

Press Releases

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OTS 98-17 - Nation's Thrift Industry Posts Record Profits & Capital for 1997

Office of Thrift Supervision

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Nation's Thrift industry Posts Record Profits & Capital for 1997

WASHINGTON, D.C., March 4, 1998 - The nation's thrift industry earned a record \$6.5 billion in 1997, including \$1.7 billion in the fourth quarter, Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today.

The 1997 earnings were 20 percent higher than the previous record earnings of \$5.4 billion in 1995. Fourth quarter earnings were also up from third quarter earnings of \$1.3 billion.

"The thrift industry achieved excellent results in 1997 with record earnings and capital and very low troubled assets," Ms. Seidman said. "But we must not think such records will be automatic in years to come." She said that thrifts have benefited from a favorable economy and that 1997 was the first year thrifts did not pay high premiums for federal deposit insurance.

Equity capital climbed to 8.33 percent, surpassing the previous record of 8.18 percent set in the third quarter. All except one of the 1,215 OTS-supervised thrifts met or exceeded minimum capital requirements, and 97.4 percent were in the highest, well-capitalized category at year-end.

Return on average assets (ROA) was 85 basis points for 1997, considerably higher than the industry average of 63 basis points for the 1992-1995 period. The higher ROA was due primarily to higher fee income generated by such activities as loan servicing, mutual fund sales, credit card lending, servicing checking accounts and administering trust assets. Fee income increased 24 percent to 58 basis points from the 1992-1995 average. Improved asset quality and greater operating efficiency also contributed to the higher 1997 ROA, as did the reduction in the deposit insurance premium. Average annual ROA has not been this high for the industry since 1962.

"The current flat yield curve and the continued run-off of insured deposits impose significant pressures on thrifts. OTS will monitor how effectively thrifts respond to this economic challenge," Ms. Seidman said.

As deposits declined, the percentage of thrift's assets funded by insured deposits (those under \$100,000) dropped to an all time low of 54.9 percent at the end of 1997. They were replaced primarily by borrowings from federal home loan banks, which funded 15.3 percent of industry assets at the end of 1997. Such borrowings are more expensive to thrifts than the interest paid on small deposits.

The number of OTS-regulated thrifts declined by 119 during 1997 to 1,215 at year-end. One-hundred, forty-one institutions left OTS jurisdiction. Of those, 60 were acquired by banks, 49 converted to other charters, and 28 merged into other OTS-regulated thrifts. One was acquired by a state-chartered savings bank, and three are voluntarily dissolving. At the same time, OTS gained 11 new, start-up thrifts and 10 others converted to an OTS charter. Currently, 38 applications are pending at OTS for thrift charters.

While the number of OTS-regulated institutions declined, assets of OTS thrifts grew to \$pres97 billion at the end of 1997 from \$769 one year ago. Part of that growth came from \$12.6 billion in assets from commercial banks and other non-OTS institutions acquired by OTS-regulated thrifts. New OTS institutions accounted for \$3.9 billion in assets during the year.

Troubled assets are at an eight-year low, dropping from \$8.2 billion in the third quarter to \$7.8 billion, or 1 percent of total assets at year end. Non-current loans declined overall to \$5.9 billion, or 0.pres9 percent of total assets at the end of 1997. Only one category of loans - consumer loans - experienced a rise in non-current status, to 0.97 percent from 0.91 percent in the prior quarter.

The number of problem thrifts - those with CAMELS ratings of 4 or 5 - fell to 18, or 1.5 percent of all thrifts, in the fourth quarter, an eight-year low.

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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' 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 call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.