

## Press Releases

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OTS 99-59 - Nation's Thrift Industry Earns \$2.12 Billion in Second Quarter

**Office of Thrift Supervision**

### News Release

FOR RELEASE AT END OF PRESS BRIEFING

For further information

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## **NATION'S THRIFT INDUSTRY EARNS \$2.12 BILLION IN SECOND QUARTER**

WASHINGTON, D.C., Sept. 1, 1999 - The nation's thrift industry earned \$2.12 billion in the second quarter of 1999, the best second quarter on record and just under the highest quarterly earnings of \$2.23 billion set in the third quarter of 1998, Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today.

Combined with the first quarter earnings of \$2.06 billion, the OTS-regulated industry set a new mark of \$4.2 billion for the first half of the year. A year ago, second quarter results were \$2.10 billion, and these results were buttressed by a one-time event -- a significant tax benefit at one institution. Second quarter 1999 earnings were devoid of any significant one-time events.

Return on average assets (ROA) was 101 basis points in the second quarter, up slightly from 100 basis points in the first quarter but lower than the 107 basis points in the second quarter 1998. Return on average equity (ROE) was 12.44 percent, up from 12.29 percent in the prior quarter, but lower than the 12.68 percent one year ago.

Reduced non-interest expense, or overhead, and higher retail fee income contributed to the record performance.

"We have said that administrative expenses must decline as mortgage origination volumes attributable to low interest rates begin to come off their peaks," Director Seidman said. "We are heartened to see that thrifts' operating efficiency ratios have improved."

Operating efficiency measures the amount of core income consumed by overhead expense. That measure improved from 61.1 percent in the first quarter to 58.8 percent in the second quarter of 1999.

Despite rising interest rates, mortgage originations remained strong. Total second quarter originations reached \$79.2 billion, up from \$77.4 billion in the first quarter and \$78.6 billion one year ago. Second quarter single-family home mortgage originations increased a fraction to \$66.10 billion from the first quarter's \$66.09 billion.

At the same time, thrifts responded to the rising interest rates and the resultant return of a market for adjustable rate mortgages (ARMs) by moving away from a mortgage banking strategy to one of holding more loans in portfolio.

When interest rates were low, consumers preferred fixed-rate mortgages over ARMs. However, the flight from ARMs to fixed-rate mortgages slowed markedly in the second quarter. The rate of decline of ARMs as a percent of assets on thrifts' books slowed to an annualized reduction of 5.1 percent in the second quarter compared to 20.6 percent for all of 1998. More importantly, ARMs' share of new home purchase mortgages for all lenders actually increased to 32 percent of these second quarter originations compared to 21 percent in the first quarter and 17 percent for 1998.

Notwithstanding the slowing shift of assets from ARMs to fixed-rate mortgages, the percent of assets held in 30-year single-family fixed-rate mortgages and securities still increased to 14.6 percent, an annualized increase of 8.4 percent over the prior quarter. With higher interest rates, refinancings were 15.7 percent of originations in the second quarter, down from 19.8 percent in the first quarter.

The industry's equity capital rose to \$68.59 billion, but the ratio of equity capital to assets fell to 8.10 percent from 8.14 percent in the prior quarter and 8.56 percent one year ago, the result of a drop in unrealized gains on available-for-sale securities. Capital remained strong, however, with 97.2 percent of thrifts meeting or exceeding the well-capitalized standards in the second quarter, compared with 97.5 percent in the first quarter. As of June 30, two thrifts were undercapitalized, including one critically undercapitalized institution that was placed in receivership in July 1999 and sold. It was the first thrift failure since August 1996.

Preliminary data show that median second quarter sensitivity to interest rate risk increased to 184 basis points from 144 basis points in the first quarter and 136 basis points one year ago. The sensitivity measure shows the change in a thrift's economic value due to a 200 basis point change in interest rates. "While the sensitivity levels are not at troubling levels, some institutions may be retaining assets on their books that, as interest rates increase, lead to higher sensitivity levels than either they or we think prudent," Director Seidman said. "We have the tools to look at this, institution by institution, quarter by quarter, and it's an area we have been and will continue to watch closely," she added.

The number of thrift institutions regulated by OTS declined to 1,115 in the second quarter from 1,129 in the prior quarter and 1,181 one year ago. During the second quarter, 22 thrifts left OTS supervision, including 17 that were merged with or acquired by another thrift or bank. Partially offsetting the departures were eight new thrifts that received OTS charters during the second quarter, including six start-up institutions.

Asset growth of remaining OTS thrifts substantially exceeded the assets held by departing thrifts in the second quarter. Total second quarter industry assets were \$846.69 billion, up from \$835.04 billion in the second quarter and \$786.30 billion one year ago.

Troubled assets fell to \$5.5 billion, or 0.65 percent of assets, in the second quarter, the lowest level since that measure was first used in 1990. Troubled assets were down from \$6.0 billion, or 0.72 percent, in the prior quarter. In addition, noncurrent loan rates for the four major

types of assets held by thrifts - single-family mortgages, multi-family and nonresidential mortgages, consumer loans and commercial loans - all declined during the second quarter.

Problem thrifts, those with CAMELS ratings of 4 or 5, declined in the second quarter to 10, or 0.9 percent of all thrifts, from 14, or 1.2 percent, in the prior quarter.

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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' 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 call PubliFax at 202/906-5660, or visit the OTS web page at <http://www.ots.treas.gov>.