

## Press Releases

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December 6, 2000

### OTS 00-104 - Q3 2000 - Thrift Industry Earnings Strong; But OTS Notes Some Profit Erosion

#### Office of Thrift Supervision

FOR RELEASE END OF NEWS BRIEFING

For further information

Wednesday, December 6, 2000

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OTS 00-104

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### Thrift Industry Earnings Strong; But OTS Notes Some Profit Erosion

WASHINGTON, D.C., Dec. 6, 2000 - The nation's thrift industry turned in another strong performance in the third quarter of 2000, earning \$1.9 billion, but Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today economic conditions and market competition are causing some stress on thrifts' earning power.

Earnings declined slightly from the \$2 billion earned in the second quarter and dropped 11 percent from \$2.1 billion one year ago. "The industry remains strong and profitable," Director Seidman said, "but both continued intense competition and an inverted yield curve, in which long-term interest rates are lower than short-term rates, continue to challenge thrift management." The result is lower net interest margins leading to a drop in return on average assets (ROA) to 0.83 percent in the third quarter from 0.92 percent in the prior quarter and 0.98 percent in the third quarter of 1999. Return on average equity (ROE) fell to 10.7 percent from 12 percent in the third quarter and 12.2 percent one year ago.

On the positive side, the industry improved its ability to withstand interest rate changes with median sensitivity falling 23 basis points to 211 basis points in the third quarter. Fee income rose to 0.83 percent of average assets from 0.65 percent one year ago. The ratio of equity capital to total assets was 7.9 percent, up from 7.7 percent in the second quarter. At the end of September, 98 percent of the industry was in the well-capitalized category. Only two thrifts failed to meet minimum capital standards.

Asset quality remained good, and the rate of non-current loans — those 90 days past due — remained stable. However, the ratio of loans past due by 30 to 89 days was higher for all loan types except commercial loans. Such loans amounted to \$5.7 billion, or 0.63 percent of assets, compared to \$5 billion in the second quarter.

Mortgage originations for 1-4 family homes remained strong, rising to \$53.2 billion from \$52.9 billion in the second quarter. That represented 18.6 percent of the mortgage market, an increase from 18.1 percent one year ago. Sixty-six percent of thrift originations in the third quarter were adjustable rate mortgages (ARMs), compared to 72 percent in the prior quarter

and 63 percent one year ago. Refinancings by the same lender accounted for 9 percent of thrift originations, up slightly from 8.7 percent in the third quarter.

The number of problem thrifts — those with examination ratings of 4 or 5 — fell by one to 13. Assets of problem thrifts declined to \$7.2 billion from \$7.6 billion in the second quarter.

The number of 3-rated institutions increased by 9 to 95 thrifts with assets of \$34.9 billion. "OTS assigns a three rating as a warning shot across the bow," explained Director Seidman, "telling a thrift it has serious concerns that management and directors must correct. The good news is that 93 percent of the 3-rated thrifts were well capitalized, meaning they have time and a financial cushion for successfully taking corrective actions."

Deposits of \$518.1 billion were up from \$508.8 billion in the prior quarter and \$493.7 billion a year ago. Deposits were 57 percent of thrift assets in the third quarter, down slightly from a quarter and a year ago, but down from 69.4 percent of assets five years ago. Borrowings, including Federal Home Loan Bank advances, totaled \$295.8 billion, up from \$289.3 billion in the prior quarter and \$278.1 billion a year ago. At 32.57 percent of total assets, borrowings have remained fairly stable over the past year, but are up from 21.9 percent of assets five years ago.

OTS regulated 1,082 institutions at the end of the third quarter, a net decline of nine. During the quarter, 17 thrifts left OTS supervision, and eight — including seven start-ups — came under OTS regulation for the first time. While the number of OTS regulated institutions declined, total assets of those remaining increased at an annual rate of 9 percent to \$908.3 billion in the third 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'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](http://www.ots.treas.gov).