Overview of OTS-Regulated Mutual Thrifts

Thrift Industry Overview as of June 30, 2010

- 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 11.3% of assets as of the end of June 2010. Also, 93.4% 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 during 2009, loan loss provisioning remains elevated. For 2009 and the first half of 2010, thrifts set-aside $19.5 billion and $10.6 billion in loss reserves. Strong capital, together with bolstered loan loss reserves, will help the industry weather further weakness in the housing market.
- The industry posted break-even annual profits of ($34) million (ROA of 0.00%) for 2009, and $3.2 billion (ROA of 0.69%) for the first half of 2010.
- 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 2009 operating earnings improved to 1.70 percent of average assets compared to 1.29 percent for 2008, and 1.37 percent for 2007. Operating earnings were 1.67 percent as of June 2010. 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 facing the nation.
- 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 3.21% of total assets at the end of June 2010, down from 3.28% in March 2010 but up from 2.54% at December 2008 and 1.66% at December 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 287 mutual thrifts or 38% of all 753 OTS-regulated thrifts as of June 30, 2010.
    - These 287 mutual thrifts held assets totaling $64.3 billion. The 466 stock thrifts held assets totaling $866.8 billion.
    - The FDIC regulates 206 mutual savings banks with assets totaling $85 billion.

- Most mutual thrifts are primarily concentrated in the Northeast and Midwest parts of the country.

- 59.6% or 171 of the 287 OTS mutual thrifts are concentrated in 10 states. States with 10 or more mutual thrifts are OH=40, IL=22, MD=20, 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.
  - 86% of all OTS thrifts had assets less than $1 billion and 76% had assets less than $500 million
  - 92% of OTS mutual thrifts have assets under $500 million compared to 66% of stock thrifts.
  - The median size of a mutual thrift is $103 million and the median size of a stock thrift is $250 million. The average assets size of a mutual thrift is $224 million while the average size of a stock thrift is $1.9 billion.
  - The largest mutual thrift held assets of $5.8 billion and the smallest mutual thrift held assets of $3.7 million.

- Capital of mutual thrifts is very strong – about 18% stronger than the industry average.
  - Equity capital-to-asset ratio of mutual thrifts is 13.1% compared to 11.1% for stock thrifts and 11.3% for the industry.
  - 69% of mutual thrifts have an equity capital-to-asset ratio exceeding 10% compared to 50% of stock thrifts.

- About 85% of mutual thrifts are rated 1 or 2 as of the end of June 2010 as compared to 69% for stock thrifts.
  - 27% of OTS mutual thrifts are composite rated 1 and 59% are composite rated 2.
  - 14% of OTS stock thrifts are composite rated 1 and 55% are composite rated 2.

- Thrifts remain community oriented and primarily focused on single-family mortgage lending.
  - Mutual thrifts hold 50% of assets in 1-4 family residential loans compared to 34% for stock thrifts.
  - In addition, mutual thrifts hold 10% of assets in mortgage-backed securities compared to 16% for stock thrifts.
  - Mutual thrifts also provide funding for other mortgage and nonmortgage loan types as well including construction and land loans (3% 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 June 2010, the ratio of troubled assets to total assets for mutual thrifts was 1.95% (compared to 1.21% at December 2008 and 0.75% at December

    - 2007). The ratio for stock thrifts was 3.31% (2.61% at December 2008 and 1.65% at December 2007).
    - The loss coverage reserve ratio (allowances for loan and lease losses + equity capital/total loans) for mutual thrifts as of the end of June 2010 was 19.82% compared to 20.82% 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 80% of mutual thrift assets versus 70% 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 6% of mutual thrift assets compared to 17% 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 first half of 2010, the thrift industry reported a net profit of $3.2 billion or an ROA of (0.69%), primarily due to loss provisions measuring 1.09% of average assets. Mutual thrifts reported an ROA of 0.40% while stock thrifts reported an ROA of (0.70%).
    - Mutual thrifts have reported one unprofitable quarter over the past eight quarters (September 2008-June 2010) while stock thrifts have reported four unprofitable quarters.