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OTS 04-04 - Thrifts Earnings and Profitability at Record Levels for 2003

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Thrifts Earning and Profitability At Record Levels For 2003

WASHINGTON - The Office of Thrift Supervision (OTS) announced today that the nation's thrift industry reported record net income of \$13.7 billion for 2003, up 16 percent from the previous record \$11.8 billion earned in 2002. For the fourth quarter of 2003, the industry reported net income of \$3.45 billion, also up 16 percent from the fourth quarter of 2002. This marks the second best earnings quarter in history, and the fourth consecutive quarter, and fifth overall, that quarterly income for the industry has topped \$3 billion. Asset quality remains strong, total equity capital stands at historically high levels, and the number of problem institutions declined during the year.

Profitability, as measured by return on average assets (ROA), set an annual record at 1.29 percent in 2003, up from 1.21 percent in 2002. For the fourth quarter, ROA stood at 1.26 percent, slightly down from 1.28 percent in the third quarter of 2003, but higher than the 1.20 percent level in the fourth quarter of 2002. ROA improvement in 2003 was fueled by lower loan loss provisions, lower impairment charges for mortgage servicing rights and higher fee income. These increases more than offset slightly lower net interest margin and other noninterest income, and higher noninterest expense and taxes. Fourth quarter ROA was slightly lower than the prior quarter due to lower noninterest income and higher noninterest expense.

For the year, net interest margin (NIM) decreased to 290 basis points from 306 basis points in 2002, but was up slightly from 289 basis points in 2001, remaining fairly steady overall for the last 3 years. In the fourth quarter, NIM averaged 285 basis points, down from 294 basis points in the fourth quarter of 2002 and up slightly from 284 basis points in the third quarter of 2003.

In 2003, the thrift industry benefited from a mortgage refinance boom sustained by a favorable interest rate environment. Total mortgage originations in 2003 were a record \$806 billion, surpassing by 50 percent the previous record of \$536 billion in 2002. Although mortgage refinancings and originations of 1-4 family mortgages tapered off due to rising rates in the fourth quarter of 2003, new home starts and sales remain at record levels. For the fourth quarter of 2003, originations of 1-4 family mortgage loans totaled \$143.9 billion, down sharply from the record \$230 billion originated in the third quarter of 2003 and also down 10 percent from \$159.6 billion in the fourth quarter of 2002.

Thrifts' share of total 1-4 family mortgage originations (estimated by the Mortgage Bankers Association of America) was 23 percent in the fourth quarter, up from an estimated 19 percent in the third quarter of 2003 and unchanged from the fourth quarter of 2002.

Total fee income, consisting of mortgage loan servicing fee income and other fee income, increased to 0.87 percent of average assets for 2003, up from 0.47 percent in 2002. In the fourth quarter, total fee income was 1.25 percent of average assets, up from 0.64 percent in the fourth quarter of 2002 and 1.01 percent in the third quarter of 2003. Since 2001, total fee income has been depressed by lower mortgage servicing fee income as a consequence of impairment charges on mortgage servicing assets at a number of thrifts. These impairment charges resulted from higher mortgage prepayments, which decrease the duration and cash flow of servicing assets.

Aggregate equity capital held by thrifts stood at a record \$99.4 billion at the end of 2003, up 7.8 percent from \$92.2 billion at year-end 2002, and slightly higher than third quarter equity capital of \$97.2 billion. For the year, however, the industry's average equity capital ratios decreased to 9.09 percent from the record 9.18 percent at year-end 2002. This occurred as industry assets increased at a faster rate than equity capital. Industry assets increased 8.8 percent for the year, to \$1.09 trillion from \$1.00 trillion at year-end 2002. Over 99 percent of the industry was well-capitalized at the end of 2003. One thrift was less than adequately capitalized at the end of the fourth quarter, but has since recapitalized.

The industry continues to maintain excellent asset quality. The ratio of troubled assets, consisting of noncurrent loans and repossessed assets, continues to improve, down to 0.67 percent for year-end 2003, from 0.68 percent for the third quarter of 2003, and 0.75 percent for year-end 2002. The ratio of noncurrent loans to assets defined as loans more than 89-days past due or in nonaccrual status, fell to 0.58 percent of assets in the fourth quarter, its lowest mark since the third quarter of 2001. Loans 30 to 89 days past due fell to 0.71 percent of assets from 0.76 percent one year ago, but were up slightly from 0.66 percent in the third quarter of 2003.

The number of problem thrifts -- those with composite examination ratings of 4 or 5 -- fell by six over the year to eight from 14 one year ago. Assets of problem thrifts at year-end 2003 remained relatively steady from the prior quarter at \$0.6 billion, an amount significantly lower than the \$2.6 billion at year-end 2002, and near the lowest level since OTS was founded in 1989.

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2004-04a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2004-04a.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2004-04c.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.