THRIFT INDUSTRY HIGHLIGHTS FOURTH QUARTER 2010

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SUMMARY

The nation's thrift industry reported a profit of $1.75 billion, or 0.76 percent of average assets for the fourth quarter. This was the industry's sixth consecutive profitable quarter. Fourth quarter profits were up from $1.65 billion in the prior quarter and from $442 million in the fourth quarter one year earlier. For the year 2010, the industry posted profits of $6.62 billion, the first profitable year for the thrift industry since 2006. Annual 2010 profits compared to a loss of $34 million in 2009.

Though continuing to trend down from very high levels in 2008, loan loss provisions remained at elevated levels in 2010. The industry added $2.27 billion (0.98 percent of average assets) to loan loss provisions in the fourth quarter. Provisions measured 0.95 percent of average assets in the prior quarter and 1.70 percent in the fourth quarter one year earlier. The substantial additions to loan loss reserves have bolstered the industry's reserve levels to at, or near, record levels.

Higher than average levels of loss provisioning are due to persistently high unemployment, continued housing market weakness, and weakness in nonresidential commercial real estate markets. The need for loss provisions in upcoming quarters will largely depend on trends in employment, home prices and sales, and the commercial real estate markets.

The industry's financial fundamentals remain solid. The majority of thrifts – 92.1 percent – reported capital exceeding the "well-capitalized" regulatory standards. And these thrifts' combined assets represented 96.6 percent of industry aggregate assets.

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 operating earnings for 2010 were 1.72 percent of average assets, compared with 1.70 percent for 2009 and 1.29 percent for 2008. The combination of solid capital, bolstered loan loss reserves and solid, stable operating earnings will help the industry weather the persistent economic and housing market distress currently facing the nation.

The current high levels of the thrift industry's problem assets are also a direct result of the continued housing market weakness and high unemployment. The industry's troubled assets (noncurrent loans and repossessed assets) declined to 3.30 percent of assets from 3.36 percent in the prior quarter, and were up slightly from 3.29 percent one year earlier. Despite relative stability in troubled assets during the most recent two years, current levels are much above pre-recession levels when thrifts' troubled assets ratios were below one percent.

The number of private sector thrifts supervised by OTS stood at 731 with assets of $931.7 billion at the end of the fourth quarter. In addition, OTS supervised 437 holding company enterprises with approximately $4.2 trillion in U.S. domiciled consolidated assets. These enterprises owned 399 thrifts with total assets of $723 billion, or 78 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income for 2010 was $6.62 billion. Net income was up from net losses of $33.66 million in 2009 and $15.81 billion in 2008.

- Net income was $1.75 billion in the fourth quarter of 2010, up from $442.23 million in the fourth quarter one year earlier, and up from $1.65 billion in the prior quarter.

- Profitability, as measured by return on average assets (ROA), was 0.71 percent for the year 2010, an improvement from 0.00 percent, or breakeven, in 2009 and negative 1.17 percent in 2008. In the fourth quarter, ROA was 0.76 percent, up from 0.19 percent in the fourth quarter one year earlier, and up from 0.72 percent in the prior quarter. The median ROA in the fourth quarter was 0.40 percent, up from 0.31 percent in the fourth quarter one year earlier, but down from 0.43 percent in the prior quarter.

- Return on average equity (ROE) was 6.43 percent in the fourth quarter, up from 1.76 percent in the fourth quarter one year earlier, and up from 6.24 percent in the prior quarter.

ANALYSIS OF ROA

- Earnings improvement over the year was primarily due to higher net interest margins and lower loan loss provisions. These improvements were partially offset by lower gains on the sale of assets held for sale and higher taxes.

- In the fourth quarter, higher earnings were primarily due to higher fee income as well as higher net interest income.

- Net interest margin for the year increased to 310 basis points from 302 basis points in 2009. In the fourth quarter, net interest margin improved to 316 basis points from 300 basis points in the fourth quarter one year earlier, and was up from 313 basis points in the prior quarter.

- Total fee income, including mortgage loan servicing fee income and other fee income, was 1.42 percent of average assets for the year 2010, up from 1.24 percent in 2009. In the fourth quarter, total fee income was 1.59 percent of average assets, up from 1.40 percent in the comparable quarter one year earlier, and up from 1.42 percent in the prior quarter.

- Lower loan loss provisions for the year had a positive impact on thrift earnings. During 2010 the industry added $9.5 billion, or 1.03 percent of average assets, to loan loss provisions, down from $19.6 billion, or 1.81 percent of loan loss provisions in 2009. Higher loan loss provisions in the fourth quarter had a negative impact on thrift earnings. In the fourth quarter, thrifts added $2.3 billion, or 0.98 percent of average assets, to loan loss provisions. Provisions measured 0.95 percent of average assets in the third quarter and 1.70 percent in the fourth quarter one year earlier. 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.

- Other noninterest income increased to 0.48 percent of average assets in 2010, from 0.35 percent of average assets in 2009. In the fourth quarter, other noninterest income declined to 0.27 percent of average assets from 0.56 percent in the fourth quarter of 2009, and was down from 0.50 percent in the prior quarter. 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 2.85 percent of average assets in 2010 from 2.56 percent in 2009. In the fourth quarter, noninterest expense increased to 2.92 percent of average assets from 2.89 percent in the fourth quarter one year earlier, and was down slightly from 2.93 percent in the prior quarter.

