

Press Releases

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OTS 02-40 - Thrift Interest Rate Risk Falls to Lowest Point Since 1998

Office of Thrift Supervision

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For further information

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Thrift Interest Rate Risk Falls to Lowest Point Since 1998

WASHINGTON - The Office of Thrift Supervision (OTS) reported today that only eight federal thrifts out of 917 -- 0.9 percent -- were at high risk from an adverse change in interest rates as of the end of the second quarter. That is down from 1.5 percent at the end of the first quarter -- the industry's lowest exposure since 1998.

The percentage of thrifts at minimal risk from a significant sudden interest rate fluctuation stood at 81 percent, significantly improved from 73 percent the previous quarter.

"The thrift industry's exposure to interest rate risk as measured by OTS is the lowest it has been in more than three years," said OTS Director James E. Gilleran. "The current low interest rate environment coupled with enhanced risk management practices have minimized the industry's interest rate risk and bolstered its bottom line."

OTS measures interest rate risk using a simulation model it developed to estimate the difference between the present value of a thrift's assets and liabilities and the impact on that estimate of interest rate changes, referred to as a thrift's net portfolio value. OTS's Quarterly Review of Interest Rate Risk, released today, summarizes the results of these interest rate stress tests conducted on thrifts.

The median thrift's interest rate sensitivity -- a measure of the decline in its net portfolio value ratio after an interest rate shock -- decreased by 31 basis points from the first quarter of 2002.

OTS also reported that the market share of adjustable rate mortgage originations for thrifts rose sharply during the second quarter from 40 to 50 percent. The percentage of adjustable rate mortgages in thrift mortgage portfolios also rose slightly from 56 to 58 percent.

Using its model, OTS measures the exposure to interest rate risk of each thrift and uses the information to work with institutions to address potential interest rate risk issues. Interest rate risk exposure is a combination of an institution's sensitivity to changes in rates and its post-shock net portfolio value ratio. When a thrift exhibits a high level of interest rate risk,

examiners will take a closer look at the institution to see what actions management should take to reduce this risk.

The issue of the Quarterly Review of Interest Rate Risk released today also contains an article about the characteristics of traditional and alternative mortgages and their effect on interest rate risk.

A copy of the publication is posted on OTS's web site: www.ots.treas.gov.

Quarterly Review - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-40a.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.