TIERONE CORP
Form 10-Q
May 08, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number: 000-50015

TierOne Corporation

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Wisconsin	04-3638672
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1235 N Street Lincoln, Nebraska	68508
(Address of Principal Executive Offices)	(Zip Code)

(402) 475-0521

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (Registrant is not yet required to provide financial disclosure in Interactive Date File format). Yes |_| No |_|

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_| Smaller reporting company |_|

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

As of May 6, 2009 there were 18,034,474 issued and outstanding shares of the Registrant s common stock.

PART I - FINANCIAL INFORMATION

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q which are not historical facts may be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors. In addition to risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, risk factors that could result in material variations include, but are not limited to:

General economic conditions and trends, either nationally or in some or all of the areas in which we and our customers conduct our businesses;
Changes in interest rates or other competitive factors which could affect net interest margins and result in a decline in net interest income and noninterest income;
Changes in deposit flows, and in the demand for deposits, loans, investment products and other financial services in the markets we serve;
Changes in the quality or composition of our loan portfolio, or the unanticipated further deterioration of our loan portfolio;
Changes in our underlying assumptions or any unanticipated issues that could impact management s judgment regarding our allowance and provisions for loan losses, which could cause our existing allowance for loan losses to be inadequate;
Changes in real estate values, which could impact the quality of the assets securing the loans in our portfolios;
Changes in the financial or operating performance of our customers businesses;
Issues associated with unanticipated increases in the levels of losses, customer bankruptcies, claims and assessments;

Our timely development of new lines of business and competitive products or services within our existing lines of business in a changing environment, and the acceptance of such products or services by our customers;
Any interruption or breach of security resulting in failures or disruption in customer account management, general ledger, deposit operations, lending or other systems;
Changes in fiscal, monetary, regulatory, trade and tax policies and laws;
Increased competitive challenges and expanding product and pricing pressures among financial institutions;
Changes in accounting policies or procedures as may be required by various regulatory agencies;
Changes in consumer spending and savings habits;
Unanticipated issues related to our ability to achieve expected results pursuant to our plan to address asset quality, restore long-term profitability and increase capital;
Changes in liquidity levels in capital markets;
Unanticipated events related to the supervisory agreement or actions by regulators, including any failure to meet enhanced regulatory capital requirements; and
Other factors discussed in documents we may file with the Securities and Exchange Commission from time to time.

These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation, and disclaim any obligation, to update information contained in this Quarterly Report on Form 10-Q, including these forward-looking statements, to reflect events or circumstances that occur after the date of the filing of this Quarterly Report on Form 10-Q.

Item 1 Financial Statements

TierOne Corporation and Subsidiaries
Consolidated Statements of Financial Condition
March 31, 2009 (Unaudited) and December 31, 2008

(Dollars in thousands, except per share data)	**March 31, 2009**	**December 31, 2008**
ASSETS		
Cash and due from banks	$ 54,023	$ 73,567
Funds held at Federal Reserve Bank	256,429	29,292
Federal funds sold	5,000	147,000
Total cash and cash equivalents	315,452	249,859
Investment securities:		
Held to maturity, at cost which approximates fair value	42	48
Available for sale, at fair value	124,400	137,664
Mortgage-backed securities, available for sale, at fair value	8,706	3,133
Loans receivable:		
Net loans (includes loans held for sale of $20,396 and $13,917 at March 31, 2009 and December 31, 2008, respectively)	2,730,526	2,782,220
Allowance for loan losses	(59,335)	(63,220)
Net loans after allowance for loan losses	2,671,191	2,719,000
FHLBank Topeka stock, at cost	44,277	47,011
Premises and equipment, net	34,337	35,316
Accrued interest receivable	15,284	16,886
Other real estate owned and repossessed assets, net	50,808	37,236
Other intangible assets, net	4,401	4,722
Mortgage servicing rights, net	15,397	14,806
Other assets	45,942	52,264
Total assets	$ 3,330,237	$ 3,317,945

(Dollars in thousands, except per share data)	**March 31, 2009**	**December 31, 2008**
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	$ 2,343,581	$ 2,307,292
FHLBank Topeka advances and other borrowings	648,623	668,849
Advance payments from borrowers for taxes, insurance and other escrow funds	43,191	34,064
Accrued interest payable	5,365	5,158
Accrued expenses and other liabilities	28,827	31,969
Total liabilities	3,069,587	3,047,332
Stockholders equity:		
Preferred stock, $0.01 par value. 10,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value. 60,000,000 shares authorized; 22,575,075 issued at March 31, 2009 and December 31, 2008; 18,034,878 shares outstanding at both March 31, 2009 and December 31, 2008	226	226
Additional paid-in capital	366,751	367,028
Retained earnings, substantially restricted	7,561	17,364
Treasury stock, at cost; 4,540,197 shares at both March 31, 2009 and December 31, 2008	(105,206)	(105,206)
Unallocated common stock held by Employee Stock Ownership Plan	(8,278)	(8,654)
Accumulated other comprehensive loss, net	(404)	(145)
Total stockholders equity	260,650	270,613
Total liabilities and stockholders equity	$ 3,330,237	$ 3,317,945

