

TIERONE CORP  
Form 10-Q  
May 12, 2008

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

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008**

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  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  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

As of May 12, 2008 there were 18,036,134 issued and outstanding shares of the Registrant's common stock.

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**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 the risk factors described in Part 2, Item 1A. of this Quarterly Report on Form 10-Q, 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, 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;
- Changes in our underlying assumptions and judgment regarding our allowance and provisions for loan losses;
- 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;
- Borrower 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 and 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;

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Changes in accounting policies or procedures as may be required by various regulatory agencies;  
 Changes in consumer spending and savings habits;  
 Unanticipated issues relating to the recovery of insurance proceeds for claims arising out of our prior relationship with TransLand Financial Services, Inc.; 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, 2008 (Unaudited) and December 31, 2007

*(Dollars in thousands, except per share data)*

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
Cash and due from banks	\$ 86,437	\$ 79,561
Federal funds sold	137,000	161,900
<hr/>		
Total cash and cash equivalents	223,437	241,461
<hr/>		
<b>Investment securities:</b>		
Held to maturity, at cost which approximates fair value	64	70
Available for sale, at fair value	118,431	130,481
Mortgage-backed securities, available for sale, at fair value	5,621	6,689
<b>Loans receivable:</b>		
Net loans (includes loans held for sale of \$38,693 and \$9,348 at March 31, 2008 and December 31, 2007, respectively)	2,886,512	2,976,129
Allowance for loan losses	(78,507)	(66,540)
<hr/>		
Net loans after allowance for loan losses	2,808,005	2,909,589
<hr/>		
FHLBank Topeka stock, at cost	66,599	65,837
Premises and equipment, net	37,422	38,028
Accrued interest receivable	18,373	21,248
Goodwill	--	42,101
Other intangible assets, net	6,353	6,744
Mortgage servicing rights (lower of cost or market), net	15,461	14,530
Other assets	76,817	60,988
<hr/>		
Total assets	\$ 3,376,583	\$ 3,537,766
<hr/>		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Deposits	\$ 2,355,739	\$ 2,430,544
FHLBank Topeka advances and other borrowings	667,993	689,288
Advance payments from borrowers for taxes, insurance and other escrow funds	32,657	30,205
Accrued interest payable	5,556	6,269
Accrued expenses and other liabilities	29,470	35,870
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(Dollars in thousands, except per share data)

March 31, 2008 December 31, 2007

Total liabilities	3,091,415	3,192,176
<b>Stockholders equity:</b>		
Preferred stock, \$0.01 par value. 10,000,000 shares authorized; none issued	--	--
Common stock, \$0.01 par value. 60,000,000 shares authorized; 18,059,946 and 18,058,946 shares issued at March 31, 2008 and December 31, 2007, respectively	226	226
Additional paid-in capital	367,534	366,042
Retained earnings, substantially restricted	32,354	94,630
Treasury stock, at cost; 4,515,129 and 4,516,129 shares at March 31, 2008 and December 31, 2007, respectively	(104,985)	(105,008)
Unallocated common stock held by Employee Stock Ownership Plan	(9,783)	(10,159)
Accumulated other comprehensive loss, net	(178)	(141)
Total stockholders equity	285,168	345,590
Total liabilities and stockholders equity	\$ 3,376,583	\$ 3,537,766

See accompanying notes to consolidated financial statements.

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**TierOne Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**(Unaudited)**

**For the Three Months Ended**  
**March 31,**

(Dollars in thousands, except per share data)

	2008	2007
<b>Interest income:</b>		
Loans receivable	\$ 47,563	\$ 56,065
Investment securities	2,169	2,429
Other interest-earning assets	1,509	171
Total interest income	51,241	58,665
<b>Interest expense:</b>		
Deposits	20,719	17,896
FHLBank Topeka advances and other borrowings	7,433	9,574
Total interest expense	28,152	27,470
Net interest income	23,089	31,195
Provision for loan losses	39,940	1,468
Net interest income (loss) after provision for loan losses	(16,851)	29,727
<b>Noninterest income:</b>		
Fees and service charges	5,530	5,501
Debit card fees	945	761
Loss from real estate operations, net	(107)	(134)

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For the Three Months Ended  
March 31,

<b>Net gain (loss) on sales of:</b>			
Loans held for sale		1,254	628
Real estate owned		(18)	(5)
Other operating income		635	253
<b>Total noninterest income</b>		<b>8,239</b>	<b>7,004</b>
<b>Noninterest expense:</b>			
Salaries and employee benefits		13,198	13,118
Goodwill impairment		42,101	--
Occupancy, net		2,376	2,413
Data processing		657	621
Advertising		1,113	1,002
Other operating expense		5,151	4,345
<b>Total noninterest expense</b>		<b>64,596</b>	<b>21,499</b>
Income (loss) before income taxes		(73,208)	15,232
Income tax expense (benefit)		(12,279)	5,854
Net income (loss)		\$ (60,929)	\$ 9,378
Net income (loss) per common share, basic		\$ (3.60)	\$ 0.56
Net income (loss) per common share, diluted		\$ (3.60)	\$ 0.55
Dividends declared per common share		\$ 0.08	\$ 0.07
Average common shares outstanding, basic (000 s)		16,919	16,601
Average common shares outstanding, diluted (000 s)		16,919	17,161

See accompanying notes to consolidated financial statements.

