

Press Releases

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OTS 07-010 - Thrift Industry Well Positioned Despite Fourth Quarter Decline

Office of Thrift Supervision

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Thrift Industry Well Positioned Despite Fourth Quarter Decline

WASHINGTON, DC -- The Office of Thrift Supervision (OTS) reported today that the nation's thrift industry posted historically strong earnings and profitability in 2006. Asset quality measures for OTS-regulated thrifts also remain strong by historical levels despite weakening in the fourth quarter from the slowdown in the housing markets.

The agency noted that the industry's record equity capital-to-assets ratio at the end of 2006 has it well positioned to absorb the possibility of further weakening that could result from a housing slowdown. In addition, the industry doubled its aggregate percentage of loan loss provisions in the fourth quarter of 2006 to 0.45 percent of assets from 0.22 percent in the third quarter of 2006, and from 0.26 percent in the fourth quarter of 2005.

For the fourth quarter, the slowdown in housing and the changing credit cycle for residential mortgages and consumer lending widely affected industry earnings, profitability and asset quality measures. The drop was more pronounced coming off the industry's second best quarter for earnings in the third quarter of 2006. The agency noted, however, that earnings and profitability, especially for smaller institutions, continue to be stressed by the flat to inverted yield curve affecting the current interest rate environment.

While remaining strong, asset quality measures for the industry declined from recent record levels, with delinquencies for residential mortgages and consumer loans increasing from record lows. Loan growth also slowed during the year while retail deposit growth was up after accounting for the loss of deposits from two large thrifts in the fourth quarter of 2006. The aggregate impact of the exits was a decline in overall industry assets, from \$1.63 trillion in the third quarter to \$1.41 trillion at the end of 2006. Industry assets were \$1.46 trillion one year ago.

Industry highlights include:

- Industry net income for 2006 was \$15.9 billion, down from the record \$16.4 billion in 2005, but significantly higher than \$14.0 billion in 2004. In the fourth quarter, net income was \$3.19 billion, down from \$4.29 billion in the prior quarter and \$4.32 billion

in the year ago fourth quarter, which were the best two quarters in the industry's history.

- Profitability, as measured by return on average assets (ROA), was 1.06 percent for 2006, down from 1.19 percent in 2005 and 1.17 percent in 2004. For the fourth quarter, ROA was 0.91 percent, down from 1.08 percent in the third quarter and 1.19 percent in the fourth quarter of 2005. While higher provisioning for loan losses affected the ROA decline, the agency noted that a portion of the fourth quarter drop was attributable to one-time events.
- For the quarter, the industry's aggregate net interest margin rose slightly to 2.71 percent from 2.65 percent in the prior quarter. Net interest margin was 2.76 percent one year ago. The continued flat to inverted yield curve continues to dampen net interest margin for the industry. (Due to a regulatory change, 2006 net interest margin is not directly comparable to prior years. Prepayment fees and other loan fees are included with interest income rather than in "Other Fees and Charges" beginning with first quarter 2006 regulatory reports. This change was made to match regulatory reporting for commercial banks.)
- Industry capital set a new record with an equity capital ratio of 10.71 percent, which was well in excess of minimum regulatory standards. The OTS said that 99 percent of the industry met or exceeded "well capitalized" regulatory standards at the end of 2006.

The OTS noted that thrift industry assets grew 8 percent after accounting for the loss of assets from two large affiliated institutions, and the industry's share of mortgage originations was 20 percent of all 1-4 family mortgages made in the U.S. Of particular note:

- Total mortgage originations (including multifamily and nonresidential mortgages) were \$134.3 billion this quarter, down from \$172.1 billion in the third quarter with approximately \$31 billion of the decrease attributable to the two large charter exits.
- Approximately 12 percent of thrift originations this quarter were ARMs, down from 26 percent in the third quarter, 37 percent in the second quarter and 50 percent the fourth quarter a year ago. The ARM share for all lenders was estimated at 14 percent this quarter, 18 percent the third quarter, 25 percent in the second quarter and 28 percent the fourth quarter a year ago, according to data from the Federal Housing Finance Board's monthly Mortgage Interest Rate Survey.
- The volume of mortgage refinancing was higher this quarter than the prior quarter but lower than the fourth quarter one year ago. Refinancing activity accounted for 39 percent of thrift originations in the fourth quarter, up from 27 percent in the third quarter and 34 percent in the fourth quarter one year ago.

OTS noted that the weakening in overall asset quality due to the slowing housing markets was particularly evident in weakening credit quality in certain loan portfolios and geographic areas. The OTS continues to monitor construction loan performance, especially given the slowdown in home sales. The agency also continues to closely monitor recently originated or "unseasoned" loans, and loans made on marginal credits.

- Total noncurrent loans increased to 0.61 percent of assets from 0.56 percent in the prior quarter and 0.59 percent one year ago.
- Troubled assets (noncurrent loans plus repossessed assets) increased to 0.70 percent from 0.64 percent the prior quarter and the same quarter one year ago.

The OTS indicated that at the end of the fourth quarter:

- Of the 845 thrifts regulated by the OTS, there were six problem thrifts--those with composite examination ratings of 4 or 5--up by one from the prior quarter. There were 57 institutions that were 3-rated, up five from the prior quarter and up 12 from the end of 2005. All but three of the 3-rated thrifts were well capitalized.

- 475 U.S.-domiciled holding company enterprises, with consolidated assets of approximately \$8.0 trillion, were supervised by the OTS.

Complete industry results for 2006 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-2007-10a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2007-10b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2007-10c.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.
