

Press Releases

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OTS 03-17 - Thrifts Enjoy Another Record Quarter, Earnings \$3.3 Billion

Office of Thrift Supervision

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THRIFTS ENJOY ANOTHER RECORD QUARTER, EARNING \$3.3 BILLION

WASHINGTON – The Office of Thrift Supervision (OTS) announced today that in the first quarter of 2003 the nation's thrift industry set records for net income, profitability, equity capital and mortgage refinancing volume.

"Continuing the trend from 2002, the favorable interest rate environment in the first quarter of 2003 continued to support a mortgage refinance boom, leading to record strength in earnings, profitability and capital for the thrift industry," said OTS Director James E. Gilleran. The industry earned a record \$3.33 billion for the quarter, nine percent higher than the previous record of \$3.05 billion set in the first quarter of 2002. This was the third consecutive quarter of earnings growth for the industry, and only the second time that quarterly income has topped \$3 billion.

Profitability, as measured by return on average assets, also set a new record, at 1.30 percent. This topped the previous record of 1.24 percent in the year-ago first quarter, and the 1.20 percent figure for the fourth quarter of 2002. The improvement came chiefly from other noninterest income, which primarily includes sales of assets, dividends on Federal Home Loan Bank stock and income from leasing office space.

"Over 99 percent of the industry was well capitalized at the end of the quarter," said Gilleran. "And, for the first time since we began calculating capital requirements under the Federal Deposit Insurance Corporation Improvement Act in 1992, no thrift was less than adequately capitalized."

Industry assets increased at an annual rate of 17.1 percent during the first quarter, to \$1.05 trillion from \$1.00 trillion at year-end 2002. Net interest margin decreased to 300 basis points in the quarter, down from 318 basis points in the first quarter one year ago, but slightly higher than the 294 basis points in the last quarter of 2002. The decline in net interest margin from one year ago resulted from the repricing of, and investment in, assets at lower yields.

"The number of unprofitable thrifts was at its lowest level in four years," noted Gilleran, "and the losses reported by these unprofitable thrifts were at record lows since thrifts began reporting data on a quarterly basis in 1984."

Aggregate equity capital held by thrifts stood at nearly \$95 billion, also a record level, representing an equity capital ratio of 9.07 percent.

The industry maintained excellent asset quality during the past year, and the overall level of credit quality has remained good, although delinquencies were higher for some loan types in the first quarter. Troubled assets (defined as noncurrent loans and repossessed assets) and loans past due by 30- to 89-days as a percentage of total assets were also lower over the first quarter from the prior quarter. The strength in thrift portfolios is due, in part, to the industry's concentration in residential lending and its limited exposure to commercial lending and nonmortgage consumer lending.

Total mortgage originations topped \$161 billion for the quarter. This was down from a record volume of \$177 billion in the prior quarter, but still represents the second best quarterly volume ever. Home sales and mortgage loan demand remained at or near record levels over the quarter as mortgage interest rates remained at four decade lows.

In the first quarter, the volume of mortgage refinancings climbed sharply to a new record for the third consecutive quarter as mortgage interest rates eased further. Refinancing activity (counting only those mortgages refinanced with the same lender) accounted for 55 percent of thrift originations in the first quarter, up from 49 percent in the prior quarter and 39 percent in the first quarter one year ago.

Despite the slow economy and concerns about credit quality in the financial services industry, the number of problem thrifts – those with composite examination ratings of 4 or 5 – shrank by two over the quarter to 12. Assets of problem thrifts declined to \$2.4 billion at the end of the first quarter, the lowest level since OTS was founded in 1989, compared to \$2.6 billion in the prior quarter and \$14.7 billion in the first quarter one year ago.

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-17a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-17b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-17c.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.