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**TierOne Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income**  
**For the Three Months Ended March 31, 2008 and 2007**  
**(Unaudited)**

<i>(Dollars in thousands)</i>	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, 2006	\$ 226	\$ 358,733	\$ 112,111	\$ (105,406)	\$ (11,664)	\$ (717)	\$ 353,283
Common stock earned by employees in Employee Stock Ownership Plan	--	713	--	--	376	--	1,089

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<i>(Dollars in thousands)</i>	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
Amortization of awards under the Management Recognition and Retention Plan	--	726	--	--	--	--	726
Amortization of stock options under							
2003 Stock Option Plan	--	420	--	--	--	--	420
Treasury stock reissued under							
2003 Stock Option Plan	--	(88)	--	381	--	--	293
Excess tax benefit realized from stock-							
based compensation plans	--	49	--	--	--	--	49
Dividends paid (\$0.07 per common share)	--	--	(1,175)	--	--	--	(1,175)
Cumulative effect of adoption of FASB							
Interpretation No. 48 on January 1, 2007	--	--	157	--	--	--	157
<b>Comprehensive income:</b>							
Net income	--	--	9,378	--	--	--	9,378
Change in unrealized loss on available for sale securities, net of							
tax and reclassification adjustment	--	--	--	--	--	200	200
<b>Total comprehensive income</b>	--	--	9,378	--	--	200	9,578
Balance at March 31, 2007	\$ 226	\$ 360,553	\$ 120,471	\$ (105,025)	\$ (11,288)	\$ (517)	\$ 364,420
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)
<b>Comprehensive loss:</b>							
Net loss	--	--	(60,929)	--	--	--	(60,929)
Change in unrealized loss on available for sale securities, net of							
tax	--	--	--	--	--	(37)	(37)
<b>Total comprehensive loss</b>	--	--	(60,929)	--	--	(37)	(60,966)

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<i>(Dollars in thousands)</i>	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 March 31, 2008	\$ 226	\$ 367,534	\$ 32,354	\$ (104,985)	\$ (9,783)	\$ (178)	\$ 285,168

See accompanying notes to consolidated financial statements.

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

<i>(Dollars in thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (60,929)	\$ 9,378
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Net discount accretion of investment and mortgage-backed securities	(776)	(115)
Premises and equipment depreciation and amortization	1,021	992
Amortization of other intangible assets	391	424
Accretion of discount on FHLBank Topeka advances	(64)	(64)
Employee Stock Ownership Plan compensation expense	624	1,089
2003 Management Recognition and Retention Plan compensation expense	726	726
2003 Stock Option Plan compensation expense	513	420
Net accretion of discounts on net loans	(274)	(1,076)
FHLBank Topeka stock dividend	(762)	(954)
Deferred income tax benefit	(4,191)	(960)
Goodwill impairment	42,101	--
Provision for loan losses	39,940	1,468
Provision for real estate owned losses	125	71
Mortgage servicing right valuation allowance	206	--
Proceeds from sales of loans held for sale	136,866	56,686
Originations and purchases of loans held for sale	(149,511)	(51,472)
Excess tax benefits from stock-based compensation plans	(10)	(49)
<b>Net (gain) loss on sales of:</b>		
Loans held for sale	(1,254)	(628)
Real estate owned	18	5
<b>Changes in certain assets and liabilities:</b>		
Accrued interest receivable	2,875	413
Other assets	(9,868)	(2,315)
Accrued interest payable	(713)	(133)
Accrued expenses and other liabilities	(2,897)	1,205
Net cash provided by (used in) operating activities	(5,843)	15,111
<b>Cash flows from investing activities:</b>		
Purchase of investment and mortgage-backed securities, available for sale	(97,336)	(41,789)
Proceeds from sale of investment and mortgage-backed securities, available for sale	--	10

	<b>For the Three Months Ended March 31,</b>	
Proceeds from maturities of investment securities, available for sale	110,075	25,920
Proceeds from principal repayments of investment and mortgage-backed securities, available for sale and held to maturity	1,109	1,619
Decrease (increase) in loans receivable	68,826	(737)
Additions to premises and equipment	(415)	(604)
Proceeds from sale of real estate owned	463	520
<b>Net cash provided by (used in) investing activities</b>	<b>82,722</b>	<b>(15,061)</b>

See accompanying notes to consolidated financial statements.

