THRIFT INDUSTRY HIGHLIGHTS
FOURTH QUARTER 2007

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SUMMARY

Annual results for the nation's thrift industry declined from the historically strong levels of the prior year as institutions responded to a downturn in the housing market by taking write-downs, recording restructuring costs and setting aside record levels of provisions for anticipated loan losses. The continued housing market distress resulted in losses in earnings and profitability, and a decline in asset quality measures in the fourth quarter of 2007.

Earnings losses in the fourth quarter were focused primarily in a small number of thrifts with large goodwill amortization and restructuring charges. Strong capital levels and appropriate loan loss provisions are expected to position thrifts for the loan losses anticipated in 2008.

About $4 billion of the overall loss resulted from a write-down by a few thrifts in goodwill, necessary to recognize the reduced value of acquired assets. Another $2.2 billion loss was due to a restructuring charge by a single institution. Income offset those losses in part.

During the fourth quarter of 2007, thrifts set aside $5.1 billion in loan loss provisions, or 1.35 percent of average assets. That's up from 0.92 percent ($3.5 billion) in the previous quarter and 0.45 percent ($1.6 billion) in the fourth quarter one year ago. For the year, loan loss provisions totaled $11.3 billion, or 0.75 percent of average assets, compared with $3.8 billion in 2006, or 0.25 percent of average assets.

The industry's equity capital ratio was 9.46 percent at the end of 2007, down from 10.16 percent in the prior quarter and 10.72 percent at the end of 2006.

Troubled assets (noncurrent loans and repossessed assets) were 1.65 percent of assets, up from 1.19 percent in the third quarter and 0.70 percent a year ago.

Total mortgage origination volume for the year was up ten percent from 2006, but in the fourth quarter was down ten percent from the third quarter 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 fourth 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 826 with assets of $1.51 trillion at the end of 2007. In addition, OTS supervised 475 holding company enterprises with approximately $8.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 436 thrifts with total assets of $1.32 trillion, or 87 percent of total thrift industry assets.

Other highlights include:

EARNINGS AND PROFITABILITY

- Net income was $2.87 billion for the year, down 82 percent from $15.85 billion in 2006. In the fourth quarter, net losses of $5.24 billion were reported, down from net income of $657 million in the third quarter and from net income of $3.14 billion in the fourth quarter one year ago. This 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 0.19 percent for the year, down from 1.06 percent in the prior year. In the fourth quarter, ROA was a negative 1.38 percent, down from 0.89 percent in the comparable year ago quarter, and down from 0.17 percent in the prior quarter. The median ROA declined to 0.40 percent in the fourth quarter from 0.52 percent in the fourth quarter one year ago, and was down from 0.48 percent in the prior quarter.

- Return on average equity (ROE) was a negative 13.89 percent in the fourth quarter, down from 8.89 percent in the fourth quarter one year ago and from 1.65 percent in the prior quarter.

ANALYSIS OF ROA

- Write-downs of goodwill, restructuring charges, higher loan loss provisions, and losses on asset sales drove the losses in the fourth quarter. The same factors reduced income for the year compared to 2006.

- For the year, net interest margin decreased to 269 basis points (or 2.69 percent of average assets) from 273 basis points in 2006. In the fourth quarter, NIM averaged 261 basis points, down from 271 basis points in the comparable quarter a year ago, but up from 260 basis points in the prior quarter.

- Loan loss provisions increased to 0.75 percent of average assets for the year from 0.25 percent in 2006. Provisions were 1.35 percent of average assets in the fourth quarter, up from 0.45 percent in the fourth quarter one year ago and from 0.92 percent in the prior quarter. The recent increases in loss provisions reflects the increase in noncurrent loans stemming from the slower housing market 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, increased to 1.22 percent of average assets for the year from 1.15 percent in 2006. In the fourth quarter, total fee income was 1.15 percent of average assets, down from 1.26 percent in the fourth quarter one year ago, and from 1.18 percent in the prior quarter.

- Other noninterest income was 0.12 percent of average assets for the year, down from 0.56 percent in 2006. In the fourth quarter, other noninterest income was a negative 0.51 percent, down from 0.43 percent in the fourth quarter one year ago and from 0.12 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 2.91 percent of average assets for the year from 2.58 percent in 2006. In the fourth quarter, noninterest expense rose to 3.72 percent of average assets, up from 2.59 percent in the comparable year ago quarter and from 2.75 percent in the prior quarter. General and administrative expense, the largest component of noninterest expense, increased three basis points to 2.62 percent of average assets in the fourth quarter from 2.59 percent in the comparable year ago quarter.

- Taxes were down 38 basis points over the year to 0.17 percent of average assets, and were down to a negative 0.44 percent in the fourth quarter.

