	3.03	2.54
Provisions (%AA)	0.08	0.05	0.03	0.17	0.14	0.14	0.11	0.10	0.14
Net Income (% AA)	0.35	0.54	0.72	0.17	0.58	0.95	0.29	0.56	0.95
Troubled Assets Ratio	0.79	0.50	0.31	0.85	0.68	0.48	0.81	0.60	0.48
Loss Coverage Ratio	22.97	18.78	19.66	18.89	15.98	15.62	21.75	17.17	15.73

2007

Size Group	Mutual			Stock			Aggregate		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Number of Thrifts	145	128	20	47	171	137	192	299	157
Total Assets (\$bil)	7.1	27.3	23.3	3.1	37.5	739.5	10.2	64.9	762.8
Charge-Offs (% AA)	0.08	0.05	0.11	0.13	0.14	0.21	0.10	0.10	0.21
NIM (% AA)	2.88	2.75	2.63	3.14	3.04	2.40	2.96	2.92	2.41
Provisions (%AA)	0.06	0.05	0.17	0.14	0.21	0.48	0.08	0.14	0.47
Net Income (% AA)	0.30	0.43	0.59	-0.04	0.41	-0.47	0.20	0.42	-0.44
Troubled Assets Ratio	0.85	0.85	0.55	1.67	1.10	1.11	1.09	1.00	1.09
Loss Coverage Ratio	22.18	18.63	19.61	18.68	15.92	13.61	21.15	17.05	13.80

2008

Size Group	Mutual			Stock			Aggregate		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Number of Thrifts	145	128	20	47	171	137	192	299	157
Total Assets (\$bil)	7.4	28.3	24.9	3.0	40.8	767.8	10.4	69.1	792.7
Charge-Offs (% AA)	0.23	0.33	0.26	0.42	0.62	1.19	0.29	0.50	1.16
NIM (% AA)	2.91	2.81	2.85	3.10	3.04	2.52	2.96	2.94	2.53
Provisions (%AA)	0.28	0.45	0.31	0.64	0.85	2.46	0.39	0.68	2.39
Net Income (% AA)	0.06	0.15	0.58	-1.46	-0.14	-1.36	-0.39	-0.02	-1.30
Troubled Assets Ratio	1.40	1.34	0.88	2.82	1.80	2.45	1.82	1.61	2.40
Loss Coverage Ratio	20.97	17.80	18.68	18.29	14.82	13.17	20.22	16.05	13.35

March 2009 *Income items are annualized

Size Group	Mutual			Stock			Aggregate		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Number of Thrifts	145	128	20	47	171	137	192	299	157
Total Assets (\$bil)	7.5	28.8	25.1	3.0	41.6	776.5	10.5	70.4	801.6
Charge-Offs (% AA)	0.11	0.18	0.12	0.63	0.35	1.02	0.25	0.28	0.99
NIM (% AA)	2.99	2.88	2.99	3.26	2.96	2.49	3.07	2.93	2.50
Provisions (%AA)	0.22	0.33	0.27	0.66	0.55	1.60	0.34	0.46	1.56
Net Income (% AA)	0.17	0.31	0.67	-0.36	0.22	-0.68	0.02	0.26	-0.64
Troubled Assets Ratio	1.52	1.49	1.08	2.61	2.17	3.19	1.83	1.89	3.12
Loss Coverage Ratio	21.09	18.08	19.32	21.09	15.18	15.05	21.09	16.36	15.19

These tables compare thrifts in the mutual form of ownership to thrifts with stock ownership. Type of ownership was determined as of March 31, 2009. For better comparisons over time and to avoid data skewing, this analysis was limited to those thrifts operating both at March 2005 and March 2009. Thus, thrifts entering and leaving OTS supervision during the March 2005-to-March 2009 period were excluded from this analysis.

Excludes Trust Only Thrifts, Subchapter S Thrifts and Thrifts with Credit Card Loans equaling 20% or more of assets at March 2009.

Asset size groups determined at March 2009.

Troubled assets ratio = Noncurrent mortgage loans and real estate owned to total assets.

Loss coverage ratio = ALLL plus capital to total loans and leases.

Small=Less than \$100mm

Medium=Greater than \$100mm & Less than \$500mm

Large=Greater than \$500mm