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended March 31,	
(Dollars in thousands, except per share data)	**2009**	**2008**
Interest income:		
Loans receivable	$ 36,091	$ 47,563
Investment securities	909	2,169
Other interest-earning assets	143	1,509
Total interest income	37,143	51,241
Interest expense:		
Deposits	13,546	20,719
FHLBank Topeka advances and other borrowings	7,059	7,433

	For the Three Months Ended March 31,	
Total interest expense	20,605	28,152
Net interest income	16,538	23,089
Provision for loan losses	12,163	39,940
Net interest income (loss) after provision for loan losses	4,375	(16,851)
Noninterest income:		
Fees and service charges	2,876	5,530
Debit card fees	1,014	945
Loss from real estate operations, net	(341)	(107)
Net gain (loss) on sales of:		
Loans held for sale	4,518	1,254
Other real estate owned	(78)	(18)
Other operating income	200	635
Total noninterest income	8,189	8,239
Noninterest expense:		
Salaries and employee benefits	10,955	13,198
Goodwill impairment	--	42,101
Occupancy, net	2,452	2,376
Data processing	439	657
Advertising	706	1,113
Federal Deposit Insurance Corporation insurance premium	2,171	143
Legal services	745	366
Other operating expense	4,891	4,642
Total noninterest expense	22,359	64,596
Loss before income taxes	(9,795)	(73,208)
Income tax expense (benefit)	8	(12,279)
Net loss	$ (9,803)	$ (60,929)
Net loss per common share, basic	$ (0.58)	$ (3.60)
Net loss per common share, diluted	$ (0.58)	$ (3.60)
Dividends declared per common share	$ --	$ 0.08
Average common shares outstanding, basic (000 s)	16,936	16,919
Average common shares outstanding, diluted (000 s)	16,936	16,919

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Loss
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings, Substantially Restricted	Treasury Stock	Unallocated Common Stock Held by the Employee Stock Ownership Plan	Accumulated Other Comprehensive Loss, Net	Total Stockholders Equity
Balance at December 31, 2007	$ 226	$ 366,042	$ 94,630	$ (105,008)	$ (10,159)	$ (141)	$ 345,590
Common stock earned by employees in Employee Stock Ownership Plan	--	248	--	--	376	--	624
Amortization of awards under the Management Recognition and Retention Plan	--	726	--	--	--	--	726
Amortization of stock options under 2003 Stock Option Plan	--	513	--	--	--	--	513
Treasury stock reissued under 2003 Stock Option Plan	--	(5)	--	23	--	--	18
Excess tax benefit realized from stock-based compensation plans	--	10	--	--	--	--	10
Dividends paid ($0.08 per common share)	--	--	(1,347)	--	--	--	(1,347)
Comprehensive loss:							
Net loss	--	--	(60,929)	--	--	--	(60,929)
Change in unrealized loss on available for sale securities, net of tax	--	--	--	--	--	(37)	(37)
Total comprehensive loss	--	--	(60,929)	--	--	(37)	(60,966)
Balance at March 31, 2008	$ 226	$ 367,534	$ 32,354	$ (104,985)	$ (9,783)	$ (178)	$ 285,168
Balance at December 31, 2008	$ 226	$ 367,028	$ 17,364	$ (105,206)	$ (8,654)	$ (145)	$ 270,613
Common stock earned by employees in Employee Stock Ownership Plan	--	(295)	--	--	376	--	81
Amortization of awards under the Management Recognition and Retention Plan	--	49	--	--	--	--	49
Amortization of stock options under 2003 Stock Option Plan	--	13	--	--	--	--	13
Excess tax expense realized from stock-based compensation plans	--	(44)	--	--	--	--	(44)
Comprehensive loss:							
Net loss	--	--	(9,803)	--	--	--	(9,803)
Change in unrealized loss on available for sale securities, net of tax	--	--	--	--	--	(259)	(259)
Total comprehensive loss	--	--	(9,803)	--	--	(259)	(10,062)
Balance at March 31, 2009	$ 226	$ 366,751	$ 7,561	$ (105,206)	$ (8,278)	$ (404)	$ 260,650

