# *Overview of OTS-Regulated Mutual Thrifts*

## Thrift Industry Overview

- Despite some signs of stabilizing, the nation's economy remains weak and "bruised" by a severe recession. Some have termed this recession the "Great Recession" due to length and harsh impact on both the labor markets and housing. The brunt of the economic downturn has, to date, been largely 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 10.7% of assets as of the end of September 2009. Also, 96% of all thrifts exceeded well-capital regulatory standards.
- 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 2008. Though easing somewhat for the first three quarters of 2009, loan loss provisioning remains elevated. For the three quarters of 2009, thrifts set-aside $15.6 billion in loss reserves. Strong capital, together with bolstered loan loss reserves, will help the industry weather further weakness in the housing market.
- Due to these elevated levels of loan loss provisions, the industry posted a record net loss of $15.8 billion (ROA of -1.17%) for 2008. For the three quarters ended September 30, 2009 the industry posted a net loss of $402 million (ROA of -0.05%).
- The industry's most recent results showed a return to profitability, though only at about break-even level. For the third quarter 2009, the industry posted a profit of $1.3 billion (or ROA of 0.49%), though including one thrift's large $1.1 billion non-operating gain. Nevertheless, this was the first quarterly profit since the third quarter of 2007.
- Asset quality remains a concern. 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 3.63% of total assets at the end of September 2009, up from 2.40% at September 2008 and 1.19% at September 2007. The record for troubled assets is 3.86% set in the first quarter of 1991.

## Mutual Thrift Overview

- The OTS-regulated thrift industry includes 296 mutual thrifts or 38% of all 780 OTS-regulated thrifts as of September 30, 2009.
    - These 296 mutual thrifts held assets totaling $65 billion or about 6% of the industry assets. The 484 stock thrifts held assets totaling $1.04 trillion.
    - The FDIC regulates 216 mutual savings banks with assets totaling $85 billion.

- Most mutual thrifts are primarily concentrated in the Northeast and Midwest parts of the country.
    - 59% or 174 of the 296 OTS mutual thrifts are concentrated in 10 states. States with 10 or more mutual thrifts are OH=41, MD=22, IL=22, PA=18, IN=14, NY=13, WI=13, MO=11, LA=10 MA=10

- Most mutual thrifts are typically smaller community-based institutions. The majority of the OTS-regulated thrift industry is comprised of small-to mid-size community institutions.
    - 85% of all OTS thrifts had assets less than $1 billion and 75% had assets less than $500 million
    - 93% of OTS mutual thrifts have assets under $500 million compared to 65% of stock thrifts.
    - The median size of a mutual thrift is $105 million and the median size of a stock thrift is $248 million. The average assets size of a mutual thrift is $220 million while the average size of a stock thrift is $2.1 billion.
    - The largest mutual thrift held assets of $5.8 billion and the smallest mutual thrift held assets of $3.5 million.

- Capital of mutual thrifts is very strong – about 25% stronger than the industry average.
    - Equity capital-to-asset ratio of mutual thrifts is 12.9% compared to 10.6% for stock thrifts and 10.7% for the industry.
    - 70% of mutual thrifts have an equity capital-to-asset ratio exceeding 10% compared to 44% of stock thrifts.

- About 90% of mutual thrifts are rated 1 or 2 as of the end of September 2009 as compared to to74% for stock thrifts.
    - 35% of OTS mutual thrifts are composite rated 1 and 55% are composite rated 2.
    - 18% of OTS stock thrifts are composite rated 1 and 56% are composite rated 2.

- Thrifts remain community oriented and primarily focused on single-family mortgage lending.
    - Mutual thrifts hold 51% of assets in 1-4 family residential loans compared to 39% for stock thrifts.
    - In addition, mutual thrifts hold 12% of assets in mortgage-backed securities compared to 13% for stock thrifts.
    - Mutual thrifts also provide funding for other mortgage and nonmortgage loan types as well including construction and land loans (4% of assets), multi-family residential loans (3% of assets), nonresidential loans (8% of assets), consumer loans (3% of assets), and commercial loans (2% of assets).

- Thrift industry troubled assets have increased significantly over the past two years reflecting continued weakness in the U.S. housing market and significant 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. 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 September 2009, the ratio of troubled assets to total assets for mutual thrifts was 1.67% (compared to 1.00% at September 2008 and 0.60% at September 2007). The ratio for stock thrifts was 3.76% (2.40% at September 2008 and 1.22% at September 2007).
    - The loss coverage reserve ratio (allowances for loan and lease losses + equity capital/total loans) for mutual thrifts as of the end of September 2009 was 19.06%

compared to 19.19% for stock thrifts. The difference is attributable to the higher level of equity capital held by mutual thrifts.

- Funding sources for mutual thrifts are more retail oriented and more typical of community-based institutions.
    - Deposits funded 78% of mutual thrift assets versus 64% of stock thrifts.
    - Brokered deposits represent 0.6% of total deposits for mutual thrifts compared to 15% for stock thrifts.
    - FHLB advances and other borrowings funded only 8% of mutual thrift assets compared to 23% 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 created a major shock to the thrift industry's earnings performance. Mutual thrifts have been less affected by this shock.
    - For the year 2008, the thrift industry reported a net loss of $15.8 billion or an ROA of (1.17%), primarily due to loss provisions measuring 2.92% of average assets. Mutual thrifts reported an ROA of 0.26% while stock thrifts reported an ROA of (1.23%).
    - For the three quarters ended September 2009, the thrift industry reported a net loss of $402 million or an annualized ROA of (0.05%), reflecting loss provisions of 1.83% of average assets (annualized). Mutual thrifts reported an ROA of 0.30% while stock thrifts reported an ROA of (0.07%).
    - Mutual thrifts have reported one unprofitable quarter over the past seven quarters (March 2008-September 2009) while stock thrifts have reported six unprofitable quarters.