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

	<b>For the Three Months Ended March 31,</b>	
<i>(Dollars in thousands)</i>	<b>2008</b>	<b>2007</b>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	\$ (74,805)	\$ 98,410
Net advances (repayment) on FHLBank Topeka line of credit, short-term advances and other borrowings	3,824	(72,943)
Proceeds from FHLBank Topeka long-term advances and other borrowings	--	50,000
Repayments of FHLBank Topeka long-term advances and other borrowings	(25,055)	(75,052)
Net increase (decrease) in advances from borrowers for taxes, insurance and other escrow funds	2,452	(2,262)
Dividends paid on common stock	(1,347)	(1,175)
Excess tax benefit realized from the exercise of stock options	--	41
Excess tax benefit realized from the vesting of Management Recognition and Retention Plan shares	10	8
Proceeds from the exercise of stock options	18	293
<b>Net cash used in financing activities</b>	<b>(94,903)</b>	<b>(2,680)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(18,024)</b>	<b>(2,630)</b>
Cash and cash equivalents at beginning of period	241,461	86,808
<b>Cash and cash equivalents at end of period</b>	<b>\$ 223,437</b>	<b>\$ 84,178</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during period for:</b>		
Interest	\$ 28,865	\$ 27,603
Income taxes, net of refunds	\$ --	\$ 7,092
<b>Noncash investing activities:</b>		
Transfers from loans to real estate owned and other assets through foreclosure	\$ 6,991	\$ 1,846



See accompanying notes to consolidated financial statements.

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**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 and real estate brokerage 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, 2008 and for the three months ended March 31, 2008 and 2007 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, 2007. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results which may be expected for the entire calendar year 2008.

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

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

**Note 2 Termination of Acquisition Agreement**

On May 17, 2007, the Company, CapitalSource Inc. and CapitalSource TRS Inc. entered into an Agreement and Plan of Merger ( Merger Agreement ). On March 20, 2008, the Company terminated the Merger Agreement. Pursuant to the terms of the Merger Agreement, either party had the right to terminate the Merger Agreement if the proposed merger was not completed by February 17, 2008. No termination fee was payable by either company as a result of the termination of the Merger Agreement.

**Note 3 Critical Accounting Policies**

Various elements of our accounting policies, by nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Our policies with respect to the methodologies used to recognize income, determine the allowance for loan losses, evaluating investment and mortgage-backed securities for impairment, evaluating goodwill and other intangible assets, valuation of mortgage servicing rights, valuation and measurement of derivatives and commitments, valuation of real estate owned and estimating income taxes are our most critical accounting policies. These policies are important to the presentation of our financial condition and results of operations, involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in our reported

financial condition and results of operations.

**Income Recognition.** We recognize interest income by methods that conform to GAAP. In the event management believes collection of all or a portion of contractual interest on a loan has become doubtful, which generally occurs after a loan is contractually delinquent 90 days or more, we discontinue the accrual of interest and charge-off all previously accrued interest. Interest received on nonperforming loans is included in income only if principal recovery is reasonably assured. A nonperforming loan is restored to accrual status when it is brought current and the collectibility of the total contractual principal and interest is no longer in doubt.

**Allowance for Loan Losses.** We have identified the allowance for loan losses as a critical accounting policy where amounts are subject to material variation. This policy is significantly affected by our judgment and uncertainties and there is a likelihood that materially different amounts could be reported under different, but reasonably plausible, conditions or assumptions. The allowance for loan losses is considered a critical accounting estimate because there is a large degree of judgment in:

Assigning individual loans to specific risk levels (pass, special mention, substandard, doubtful and loss);  
Valuing the underlying collateral securing the loans;  
Determining the appropriate reserve factor to be applied to specific risk levels for special mention loans and those adversely classified (substandard, doubtful and loss); and

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

Determining reserve factors to be applied to pass loans based upon loan type.

We establish provisions for loan losses, which are charges to our operating results, in order to maintain a level of total allowance for loan losses that, in management's belief, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management reviews the loan portfolio no less frequently than quarterly in order to identify those inherent losses and to assess the overall collection probability of the loan portfolio. Management's review includes a quantitative analysis by loan category, using historical loss experience, classifying loans pursuant to a grading system and consideration of a series of qualitative loss factors. The evaluation process includes, among other things:

Assigning individual loans to specific risk levels (pass, special mention, substandard, doubtful and loss);  
Trends and levels of delinquent, nonperforming or impaired loans;  
Trends and levels of charge-offs and recoveries;  
Underwriting terms or guarantees for loans;  
Impact of changes in underwriting standards, risk tolerances or other changes in lending practices;  
Changes in the value of collateral securing loans;  
Total loans outstanding and the volume of loan originations;  
Type, size, terms and geographic concentration of loans held;  
Changes in qualifications or experience of the lending staff;  
Changes in local or national economic or industry conditions;  
Number of loans requiring heightened management oversight;  
Changes in credit concentration; and  
Changes in regulatory requirements.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur.

