

Press Releases

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OTS 03-27 - Thrifts Enjoy Another Record Quarter; Earnings Top \$3.5 Billion

Office of Thrift Supervision

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THRIFTS ENJOY ANOTHER RECORD QUARTER; EARNINGS TOP \$3.5 BILLION

WASHINGTON – The Office of Thrift Supervision (OTS) announced today that in the second quarter of 2003 the nation's thrift industry again set records for net income, profitability, equity capital and mortgage originations.

"The favorable interest rate environment of the past year has sustained a mortgage refinance boom that has helped the thrift industry to a series of records for earnings, profitability and capital," said OTS Director James E. Gilleran in announcing the results.

The industry earned a record \$3.54 billion for the quarter, six percent higher than the previous record of \$3.33 billion set in the first quarter of 2003. This was the fourth consecutive quarter of earnings growth for the industry, and the third time that quarterly income has topped \$3 billion.

Profitability, as measured by return on average assets (ROA), also set new records in the second quarter. Mean ROA reached 1.34 percent, topping the previous record of 1.30 percent set in the first quarter, and median ROA also improved, to 0.82 percent from 0.81 percent in the prior quarter. The disparity between the industry's median and mean ROA was accounted for by the very strong performance of certain large institutions. The improvement in ROA was primarily attributable to income from sales of mortgages and other assets.

Net interest margin decreased to 294 basis points in the quarter, down from 299 basis points in the prior quarter and 311 basis points in the year-ago second quarter. The decline in net interest margin resulted from the re-pricing of, and investment in, assets at lower yields.

Total mortgage originations topped \$200 billion for the first time ever in the second quarter, reaching a record \$215 billion, up 97 percent from \$109 billion in the second quarter a year ago, and 22 percent from \$176 billion in the first quarter of 2003.

Home sales and mortgage loan demand remained at or near record levels at the end of the second quarter, as mortgage interest rates remained at four decade lows. However, Gilleran cautioned that institutions would need to carefully manage their portfolios and operations going forward to control expenses and maintain earnings strength, as mortgage volumes are forecast by the Mortgage Bankers Association of America (MBA) to decline in the coming quarters. Since the end of the second quarter, longer-term interest rates — including mortgage interest rates — have jumped sharply. As a result, demand for mortgages, especially refinancing activity, has fallen to their lowest level of the year, or “about a third of what they were when they peaked in late-May and early June,” according to the MBA’s Weekly Mortgage Applications Survey.

The National Association of Homebuilders recently reported, however, that the Housing Market Index increased in August to its highest level since January 2000, indicating that builders are optimistic about home sales.

While volumes in 1-4 family mortgage originations for the third quarter are expected to remain near the record pace of the second quarter due to the number of applications already in the pipeline, as of August 15 the MBA forecast a 48 percent decline in 1-4 family mortgage originations between the third and fourth quarters of 2003, and even lower mortgage originations volumes in each quarter next year.

Industry assets increased at an annual rate of 6.5 percent during the second quarter, to \$1.06 trillion from \$1.05 trillion at the end of the first quarter.

The overall level of credit quality has remained strong. Troubled assets (defined as noncurrent loans and repossessed assets) as a percentage of total assets decreased to 0.69 percent from 0.72 percent in the prior quarter. Loans past due by 30 to 89 days increased to 0.73 percent of total assets from 0.69 percent in the prior quarter. Delinquencies in this category were slightly higher for 1-4 family mortgages and consumer loans. The strength in thrift portfolios is due, in part, to the industry’s concentration in residential lending and its limited exposure to commercial lending and nonmortgage consumer lending.

Aggregate equity capital held by thrifts increased by 11 percent over the past year, to a record \$97.5 billion, representing an equity capital ratio of 9.15 percent.

“The industry has continued to maintain excellent asset quality during the past year,” noted Gilleran. “Over 99 percent of the industry was well capitalized at the end of the quarter, and no thrift was less than adequately capitalized for the second consecutive quarter.”

Despite the slower pace of economic activity, the number of problem thrifts — those with composite examination ratings of 4 or 5 — decreased to eight from 12 in the prior quarter. Assets of problem thrifts declined to \$0.7 billion at the end of the second quarter, a significant decrease from \$2.4 billion in the prior quarter, and the lowest level since OTS was founded in 1989.

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-27a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-27b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-27c.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.