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)	For the Three Months Ended March 31, 2009	2008
Cash flows from operating activities:		
Net loss	$ (9,803)	$ (60,929)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Net discount accretion of investment and mortgage-backed securities	(74)	(776)
Premises and equipment depreciation and amortization	960	1,021
Amortization of other intangible assets	321	391
Accretion of discount on FHLBank Topeka advances	(64)	(64)
Employee Stock Ownership Plan compensation expense	81	624
2003 Management Recognition and Retention Plan compensation expense	49	726
2003 Stock Option Plan compensation expense	13	513
Net amortization of premiums (accretion of discounts) on net loans	376	(274)
FHLBank Topeka stock dividend	(266)	(762)
Deferred income tax benefit	(694)	(4,191)
Goodwill impairment	--	42,101
Provision for loan losses	12,163	39,940
Provision for other real estate owned losses	476	125
Provision for valuation allowance on net deferred tax assets	4,002	--
Mortgage servicing rights originated, net	(2,821)	(1,137)
Mortgage servicing rights valuation allowance	2,230	206
Proceeds from sales of loans held for sale	293,723	136,866
Originations and purchases of loans held for sale	(295,684)	(149,511)
Excess tax (benefit) from stock-based compensation plans	44	(10)
Net (gain) loss on sales of:		
Loans held for sale	(4,518)	(1,254)
Other real estate owned	78	18
Changes in certain assets and liabilities:		
Accrued interest receivable	1,602	2,875
Other assets	3,309	(8,731)
Accrued interest payable	207	(713)
Accrued expenses and other liabilities	(3,186)	(2,897)
Net cash provided by (used in) operating activities	2,524	(5,843)
Cash flows from investing activities:		
Purchase of investment and mortgage-backed securities, available for sale	(43,090)	(97,336)
Proceeds from maturities of investment securities, available for sale	50,160	110,075
Proceeds from principal repayments of investment and mortgage-backed securities, available for sale and held to maturity	306	1,109
Decrease in loans receivable	25,878	68,826
Redemption of FHLBank Topeka stock	3,000	--
Additions to premises and equipment	(140)	(415)
Proceeds from sale of other real estate owned and repossessed assets	1,745	463
Net cash provided by investing activities	37,859	82,722

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued) (Unaudited)

(Dollars in thousands)	For the Three Months Ended March 31, 2009	2008
Cash flows from financing activities:		
Net increase (decrease) in deposits	$ 36,289	$ (74,805)
Net advances (repayment) on FHLBank Topeka line of credit, short-term advances and other borrowings	(15,104)	3,824
Repayments of FHLBank Topeka long-term advances and other borrowings	(5,058)	(25,055)
Net increase in advances from borrowers for taxes, insurance and other escrow funds	9,127	2,452
Dividends paid on common stock	--	(1,347)
Excess tax benefit realized from the vesting of Management Recognition and Retention Plan shares	(44)	10
Proceeds from the exercise of stock options	--	18
Net cash provided by (used in) financing activities	25,210	(94,903)
Net increase (decrease) in cash and cash equivalents	65,593	(18,024)
Cash and cash equivalents at beginning of period	249,859	241,461
Cash and cash equivalents at end of period	$ 315,452	$ 223,437
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 20,398	$ 28,865
Income taxes, net of refunds	$ --	$ --
Noncash investing activities:		
Transfers from loans to real estate owned and other assets through foreclosure	$ 15,871	$ 6,991
Loss on impairment of securities	$ --	$ 485

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation and Consolidation

TierOne Corporation (Company) is a Wisconsin corporation headquartered in Lincoln, Nebraska. TierOne Corporation is the holding company for TierOne Bank (Bank). The Bank has two wholly owned subsidiaries, TMS Corporation of the Americas (TMS) and United Farm & Ranch Management, Inc. (UFARM). TMS is the holding company of TierOne Investments and Insurance, Inc. (d/b/a TierOne Financial), a wholly owned subsidiary that administers the sale of securities and insurance products, and TierOne Reinsurance Company, a wholly owned subsidiary that reinsures credit life and disability insurance policies. UFARM provides agricultural customers with professional farm and ranch management services. The accompanying unaudited consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries.

The assets of the Company, on an unconsolidated basis, primarily consist of 100% of the Bank s common stock. The Company has no significant independent source of income and therefore depends on cash distributions from the Bank to meet its funding requirements.

The accompanying interim consolidated financial statements as of March 31, 2009 and for the three months ended March 31, 2009 and 2008 are unaudited. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and operating results for interim periods. The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information, in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC), and do not include all of the information and notes required for complete, audited financial statements. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results which may be expected for the entire calendar year 2009.

As used in this report, unless the context otherwise requires, the terms we, us, or our refer to the Company and the Bank.

Note 2 Earnings Per Share

Basic earnings (loss) per share (EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding for each reporting period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Diluted earnings per share is computed after giving consideration to the weighted average dilutive effect of our 2003 Stock Option Plan shares and 2003 Management Recognition and Retention Plan shares. All stock options are assumed to be 100% vested for purposes of EPS computations. Due to our net loss for the three month periods ended March 31, 2009 and 2008, no potentially dilutive shares were included in the loss per share calculations since including such shares would be anti-dilutive. The following table is a reconciliation of basic and diluted EPS:

	For the Three Months Ended March 31,			
	2009		2008	
(In thousands, except per share data)	Basic Earnings Per Share	Diluted Earnings Per Share	Basic Earnings Per Share	Diluted Earnings Per Share
Net loss	$ (9,803)	$ (9,803)	$ (60,929)	$ (60,929)
Total weighted average basic common shares outstanding	16,936	16,936	16,919	16,919
Effect of dilutive securities:				
2003 Stock Option Plan		--		--
2003 Management Recognition and Retention Plan		--		--
Total weighted average basic and diluted common shares outstanding	16,936	16,936	16,919	16,919
Net loss per common share	$ (0.58)	$ (0.58)	$ (3.60)	$ (3.60)

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 3 Investment and Mortgage-Backed Securities

