

Press Releases

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OTS 05-19 - Thrift Industry Maintains Strong Earnings and Capital in First Quarter 2005

Office of Thrift Supervision

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THRIFT INDUSTRY MAINTAINS STRONG EARNINGS AND CAPITAL IN FIRST QUARTER 2005

WASHINGTON, D.C. -- The nation's thrift industry enjoyed record levels of earnings and equity capital, together with strong profitability, loan growth and credit quality, during the first quarter of 2005, according to financial results released by the Office of Thrift Supervision (OTS) today.

Net income for the industry amounted to a record \$4.00 billion in the first quarter, up six percent from the prior quarter and 20 percent from the first quarter 2004. This marked the first time that quarterly income reached \$4 billion. Industry profitability, as measured by return on average assets (ROA), was 1.22 percent in the first quarter, up from 1.17 percent in the fourth quarter of 2004 and 1.19 percent in the year-ago first quarter.

Increased industry profitability was attributable to higher mortgage servicing fee income, and declines in loan loss provisions and noninterest expense. Servicing fee income increased to 0.23 percent of average assets from 0.13 percent in the prior quarter as slower loan prepayments reduced servicing impairment charges. Loan loss provisions declined to 0.19 percent from 0.26 percent in the prior quarter, and noninterest expense fell to 2.46 percent from 2.54 percent in the fourth quarter.

These factors offset a decline in net interest margin (NIM) for the quarter, to 2.86 percent from 2.90 percent in the prior quarter, as funding costs rose faster than interest income due to increases in short-term interest rates. Higher interest rates and a flatter yield curve will place additional pressure on the industry's net interest margin going forward.

The industry's capital position remains robust and well in excess of minimum requirements. At quarter-end, equity capital stood at a record level of \$123.1 billion. The ratio of equity capital to assets was 9.18 percent, unchanged from the first quarter one year ago. Over 99 percent of all thrifts were well capitalized, unchanged from the prior quarter and one year ago. One small thrift was less than adequately capitalized at the end of the first quarter.

The number of thrifts stood at 880 as of March 31, with assets of \$1.34 trillion, an increase of 16 percent for the year. OTS supervised 492 U.S.-domiciled holding company enterprises at quarter-end, with consolidated assets of approximately \$6.9 trillion.

Mortgage originations (including multifamily and nonresidential mortgages) declined nine percent to \$161.0 billion in the first quarter, as higher mortgage interest rates over the first quarter reduced mortgage origination and refinancing volumes. Thrifts accounted for approximately 24 percent of total nationwide 1-4 family originations in the first quarter of 2005, up from 22 percent in the comparable year ago quarter. An estimated 50 percent of thrift originations in the first quarter were adjustable rate mortgages (ARMs), up from 44 percent in the first quarter one year ago, but down from 62 percent in the prior quarter. In contrast, the ARM share for all lenders was 33 percent in the first quarter, 27 percent in the first quarter one year ago and 34 percent in the fourth quarter.

Typical measures of problem loans reached record low levels. Noncurrent loans (defined as loans more than 89 days delinquent plus loans in non-accrual status) declined to 0.41 percent of assets from 0.43 percent in the prior quarter and 0.48 percent one year ago. Troubled assets (noncurrent loans plus repossessed assets) fell to 0.46 percent of assets from 0.48 percent and 0.56 percent in the prior quarter and one year ago, respectively.

OTS is closely monitoring thrift loan performance and asset quality, since recently originated - or "unseasoned" -- loans now comprise a significant proportion of thrift loan portfolios. Moreover, newer loan products, such as interest-only mortgages, and the significant rise in home equity lines-of-credit are being given supervisory scrutiny since these loans have not been stressed through different economic cycles.

Full results for the thrift industry in the first quarter 2005 are available on the OTS website at www.ots.treas.gov.

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2005-19a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2005-19b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2005-19c.pdf>

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.