THRIFT INDUSTRY HIGHLIGHTS FIRST QUARTER 2008

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SUMMARY

First quarter results for the nation's thrift industry improved from the results of the fourth quarter, but the continued housing market downturn resulted in losses in earnings and profitability, and a decline in asset quality measures in the first quarter of 2008.

During the first quarter, thrifts set aside a record $7.6 billion in loan loss provisions, or 2.01 percent of average assets. That was up from 1.44 percent ($5.5 billion) in the previous quarter and 0.33 percent ($1.2 billion) in the first quarter one year ago.

The industry's equity capital ratio was 9.05 percent in the first quarter, down from 9.26 percent in the prior quarter and 10.70 percent in the first quarter one year ago, as unrealized losses from available for sale securities climbed in the first quarter.

Regulatory capital measures increased in the first quarter. Tier 1 core capital improved to 8.51 percent in the first quarter from 8.41 percent in the prior quarter. Tier 1 risk-based capital improved to 12.59 percent from 12.36 percent in the prior quarter. Total risk-based capital improved to 14.55 percent from 14.39 percent in the prior quarter.

Troubled assets (noncurrent loans and repossessed assets) were 2.06 percent of assets, up from 1.66 percent in the fourth quarter and 0.80 percent a year ago.

Total mortgage origination volume in the first quarter was down 20 percent from the fourth quarter and 21 percent from the first quarter a year ago as existing and new home sales and refinance volumes declined. Delinquencies for most loan types increased over the past year and continued to rise in the first quarter. The largest increases in delinquency rates were in 1-4 family mortgages and construction loans, and these increases reflect the continued weakness in the housing sector.

The number of private sector thrifts supervised by OTS stood at 831 with assets of $1.52 trillion at the end of the first quarter. In addition, OTS supervised 479 holding company enterprises with approximately $8.4 trillion in U.S. domiciled consolidated assets. These enterprises owned 445 thrifts with total assets of $1.32 trillion, or 87 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net losses in the first quarter were $617 million, an improvement from net losses of $8.75 billion in the fourth quarter, but down from net income of $3.61 billion in the first quarter one year ago. Last quarter was the first quarterly loss reported by the thrift industry since a special assessment was collected in the third quarter 1996 for the Savings Association Insurance Fund.

- Profitability, as measured by return on average assets (ROA), was a negative 0.16 percent in the first quarter, an improvement from a negative 2.31 percent in the fourth quarter, but down from 0.97 percent in the comparable year ago quarter. The median ROA increased to 0.43 percent in the first quarter from 0.39 percent in the prior quarter, but was down from 0.51 percent in the first quarter a year ago.

- Return on average equity (ROE) was a negative 1.80 percent in the first quarter, up from a negative 23.48 percent in the fourth quarter, but down from 9.35 percent in the first quarter a year ago.

ANALYSIS OF ROA

- Higher loan loss provisions drove the losses in the first quarter.

- In the first quarter, net interest margin increased to 276 basis points (or 2.76 percent of average assets) from 261 basis points in the fourth quarter, but was down from 277 basis points in the comparable quarter a year ago.

- Loan loss provisions increased to 2.01 percent of average assets in the first quarter from 1.44 percent in the fourth quarter and from 0.33 percent in the first quarter a year ago. The 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.

- Total fee income, including mortgage loan servicing fee income and other fee income, was unchanged in the first quarter from the comparable year ago quarter at 1.11 percent of average assets, but was down from 1.15 percent in the fourth quarter.

- Other noninterest income was 0.60 percent of average assets in the first quarter, up from a negative 0.51 percent in the fourth quarter and from 0.39 percent in the first quarter a year ago. 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 2.77 percent of average assets in the first quarter from 2.46 percent in the first quarter a year ago, but was down from 4.59 percent in the fourth quarter. Noninterest expense in the fourth quarter 2007 was higher due to write-downs of goodwill by several large thrifts. General and administrative expense, the largest component of noninterest expense, increased 26 basis points to 2.66 percent of average assets in the first quarter from 2.40 percent in the comparable year ago quarter.

