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US thrifts earn \$4M in 2Q; 40 on 'problem' list

AP Associated Press

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By MARCY GORDON, AP Business Writer – Wed Aug 26, 11:28 pm ET

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WASHINGTON — U.S. thrifts eked out a \$4 million profit in the second quarter, but the number of troubled institutions continued to rise, the government said Wednesday.

The Office of Thrift Supervision said the small profit in the April-June period marked the industry's first positive earnings since the third quarter of 2007. It compared with a loss of \$5.4 billion in the year-ago period, and \$1.62 billion in the first quarter of this year.

"Problem thrifts" on the Treasury Department agency's confidential list, those rated by examiners as having significantly low capital reserves and other deficiencies, rose to 40. That's up from 31 in the first quarter and 17 a year earlier.

Thrifts, also known as savings and loans, differ from banks in that, by law, they must have at least 65 percent of their lending in mortgages and other consumer loans — making them particularly vulnerable to the housing downturn.

The industry's first-quarter loss of \$1.62 billion was much wider than the previously reported loss of \$47 million, largely because of the earnings restatement by Guaranty Bank, the big Texas lender that became the second-largest U.S. bank to fail this year when it was shut down by regulators last week.

Most of Guaranty's operations were sold to Banco Bilbao Vizcaya Argentaria SA, Spain's second-largest bank. Austin-based Guaranty, with about \$13 billion in assets, revised its first-quarter earnings to reflect a \$1.45 billion writedown in the value of mortgage-backed securities it held, pushing its capital into the negative column at (minus) 5.8 percent of assets as of March 31.

Guaranty's failure is expected to cost the federal deposit insurance fund an estimated \$3 billion.

The OTS said that troubled assets — delinquent loans and repossessed property — as a percent of the thrift industry's assets continued to inch up, to 3.52 percent from 3.35 percent at the end of the first quarter.

The total value of troubled assets declined, however, to \$38.6 billion from the record \$41 billion in the first quarter.

The thrift industry "is not out of the woods yet," acting OTS Director John Bowman said at a news conference. "Despite some encouraging signs, the industry's performance remained uneven."

"Points of weakness remained ... and significant challenges continued, but we saw signs that thrift managers are making progress toward positioning their institutions for a positive future," he said.

Tough challenges lie ahead for the industry that could boost loan defaults, say OTS officials. Higher resets of subprime home mortgages are nearing an end but rates on many so-called option ARM loans, which allow home borrowers to choose from multiple payment options, are about to rise — analysts estimate about 500,000 loans will be affected in the next four years.

Officials said they also were concerned by growing delinquencies on prime, conventional home loans.

In the first quarter of this year, thrifts held 9 percent of deposits insured by the Federal Deposit Insurance Corp. By comparison, thrifts held 15.5 percent of those deposits in the first quarter of 1995.

The 81 federally insured banks that have failed so far this year include several large thrifts. And the two biggest bank failures, which occurred last year, both involved thrifts. Big California lender IndyMac Bank, with about \$30.2 billion in assets, failed in July 2008 and Seattle-based Washington Mutual Inc. collapsed in September — the largest U.S. bank failure ever with \$307 billion in assets. It was acquired by JPMorgan

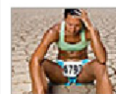
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Chase & Co. for \$1.9 billion in a deal brokered by the Federal Deposit Insurance Corp.

The OTS said savings institutions set aside less money for losses on bad mortgages and other loans in the second quarter. Thrifts set aside \$4.7 billion, down from \$5.8 billion in the first quarter but still the sixth-highest on record.

Loan-loss provisions likely will remain at high levels, dragging down industry profits, until the housing and job markets recover, the agency said.

New mortgage loans by thrifts totaled \$70.5 billion in the second quarter, down sharply from \$128.3 billion a year earlier and from the \$96.1 billion in the first quarter.

The agency, which regulates 794 federally insured thrifts, has been criticized by lawmakers and consumer advocates for what they say was lax oversight of the industry in the run-up to the financial crisis. The previous director of the OTS, Scott Polakoff, was put on leave in March pending an investigation into improper backdating of cash infusions at six thrifts including IndyMac. He left the government in early July.

The Obama administration's proposed plan to overhaul the financial regulation system, now before Congress, calls for abolishing the OTS. The agency oversaw the financial conglomerate American International Group Inc., whose business of insuring exotic securities blew up last fall, prompting a federal bailout that has reached \$182 billion.

"We think we are viable," Bowman said Wednesday when asked about the prospects for the agency surviving Congress' revamp of financial rules. "We're going to continue to do the job that we do. We will continue to make improvements" in supervision.

The OTS said that as of Aug. 14, 299 thrifts had applied to receive money through the Treasury Department's \$700 billion financial bailout program. Of those, 176 of the applications had been withdrawn, 56 thrifts had received funds and the rest are under review. Five had repaid the government's investment.

The first U.S. savings association dates to the early 19th century. After the industry enjoyed explosive growth in the 1920s, and then a collapse in the Great Depression, the government stepped in to regulate thrifts separately from banks. The OTS was established in 1989 to regulate thrifts.

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Oil	72.86	+0.37	+0.51%
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