Investment Security Composition. The amortized cost, gross unrealized gains and losses and fair value of investment and mortgage-backed securities by major security category at March 31, 2009 and December 31, 2008 are as follows:

	March 31, 2009			
		Gross Unrealized		
(Dollars in thousands)	Amortized Cost	Gains	Losses	Fair Value
Held to maturity:				
Municipal obligations	$ 42	$ --	$ --	$ 42
Available for sale:				
Mortgage-backed securities	8,661	63	18	8,706
United States Government securities and agency obligations	109,136	99	--	109,235
Corporate securities	3,542	--	111	3,431
Municipal obligations	7,475	33	19	7,489
Agency equity securities	8	--	--	8
Asset Management Fund - ARM Fund	4,907	--	670	4,237
Total investment and mortgage-backed securities, available for sale	$ 133,729	$ 195	$ 818	$ 133,106

	December 31, 2008			
		Gross Unrealized		
(Dollars in thousands)	Amortized Cost	Gains	Losses	Fair Value
Held to maturity:				
Municipal obligations	$ 48	$ --	$ --	$ 48
Available for sale:				
Mortgage-backed securities	3,114	46	27	3,133
United States Government securities and agency obligations	119,811	264	4	120,071
Corporate securities	3,548	--	21	3,527
Municipal obligations	9,635	32	15	9,652
Agency equity securities	8	--	--	8
Asset Management Fund - ARM Fund	4,907	--	501	4,406
Total investment and mortgage-backed securities, available for sale	$ 141,023	$ 342	$ 568	$ 140,797

We had four securities with unrealized losses totaling $116,000 for 12 consecutive months or longer as of March 31, 2009. The unrealized losses at March 31, 2009 are believed to be temporarily impaired in value. Impairment is deemed temporary if the positive evidence indicating that an investment s carrying amount is recoverable within a reasonable time period outweighs negative evidence to the contrary. At March 31, 2009, we had the ability and intent to hold these securities until maturity or for the period necessary to recover the unrealized losses. Losses on impairment of securities totaled zero and $485,000 for the three month periods ended March 31, 2009 and 2008, respectively.

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 4 Loans Receivable

Loan Portfolio Composition. Loans receivable at March 31, 2009 and December 31, 2008 are summarized in the following table:

	March 31, 2009		December 31, 2008	
(Dollars in thousands)	Amount	%	Amount	%
Real estate loans:				
One-to-four family residential (1)	$ 377,498	13.14 %	$ 384,614	12.99 %
Second mortgage residential	72,864	2.54	76,438	2.58
Multi-family residential	210,178	7.32	199,152	6.73
Commercial real estate	359,799	12.52	356,067	12.03
Land and land development	377,789	13.15	396,477	13.39
Residential construction	194,274	6.76	229,534	7.75
Commercial construction	323,425	11.26	360,163	12.16
Agriculture	96,007	3.34	95,097	3.21
Total real estate loans	2,011,834	70.03	2,097,542	70.84
Business	249,773	8.69	250,619	8.46
Agriculture - operating	93,132	3.24	106,429	3.59
Warehouse mortgage lines of credit	159,327	5.55	133,474	4.51
Consumer loans:				
Home equity	52,127	1.82	55,355	1.87
Home equity lines of credit	124,759	4.34	126,393	4.27
Home improvement	34,269	1.19	36,747	1.24
Automobile	85,904	2.99	89,202	3.01
Other	61,765	2.15	65,390	2.21
Total consumer loans	358,824	12.49	373,087	12.60
Total loans	2,872,890	100.00 %	2,961,151	100.00 %
Unamortized premiums, discounts and deferred loan fees	9,327		9,558	
Loans in process (2)	(151,691)		(188,489)	
Net loans	2,730,526		2,782,220	
Allowance for loan losses	(59,335)		(63,220)	
Net loans after allowance for loan losses	$ 2,671,191		$ 2,719,000	

	March 31, 2009	December 31, 2008
(1) Includes loans held for sale	$ 20,396	$ 13,917

(2) Loans in process represents the undisbursed portion of construction and land development loans.

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 5 Goodwill and Other Intangible Assets

Goodwill. We recorded goodwill as a result of our 2004 acquisition of United Nebraska Financial Co. (UNFC). In accordance with Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets,* we tested this goodwill for impairment annually during the third quarter of each year, or between annual assessment dates whenever events or significant changes in circumstances indicate that the carrying value may be impaired. We performed a goodwill impairment test as of March 31, 2008 due to adverse changes in the business climate. As a result of a decline in the market value of our common stock to levels below our book value, we determined that the entire amount of our goodwill was impaired, and we recorded a $42.1 million goodwill impairment charge to write-off our goodwill at March 31, 2008.

Other Intangible Assets. Our only identifiable other intangible asset is the value of core deposits acquired as part of the UNFC and Marine Bank transactions. The core deposit intangible assets have been estimated to have nine- to ten-year lives. Core deposit intangible assets are amortized using an accelerated method of amortization which is recorded in other operating expense.

