

## Press Releases

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### OTS 01-42 - Thrift Industry Interest Rate Risk Falls to Lowest Point in Two Years

#### Office of Thrift Supervision

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For further information

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Contact: Sam Eskenazi

OTS 01-42

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### Thrift Industry Interest Rate Risk Falls to Lowest Point in Two Years

WASHINGTON -- The Office of Thrift Supervision (OTS) reported today that only 20 thrifts, or 2.1 percent, were at high risk from a hypothetical 200 basis point shift in interest rates as of the end of the first quarter. That is down from 3.5 percent at the end of the fourth quarter.

The percentage of thrifts at minimal risk from a significant interest rate fluctuation stood at 73 percent, up from 70 percent the previous quarter.

"The interest rate environment for thrifts has been improving for two quarters," said OTS Director Ellen Seidman. "While some modeling changes resulted in a slight uptick in sensitivity this quarter, the trend is definitely toward less sensitivity. Moreover, both pre-shock and post-shock capital has been increasing. The thrift industry's exposure to interest rate risk today is the lowest it's been in several years."

The typical thrift's net portfolio value - the difference between the present value of its assets and liabilities - rose modestly in the first quarter. Ms. Seidman said this was partly a result of OTS updating the core deposit valuation methodology to better reflect the ways bank customers handle their checking, savings, and money market accounts today.

OTS measures interest rate risk using a simulation model to estimate a thrift's net portfolio value, and the impact on that estimate of an adverse 200 basis points shift in interest rates. OTS's *Quarterly Review of Interest Rate Risk*, released today, summarizes the results of these interest rate stress tests conducted on 959 thrifts, including all of the largest ones.

The median thrift's interest rate sensitivity - a measure of the decline in its net portfolio value ratio after an interest rate shock - increased 12 basis points in the first quarter. Most of the increase resulted from updating the model and was more than offset by the increase in net portfolio values. Last quarter, interest rate sensitivity fell 31 basis points for the industry.

Using the model, OTS measures the exposure to interest rate risk of each thrift and uses this information as a supervisory tool. Interest rate risk exposure is a combination of an

institution's sensitivity to change in rates and its post-shock net portfolio value. 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 is taking to reduce the risk.

Quarterly Review of Interest Rate Risk - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2001-42a.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](http://www.ots.treas.gov).