

Press Releases

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OTS 97-30 - Thrifts Cut Loan Losses 50 Percent Over 6 Years

Office of Thrift Supervision

NEWS

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THRIFTS CUT LOAN LOSSES 50 PERCENT OVER 6 YEARS

WASHINGTON, D.C., May 14, 1997 -- Savings associations cut losses from bad loans by more than 50 percent over a six-year period, the Office of Thrift Supervision (OTS) reported today.

OTS-regulated thrifts charged off 0.29 percent of assets in 1996, a significant decrease from the rate of 0.63 percent in 1991.

Some individual categories of loans had an even more dramatic decline in loans charged off because they are considered uncollectable. For example, the charge-off rate for construction loans for non-residential property dropped from 6.65 percent in 1991 to 0.13 percent in 1996. Commercial loans were written off at a rate of 2.50 percent in 1991, but only 0.40 percent in 1996.

"A favorable economy and good management by the thrifts all contributed to the decline in loan losses," said John Downey, OTS executive director, Supervision.

In a memorandum to OTS regional directors, however, Downey noted that there had been a recent increase in the level of charge-offs of one-to-four family mortgage loans, auto loans and credit cards. "We must be diligent in ensuring that institution management closely monitor loan and investment performance, determine the reasons behind any adverse trends, and take corrective actions when necessary," Downey said.

Charge-offs of one-to-four family mortgage loans were 0.15 percent in 1991. They peaked at 0.40 percent in 1993, then declined to 0.19 in 1995 only to rise slightly to 0.20 in 1996.

Auto loan charge-offs were 1.18 percent in 1996, up from 0.68 in 1995. Credit card charge-offs amounted to 4.18 percent in 1996, up from 3.36 in 1995.

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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.

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| Thrift Industry Net Annual Charge-Offs By Year | | | | | | |
|---|---|-------------|-------------|-------------|-------------|-------------|
| Assets | Percent Average Annual Net Charge-offs | | | | | |
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
| Cash, Deposits, and Investment Sec. | 0.19 | 0.14 | 0.05 | 0.03 | 0.01 | 0.01 |
| Mortgage Pool Securities | 0.00 | 0.00 | 0.01 | 0.03 | 0.05 | 0.05 |
| Construction Loans: | | | | | | |
| 1-4 Residential | 1.24 | 0.61 | 0.25 | 0.22 | 0.12 | 0.11 |
| 5+ Residential | 2.14 | 2.44 | 1.23 | 0.64 | 0.42 | 0.13 |
| Nonresidential Property | 6.65 | 2.26 | 3.00 | 1.02 | 0.65 | 0.13 |
| Mortgage Loans: | | | | | | |
| 1-4 Residential | 0.15 | 0.24 | 0.40 | 0.27 | 0.19 | 0.20 |
| 1-4 Residential (Open) | 0.11 | 0.19 | 1.28 | 0.30 | 0.16 | 0.26 |
| 5+ Residential | 0.62 | 0.72 | 1.04 | 1.42 | 0.65 | 0.52 |
| Nonresidential Property | 1.20 | 1.39 | 2.04 | 1.21 | 0.82 | 0.43 |
| Land Loans | 2.49 | 1.12 | 1.21 | 1.11 | 1.08 | 0.15 |
| Commercial Loans | 2.50 | 1.82 | 3.08 | 1.05 | 0.81 | 0.40 |
| Consumer Loans: | | | | | | |
| Education | 0.45 | 0.30 | 0.15 | 0.08 | 0.05 | 0.05 |
| Auto Loans | 1.02 | 0.80 | 0.68 | 0.47 | 0.68 | 1.18 |
| Mobile Home Loans | 1.88 | 1.32 | 1.20 | 0.84 | 0.92 | 1.17 |
| Other | 1.27 | 1.54 | 0.94 | 0.61 | 0.72 | 0.78 |
| Revolving (1-4 secured) | 0.29 | 0.31 | 0.31 | 0.17 | 0.23 | 0.19 |

| | | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Cr. Cards & Other Unsecured | 4.51 | 4.46 | 3.13 | 3.05 | 3.36 | 4.18 |
| Real Estate Owned | 8.60 | 9.92 | 14.83 | 16.33 | 14.64 | 12.68 |
| Other Repossessed Assets | 23.76 | 24.39 | 15.03 | 49.32 | 27.22 | 20.34 |
| Real Estate Held for Investment | 3.58 | 9.09 | 9.78 | 7.78 | 15.34 | 11.59 |
| Investment in Service Corporations | 1.64 | 2.33 | 0.44 | 0.25 | 0.14 | 0.38 |
| Other Assets | 0.00 | 0.00 | 0.65 | 1.04 | 0.32 | 0.24 |
| Total Investment | 0.63 | 0.60 | 0.69 | 0.48 | 0.31 | 0.29 |

Aggregate net annualized charge-offs as a percent of average investments for the calendar years indicated.