Other Intangible Asset Activity. The changes in the carrying amount of acquired intangible assets for the three months ended March 31, 2009 and 2008 are as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	**2009**	**2008**
Balance at beginning of period	$ 4,722	$ 6,744
Amortization expense	(321)	(391)
Balance at end of period	$ 4,401	$ 6,353

Other Intangible Asset Estimated Amortization. Estimated amortization expense related to our core deposit intangible assets for the year ending December 31, 2009 and the five years thereafter are as follows:

(Dollars in thousands)	
Estimated Amortization Expense For the Year Ending:	
December 31, 2009	$ 1,239
December 31, 2010	1,104
December 31, 2011	954
December 31, 2012	764
December 31, 2013	494
December 31, 2014	165

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements

(Unaudited)

Note 6 Mortgage Servicing Rights

In accordance with SFAS No. 156, we utilize the amortization method for all of our mortgage servicing right assets. Therefore, we carry our mortgage servicing rights at the lower of cost or market (fair value). Under the amortization method, we amortize mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as a result of newly acquired servicing assets is reported as net gain on sale of loans in the Consolidated Statements of Operations. Loan servicing fees, net of amortization of mortgage servicing rights, are recorded in fees and service charges in the Consolidated Statements of Operations.

We primarily service one-to-four family residential mortgage loans. We obtain mortgage servicing right assets when we deliver loans, both originated and purchased, as an agent into the secondary market on a servicing-retained basis. Initial fair value of the servicing right is calculated by a discounted cash flow model based on market value assumptions at the time of origination.

The following are the key assumptions used in measuring the fair values of capitalized mortgage servicing rights and the sensitivity of the fair values to changes in those assumptions:

(Dollars in thousands)	March 31, 2009	December 31, 2008
Serviced loan portfolio balance	$1,752,045	$1,600,715
Fair value	$15,972	$15,853
Prepayment speed	5.40% - 50.58%	5.34% - 49.44%
Weighted average prepayment speed	14.03%	13.57%
Fair value with 10% adverse change	$15,239	$15,302
Fair value with 20% adverse change	$14,509	$14,671
Discount rate	10.50% - 14.50%	10.50% - 14.50%
Weighted average discount rate	11.73%	11.76%
Fair value with 10% adverse change	$15,460	$15,302
Fair value with 20% adverse change	$14,931	$14,870

The sensitivity of the fair values is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, in the table, the effect of a variation in a particular assumption on the fair value of the mortgage servicing rights is calculated without changing any other assumption. In reality, changes in one assumption may result in changes in another that might magnify or counteract the sensitivities.

Mortgage Servicing Rights Activity. The following table summarizes mortgage servicing rights activity including amortization expense:

	Three Months Ended March 31,	
(Dollars in thousands)	2009	2008
Balance at beginning of period	$ 14,806	$ 14,530
Mortgage servicing rights capitalized	5,037	2,347
Amortization expense	(2,216)	(1,210)
Valuation adjustment	(2,230)	(206)
Balance at end of period	$ 15,397	$ 15,461

Mortgage Servicing Rights Valuation Allowance. The valuation allowance on mortgage servicing rights is summarized in the following table for the periods presented:

(Dollars in thousands)	Three Months Ended March 31, 2009	2008
Balance at beginning of period	$ (1,355)	$ --
Changes in mortgage servicing valuation reserve	(2,230)	(206)
Balance at end of period	$ (3,585)	$ (206)

We evaluate the fair value of mortgage servicing rights on a quarterly basis using current prepayment speeds, cash flow and discount rate estimates. Changes in these estimates impact fair value and could require us to record a valuation allowance or recovery. The amortization expense and valuation adjustment are recorded as a reduction of fees and service charges in the accompanying Consolidated Statements of Operations.

15

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 7 Deposits

Deposit Composition. Deposits at March 31, 2009 and December 31, 2008 are summarized in the following table:

	March 31, 2009		December 31, 2008	
(Dollars in thousands)	Weighted Average Rates	Amount	Weighted Average Rates	Amount
Transaction accounts:				
Noninterest-bearing checking	-- %	$ 157,950	-- %	$ 149,597
Savings	1.01	221,129	1.60	204,494
Interest-bearing checking	0.47	347,655	0.65	327,361
Money market	0.96	247,483	1.23	249,714
Total transaction accounts	0.64	974,217	0.91	931,166
Total transaction accounts as a percentage of total deposits		41.57 %		40.36 %
Time deposits:				
0.00% to 0.99%		1,763		67
1.00% to 1.99%		85,165		397
2.00% to 2.99%		262,552		338,428
3.00% to 3.99%		941,920		939,321
4.00% to 4.99%		71,810		88,438
5.00% to 5.99%		6,154		9,475
Total time deposits (1)	3.29	1,369,364	3.43	1,376,126

	March 31, 2009		December 31, 2008	
Total time deposits as a percentage of total deposits		58.43 %		59.64 %
Total deposits	2.19 %	$ 2,343,581	2.41 %	$ 2,307,292

(1) We did not have any brokered time deposits at March 31, 2009 or December 31, 2008.