- Taxes increased to 0.42 percent of average assets in 2010 from 0.24 percent in 2009. In the fourth quarter, taxes were 0.39 percent of average assets, up from 0.18 percent in the fourth quarter one year earlier, but down from 0.45 percent in the prior quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) during 2010 totaled $160.2 billion, down 37 percent from $254.0 billion in 2009. In the fourth quarter, total mortgage originations were $49.4 billion, up 22 percent from $40.7 billion in the fourth quarter one year earlier, and up 18 percent from $42.0 billion in the prior quarter.

- Total originations of 1-4 family mortgages by thrifts during 2010 were $136.2 billion, down 39 percent from $224.2 billion in 2009. In the fourth quarter, 1-4 family mortgage originations were $42.2 billion, up 23 percent from $34.3 billion in the fourth quarter one year earlier, and up 17 percent from the $36.1 billion originated in the third quarter. Much of thrifts' current 1-4 family mortgage production is being sold into the secondary markets. Sales of 1-4 family mortgages measured 98 percent of 1-4 family originations in the fourth quarter, down from 101 percent in the prior quarter.

- Refinancing activity accounted for 60 percent of thrift originations in the fourth quarter, up from 57 percent in the prior quarter, and from 45 percent in the fourth quarter one year earlier. The increase in fourth quarter refinancing activity was attributable to historically low mortgage interest rates.

ASSET QUALITY

- Delinquencies for most loan types were lower over the year.

- Troubled assets, which consist of noncurrent loans and repossessed assets, were 3.30 percent of assets at the end of the fourth quarter, up slightly from 3.29 percent one year earlier, but down from 3.36 percent at the end of the prior quarter. Repossessed assets were up three basis points over the year from 0.48 percent of assets to 0.51 percent, and remained unchanged from the prior quarter.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status) fell to 2.78 percent of assets at the end of the fourth quarter from 2.80 percent at the end of the fourth quarter one year earlier, and were down from 2.86 percent at the end of the prior quarter. Noncurrent loan rates for 1-4 family loans decreased to 5.40 percent of all 1-4 family loans from 5.50 percent in the prior quarter, and from 5.13 percent one year earlier. Noncurrent multifamily loans decreased to 2.90 percent of all multifamily loans from 3.37 percent one year earlier. Noncurrent consumer loans decreased to 1.14 percent of all consumer loans in the fourth quarter from 1.58 percent at the end of fourth quarter one year earlier. Noncurrent nonresidential mortgages increased to 4.17 percent of all nonresidential mortgages from 3.37 percent one year earlier. Noncurrent construction and land loans were 15.95 percent of all construction and land loans at the end of the fourth quarter, up from 13.73 percent one year earlier. Noncurrent commercial loans decreased to 2.54 percent of all commercial loans at the end of the fourth quarter from 2.70 percent a year earlier.

- Loans past due by 30 to 89 days relative to total assets were lower over the year and from the prior quarter. Total loans past due by 30 to 89 days at the end of the quarter were $10.0 billion, or 1.07 percent of assets, compared to $11.9 billion, or 1.26 percent of assets, one year earlier, and were down from 1.08 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets decreased by 1.2 percent over the year to $932 billion from $943 billion. Thrifts remain focused on residential mortgage lending, with 34.3 percent of assets invested in 1-4 family mortgage loans at the end of the fourth quarter, down from 35.5 percent one year earlier. The decline in the percent of residential loans was attributable to continued strong sales of loans into the secondary market and refinancing activity. Of total 1-4 family mortgage loans, 4.7 percent were home equity lines of credit, down from 4.9 percent one year earlier. Holdings of consumer loans increased to 9.0 percent of assets from 7.8 percent a year earlier. Multifamily mortgages increased over the year from 3.3 percent of assets to 3.5 percent at the end of the fourth quarter. Commercial loans decreased from 5.4 percent of assets one year earlier to 5.3 percent.

- Deposits and escrows increased by 1.7 percent over the year to $670 billion from $659 billion. As a percentage of total assets, deposits and escrows increased to 71.9 percent from 69.9 percent one year earlier. Federal Home Loan Bank advances were down from 9.5 percent one year earlier to 8.2 percent of total assets at the end of the fourth quarter.

- Capital measures for the industry continue to be strong, stable and well in excess of minimum requirements. Equity capital at the end of the fourth quarter was 11.80 percent of assets, up from 10.72 percent one year earlier. At the end of the fourth quarter, 92.1 percent of the industry exceeded well-capitalized standards and 8 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 43 thrifts one year earlier to 58 thrifts at the end of the fourth quarter, and was up from 53 thrifts at the end of the prior quarter.

STRUCTURAL CHANGES

- A total of 10 thrifts left OTS regulation over the fourth quarter. Four thrifts converted to a bank charter over the quarter, three were acquired by a bank and three thrifts failed. No thrifts entered OTS regulation during the quarter.