

## Press Releases

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### OTS 02-42 - Thrift Industry On Pace For Record Year

#### Office of Thrift Supervision

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### Thrift Industry On Pace For Record Year

WASHINGTON - The Office of Thrift Supervision (OTS) today reported earnings for the nation's thrift industry of \$2.97 billion in the third quarter of 2002, up 14 percent over the year-ago third quarter, and five percent over the second quarter of 2002. The number represents the second most profitable quarter ever for the industry.

"The thrift industry continued its strong performance in the third quarter," said OTS Director James E. Gilleran in announcing the results. "The industry is as healthy and profitable as it has ever been, thanks in part to a favorable interest rate environment and sound business management. Equity capital is near record levels, while asset quality remains good. For the year, the industry is on a pace to eclipse records set in 2001 for profitability, return on average assets and mortgage originations."

Return on average assets increased to 1.22 percent from 1.18 percent in the second quarter; well up from 1.08 percent a year ago. This gain was chiefly driven by increased gains on sales of assets due to lower long-term interest rates, aided by lower loan loss provisions and noninterest expenses. This was more than enough to offset a continued decline in mortgage loan servicing fee income -- the result of write-downs of mortgage servicing portfolios due to higher mortgage prepayments -- and net interest margins -- the difference between interest earned and interest paid.

Net interest margin decreased to 302 basis points in the third quarter from 311 in the prior quarter -- but was up from 294 on the year-ago quarter. The decline resulted from the repricing of assets -- because of lower interest rates -- and the investment in lower-yielding assets.

The differential between short- and long-term interest rates continued to benefit smaller thrifts. Net interest margins continued to increase for most thrifts with assets of less than \$1 billion. This occurred because smaller thrifts' assets tend to reprice more slowly than those of larger thrifts.

Total thrift assets increased to \$987 billion at the end of the third quarter. Although total thrifts declined by 12 during the quarter, to 983, the increase in industry assets was the second highest total in more than a decade. Moreover, OTS-regulated thrifts continue to

decline at a rate comparable to that of national banks -- 13 percent for thrifts compared to 14 percent for national banks from December 1998 through June 2002.

Problem thrifts -- those with examination ratings of 4 or 5 -- decreased by one, to 17, in the third quarter. Assets of problem thrifts stood at \$3.6 billion at the end of the quarter, compared to \$3.5 billion at the end of the second quarter. The number of 3-rated thrifts increased by one, to 75, holding \$62.1 billion in assets. Of these, 70, or 93 percent, were well capitalized. "A strong capital position provides an important cushion, providing time for these thrifts to work through their problems," observed Gilleran.

Asset quality trends also remain favorable as troubled assets -- which include noncurrent loans and repossessed assets -- remained unchanged at 0.70 percent of assets due, in part, to the high volume of newly originated loans over the past two years. Loans 30-89 days past due increased to 0.71 percent of assets from 0.64 percent in the second quarter, down from 0.79 percent in the third quarter of 2001.

Total loss provisions decreased to 0.29 percent of average assets, from 0.37 percent in the prior quarter, representing a return to recent norms after an uptick in the second quarter. Net charge-offs increased five basis points, to 0.24 percent in the third quarter. Total loss allowances were unchanged on the quarter, at 0.68 percent of assets, as increased charge-offs counterbalanced decreased loss provisions.

The reserve ratio -- allowances for loan and lease losses to total loans and leases -- has trended higher since the third quarter of 2000, as loss provisions exceeded net charge-offs. The coverage ratio -- allowances for loan and lease losses to noncurrent loans and leases -- increased for the second consecutive quarter, to \$1.04 in allowances per \$1 of noncurrent loans, after declining over the past two years.

Equity capital stood at 8.99 percent of assets in the third quarter, up from 8.36 percent in the third quarter of 2001 and down from a record 9.15 percent in the second quarter. The percentage decrease resulted from asset growth and stock repurchase activity by a number of thrifts. More than 98 percent of all thrifts were well capitalized at the end of the quarter, accounting for 99.9 percent of industry assets. Only two thrifts were less than adequately capitalized at the end of the third quarter.

Total mortgage originations reached a record \$138 billion in the quarter, up 27 percent from the second quarter, and 16 percent from the third quarter of 2001. Mortgage refinancing volume reached record levels, as long-term interest rates fell again in the third quarter.

One-to-four family mortgage originations totaled \$122 billion, up from \$93 billion in the second quarter and \$104 billion in the year-ago period. Thrifts' total share of one-to-four family mortgage originations (as estimated by the Mortgage Bankers Association of America) was 17.6 percent in the third quarter, down slightly from an estimated 18.3 percent in the second quarter. One-to-four family loans as a percentage of total thrift assets increased to 47.8 percent from 46.6 percent in the prior quarter.

An estimated 46 percent of thrift originations in the third quarter were adjustable rate mortgages, down from 50 percent in the prior quarter, and well above the 20 percent average for lenders of all types.

Thrift Industry Highlights Q3 2002 - (Dated 11/22/2002) - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-42a.pdf>

Thrift Industry Charts Q3 2002 - (Dated 11/22/2002) - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-42b.pdf>

Selected Indicators Q3 2002 - (Dated 11/22/2002) - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-42c.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).