Time Deposit Maturity. The scheduled maturities of time deposits at March 31, 2009 are presented in the following table:

(Dollars in thousands)	Amount	Percent
Amount Maturing During the 12 Months Ending:		
March 31, 2010	$ 1,305,071	95.30 %
March 31, 2011	29,119	2.13
March 31, 2012	22,000	1.61
March 31, 2013	5,932	0.43
March 31, 2014	7,145	0.52
Thereafter	97	0.01
Total time deposits	$ 1,369,364	100.00 %

16

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Time Deposits of $100,000 or More. The following table shows the maturities of our time deposits of $100,000 or more at March 31, 2009 by the time remaining to maturity.

(Dollars in thousands)	Amount	Weighted Average Rate
Amount Maturing During the Quarter Ended:		
June 30, 2009	$ 63,475	3.48 %
September 30, 2009	87,030	3.21
December 31, 2009	100,736	3.62
March 31, 2010	73,231	3.14
Thereafter	12,140	3.94
Total time deposits of $100,000 or more	$ 336,612	3.39 %

Time Deposits of $250,000 or More. The *Emergency Economic Stabilization Act of 2008* included a provision that temporarily raises the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit on non-retirement accounts from $100,000 to $250,000 per account holder per institution. This increase in the insurance coverage limit is effective until December 31, 2009. The following table shows the maturities of our time deposits of $250,000 or more at March 31, 2009 by the time remaining to maturity.

(Dollars in thousands)	Amount	Weighted Average Rate
Amount Maturing During the Quarter Ended:		
June 30, 2009	$ 15,257	3.80 %
September 30, 2009	16,299	2.40

(Dollars in thousands)		Amount	Weighted Average Rate
December 31, 2009		18,295	3.79
March 31, 2010		10,177	3.23
Thereafter		3,609	3.71
Total time deposits of $250,000 or more	$	63,637	3.34 %

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 8 FHLBank Topeka Advances and Other Borrowings

At March 31, 2009 and December 31, 2008, we were indebted on notes as shown in the following table:

(Dollars in thousands)		March 31, 2009		December 31, 2008
Permanent fixed-rate notes payable to the FHLBank Topeka	$	3,593	$	8,715
Convertible fixed-rate notes payable to the FHLBank Topeka		600,000		600,000
Retail repurchase agreements		14,102		29,206
Junior subordinated debentures		30,928		30,928
Total FHLBank Topeka advances and other borrowings	$	648,623	$	668,849
Weighted average interest rate		4.35%		4.30%

The convertible fixed-rate notes are convertible to adjustable-rate notes at the option of the FHLBank Topeka (FHLBank). We did not have an outstanding balance on our FHLBank line of credit at both March 31, 2009 and December 31, 2008. The line of credit with the FHLBank expires in November 2009. We expect the line of credit agreement to be renewed in the ordinary course of business.

Pursuant to our collateral agreement with the FHLBank, such advances are secured by our qualifying residential, multi-family residential and commercial real estate mortgages, residential construction, commercial construction and agricultural real estate loans. Under our collateral agreement with the FHLBank, our borrowing capacity at March 31, 2009 was $681.4 million. Other qualifying collateral can be pledged in the event additional borrowing capacity is required.

Our retail repurchase agreements are primarily collateralized by governmental agency and municipal obligations (investment securities).

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 9 Stock-Based Benefit Plans

General. We account for our stock-based benefit plans using SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) requires that compensation expense related to stock-based payment transactions be recognized in the financial statements and that expense be measured based on the fair value of the equity or liability instrument issued. SFAS No. 123(R) also requires that forfeitures be estimated over the vesting period of the instrument.

Stock-Based Employee Compensation Expense. Amounts recognized in the financial statements with respect to our Employee Stock Ownership Plan (ESOP) and stock-based employee compensation plans are presented in the following table:

	Three Months Ended March 31,	
(Dollars in thousands)	**2009**	**2008**
Stock-based employee compensation expense:		
Employee Stock Ownership Plan	$ 81	$ 565
Management Recognition and Retention Plan	49	726
2003 Stock Option Plan	13	513
Amount of stock-based compensation expense, before income tax benefit	$ 143	$ 1,804
Amount of related income tax benefit recognized	$ --	$ 504

Employee Stock Ownership Plan. Concurrent with the conversion from mutual to stock ownership, we established an ESOP for the benefit of our employees. The ESOP is a qualified pension plan under Internal Revenue Service guidelines that covers all full-time employees who have completed 1,000 hours of service. Upon formation, the ESOP purchased 1,806,006 shares of common stock issued in the initial public offering with the proceeds of an $18,060,060 loan from the Company.

We account for our ESOP in accordance with Financial Accounting Standards Board (FASB) Statement of Position 93-6, *Employers Accounting for Employee Stock Ownership Plans*. Accordingly, expense is recognized based on the market value (average stock price) of shares scheduled to be released from the ESOP trust. The excess fair value of ESOP shares over cost is recorded as compensation expense but is not deductible for tax purposes. As shares are committed to be released from collateral, we report compensation expense equal to the average market price of the shares and the shares become outstanding for EPS computations. Our contributions and dividends on allocated and unallocated ESOP shares are used to pay down the loan. Accordingly, we have recorded the obligation with an offsetting amount of unearned compensation in stockholders equity in the accompanying Consolidated Statements of Financial Condition.