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

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The allowance for loan losses has two elements. The first element is an allocated allowance established for specific loans identified by the credit review function that are evaluated individually for impairment and are considered to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by:

- The fair value of the collateral if the loan is collateral dependent;
- The present value of expected future cash flows; or
- The loan's observable market price.

The second element is an estimated allowance established for losses which are probable and reasonable to estimate on each category of outstanding loans. While management uses available information to recognize probable losses on loans inherent in the portfolio, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

**Investment and Mortgage-Backed Securities.** We evaluate our available for sale and held to maturity investment securities for impairment on a quarterly basis. An impairment charge in the Consolidated Statements of Operations is recognized when the decline in the fair value of investment securities below their cost basis is determined to be other-than-temporary. Various factors are utilized in determining whether we should record an impairment charge, including, but not limited to, the length of time and extent to which the fair value has been less than its cost basis and our ability and intent to hold the investment security for a period of time sufficient to allow for any anticipated recovery in fair value.

**Goodwill and Other Intangible Assets.** We had \$42.1 million of goodwill that was recorded as a result of our 2004 acquisition of United Nebraska Financial Co. ( UNFC ). We test 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.

The value of core deposit intangible assets acquired in connection with the UNFC transaction and our acquisition of Marine Bank's banking office in Omaha, Nebraska, which is subject to amortization, is included in the Consolidated Statements of Financial Condition as other intangible assets. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition, account runoff, alternative funding costs, deposit servicing costs and discount rates. Core deposit intangible assets are amortized using an accelerated method of amortization which is recorded in the Consolidated Statements of Operations as other operating expense.

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

We review our core deposit intangible assets for impairment whenever events or changes in circumstances indicate that we may not recover our investment in the underlying assets or liabilities which gave rise to the identifiable intangible assets. No events or circumstances triggered an impairment analysis of our core deposit intangible assets during the three months ended March 31, 2008.

**Mortgage Servicing Rights.** On January 1, 2007 we adopted Statement of Financial Accounting Standard ( SFAS ) No. 156, *Accounting for Servicing of Financial Assets – an Amendment of FASB Statement No. 140* ( SFAS No. 156 ). In accordance with SFAS No. 156, we have elected to continue to utilize the amortization method for all of our mortgage servicing right assets, thus, carrying 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 new servicing assets is reported as net gain on sale of loans held for sale in the Consolidated Statements of Operations. Loan servicing fees, net of amortization of mortgage servicing rights, is recorded in fees and service charges in the Consolidated Statements of Operations.

We capitalize the estimated value of mortgage servicing rights upon the sale of loans. The estimated value takes into consideration contractually known amounts, such as loan balance, term and interest rate. These estimates are impacted by loan prepayment speeds, servicing costs and discount rates used to compute a present value of the cash flow stream. We evaluate the fair value of mortgage servicing rights on a quarterly basis using current prepayment speed, 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 fair value of mortgage servicing rights is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions have the most significant impact on the fair value of mortgage servicing rights. Generally, as interest rates decline, prepayments accelerate with increased refinance activity, which results in a decrease in the fair value of mortgage servicing rights. As interest rates rise, prepayments generally slow, which results in an increase in the fair value of mortgage servicing rights. All assumptions are reviewed for reasonableness on a quarterly basis and adjusted as necessary to reflect current and anticipated market conditions. Thus, any measurement of fair value is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if applied at a different point in time. We currently do not utilize direct financial hedges to mitigate the effect of changes in the fair value of our mortgage servicing rights.

**Derivatives and Commitments.** We account for our derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities*.

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

In the normal course of business, we enter into contractual commitments, including loan commitments and rate lock commitments, to extend credit to finance residential mortgages. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the time frame established by us. Interest rate risk arises on these commitments and subsequently closed loans if interest rates increase or decrease between the time of the interest rate lock and the delivery of the loan to the investor. Loan commitments related to mortgage loans that are intended to be sold are considered derivatives in accordance with the guidance of SEC Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*. Accordingly, the fair value of these derivatives at the end of the reporting period is based on a quoted market price that closely approximates the amount that would have been recognized if the loan commitment was funded and sold.

To mitigate the effect of interest rate risk inherent in providing loan commitments, we hedge our commitments by entering into mandatory or best efforts delivery forward sale contracts. These forward contracts are marked-to-market through earnings and are not designated as accounting hedges under SFAS No. 133. The change in the fair value of loan commitments and the change in the fair value of forward sales contracts generally move in opposite directions and, accordingly, the impact of changes in these valuations on net income during the loan commitment period is generally inconsequential.

Although the forward loan sale contracts also serve as an economic hedge of loans held for sale, forward contracts have not been designated as accounting hedges under SFAS No. 133 and, accordingly, loans held for sale are accounted for at the lower of cost or market in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities*.

**Real Estate Owned.** Property and other assets acquired through foreclosure of defaulted mortgage or other collateralized loans are carried at the lower of cost or fair value, less estimated costs to sell the property and other assets. The fair value of real estate owned is generally determined from appraisals obtained by independent appraisers. Development and improvement costs relating to such property are capitalized to the extent they are deemed to be recoverable.

