

Press Releases

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OTS 06-005 - Thrifts Post Strong Results in 2005

Office of Thrift Supervision

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Thrifts Post Strong Results in 2005

WASHINGTON, DC -- The nation's thrift industry continued its strong performance in 2005, according to fourth quarter and full-year financial results released today by the Office of Thrift Supervision (OTS).

The industry posted its fifth consecutive quarter of record earnings and set an annual earnings record in 2005. Strong earnings were achieved despite a flattening yield curve that reduced the industry's aggregate net interest margin. Profitability and loan growth were also solid for the year, and savings associations maintained healthy credit quality and achieved record levels of equity capital.

Industry net income for the quarter reached a record \$4.34 billion, up seven percent from the prior quarter and up 15 percent from the fourth quarter 2004. Annual net income reached a record \$16.42 billion in 2005, up 18 percent from the previous record \$13.96 billion in 2004.

The industry's aggregate 2005 net interest margin decreased to 281 basis points (or 2.81 percent of average assets) from 289 basis points in 2004, as asset yields increased less than liability costs over the year.

Profitability, as measured by return on average assets (ROA), was 1.19 percent for the year, up from 1.17 percent in 2004, and was 1.20 percent in the fourth quarter, up from 1.15 percent in the third quarter. Profitability gains came from increases in non-interest income, which served to offset declines in net interest income for the year.

The industry's equity capital ratio improved to a record 9.45 percent at the end of 2005 -- well in excess of minimum requirements -- and the amount of equity capital held by thrifts reached a new record. Over 99 percent of the industry exceeds well-capitalized standards and no thrift was less than adequately capitalized at year-end.

Total thrift mortgage originations for 2005 were \$744.1 billion, the industry's second highest volume, up eight percent from \$689.1 billion in 2004. Nationwide, thrifts accounted for approximately 26 percent of total 1-4 family originations in the fourth quarter, up from 23 percent one year ago and 24 percent in the third quarter. An estimated 50 percent of thrift

originations were adjustable rate mortgages (ARMs), up from 43 percent in the third quarter, but down from 62 percent one year ago. In contrast, the ARM share for all lenders was 29 percent in the third quarter, and 36 percent one year ago. Refinancing activity decreased to 34 percent of thrift originations from 36 percent one-year ago, as longer-term interest rates increased over the year.

Asset quality remains sound, with a slight up tick in problem assets from historic lows due to an increase in repurchased loans from Government National Mortgage Association (GNMA) mortgage pools. As a result, the industry's broad measure of asset quality -- troubled assets-to-total assets -- rose to 0.64 percent from 0.62 percent in the third quarter. This increase is not considered significant, however, because loans from GNMA pools are guaranteed by agencies of the U.S. Government and pose very low risk. Excluding repurchased GNMA loans, troubled assets (defined as loans 90 or more days delinquent, loans in nonaccrual status, and repossessed assets) were lower from one year ago.

Less seriously delinquent loans -- those 30-89 days past due -- increased over the year for most loan types as a percentage of assets, even when repurchased GNMA loans are excluded. We are closely tracking delinquent loans, including the percentage of past due loans that become seriously delinquent.

We are also monitoring nontraditional mortgage loan products offered by many lenders to help meet consumer loan demand. Such loans, prudently underwritten, can be a valuable source of steady mortgage credit to communities, especially in areas with higher cost homes and in periods of rising interest rates. However, these loan products have gained popularity in a generally sound economic environment with rising real estate values, and have yet to be stressed through economic downturns.

In June, OTS updated its examination guidance for innovative mortgage instruments to describe product features, the risks associated with these instruments, and supervisory expectations for proper underwriting, portfolio management and marketing practices. OTS examiners continue to evaluate thrift mortgage portfolio performance and risk management programs.

In December, the federal financial regulatory agencies jointly requested comment on proposed guidance on nontraditional mortgage products. The proposed guidance discusses the importance of carefully managing the potential heightened risk levels created by these loans.

The number of thrifts stood at 863 at year-end, with assets of \$1.46 trillion, an increase of 12 percent for the year. OTS supervised 484 U.S.-domiciled holding company enterprises at quarter-end, with consolidated assets of approximately \$7.1 trillion.

The number of problem thrifts -- those with composite examination ratings of 4 or 5 -- increased by one over the year, to seven, and the number of 3-rated institutions declined to 45 from 52. All of the 3-rated thrifts were well-capitalized at the end of 2005.

Full results for the thrift industry in the fourth quarter and full-year 2005 are available on the OTS website at www.ots.treas.gov.

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-05a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-05b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-05c.pdf>

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.