

Press Releases

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OTS 03-13 - Thrifts Interest Rate Risk Exposure Remains Low

Office of Thrift Supervision

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For further information

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Thrifts Interest Rate Risk Exposure Remains Low

WASHINGTON - The Office of Thrift Supervision (OTS) reported today that only 13 OTS-regulated thrifts out of 893 -- 1.5 percent -- were at significant or high risk from an adverse change in interest rates as of the end of the fourth quarter. That is down from 19 at the end of the third quarter. Only two of the 13 institutions were classified as being at high risk.

"Enhanced risk management practices at thrifts, combined with the continued low interest rate environment, have helped minimize thrifts' exposure to interest rate risk and strengthen their bottom line," said OTS Director James E. Gilleran.

OTS measures interest rate risk using a simulation model it developed to estimate the difference between the present value of a thrift's assets and liabilities and the impact on that estimate of interest rate changes, referred to as a thrift's pre- and post-shock net portfolio value (NPV). OTS's Quarterly Review of Interest Rate Risk, released today, summarizes the results of these interest rate stress tests conducted on thrifts for the fourth quarter.

The median thrift's interest rate sensitivity -- a measure of the decline in its net portfolio value ratio after an interest rate shock -- remained relatively unchanged during the fourth quarter. The median thrift's NPV measures also remained relatively unchanged during the period. The percentage of thrifts at minimal risk from a significant sudden interest rate fluctuation stood at 93 percent, with 5.5 percent classified as being at moderate risk.

Using its simulation model, OTS measures the exposure to interest rate risk of each thrift and uses the information to work with institutions to address potential interest rate risk issues. Interest rate risk exposure is a combination of an institution's sensitivity to changes in rates and its post-shock net portfolio value ratio. When a thrift exhibits a high level of interest rate risk, examiners will take a closer look at the institution to see what actions management should take to reduce this risk.

The issue of the Quarterly Review of Interest Rate Risk released today also contains an article about how OTS's Net Portfolio Value model values mortgage banking positions, and the importance of accurate data in reporting these positions.

The fourth quarter witnessed a substantial rise in mortgage originations, due to a higher rate of refinancings. Fourth quarter 1-4 family mortgage originations by thrifts stood at a record \$159.1 billion, up sharply from \$122.4 billion in the third quarter. Thrifts' share of all 1-4 family originations was 23.1 percent, up from 18.5 percent in the prior quarter.

A copy of the publication is posted on OTS's web site: www.ots.treas.gov.

Quarterly Review - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-13a.pdf>

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at www.ots.treas.gov.