An allowance for losses on real estate and other assets owned is designed to include amounts for estimated losses as a result of impairment in value of real property after repossession. We review our real estate owned for impairment in value whenever events or circumstances indicate that the carrying value of the property or other assets may not be recoverable.

**Income Taxes.** We estimate income taxes payable based on the amount we expect to owe various tax authorities. Accrued income taxes represent the net estimated amount due to, or to be received from, taxing authorities. In estimating accrued income taxes, we assess the relative merits and risks of the appropriate tax treatment of transactions, taking into account the applicable statutory, judicial and regulatory guidance in the context of our tax position. Although we utilize current information to record income taxes, underlying assumptions may change over time as a result of unanticipated events or circumstances.

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

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We utilize estimates of future earnings to support our position that the benefit of our deferred tax assets will be realized. If future pre-tax income should prove nonexistent or less than the amount of temporary differences giving rise to the net deferred tax assets within the tax years to which they may be applied, the assets will not be realized and our financial results will be adversely affected.

On January 1, 2007, we adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 requires that we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. Any interest and penalties related to uncertain tax positions are recorded in income tax expense in the Consolidated Statements of Operations.

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

#### Note 4 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 the 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 months ended March 31, 2008, no potentially dilutive shares were included in the loss per share calculation as including such shares would be anti-dilutive. The following table is a reconciliation of basic and diluted EPS:

<i>(In thousands, except per share data)</i>	<b>For the Three Months Ended March 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Basic EPS</b>	<b>Diluted EPS</b>	<b>Basic EPS</b>	<b>Diluted EPS</b>
Net income (loss)	\$ (60,929)	\$ (60,929)	\$ 9,378	\$ 9,378
Total weighted average basic common shares outstanding	16,919	16,919	16,601	16,601
<b>Effect of dilutive securities:</b>				
2003 Stock Option Plan		--		515
2003 Management Recognition and Retention Plan		--		45
Total weighted average basic and diluted common shares outstanding	16,919	16,919	16,601	17,161
Net income (loss) per common share	\$ (3.60)	\$ (3.60)	\$ 0.56	\$ 0.55

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

**Note 5 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:

	<b>Three Months Ended March 31,</b>	
<i>(Dollars in thousands)</i>	<b>2008</b>	<b>2007</b>
<b>Stock-based employee compensation expense:</b>		
Employee Stock Ownership Plan	\$ 565	\$ 1,046
Management Recognition and Retention Plan	726	726
2003 Stock Option Plan	513	420
<hr/>		
Amount of stock-based compensation expense, before income tax benefit	\$ 1,804	\$ 2,192
<hr/>		
Amount of related income tax benefit recognized	\$ 504	\$ 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 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.

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

	<b>At or for the Three Months Ended March 31,</b>	
<i>(Dollars in thousands, except for share data)</i>	<b>2008</b>	<b>2007</b>
Employee Stock Ownership Plan compensation expense	\$ 565	\$ 1,046
Employee Stock Ownership Plan shares allocated to employees	790,128	639,627

**At or for the  
Three Months Ended  
March 31,**

Employee Stock Ownership Plan shares unallocated	1,015,878	1,166,379
Fair value of Employee Stock Ownership Plan unallocated shares	\$ 11,459	\$ 31,539

**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 100,653 shares are still available for future grants as of March 31, 2008. 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, 2008 and 2007:

	<b>At or for the Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Nonvested shares outstanding at beginning of period	168,720	328,940
Shares granted	--	--
Shares vested	--	--
Shares forfeited	--	--
Nonvested shares outstanding at end of period	168,720	328,940

Compensation expense related to the MRRP totaled \$726,000 for each of the three month periods ended March 31, 2008 and 2007. The weighted average grant date fair value of outstanding shares awarded by the MRRP was \$18.42 and \$18.27 at March 31, 2008 and 2007, respectively. As of March 31, 2008, we had \$495,000 of total unrecognized employee compensation expense related to unvested MRRP shares which are expected to be recognized over a weighted average period of 15 months. We realized excess tax benefits related to MRRP shares of \$10,000 and \$8,000 during the three months ended March 31, 2008 and 2007, respectively.

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

**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 359,758 of these stock options remain available for future grants as of March 31, 2008.

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, 2008:

<i>(Dollars in thousands, except per share data)</i>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (In Years)</b>	<b>Aggregate Intrinsic Value</b>
--	-----------------------------	--	---	--

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	\$ --

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**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, 2007:

<i>(Dollars in thousands, except per share data)</i>	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Stock options outstanding at December 31, 2006	1,818,626	\$ 17.92		
Stock options granted	--	--		
Stock options exercised	(16,400)	17.83		\$ 201
Stock options forfeited	--	--		
Stock options outstanding at March 31, 2007	1,802,226	\$ 17.92	6.1	\$ 16,400
Stock options exercisable at March 31, 2007	1,047,126	\$ 17.89	6.1	\$ 9,600

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, 2008 and 2007:

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2008	2007
Intrinsic value (market value on the exercise date less the strike price)	\$ 5	\$ 146
Cash received from the exercise of stock options	18	293
Tax benefit realized from the exercise of stock options	--	41

At March 31, 2008, there was \$223,000 of total unrecognized compensation expense related to unvested stock options that will be expensed over a weighted average period of nine months.