MORTGAGE ORIGINATIONS

- Total thrift industry mortgage originations (which include multifamily and nonresidential mortgages) in 2007 were $716.1 billion, up 12 percent from $642.2 billion in 2006. In the fourth quarter, total mortgage originations increased to $166.6 billion from $134.3 billion in the fourth quarter one year ago, but were down from $185.7 billion in the prior quarter. Fourth quarter 1-4 family mortgage originations by thrifts were $143.9 billion, up 28 percent from $112.1 billion in the fourth quarter one year ago, but down 13 percent from the $165.1 billion originated in the prior quarter.

- Thrifts accounted for approximately 31 percent of total 1-4 family originations nationwide in the fourth quarter of 2007,[1] up from 16 percent in the comparable year ago quarter, and from 30 percent in the prior quarter. An estimated nine

[1] Total 1-4 family mortgage originations estimated by the Mortgage Bankers Association of America.

percent of thrift originations were ARMs in the fourth quarter, down from 12 percent in the comparable year ago quarter, and down from 13 percent in the prior quarter. The ARM share for all lenders was estimated at nine percent in the fourth quarter, 12 percent in the prior quarter, and 14 percent in the fourth quarter one year ago.[2]

- The volume of mortgage refinancing, as a percentage of total originations, was up from the comparable year ago quarter as borrowers converted adjustable rate mortgages to fixed rate mortgages. Refinancing activity accounted for 48 percent of thrift originations in the fourth quarter, up from 39 percent in the fourth quarter one year ago, and up from 44 percent in the prior quarter.

ASSET QUALITY

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

- Troubled assets, which consist of noncurrent loans and repossessed assets, were up 46 basis points from the prior quarter at 1.65 percent of assets, and were up from 0.70 percent one year ago. Excluding repurchased GNMA[3] loans, troubled assets were up 45 basis points from the prior quarter at 1.60 percent of assets, and were up from 0.63 percent one year ago. Repossessed assets were up four basis points from the prior quarter at 0.20 percent of assets, and were up from 0.09 percent one year ago.

- Noncurrent loan rates (loans over 89 days past due or in nonaccrual status), excluding repurchased GNMA loans, climbed 41 basis points from the prior quarter to 1.40 percent of assets at the end of the fourth quarter, and were up from 0.54 percent one year ago. Noncurrent loan rates for 1-4 family loans, excluding repurchased GNMA loans, were up 148 basis points from one year ago and 73 basis points from the prior quarter to 2.24 percent of all 1-4 family loans. Noncurrent multifamily loans increased to 0.43 percent of all multifamily loans from 0.21 percent one year ago. Noncurrent consumer loans increased from 0.91 percent of all consumer loans one year ago to 1.01 percent at the end of 2007. Noncurrent nonresidential mortgages increased to 0.70 percent of all nonresidential mortgages from 0.54 percent one year ago. Noncurrent construction and land loans were 4.60 percent of all construction and land loans at the end of 2007, up from 0.91 percent one year ago. Noncurrent commercial loans increased to 0.93 percent of all commercial loans at the end of the fourth quarter from 0.90 percent a year ago.

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

- 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 2007, excluding repurchased GNMA loans, were $20.0 billion, or 1.32 percent of assets compared to $10.5 billion, or 0.75 percent of assets, one year ago, and $17.7 billion, 1.12 percent of assets, in the prior quarter.

ASSETS, LIABILITIES, AND CAPITAL

- Industry assets increased by seven percent over the year to $1.51 trillion from $1.41 trillion. Thrifts remain focused on residential mortgage lending, with 48.9 percent of assets invested in 1-4 family mortgage loans at the end of 2007, down from 51.5 percent one year ago. Of these 1-4 family mortgage loans, 7.5 percent are home equity lines of credit, up from 5.7 percent one year ago. Holdings of consumer loans decreased to 5.3 percent of assets from 5.7 percent a year ago, and multifamily mortgages decreased over the year from 4.7 percent of assets to 4.1 percent at the end of 2007. Commercial loans increased to 3.8 percent of assets at the end of the year from 3.6 percent one year ago.

- Deposits and escrows grew by two percent over the year to $891 billion from $876 billion. As a percentage of total assets, deposits and escrows decreased to 58.9 percent from 62.1 percent one year ago. Federal Home Loan Bank advances were up from 15.2 percent one year ago to 20.0 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 2007 was 9.46 percent of assets, down from 10.72 percent one year ago, and from 10.16 percent in the prior quarter. At the end of the year, 99 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 11 thrifts at the end of 2007.

STRUCTURAL CHANGES

- Charter choice decisions resulted in 25 institutions choosing a thrift charter during 2007 – 11 were “de novo” institutions, ten converted from existing state charters, two converted from national banks, and two converted from credit unions. Nine thrifts converted to commercial bank or state savings bank charters over the year. Also during the year, 11 OTS-regulated thrifts merged with other OTS-regulated thrifts and non-OTS regulated institutions acquired 20 thrifts. There was one failure and three voluntary dissolutions in 2007.