- Taxes were down 66 basis points over the year to a negative 0.14 percent of average assets in the first quarter, but were up from a negative 0.47 percent in the fourth quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) were $133.7 billion in the first quarter, down 21 percent from $169.2 billion in the first quarter a year ago and down 20 percent from $166.6 billion in the prior quarter.

- An estimated ten percent of thrift originations were ARMs in the first quarter, down from 12 percent in the comparable year ago quarter, but up from nine percent in the prior quarter. The ARM share for all lenders was estimated at eight percent in the first quarter, eight percent in the prior quarter, and 11 percent in the first quarter one year ago.[1]

- The volume of mortgage refinancing, as a percentage of total originations, remained strong in the first quarter as borrowers converted adjustable rate mortgages to fixed rate mortgages. Refinancing activity accounted for 50 percent of thrift originations in the first quarter, up from 48 percent in the prior quarter, but down from 52 percent in the first quarter a year ago.

ASSET QUALITY

- Delinquencies for most loan types were higher over the year and in the first quarter.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were up 40 basis points from the prior quarter at 2.06 percent of assets, and were up from 0.80 percent one year ago. Repossessed assets were up seven

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[1] Data are from the Federal Housing Finance Board's monthly *Mortgage Interest Rate Survey*.

basis points from the prior quarter at 0.27 percent of assets, and were up from 0.10 percent one year ago.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) increased by 32 basis points from the prior quarter to 1.78 percent of assets at the end of the first quarter, and were up from 0.70 percent one year ago. Noncurrent loan rates for 1-4 family loans were up 182 basis points from one year ago and 50 basis points from the prior quarter to 2.85 percent of all 1-4 family loans. Noncurrent multifamily loans increased to 0.50 percent of all multifamily loans from 0.25 percent one year ago. Noncurrent consumer loans increased from 0.82 percent of all consumer loans one year ago to 1.11 percent at the end of the first quarter. Noncurrent nonresidential mortgages increased to 0.81 percent of all nonresidential mortgages from 0.65 percent one year ago. Noncurrent construction and land loans were 6.00 percent of all construction and land loans at the end of the first quarter, up from 1.23 percent one year ago. Noncurrent commercial loans increased to 1.14 percent of all commercial loans at the end of the first quarter from 0.97 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 $20.2 billion, or 1.33 percent of assets compared to $12.1 billion, or 0.81 percent of assets, one year ago, but were down from $20.6 billion, or 1.37 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets increased by two percent over the year to $1.52 trillion from $1.49 trillion. Thrifts remain focused on residential mortgage lending, with 49.4 percent of assets invested in 1-4 family mortgage loans at the end of the first quarter, down from 51.8 percent one year ago. Of these 1-4 family mortgage loans, 7.8 percent are home equity lines of credit, up from 6.2 percent one year ago. Holdings of consumer loans decreased to 5.6 percent of assets from 5.9 percent a year ago, and multifamily mortgages decreased over the year from 4.3 percent of assets to 4.2 percent at the end of the first quarter. Commercial loans increased to 4.0 percent of assets at the end of the first quarter from 3.5 percent one year ago.

- Deposits and escrows fell by four percent over the year to $913 billion from $953 billion. As a percentage of total assets, deposits and escrows decreased to 60.3 percent from 64.0 percent one year ago. Federal Home Loan Bank advances were up from 14.2 percent one year ago to 20.4 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 9.05 percent of assets, down from 10.70 percent one year ago, and from 9.26 percent in the prior quarter. At the end of the first quarter, over 98 percent of the industry exceeded well-capitalized standards and three 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 six thrifts one year ago to 12 thrifts at the end of the first quarter.

STRUCTURAL CHANGES

- During the first quarter, three “de novo” institutions and three state-chartered institutions came into OTS regulation. In addition, six state-chartered savings banks were brought into OTS supervision as a result of an acquisition by an OTS institution. Two thrifts converted to state savings bank charters over the first quarter. Also during the first quarter, two OTS-regulated thrifts merged with other OTS-regulated thrifts and non-OTS regulated institutions acquired two thrifts. There was one voluntary dissolution in the first quarter.