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

**Note 6 Goodwill and Other Intangible Assets**

**Goodwill.** We had \$42.1 million of goodwill that was recorded as a result of our 2004 acquisition of UNFC. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we test 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.

The changes in the carrying amount of goodwill for the three months ended March 31, 2008 and 2007 are as follows:

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 42,101	\$ 42,228
Adjustment due to adoption of FASB Interpretation No. 48	--	(66)
Goodwill impairment	(42,101)	--
Balance at end of period	\$ --	\$ 42,162

**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, 2008 and 2007 are as follows:

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 6,744	\$ 8,391
Amortization expense	(391)	(424)
Balance at end of period	\$ 6,353	\$ 7,967

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

**Other Intangible Asset Estimated Amortization.** Estimated amortization expense related to our core deposit intangible assets for the year ending December 31, 2008 and the five years thereafter are as follows:

*(Dollars in thousands)***Estimated Amortization Expense For the Year Ending:**

December 31, 2008	\$	1,513
December 31, 2009		1,373
December 31, 2010		1,222
December 31, 2011		1,052
December 31, 2012		850
December 31, 2013		553

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

**Note 7 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, 2008 and December 31, 2007 are as follows:

<i>(Dollars in thousands)</i>	<b>March 31, 2008</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
<b>Held to maturity:</b>				
Municipal obligations	\$ 64	\$ --	\$ --	\$ 64
<b>Available for sale:</b>				
Mortgage-backed securities	5,639	41	59	5,621
U.S. Government securities and agency obligations	93,866	82	--	93,948
Corporate securities	4,933	--	214	4,719
Municipal obligations	13,546	41	15	13,572
Agency equity securities	536	--	96	440
Asset Management Fund - ARM Fund	5,812	--	60	5,752
Total investment and mortgage-backed securities, available for sale	\$ 124,332	\$ 164	\$ 444	\$ 124,052

<i>(Dollars in thousands)</i>	<b>December 31, 2007</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
<b>December 31, 2007</b>				
<b>Gross Unrealized</b>				
<b>Amortized Cost</b>				
<b>Gains</b>				
<b>Losses</b>				
<b>Fair Value</b>				

December 31, 2007

**Held to maturity:**

Municipal obligations	\$	70	\$	--	\$	--	\$	70
-----------------------	----	----	----	----	----	----	----	----

**Available for sale:**

Mortgage-backed securities		6,755		32		98		6,689
U.S. Government securities and agency obligations		105,428		18		33		105,413
Corporate securities		4,935		--		15		4,920
Municipal obligations		13,931		18		35		13,914
Agency equity securities		536		--		114		422
Asset Management Fund - ARM Fund		5,812		--		--		5,812

Total investment and mortgage-backed securities, available for sale	\$	137,397	\$	68	\$	295	\$	137,170
---	----	---------	----	----	----	-----	----	---------

We believe all unrealized losses as of March 31, 2008 to be market related, with no permanent sector or issuer credit concerns or impairments. We had 17 securities with unrealized losses totaling \$185,000 for 12 consecutive months or longer as of March 31, 2008. The unrealized losses are believed to be temporarily, not permanently, 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, 2008, we have the ability and intent to hold these securities until maturity.

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

**Note 8 Loans Receivable**

*Loan Portfolio Composition.* Loans receivable at March 31, 2008 and December 31, 2007 are summarized in the following table:

<i>(Dollars in thousands)</i>	March 31, 2008		December 31, 2007	
	Amount	%	Amount	%
<b>Real estate loans:</b>				
One-to-four family residential (1)	\$ 316,680	9.87%	\$ 314,623	9.41%
Second mortgage residential	90,218	2.81	95,477	2.86
Multi-family residential	151,452	4.72	106,678	3.19
Commercial real estate	335,294	10.45	370,910	11.10
Land and land development (1)	458,551	14.30	473,346	14.16
Residential construction (1)	444,209	13.85	513,560	15.36
Commercial construction	501,886	15.65	540,797	16.18
Agriculture	91,334	2.85	91,068	2.72
<b>Total real estate loans</b>	<b>2,389,624</b>	<b>74.50</b>	<b>2,506,459</b>	<b>74.98</b>
<b>Business</b>	<b>253,217</b>	<b>7.89</b>	<b>252,712</b>	<b>7.56</b>
<b>Agriculture - operating</b>	<b>93,808</b>	<b>2.93</b>	<b>100,365</b>	<b>3.00</b>
<b>Warehouse mortgage lines of credit</b>	<b>86,404</b>	<b>2.69</b>	<b>86,081</b>	<b>2.58</b>
<b>Consumer loans:</b>				
Home equity	68,121	2.13	72,517	2.17
Home equity lines of credit	119,097	3.71	120,465	3.60