	At or for the Three Months Ended March 31,	
(Dollars in thousands, except for share data)	**2009**	**2008**
Employee Stock Ownership Plan compensation expense	$ 81	$ 565
Employee Stock Ownership Plan shares allocated to employees	940,628	790,128
Employee Stock Ownership Plan shares unallocated	865,378	1,015,878
Fair value of Employee Stock Ownership Plan unallocated shares	$ 1,852	$ 11,459

Management Recognition and Retention Plan. We established the 2003 Management Recognition and Retention Plan (MRRP) which is a stock-based incentive plan. The shares awarded by the MRRP vest to participants at the rate of 20% per year. Compensation expense for this plan is being recorded over a 60-month period, using the straight-line amortization method adjusted for forfeitures, and is based on the market value of our stock as of the date the awards were made. Stockholders approved 903,003 shares to be granted under the MRRP and 85,283 shares are still available for future grants as of March 31, 2009. The following table summarizes shares of our common stock that were subject to award and have been granted pursuant to the MRRP as of March 31, 2009 and 2008:

	At or for the Three Months Ended March 31,	
	2009	**2008**
Nonvested shares outstanding at beginning of period	23,870	168,720
Shares granted	--	--
Shares vested	--	--
Shares forfeited	--	--
Nonvested shares outstanding at end of period	23,870	168,720

Compensation expense related to the MRRP totaled $49,000 and $726,000 for the three-month periods ended March 31, 2009 and 2008, respectively. The weighted average grant date fair value of outstanding shares awarded by the MRRP was $13.05 and $18.42 at March 31, 2009 and 2008, respectively. As of March 31, 2009, we had $225,000 of total unrecognized employee compensation expense related to unvested MRRP shares which are expected to be recognized over a weighted average period of 28 months. We realized excess tax benefits related to MRRP shares of zero and $10,000 during the three months ended March 31, 2009 and 2008, respectively.

Stock Option Plan. We established the 2003 Stock Option Plan (SOP) under which 2,257,508 shares of our common stock were reserved for the grant of stock options to directors, officers and employees. Stock options awarded under the SOP vest to participants at the rate of 20% per year. Compensation expense for this plan is being recorded over a 60-month period, using the straight-line amortization method adjusted for forfeitures, and is based on the fair value of our stock options as of the date the awards were made. The exercise price of the options is equal to the market price of the common stock on the grant date. Stockholders approved 2,257,508 stock options to be granted under the SOP and 349,758 of these stock options remain available for future grants as of March 31, 2009.

20

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

The fair value of each option was estimated on the date of the grant using the Black-Scholes model. The dividend yield was calculated based on the annual dividends paid and the 12-month average closing stock price at the time of the grant. Expected volatility was based on historical volatility of our stock price at the date of grant. We have utilized historical experience to determine the expected life of the stock options and to estimate future forfeitures. All inputs into the Black-Scholes model are estimates at the time of the grant. Actual results in the future could materially differ from these estimates; however, such results would not impact future reported net income.

Stock Option Activity. The following table details stock options granted, exercised and forfeited during the three months ended March 31, 2009:

(Dollars in thousands, except per share data)	**Number of Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value**
Stock options outstanding at December 31, 2008	1,799,726	$ 17.85		
Stock options granted	--	--		
Stock options exercised	--	--		
Stock options forfeited	(1,000)	17.83		
Stock options outstanding at March 31, 2009	1,798,726	$ 17.85	4.1	$ --

(Dollars in thousands, except per share data)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Stock options exercisable at March 31, 2009	1,781,726	$ 17.90	4.1	$ --

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

The following table details stock options granted, exercised and forfeited during the three months ended March 31, 2008:

(Dollars in thousands, except per share data)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Stock options outstanding at December 31, 2007	1,792,226	$ 17.92		
Stock options granted	--	--		
Stock options exercised	(1,000)	17.83		$ 5
Stock options forfeited	(500)	17.83		
Stock options outstanding at March 31, 2008	1,790,726	$ 17.92	5.1	$ --
Stock options exercisable at March 31, 2008	1,410,676	$ 17.90	5.1	$ --

The following table details the intrinsic value, cash received and tax benefit realized from the exercise of stock options during the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,	
(Dollars in thousands)	2009	2008
Intrinsic value (market value on the exercise date less the strike price)	$ --	$ 5
Cash received from the exercise of stock options	--	18
Tax benefit realized from the exercise of stock options	--	--

At March 31, 2009, there was $51,000 of total unrecognized compensation expense related to unvested stock options that will be expensed over a weighted average period of 31 months.

