

Press Releases

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OTS-03-38 - Thrift Earnings and Profitability Remain Strong in Third Quarter

Office of Thrift Supervision

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Thrifts Earnings and Profitability Remain Strong in Third Quarter

WASHINGTON - The Office of Thrift Supervision (OTS) announced today that the nation's thrift industry reported net income of \$3.44 billion in the third quarter of 2003, up 16 percent from the \$2.97 billion earned in the third quarter of 2002, but down 3 percent from the record \$3.53 billion earned in the second quarter of this year. This marks the second best earnings quarter in history, and the fourth time that quarterly income for the industry has topped \$3 billion.

"The thrift industry continues to enjoy robust earnings, profitability and capital levels," said OTS Director James E. Gilleran in announcing the results, "as well as excellent asset quality and a very low number of problem institutions."

Profitability, as measured by return on average assets (ROA), was 1.28 percent in the third quarter, up from 1.22 percent in the comparable year ago quarter, but down from the second quarter record of 1.34 percent. Improvement in third quarter ROA from the comparable quarter one year ago came primarily from lower loan loss provisions, lower impairment charges for mortgage servicing rights and higher fee income. Partially offsetting the profitability improvement were a lower net interest margin, lower other noninterest income, higher noninterest expense and higher taxes.

Net interest margin decreased to 284 basis points in the quarter, down from 302 basis points in the year-ago third quarter. This was also down from the 294 basis points in the second quarter of 2003, continuing a general decline in the net interest margin since the first quarter of 2002. The decline in net interest margin for the quarter resulted from the repricing of, and investment in, assets at lower yields.

The industry has benefited from a mortgage refinance boom sustained by the favorable interest rate environment of the past year. Although rates rose in the third quarter of 2003, originations of 1-4 family mortgage loans totaled \$229.9 billion in the quarter, the best volume in thrift industry history and the first time above the \$200 billion mark. This is up from \$122.4 billion in the third quarter one year ago, and from the prior record of \$195.8 billion in the second quarter of this year. Thrifts' share of total 1-4 family mortgage originations

(estimated by the Mortgage Bankers Association of America) was 21.6 percent in the third quarter, up from an estimated 17.6 percent in the comparable year ago quarter.

Total mortgage originations topped \$200 billion for the second consecutive quarter, reaching a record \$250 billion, up 81 percent from \$138 billion in the third quarter a year ago, and 16 percent from the previous record of \$215 billion in the second quarter of 2003.

Despite record mortgage originations, higher longer-term interest rates in the third quarter reduced mortgage application volumes -- particularly demand for mortgage refinancings -- to the lowest levels of the year.

Gilleran cautioned that institutions will have to manage their portfolios and operations carefully going forward to control expenses and maintain earnings strength in the face of declining mortgage volumes coupled with a shrinking net interest margin.

Total fee income, consisting of mortgage loan servicing fee income and other fee income, increased to 1.01 percent of average assets in the third quarter from 0.55 percent in the second quarter and negative 0.03 percent in the third quarter of 2002. This resulted in part from gains in mortgage loan servicing fee income representing 0.05 percent of average assets as compared to a loss from the prior quarter of negative 0.39 percent.

This gain results from mortgage servicing rights increasing in value when interest rates go up. In prior quarters, impairment charges on mortgage servicing portfolios incurred by a number of thrifts resulted from higher mortgage prepayments, which decreased the duration and, therefore, cash flow of servicing assets.

Aggregate equity capital held by thrifts stood at \$97.3 billion at the end of the quarter, up ten percent from the third quarter a year ago, and just below this year's second quarter record of \$97.5 billion. At the end of the third quarter, the industry's average equity capital ratio stood at 8.89 percent, down from 9.15 percent in the prior quarter due to lower unrealized gains on available-for-sale assets.

Industry assets increased to \$1.09 trillion at the end of the third quarter, up 10.8 percent from one year ago and 2.8 percent from the prior quarter of 2003.

"The industry has continued to maintain excellent asset quality," noted Gilleran. "Over 99 percent of the industry was well-capitalized at the end of the quarter." At the end of the quarter, one small institution was temporarily less than adequately capitalized. That institution has since been restored to well-capitalized status.

Asset quality for the industry as a whole was strong in the third quarter, with delinquencies lower for most loan types. The ratio of troubled assets, consisting of noncurrent loans and repossessed assets, improved to 0.68 percent of all assets, down from 0.70 percent a year ago, and from 0.69 percent in the prior quarter of this year. The ratio of noncurrent loans to assets decreased to 0.59 percent of assets in the third quarter, its lowest mark since the third quarter of 2001. Loans 30 to 89 days past due as a percentage of assets were 0.66 percent of assets at the end of the third quarter, down from 0.71 percent one year ago, and from 0.73 percent in the prior quarter of this year.

The number of problem thrifts -- those with composite examination ratings of 4 or 5 -- decreased to seven from eight in the prior quarter, and 17 one year ago. Assets of problem

thrifts declined to \$0.6 billion at the end of the third quarter, a significant decrease from \$3.6 billion in the year-ago quarter, and the lowest level since OTS was founded in 1989.

Attachment:

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-38a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-38b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2003-38c.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.