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	March 31, 2008		December 31, 2007	
Home improvement	43,344	1.35	46,045	1.38
Automobile	83,265	2.60	87,079	2.60
Other	70,641	2.20	71,141	2.13
<hr/>				
Total consumer loans	384,468	11.99	397,247	11.88
<hr/>				
Total loans	3,207,521	100.00%	3,342,864	100.00%
<hr/>				
Unamortized premiums, discounts and deferred loan fees	9,584		9,451	
Loans in process (2)	(330,593)		(376,186)	
<hr/>				
Net loans	2,886,512		2,976,129	
Allowance for loan losses	(78,507)		(66,540)	
<hr/>				
Net loans after allowance for loan losses	\$ 2,808,005		\$ 2,909,589	
<hr/>				
(1) Includes loans held for sale	\$ 38,693		\$ 9,348	

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

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

**Asset Quality**

Reports listing all delinquent loans (loans 30 or more days delinquent), classified assets and real estate owned are reviewed by management and our Board of Directors no less frequently than quarterly. The procedures we take with respect to delinquencies vary depending on the nature of the loan, period and cause of delinquency and whether the borrower is habitually delinquent. When a borrower fails to make a required payment on a loan, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. In the event payment is not then received or the loan not otherwise satisfied, collection letters are sent and telephone calls are generally made. If the loan is still not brought current or satisfied and it becomes necessary for us to take legal action, which typically occurs after a loan is 90 days or more delinquent, we will commence recovery proceedings against the property securing the loan. If a legal action is instituted and the loan is not brought current, paid in full, or refinanced before the recovery sale, the property securing the loan generally is sold and, if purchased by us, becomes real estate owned or a repossessed asset.

During 2007, our levels of delinquent loans, nonperforming loans (loans 90 or more days delinquent) and impaired loans increased significantly due to deterioration in the nation's economic conditions. Further deterioration occurred during the three months ended March 31, 2008, which negatively impacted our asset quality. Our current levels of delinquent, nonperforming and impaired loans are primarily attributable to the continued deterioration in the real estate market and the economy in general. We have been further impacted by the erosion of property values and an overall increase in housing inventory (both developed lots and completed houses) in many of the areas of the country in which we do business and where the collateral for our loans reside. Additionally, significantly tightened credit standards have made it more difficult for potential borrowers to obtain financing and for current borrowers to refinance existing loans. Furthermore, we have tightened credit policies and limited our exposure in selected business lines and geographic markets.

**Delinquent Loans.** The following table shows loans delinquent 30 - 89 days in our loan portfolio as of the dates indicated:

(Dollars in thousands) March 31, 2008    December 31, 2007

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<i>(Dollars in thousands)</i>	March 31, 2008	December 31, 2007
One-to-four family residential	\$ 4,886	\$ 5,798
Second mortgage residential	1,309	1,499
Multi-family residential	--	2,019
Commercial real estate	1,712	5,268
Land and land development	11,616	15,997
Residential construction	14,652	8,263
Agriculture - real estate	177	4,723
Business	10,179	3,247
Agriculture - operating	323	93
Consumer	4,250	5,560
<b>Total delinquent loans</b>	<b>\$ 49,104</b>	<b>\$ 52,467</b>
Delinquent loans as a percentage of net loans before allowance for loan losses	1.70%	1.76%

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

**Nonperforming Loans and Real Estate Owned.** The following table sets forth information regarding nonperforming loans (90 or more days delinquent), real estate owned and troubled debt restructurings. It is our policy to cease accruing interest on loans contractually delinquent 90 days or more and charge-off all accrued interest. We did not have any accruing loans 90 days or more past due at the dates shown.

<i>(Dollars in thousands)</i>	March 31, 2008	December 31, 2007
<b>Nonperforming loans:</b>		
One-to-four family residential	\$ 4,759	\$ 7,029
Second mortgage residential	412	487
Multi-family residential	603	603
Commercial real estate	4,199	590
Land and land development	44,062	38,708
Residential construction	49,637	57,709
Commercial construction	19,184	19,184
Agriculture - real estate	313	159
Business	1,215	1,268
Agriculture - operating	147	134
Consumer	2,600	2,619
<b>Total nonperforming loans (1)</b>	<b>127,131</b>	<b>128,490</b>
Real estate owned and repossessed assets, net (2)	12,790	6,405
<b>Total nonperforming assets</b>	<b>139,921</b>	<b>134,895</b>
Troubled debt restructurings	16,217	19,569
<b>Total nonperforming assets and troubled debt restructurings</b>	<b>\$ 156,138</b>	<b>\$ 154,464</b>
Total nonperforming loans as a percentage of net loans	4.40%	4.32%
Total nonperforming assets as a percentage of total assets	4.14%	3.81%
Total nonperforming assets and troubled debt restructurings as a percentage of total assets	4.62%	4.37%

