THRIFT INDUSTRY HIGHLIGHTS
FIRST QUARTER 2007

Office of Thrift Supervision / May 23, 2007

SUMMARY

The thrift industry reported solid earnings and profitability in the first quarter of 2007 despite continued weakness in housing markets and a flat-to-inverted yield curve. Levels of problems assets rose again in the first quarter reflecting the slowing housing sector and the current credit cycle, but remain at generally low and manageable levels.

Thrifts continue to take appropriate steps in response to this current operating environment by maintaining strong capital and increasing provisions for loan losses. The ability of the industry to post solid earnings despite a rather difficult operating environment, continued provisioning for loan losses, and strong capital all will help the industry weather any further weakening in the housing markets.

The industry's aggregate net interest margin improved from the prior and comparable year ago quarters as asset yields improved while liability costs were slightly lower. Total mortgage origination volume during the quarter was up three percent from the first quarter one year ago and 26 percent from the prior quarter due to the conversion of a bank with a large mortgage lending operation to a thrift charter in the first quarter. New and existing home sales volumes were lower in the first quarter.

Thrift industry assets climbed six percent from the prior quarter to $1.49 trillion. The number of thrifts supervised by OTS stood at 838 at the end of the first quarter. In addition, OTS supervised 473 holding company enterprises with approximately $8.0 trillion in U.S. domiciled consolidated assets. These enterprises owned 444 thrifts with total assets of $1.4 trillion, or 91 percent of total thrift industry assets.

Asset quality remained strong by historical levels, but delinquencies for most loan types have increased over the past year and continued to rise in the first quarter. Despite the sustained strength in industry asset quality, noncurrent 1-4 family and multifamily mortgages, consumer loans, nonresidential mortgages, and construction and land loans were up from their respective delinquency rates one year ago. Loans past due 30- to 89-days as a percentage of assets also increased in the first quarter and were higher from one year ago. The industry's equity capital ratio was 10.70 percent, down slightly from a record 10.72 percent reached in the prior quarter.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was $3.62 billion in the first quarter, down 14 percent from $4.21 billion in the first quarter one year ago, but up 15 percent from $3.14 billion in the prior quarter.

- Profitability, as measured by return on average assets (ROA), was 0.97 percent in the first quarter, down from 1.14 percent in the comparable year ago quarter, but up from 0.89 percent in the prior quarter. The median ROA declined to 0.51 percent in the first quarter from 0.66 percent in the first quarter one year ago, and was down from 0.52 percent in the prior quarter.

- Return on average equity (ROE) was 9.36 percent in the first quarter, down from 12.17 percent in the first quarter one year ago, but up from 8.89 percent in the prior quarter.

ANALYSIS OF ROA

- Higher net interest margin and lower loan loss provisions and noninterest expense drove the increase in first quarter ROA from the prior quarter. Partially offsetting these positive impacts to quarterly profitability were lower fee income and other noninterest income and higher taxes.

- In the first quarter, NIM increased to 281 basis points (or 2.81 percent of average assets) from 277 basis points in the comparable quarter a year ago, and was up from 271 basis points in the prior quarter.

- Loan loss provisions increased to 0.33 percent of average assets in the first quarter from 0.15 percent in the first quarter one year ago, but were down from 0.45 percent in the prior quarter. The recent rise in loss provisions reflects the increase in noncurrent loans because of the slower housing market and the seasoning 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.

- Total fee income, including mortgage loan servicing fee income and other fee income, decreased to 1.07 percent of average assets in the first quarter from 1.27 percent in the first quarter one year ago, and from 1.26 percent in the prior quarter. Servicing fee income was 0.05 percent of average assets in the first quarter, down from 0.20 percent in the first quarter one year ago, but up from 0.04 percent in the prior quarter. Other fee income was down five basis points from the comparable year ago quarter to 1.02 percent of average assets, and was down from 1.22 percent in the prior quarter.

- Other noninterest income was 0.40 percent of average assets in the first quarter, down from 0.44 percent in the first quarter one year ago, and from 0.43 percent in the prior quarter. Other noninterest income primarily includes gains on sales of assets and income from leasing office space. Other noninterest income is typically volatile since it includes realized gains and losses on assets held for sale and the results of balance sheet restructuring activities.

- Noninterest expense decreased to 2.47 percent of average assets in the first quarter from 2.56 percent in the comparable year ago quarter and was down from 2.59 percent in the prior quarter. General and administrative expense, the largest component of noninterest expense, decreased by 11 basis points to 2.41 percent of average assets in the first quarter from 2.52 percent in the comparable year ago quarter.

- Taxes were down ten basis points over the year to 0.52 percent of average assets, but were up from 0.45 percent in the fourth quarter. Over the past two years, taxes have averaged 0.58 percent of average assets, or about 35 percent of pretax income.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) were $168.8 billion in the first quarter, up three percent from $164.6 billion in the first quarter one year ago, and were up 26 percent from $134.3 billion in the prior quarter. First quarter 1-4 family mortgage originations by thrifts were $149.6 billion, up five percent from $142.6 billion in the first quarter one year ago, and up 33 percent from the $112.1 billion originated in the prior quarter.

