

Press Releases

November 21, 2005

OTS 05-43 - Thrifts Maintain Healthy Performance in Third Quarter

Office of Thrift Supervision

FOR RELEASE at 2:00 P.M. EDT

For further information

Monday, November 21, 2005

Contact: Erin Hickman

OTS 05-43

202/906-6677

Thrifts Maintain Healthy Performance in Third Quarter

WASHINGTON, DC -- The nation's thrift industry continued its strong performance in the third quarter of 2005, according to financial results released today by the Office of Thrift Supervision (OTS). The industry posted its fourth consecutive record of quarterly earnings, even as the persistent flat interest rate yield curve pressured net interest margins. In addition, thrifts maintained healthy levels of equity capital, loan growth and credit quality.

Net income for thrifts reached a record \$4.04 billion, up slightly from the prior quarter and up 15 percent from the third quarter 2004. Profitability, as measured by return on average assets (ROA), was 1.15 percent in the third quarter, unchanged from the comparable year ago quarter, and down three basis points from the second quarter. Increases in fee income -- especially mortgage loan servicing fee income -- and lower overhead expense largely offset declines in net interest margin and gains from mortgage banking activities.

The industry's equity capital reached a new record level at the end of the third quarter, although its equity capital ratio declined to 9.19 percent of assets -- still well in excess of minimum requirements. Over 99 percent of the industry exceeds well-capitalized standards.

Asset quality remained strong for all loan types over the third quarter and the overall level of credit quality in the thrift industry remained good, with most loan types showing improvement in delinquencies from one year ago. Changes in accounting and regulatory reporting for all banks and thrifts resulted in an increase in the thrift industry's total delinquent loans. Beginning with the third quarter Thrift Financial Report (TFR), loans repurchased or eligible for repurchase from Government National Mortgage Association (GNMA) mortgage pools are now included in past due loans. (Loans from GNMA pools are either partially or wholly guaranteed or insured by agencies of the U.S. Government.) The increase in delinquencies for 1-to-4 family mortgage loans was chiefly due to this reporting change.

Excluding repurchased GNMA loans, troubled assets (defined as noncurrent loans and repossessed assets) were lower from one year ago, but up from the record low rate in the second quarter. Loans 30-89 days past due as a percentage of assets were also lower from one year ago and from the second quarter when repurchased GNMA loans are excluded.

Mortgage originations over the third quarter climbed to the highest volume in two years as lower mortgage interest rates in the second quarter fueled third quarter loan closings. Nationwide, thrifts accounted for approximately 23 percent of total 1-4 family originations in the third quarter. An estimated 43 percent of thrift originations were adjustable rate mortgages (ARMs), down from 54 percent one year ago. In contrast, the ARM share for all lenders was 29 percent in the third quarter, and 36 percent one year ago.

Many lenders now offer innovative loan products to help meet consumer mortgage demand especially as interest rates increase for traditional mortgages and in areas with higher cost homes. Such loans, prudently underwritten, can be a valuable source of steady mortgage credit to communities. However, these loan products have gained popularity in a generally sound economic environment with rising real estate values, and have yet to be stressed through economic downturns.

OTS recently updated its examination guidance for innovative mortgage instruments to describe product features, the risks associated with these instruments, and supervisory expectations for proper underwriting, portfolio management, and marketing practices. OTS examiners continue to evaluate thrift mortgage portfolio performance and risk management programs.

The number of thrifts stood at 866 as of September 30, with assets of \$1.43 trillion, an increase of 16.4 percent for the year. OTS supervised 486 U.S.-domiciled holding company enterprises at quarter-end, with consolidated assets of approximately \$7.1 trillion. The number of problem thrifts -- those with composite examination ratings of 4 or 5 -- decreased by one over the year, to six, and the number of 3-rated institutions declined to 49. All but one of the 3-rated thrifts were well-capitalized.

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

###

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.

Thrift Industry Highlights

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2005-43a.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2005-43b.pdf>