Press Releases

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OTS 99-81 - Nation's Thrift Industry Earns $2.09 Billion in Third Quarter

Office of Thrift Supervision

News Release

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NATION'S THRIFT INDUSTRY EARNS $2.09 BILLION IN THIRD QUARTER

WASHINGTON, D.C., Dec. 2, 1999 - The nation's thrift industry continued to perform at near record levels as it earned $2.09 billion in the third quarter of 1999, Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today. While earnings and the quality of the majority of thrift assets remain strong, Director Seidman warned that certain developments, particularly increased interest rate sensitivity, will be monitored carefully in the coming months.

Though third quarter earnings fell slightly, profits were still the fourth best in history, exceeded only by second quarter 1999 earnings of $2.11 billion and the second and third quarters of 1998, which brought in earnings of $2.1 and $2.2 billion respectively.

Total earnings for the first three quarters of 1999 were $6.3 billion, up slightly from the $6.2 billion for the same period last year.

Return on average assets (ROA) was 0.98 percent in the third quarter, down from 1.01 percent in the prior quarter and the 1.13 percent in last year's third quarter.

Helping to stabilize third quarter earnings were lower provisions for losses, reflecting continued strong mortgage asset quality, and a decline in noninterest, or overhead, expense. Overhead expense fell to 2.07 percent of assets from 2.09 percent in the second quarter and 2.26 percent one year ago.

Even with the strong third quarter performance, Director Seidman cautioned that increases in the industry's interest rate sensitivity and exposure to interest rate risk are a concern. She pointed out that the median industry sensitivity increased to 203 basis points in the third quarter, the highest level since OTS began using its current net portfolio value computer model in 1992.

"We are also concerned with the increase in the number of thrifts concentrating more assets in higher-risk loans," said Director Seidman. She noted that during the last two years, the number of thrifts with commercial loan portfolios exceeding 10 percent of their total assets has more than doubled, from 26 to 59 institutions. "Although the number of such institutions remains small and the amount of commercial lending remains capped by law, this expansion into new lines of business requires, in particular, close attention to management, monitoring and internal controls," she said. Director Seidman noted that such higher-risk assets represent a small portion of the industry's total portfolio, the bulk of which continues to perform well. Indeed, the ratio of troubled assets to total assets fell to 0.65 percent, the lowest level since OTS began measuring this category in 1990.

In shifting its focus from mortgage banking to portfolio investing, the thrift industry has responded to changing mortgage market conditions. Rising interest rates slowed refinancing activity in the third quarter and increased consumer demand for adjustable rate mortgages (ARMs). As a result, ARMs grew to 31.2 percent of thrift assets from 30.7 percent in the second quarter, while thirty-year, single-family fixed-rate mortgages and securities fell to 14.3 percent of assets from 14.7 percent in the second quarter.

Total mortgage originations by the thrift industry fell to $69.3 billion from $79.2 billion in the second quarter and $78.7 billion one year ago. Single-family mortgage originations in the third quarter were $55.8 billion, down from $66.1 billion in the second quarter. Construction loans in the third quarter rose to a record $7.5 billion from $7.1 billion in the prior quarter. Single-family houses accounted for 80 percent of new construction loans, with the remainder spread between multifamily housing [6 percent] and nonresidential buildings [14 percent].

Rising interest rates, along with rapid growth in assets, have reduced industry equity capital ratios somewhat, but the industry remains well-capitalized overall. The industry's equity capital rose to $69.0 billion, but the ratio of equity capital to assets fell to 8.0 percent in the third quarter from 8.10 percent in the prior quarter and 8.58 percent one year ago. Industry equity capital growth was slowed primarily by an increase in unrealized losses on available-for-sale securities. Of all OTS-regulated thrifts, 97.6 percent met or exceeded well-capitalized standards, up from 97.2 percent in the second quarter. One thrift was critically undercapitalized at the end of the third quarter, but has subsequently received a capital infusion and moved to a higher capital category.

While the number of thrift institutions regulated by OTS fell to 1,111 at the end of the third quarter from 1,115 in the second quarter, total thrift industry assets continued to grow to $862.7 billion in the third quarter from $846.7 billion in the prior quarter. During the third quarter, 16 thrifts left OTS jurisdiction, primarily through mergers and acquisitions. One small thrift failed, the first failure since 1996, and was acquired by a thrift holding company. Partially offsetting the departures were 12 new thrifts that were chartered by OTS in the third quarter. Eight of those were start-ups with the remainder converting from other charters.

Problem thrifts, those with CAMELS ratings of 4 or 5, numbered 10, or 0.9 percent of all thrifts. This was the same as the previous quarter and down from the 18 one year ago.

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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 and other documents, visit the OTS web page at www.ots.treas.gov.