*(Dollars in thousands)*

March 31, 2008 December 31, 2007

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- (1) Includes loans held for sale which are 90 days or more delinquent.  
 (2) Real estate owned and repossessed assets balances are shown net of related loss allowances. Includes both real property and other repossessed collateral.
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**Nonperforming Loans.** At March 31, 2008, nonperforming loans totaled \$127.1 million, a decrease of \$1.4 million, or 1.1%, compared to \$128.5 million at December 31, 2007. The change in the nonperforming loans is primarily attributable to the following:

**Residential Construction Loans.** Due to the continued erosion of housing values and increased housing inventory in several markets throughout the country, especially Nevada and Florida, we have, and may continue to experience, increased levels of nonperforming residential construction loans. At March 31, 2008 we had classified \$49.6 million of our total residential construction loans as nonperforming, of which \$17.3 million relate to loans collateralized by property in Florida.

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

During the three months ended March 31, 2008 and December 31, 2007, we charged off \$23.0 million and \$25.5 million of TransLand-related residential construction loans, respectively. TransLand-related loan charge offs were due in large part to a decline in the estimated fair value of undeveloped residential lots.

At March 31, 2008, we had four residential development construction loans totaling \$10.3 million in the Las Vegas, Nevada area which were classified as nonperforming.

**Land and Land Development.** Our nonperforming land development loans at March 31, 2008 totaled \$44.1 million which consisted of 16 residential land development properties. Of the 16 nonperforming residential land development properties, five projects were located in the Las Vegas, Nevada area which totaled \$38.5 million, six projects were located in Nebraska totaling \$2.8 million, one project in the Minneapolis, Minnesota area totaling \$1.5 million, one project in Illinois totaling \$1.2 million and three projects in Florida totaling \$93,000.

**Commercial Construction.** Nonperforming commercial construction loans totaled \$19.2 million at March 31, 2008. This balance relates to one upscale, 113-unit condominium project located within a suburban area of Las Vegas, Nevada. The multi-phase project, with units in various stages of construction including the substantially completed 33-unit first phase, was funded by the Bank and three other financial institutions with total committed loans by all institutions of \$84.8 million. Many of the units were under contract for purchase prior to the commencement of the construction project.

**Impaired Loans.** Included in the preceding table, within nonperforming loans and troubled debt restructurings, are impaired loans of \$146.8 million and \$125.9 million at March 31, 2008 and December 31, 2007, respectively. At March 31, 2008, impaired loans consisted primarily of \$61.3 million of land and land development loans, \$54.6 million of residential construction loans and \$22.8 million of commercial construction loans.

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

**Real Estate Owned and Repossessed Assets.** When we acquire real estate owned property or other assets through foreclosure, deed in lieu of foreclosure or repossession, it is initially recorded at the lower of the recorded investment in the corresponding loan or the fair value of the related assets at the date of foreclosure, less costs to sell. If there is a further deterioration in value, we provide for a specific valuation allowance and charge operations for the decline in value. We generally obtain an appraisal or broker's price opinion on all real estate subject to foreclosure

proceedings prior to the time of foreclosure. It is our policy to require appraisals on a periodic basis on foreclosed properties as well as conduct inspections of such properties.

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

**Real Estate Owned and Repossessed Asset Activity.** The following table sets forth the activity of our real estate owned and repossessed assets for the periods indicated:

<i>(Dollars in thousands)</i>	<b>Three Months Ended March 31,</b>			
	<b>2008</b>		<b>2007</b>	
Balance at beginning of period	\$	6,405	\$	5,264
Loan foreclosures and other additions		6,991		1,846
Sales		(463)		(520)
Provisions for losses		(125)		(71)
Net loss on disposal		(18)		(5)
Balance at end of period	\$	12,790	\$	6,514

At March 31, 2008, real estate owned consisted primarily of 36 residential properties totaling \$9.9 million and three commercial properties totaling \$2.8 million.

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

**Allowance for Loan Losses.** The activity in the allowance for loan losses during the three months ended March 31, 2008 and 2007 is summarized in the following table:

<i>(Dollars in thousands)</i>	<b>At or for the Three Months Ended</b>			
	<b>2008</b>		<b>2007</b>	
Allowance for loan losses at beginning of period	\$	66,540	\$	33,129
<b>Charge-offs:</b>				

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**At or for the Three Months Ended  
March 31,**

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One-to-four family residential	(4,729)	(20)
Second mortgage residential	(64)	(35)
Land and land development	(2,032)	--
Commercial real estate	--	(90)
Residential construction	(20,708)	(172)
Commercial construction	(150)	--
Business	(485)	(90)
Consumer	(599)	