

Press Releases

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OTS 00-30 - Q1 1999 - U.S. Thrift Industry Earns Record \$8.2 Billion in 1999

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Contact: Paul Lockwood

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U.S. Thrift Industry Earns Record \$8.2 Billion in 1999

WASHINGTON, D.C., March 8, 2000 - For the third consecutive year, the nation's thrift industry had record earnings, reaching \$8.2 billion in 1999 and surpassing 1998 earnings of \$7.6 billion by 9 percent, Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today. Fourth quarter earnings of \$1.98 billion were down slightly from third quarter earnings of \$2.09 billion.

"The industry's performance was outstanding, especially in view of rising interest rates and increasing competition," Director Seidman said.

Return on average assets (ROA) was 0.98 percent for 1999, the highest annual rate of return since the same rate was achieved in 1962. Fourth quarter ROA was 0.93 percent. Net interest margin was steady, and the industry's control of overhead costs resulted in non-interest expense falling to 2.1 percent of average assets in 1999 compared to 2.3 percent in 1998.

Fee income was up for the year. Fees earned for servicing mortgages climbed to \$947.8 million, slightly above 1998, while revenues from other fees rose to \$4.7 billion.

The industry remains substantially above the "well capitalized" threshold. The ratio of equity capital to total assets dropped below 8 percent to 7.79 percent for the first time since the third quarter of 1997, but it remained substantially above the five percent well-capitalized standard. At the end of 1999, 98 percent of all thrifts met or exceeded well-capitalized standards. Two institutions failed to meet minimum capital standards in the fourth quarter and one of them was critically undercapitalized.

Higher fourth quarter interest rates have reduced mortgage originations by all financial institutions, including thrifts. Thrifts' single-family mortgage originations were \$47.8 billion in the fourth quarter, compared with \$55.8 billion in the third quarter, and were 41 percent below the record \$81.5 billion in the fourth quarter of 1998. Total fourth quarter mortgage originations fell to \$61.4 billion from \$69.3 billion in the third quarter primarily because of the decline in single-family loans. Loans refinanced by the same lender made up 10.8 percent of originations by OTS-regulated thrifts in the fourth quarter, down from 20.6 percent one year ago.

Rising interest rates also generated increases in the industry's interest rate risk sensitivity, a measure of how much an institution's net portfolio value would decline as interest rates rise. The industry's median fourth quarter sensitivity increased by 13 percent from the third quarter and by 78 percent from the fourth quarter of 1998. Director Seidman said OTS is continuing to closely monitor sensitivity, but has not detected any serious effect on thrifts' performance. Thrifts appear to be responding well to the rise in interest rates by gradually restructuring their portfolios, and they have sufficient capital to offset the increased sensitivity, she added.

Problem thrifts -- those with a CAMELS rating of 4 or 5 -- totaled 12 institutions with \$5.5 billion of assets in the fourth quarter, up from 10 thrifts with \$3.8 billion in the third quarter, but down from 15 at the end of 1998.

The number of OTS-regulated thrifts at year-end was 1,103, compared with 1,111 in the third quarter and 1,145 at the end of 1998. During 1999, 80 institutions left OTS jurisdiction, including 17 in the fourth quarter. At the same time, 38 institutions came under OTS regulation for the first time, including 9 in the fourth quarter. The net reduction of 42 institutions in 1999 was the lowest level since 1986.

Despite the decline in the number of OTS-regulated thrifts, industry assets increased to \$863.4 billion from \$862.7 billion in the third quarter and \$817.6 billion one year ago.

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The Office of Thrift Supervision (OTS), an office 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.