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| Thrift Industry Net Annual Charge-Offs By Asset Type | | | |
|---|----------------------------|---------------------------|----------------------------|
| Asset Type | 12/31/96 Assets (1) | Percent Investment | Net Charge-offs (2) |
| Cash, Deposits, and Investment Securities | 98,287,197 | 12.pres9 | 0.02 |
| Mortgage Pool Securities | 112,124,625 | 14.57 | 0.04 |
| Construction Loans: | | | |
| 1-4 Residential | 12,949,255 | 1.68 | 0.17 |
| 5+ Residential | 2,079,pres96 | 0.27 | 0.40 |
| Nonresidential Property | 2,551,962 | 0.33 | 0.59 |
| Mortgage Loans: | | | |
| 1-4 Residential | 378,075,pres92 | 49.14 | 0.22 |
| 1-4 Residential (Open) | 5,pres95,667 | 0.75 | 0.23 |
| 5+ Residential | 48,791,780 | 6.34 | 0.84 |
| Nonresidential Property | 32,635,906 | 4.24 | 0.87 |
| Land Loans | 3,pres95,119 | 0.49 | 0.86 |
| Commercial Loans | 9,394,062 | 1.22 | 0.75 |
| Consumer Loans: | | | |
| Education | 2,440,423 | 0.32 | 0.05 |
| Auto Loans | 8,889,131 | 1.16 | 0.75 |
| Mobile Home Loans | 3,839,923 | 0.50 | 0.94 |
| Other | 9,206,053 | 1.20 | 0.70 |
| Revolving (1-4 secured) | 6,487,302 | 0.84 | 0.20 |

| | | | |
|------------------------------------|--------------------|------|-------------|
| Cr. Cards & Other Unsecured | 7,687,868 | 1.00 | 3.42 |
| Real Estate Owned | 2,2pres9,947 | 0.30 | 15.39 |
| Other Repossessed Assets | 58,420 | 0.01 | 34.04 |
| Real Estate Held for Investment | 576,547 | 0.07 | 10.37 |
| Investment in Service Corporations | 2,332,688 | 0.30 | 0.26 |
| Other Assets | 15,701,002 | 2.04 | 0.59 |
| Total Investment (3) | 765,938,425 | | 0.37 |

(1) Amounts in thousands of dollars.

(2) Percent aggregate net annual charge-offs as a percent of average investment for the 1,695 thrifts that submitted Thrift Financial Report data to OTS for any of the 12 quarters ended December 31, 1996.

(3) Total investment is not net of valuation allowances and loans in process.

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| Thrift Industry Net Annual Charge-Offs By Region | | | | | | |
|---|---|------------------|----------------|----------------|-------------|------------------|
| Assets | Percent Average Annual Net Charge-offs (1) | | | | | |
| | Northeast | Southeast | Central | Midwest | West | Aggregate |
| Cash, Deposits, and Investment Sec. | 0.03 | 0.01 | 0.01 | 0.02 | 0.03 | 0.02 |
| Mortgage Pool Securities | 0.03 | 0.03 | 0.03 | 0.08 | 0.04 | 0.04 |
| Construction Loans: | | | | | | |
| 1-4 Residential | 0.44 | 0.18 | 0.07 | 0.17 | 0.17 | 0.17 |
| 5+ Residential | 4.79 | 0.21 | 0.08 | 0.02 | 0.28 | 0.40 |
| Nonresidential Property | 2.66 | 0.47 | 0.32 | 0.07 | 0.12 | 0.59 |
| Mortgage Loans: | | | | | | |
| 1-4 Residential | 0.26 | 0.06 | 0.04 | 0.06 | 0.39 | 0.22 |
| 1-4 Residential (Open) | 0.10 | 0.16 | 0.18 | 0.06 | 0.37 | 0.23 |
| 5+ Residential | 0.40 | 0.61 | 0.34 | 0.16 | 1.08 | 0.84 |
| Nonresidential Property | 1.24 | 0.72 | 0.26 | 0.60 | 1.04 | 0.87 |
| Land Loans | 4.42 | 0.37 | 0.13 | 0.17 | 1.08 | 0.86 |
| Commercial Loans | 1.27 | 1.11 | 0.29 | 0.39 | 0.66 | 0.75 |
| Consumer Loans: | | | | | | |

| | | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Education | 0.08 | 0.05 | 0.03 | 0.05 | 0.09 | 0.05 |
| Auto Loans | 0.63 | 0.69 | 0.40 | 0.87 | 1.48 | 0.75 |
| Mobile Home Loans | 0.79 | 0.60 | 0.83 | 0.49 | 0.99 | 0.94 |
| Other | 0.60 | 0.89 | 0.28 | 0.61 | 1.82 | 0.70 |
| Revolving (1-4 secured) | 0.18 | 0.09 | 0.03 | 0.10 | 0.63 | 0.20 |
| Cr. Cards & Other Unsecured | 3.06 | 4.51 | 5.48 | 1.41 | 6.08 | 3.42 |
| Real Estate Owned | 16.56 | 8.44 | 7.85 | 12.35 | 19.59 | 15.39 |
| Other Repossessed Assets | 24.01 | 41.59 | 21.80 | 13.67 | 103.51 | 34.04 |
| Real Estate Held for Investment | 3.85 | 0.83 | 7.81 | 15.10 | 19.38 | 10.37 |
| Investment in Service Corporations | 1.00 | 0.58 | 0.17 | 0.04 | 0.11 | 0.26 |
| Other Assets | 0.15 | 0.27 | 0.14 | 0.55 | 1.01 | 0.59 |
| Total Investment | 0.34 | 0.30 | 0.14 | 0.22 | 0.58 | 0.37 |

(1) Aggregate net annualized charge-offs as a percent of average investments for the thrifts that submitted thrift financial report data for any of the 12 quarters ended December 31, 1996.

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| Thrift Industry Net Annual Charge-Offs By CAMEL Composite Rating | | | | | | |
|---|---|----------|----------|----------|----------|------------------|
| Assets | Percent Average Annual Net Charge-offs (1) | | | | | |
| | 1 | 2 | 3 | 4 | 5 | Aggregate |
| Cash, Deposits, and Investment Sec. | 0.01 | 0.03 | 0.02 | 0.05 | 0.31 | 0.02 |
| Mortgage Pool Securities | 0.04 | 0.05 | 0.02 | 0.20 | 0.00 | 0.04 |
| Construction Loans: | | | | | | |
| 1-4 Residential | 0.09 | 0.16 | 0.34 | 0.26 | 3.23 | 0.17 |
| 5+ Residential | 0.31 | 0.40 | 0.35 | 1.72 | 0.00 | 0.40 |
| Nonresidential Property | 0.28 | 0.61 | 0.49 | 3.26 | 0.00 | 0.59 |
| Mortgage Loans: | | | | | | |
| 1-4 Residential | 0.08 | 0.26 | 0.33 | 0.33 | 1.15 | 0.22 |
| 1-4 Residential (Open) | 0.08 | 0.28 | 0.23 | 0.39 | 40.94 | 0.23 |
| 5+ Residential | 0.13 | 0.94 | 1.16 | 0.69 | 2.29 | 0.84 |

| | | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Nonresidential Property | 0.25 | 1.07 | 0.58 | 0.93 | 2.14 | 0.87 |
| Land Loans | 0.15 | 0.94 | 1.28 | 2.13 | 0.00 | 0.86 |
| Commercial Loans | 0.39 | 0.71 | 1.14 | 3.02 | 78.35 | 0.75 |
| Consumer Loans: | | | | | | |
| Education | 0.04 | 0.06 | 0.05 | 0.00 | 0.00 | 0.05 |
| Auto Loans | 0.42 | 0.95 | 0.48 | 4.83 | 0.00 | 0.75 |
| Mobile Home Loans | 0.56 | 0.95 | 1.20 | 0.42 | 6.46 | 0.94 |
| Other | 0.33 | 0.82 | 0.91 | 0.88 | 9.49 | 0.70 |
| Revolving (1-4 secured) | 0.04 | 0.22 | 0.51 | 0.11 | 100.00 | 0.20 |
| Cr. Cards & Other Unsecured | 1.54 | 4.95 | 6.22 | 0.73 | 0.21 | 3.42 |
| Real Estate Owned | 12.80 | 14.23 | 17.00 | 21.88 | 22.27 | 15.39 |
| Other Repossessed Assets | 31.16 | 37.90 | 31.66 | 9.64 | 0.00 | 34.04 |
| Real Estate Held for Investment | 10.23 | 12.48 | 5.99 | 3.52 | 9.62 | 10.37 |
| Investment in Service Corporations | 0.20 | 0.29 | 0.03 | 0.32 | 50.49 | 0.26 |
| Other Assets | 0.28 | 0.56 | 1.22 | 0.26 | 0.81 | 0.59 |
| Total Investment | 0.13 | 0.39 | 0.66 | 0.80 | 1.85 | 0.37 |

(1) Aggregate net annualized charge-offs as a percent of average investments for the thrifts that submitted thrift financial report data for any of the 12 quarters ended December 31, 1996.

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