- Thrifts accounted for approximately 23 percent of total 1-4 family originations nationwide in the first quarter of 2007,[1] unchanged from the comparable year ago quarter, and up from 19 percent in the prior quarter. An estimated 13 percent of thrift originations were ARMs in the first quarter, up from 12 percent in the prior quarter, but down from 44 percent in the comparable year ago quarter. In contrast, the ARM share for all lenders was estimated at 11 percent in the first quarter, 14 percent in the prior quarter, and 25 percent in the first quarter one year ago.[2]

[1] Total 1-4 family mortgage originations estimated by the Mortgage Bankers Association of America.
[2] Data are from the Federal Housing Finance Board's monthly *Mortgage Interest Rate Survey*.

- 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 47 percent of thrift originations in the first quarter, up from 35 percent in the first quarter one year ago, and from 39 percent in the prior quarter.

ASSET QUALITY

- Asset quality within the industry remained strong over the first quarter, but delinquencies were up from recent record low levels.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were up ten basis points from the prior quarter at 0.80 percent of assets, and were up from 0.64 percent one year ago. Excluding repurchased GNMA[3] loans, troubled assets were up 11 basis points from the prior quarter at 0.64 percent of assets, and up from 0.47 percent one year ago. Repossessed assets were up one basis point from the prior quarter at 0.10 percent of assets, and were up from 0.07 percent one year ago.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status), excluding repurchased GNMA loans, climbed ten basis points from the prior quarter to 0.64 percent of assets at the end of the first quarter, and were up from 0.40 percent one year ago. Noncurrent loan rates for 1-4 family loans, excluding repurchased GNMA loans, were up 41 basis points from one year ago and 16 basis points from the prior quarter to 0.92 percent of all 1-4 family loans. Noncurrent multifamily loans increased to 0.25 percent of all multifamily loans from 0.14 percent one year ago. Noncurrent consumer loans increased from 0.67 percent of all consumer loans one year ago to 0.82 percent at the end of the first quarter. Noncurrent nonresidential mortgages increased to 0.65 percent of all nonresidential mortgages from 0.50 percent one year ago. Noncurrent construction and land loans were 1.24 percent of all construction and land loans at the end of the first quarter, up from 0.47 percent one year ago. Noncurrent commercial loans fell to 0.97 percent of all commercial loans at the end of the first quarter from 1.06 percent a year ago.

- Loans past due by 30 to 89 days were higher over the year for 1-4 family and multifamily mortgage loans, and consumer, nonresidential, and construction and land loans. Past due loan rates were lower from one year ago for commercial loans. Delinquencies of loans 30 to 89 days past due can signal that thrifts may experience higher levels of troubled assets in the future. The highest past due rates occurred in construction and land loans. Total loans past due by 30 to 89 days at the end of the first quarter, excluding repurchased GNMA loans, were

---

[3] GNMA mortgage-backed securities are fully guaranteed by the U.S. Government. Individual loans repurchased from GNMA pools are fully or partially guaranteed or insured by agencies of the U.S. Government.

$11.7 billion, or 0.78 percent of assets compared to $8.2 billion, or 0.55 percent of assets, one year ago, and $10.5 billion, or 0.75 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by 0.6 percent over the year to $1.49 trillion from $1.50 trillion due to the exits of two large, affiliated thrifts in the prior quarter. Thrifts remain focused on residential mortgage lending, with 51.8 percent of assets invested in 1-4 family mortgage loans at the end of the first quarter, down from 56.5 percent one year ago. Of these 1-4 family mortgage loans, 6.2 percent are home equity lines of credit, up from 6.1 percent of 1-4 family mortgages one year ago. Holdings of consumer loans increased to 5.9 percent of assets from 5.7 percent a year ago, and multifamily mortgages decreased slightly over the year from 4.4 percent of assets to 4.3 percent at the end of the first quarter. Commercial loans increased to 3.5 percent of assets at the end of the first quarter from 2.9 percent one year ago.

- Deposits and escrows grew by ten percent over the year to $953 billion from $867 billion. As a percentage of total assets, deposits and escrows increased to 64.0 percent from 57.8 percent one year ago. Federal Home Loan Bank advances were down from one year ago at 14.2 percent of total assets.

- 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 10.70 percent of assets, up from 9.36 percent one year ago. At the end of the first quarter, 99 percent of the industry exceeded well-capitalized standards and just two thrifts were less than adequately capitalized.

PROBLEM THRIFTS

- The number of problem thrifts – those with composite examination ratings of 4 or 5 – was unchanged from one year ago and the end of 2006 at six. Assets of problem thrifts were $3.4 billion at the end of the first quarter, up from $1.1 billion one year ago, but down from $3.9 billion at the end of 2006.

- Thrifts with composite ratings of 3 increased to 62 at the end of the first quarter from 44 one year ago and from 57 at the end of 2006. Thrifts with composite ratings of 3 exhibit some weaknesses that may range from moderate to severe in one or more of the ratings components. All but three of the 3-rated thrifts were well-capitalized at the end of the first quarter, providing them with some degree of cushion to work through their problems.

STRUCTURAL CHANGES

- Charter choice decisions resulted in four institutions choosing a thrift charter during the first quarter – two were "de novo" institutions and two were existing institutions that converted from commercial banks. Six thrifts converted to commercial banks and one converted to a state-chartered savings bank over the quarter. Also during the quarter, two OTS-regulated thrifts merged with other OTS-regulated thrifts, and two non-OTS regulated institutions acquired two thrifts.