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 10 Unrecognized Tax Benefits

Unrecognized tax benefits, excluding interest and penalties, were $166,000 and $150,000 at March 31, 2009 and 2008, respectively. Unrecognized tax benefits of $163,000 and interest and penalties of $3,000 would favorably affect our effective tax rate if recognized in future periods. The following table summarizes our unrecognized tax benefits for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,	
(Dollars in thousands)	**2009**	**2008**
Unrecognized tax benefits at beginning of period	$ 159	$ 4,336
Change in unrecognized tax benefits	7	(119)
Changes in unrecognized tax benefits related to deferred loan fees due to a change in a tax accounting method approved by the Internal Revenue Service	--	(3,493)
Unrecognized tax benefits at end of period	$ 166	$ 724

Any interest and penalties related to uncertain tax positions are recorded in income tax expense in the Consolidated Statements of Operations. At March 31, 2009 and 2008, we had approximately $3,000 and $87,000, respectively, of accrued interest payable related to uncertain tax positions recorded in our Consolidated Statements of Financial Condition.

We anticipate that a reduction in unrecognized tax benefits of up to $32,000 is reasonably possible during the next 12 months. This potential reduction is primarily attributable to the expiration of the statute of limitations related to the 2005 tax period.

The tax years of 2005 through 2008 remain open for examination by federal and state taxing authorities.

Note 11 - Deferred Taxes

In assessing the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. We consider the scheduled reversals of deferred tax liabilities and carryback opportunities in making the assessment of the necessity of a valuation allowance. At March 31, 2009 and December 31, 2008, the Company determined a valuation allowance was necessary, largely based on the evidence represented by a cumulative loss in the most recent three-year period. In addition, general uncertainty surrounding future economic and business conditions has increased the potential volatility and uncertainty of projected earnings. Other assets include deferred tax benefits of $5.8 million and $1.8 million at March 31, 2009 and December 31, 2008, respectively. We have established a valuation allowance related to our deferred tax benefits of $5.8 million and $1.8 million at March 31, 2009 and December 31, 2008, respectively. We evaluate our deferred tax assets and the related valuation allowance quarterly.

Note 12 Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*, (SFAS No. 157) and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS No. 159). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure related to the use of fair value measures in financial statements. SFAS No. 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on the entity s own fair value assumption as the lowest level.

SFAS No. 159 allows us to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with certain exceptions, thus we may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principals; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments.

In accordance with SFAS No. 157, we group financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumption used to determine fair value. The fair value hierarchy is as follows:

Level 1	Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2	Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.
Level 3	Significant unobservable inputs that reflect an entity s own assumption about the assumptions that market participants would use in pricing an asset or liability.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts that reflect counterparty credit quality and creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes our valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The following disclosures exclude certain non-financial assets and liabilities which are deferred under the provisions of FASB Staff Position 157-2. These include foreclosed real estate, long-lived assets, goodwill and core deposit premiums, which are all written down to fair value upon impairment.

The following is a description of our valuation methodologies used for instruments measured at fair value on a recurring basis:

Investment Securities, Available for Sale. This portfolio comprises the majority of the assets which we record at fair value. Securities classified as available for sale, which include U.S. Government securities and agency obligations and corporate securities are priced utilizing observable data from an active market. These measurements are classified as Level 1. Changes in the fair value of available for sale investment securities are included in other comprehensive income (loss) to the extent the changes are not considered other than temporary impairments. Other than temporary impairment tests are performed on a quarterly basis and any decline in the fair value of an individual security below its cost that is deemed to be other than temporary results in a write-down to estimated fair value. These write-downs are reflected in our Statement of Operations as loss on impairment of securities. Losses on impairment of securities totaled zero and $485,000 for the three month periods ended March 31, 2009 and 2008, respectively.

Municipal obligations, mortgage-backed securities and agency equity securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. These model and matrix measurements are classified as Level 2 in the fair value hierarchy.

The Asset Management Fund ARM Fund s Net Asset Value (NAV) or fair value is an accumulation of the estimated fair value of the debt instruments owned by the fund. The debt instruments are valued using market quotations or prices obtained from independent pricing services or, on certain securities, a fixed income fair value pricing methodology. The NAV is classified as Level 2 in the fair value hierarchy.

Assets Held in Employee Deferred Compensation Plans. Assets held in employee deferred compensation plans are recorded at fair value and included in other assets on our Statement of Financial Condition. The assets associated with these plans are invested primarily in mutual funds and classified as Level 1 as the fair value measurement is based upon available quoted prices. We also record a liability in accrued expenses and other liabilities in our Statement of Financial Condition for the amount due to employees related to these plans.

Derivatives. Our derivative instruments are loan commitments and forward loan sales related to personal mortgage loan origination activity. The fair values of mortgage loan commitments and forward sales contracts are based on quoted prices for similar loans in the secondary market. The fair value of derivatives is classified as Level 2. The net fair value of derivatives was $3.3 million and $544,000 at March 31, 2009 and 2008, respectively. The derivative asset is recorded in other assets while the derivative liability is recorded in accrued expenses and other liabilities in the Consolidated Statements of Financial Condition. The $2.8 million change in the fair value amount is included in the gain on the sale of loans in the accompanying Consolidated Statements of Operations. The increase in the fair value was primarily related to a $98.0 million increase in forward loan commitments at March 31, 2009 compared to December 31, 2008 and was due to increased mortgage loan refinancing activity.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2009, segregated by the level of the valuation inputs within the fair value.

(Dollars in thousands)	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Fair Value at March 31, 2009**