

Press Releases

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OTS 97-86 - Nations Thrift Industry Earns \$1.3 Billion in Third Quarter

Office of Thrift Supervision

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Nation's Thrift Industry Earns \$1.3 Billion in Third Quarter

WASHINGTON, D.C., Dec. 3, 1997 -- The nation's thrift industry earned more than \$1.3 billion in the third quarter of 1997 and achieved a new, record level of equity capital, Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today.

Ms. Seidman said the thrift industry "...continues to demonstrate strong and stable performance aided by the nation's sustained economic growth, low inflation and low and stable interest rates."

Third-quarter earnings fell below the \$1.7 billion earned in the second quarter due to one-time, acquisition-related charges incurred by three large thrifts. Nonetheless, nine-month earnings for 1997 of \$4.8 billion would rank as the fourth most profitable entire year. Third-quarter return on average assets (ROA) of 71 basis points was down from the 89 basis points in the second quarter because of the one-time, acquisition-related charges. Without these charges, ROA would have been 92 basis points. ROA for the first nine months of 1997 was 84 basis points.

Equity capital increased to a record 8.18 percent in the third quarter, up from the previous record of 8.11 percent in the second quarter. Nearly all (99.8 percent) thrifts met or exceeded

minimum capital requirements, and 97.7 percent exceeded the requirements for the well-capitalized category. Only three thrifts were undercapitalized in the third quarter.

"Most economists agree that we have not repealed the business cycle, and we must be vigilant during these strong economic periods to assure that thrift institutions are prepared to handle future economic shocks," Ms. Seidman said. She said OTS will be closely monitoring the credit performance of thrift mortgage portfolios, the impact of these portfolios on the industry's sensitivity and exposure to interest rate risk, and thrifts' entry into or expansion of new lines of business. Ms. Seidman noted that the current low rate of single family mortgage delinquencies may be due largely to the high quality of loans originated, primarily as refinancings, in 1992 and 1993. OTS research suggests that loans originated in later years are behaving less favorably, which may put pressure on future aggregate mortgage delinquency rates.

Deposits declined to 65.8 percent of assets in the third quarter from 66.7 percent in the second quarter, with thrifts' federal home loan bank advances increasing slightly. Since advances cost more than deposits, thrifts' interest expense rose to 4.46 from 4.38 percent in the second quarter, and their net interest margin fell three basis points to 284 basis points.

Fee income, including fees from mortgage servicing and mutual fund and annuity sales, increased again in the third quarter. Over the past four years, thrift fee income has risen 72 percent.

Single-family mortgage loans continue to be the predominant loan type held by the industry, accounting for 50.8 percent of total assets in the third quarter, up from 50.1 percent in the second quarter. At the same time, thrifts have increased their consumer and small business/commercial loans. Consumer loans increased \$3 billion from the second quarter to \$43.3 billion in the third quarter. Small business/commercial loans increased \$0.6 billion during the third quarter. Despite their significant rates of growth, consumer and small business/commercial loans still represent only 5.7 and 1.4 percent of industry assets, respectively.

Industry consolidation reduced the number of OTS-regulated institutions to 1,238 at the end of the third quarter from 1,272 in the second quarter, an annualized rate of 10.7 percent. Through November 25, 124 thrifts have left OTS regulation this year, including 34 in the third quarter, through charter conversions or acquisitions. At the same time, 19 institutions have come under OTS regulation for the first time and another 29 applications for a federal thrift charter are currently under review.

Assets of OTS-regulated thrifts declined \$6 billion during the third quarter to \$763 billion, as several large thrifts either converted or were acquired by commercial banks. Asset growth among existing OTS thrifts, however, has generally offset asset losses from consolidation. Total thrift assets have been fairly stable since December 1993.

Problem thrifts -- those with CAMELS examination ratings of 4 or 5 -- decreased to 23, the lowest number since the thrift crisis of the 1980s. Troubled assets increased slightly in the third quarter to \$8.2 billion, or 1.08 percent of total assets, from \$8.1 billion (1.06 percent) in the second 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 www.ots.treas.gov