

## Press Releases

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### OTS 02-35 - Thrift Industry Turns in Another Strong Quarter

#### Office of Thrift Supervision

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Contact: Chris Smith

OTS 02-35

202/906-6688

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### Thrift Industry Turns in Another Strong Quarter

Washington - The Office of Thrift Supervision (OTS) today reported earnings for the nation's thrift industry of \$2.86 billion in the second quarter of 2002, up 14 percent over the year-ago second quarter. The results were down six percent from the record high in the first quarter of 2002.

"The thrift industry continues to be healthy and profitable," said OTS Director James E. Gilleran in announcing the results. "Although off from recent record-setting quarters, the second quarter of 2002 was another strong quarter. The industry is enjoying robust levels of earnings and profitability, attributable to a favorable interest rate environment. Equity capital is at record levels, while asset quality remains good." With return on assets of 1.19 percent in the second quarter, profitability was down slightly from 1.24 percent in the first quarter, but up from an ROA of 1.05 percent a year ago. The drop in profitability resulted chiefly from write-downs of mortgage servicing portfolios due to higher mortgage prepayments, which led to negative mortgage loan servicing fee income for the quarter.

Also contributing to the change in profitability was a slight dip in net interest margin - the difference between interest earned and interest paid. Net interest margin decreased to 311 basis points in the second quarter from 318 in the prior quarter - but was up from 282 on the year-ago quarter. The decline resulted from the repricing of assets and investment in lower-yielding assets, as well as an increase in wholesale borrowing costs as thrifts lengthened maturities to take advantage of lower longer-term interest rates. The differential between short- and long-term interest rates continued to benefit smaller thrifts, however, as net interest margin continued to increase for most thrifts under \$5 billion in assets. This occurred because smaller thrifts' assets tend to reprice more slowly than those of larger thrifts.

The total number of thrifts declined by 12 during the quarter, to 995. There were two conversions to the thrift charter during the quarter. Between 1998 and March 2002, the number of OTS-regulated thrifts declined by 12 percent compared to a 14 percent decline in the number of national banks over the same period. Total thrift assets declined for the first time since 1996, to \$964 billion from \$998 billion in the first quarter. This decline was a result primarily of a charter conversion by Cleveland-based Charter One Financial.

The number of problem thrifts - those with examination ratings of 4 or 5 - decreased by one, to 18 in the second quarter. Assets of problem thrifts stood at \$3.5 billion at the end of the quarter, compared to \$14.7 billion at the end of the first quarter. The number of 3-rated thrifts increased by three, to 74, holding \$50.3 billion in assets, more than double the \$23 billion in assets 3-rated thrifts held at the end of the first quarter. Of these, 68, or 92 percent, were well capitalized. "A strong capital position provides an important cushion," noted Gilleran, "providing time for these thrifts to work through their problems."

The industry continued to maintain strong asset quality, as troubled assets - which include noncurrent loans and repossessed assets - fell to 0.70 percent of assets from 0.72 percent in the first quarter. Loans 30-89 days past due decreased for the third consecutive quarter, to 0.64 percent of assets.

Total loss provisions increased to 0.36 percent of average assets, from 0.28 in the prior quarter and 0.27 in the year-ago period, while net charge-offs decreased one basis point, to 0.19 percent in the second quarter. Total loss allowances increased four basis points in the quarter, to 0.68 percent of assets, as loss provisions exceeded net charge-offs. 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 in the second quarter for the first time since the second quarter of 2000, to \$1.06 in allowances per \$1 of noncurrent loans.

Equity capital reached a record 9.15 percent of assets in the second quarter, up from 8.72 percent in the first quarter and 8.14 percent in the second quarter of 2001. The increase resulted from growth in retained earnings, new capital brought into the industry and unrealized gains on assets held for sale. More than 98 percent of all thrifts were well capitalized in the second quarter. Well-capitalized thrifts held 99.9 percent of industry assets. Only one thrift was less than adequately capitalized at the end of the second quarter.

Sensitivity to interest rate risk improved in the second quarter. Median sensitivity decreased by 30 basis points to 162 basis points, reflecting the second quarter effects of lower interest rates. Institutions classified as higher risk fell to 3.6 percent, from 5.6 percent in the prior quarter, while the number of institutions classified as lower risk increased to 80.2 percent, from 73.6 percent in the first quarter.

Originations of one-to-four family mortgages slipped in the second quarter, to \$92.8 billion from \$97.4 billion in the prior quarter, due to lower refinancing volume. Thrifts' total share of one-to-four family mortgage originations (as estimated by the Mortgage Bankers Association of America) rose to 19.4 percent in the second quarter, up from an estimated 18 percent in the first quarter. One-to-four family loans as a percentage of total thrift assets increased to 46.6 percent from 45.5 percent in the prior quarter.

An estimated 50 percent of thrift originations in the second quarter were adjustable rate mortgages, up from 40 percent in the prior quarter, and well above the 20 percent average for lenders of all types.

Thrift Industry Highlights Q2 2002 - (Dated 08/26/2002) - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-35a.pdf>

Thrift Industry Charts Q2 2002 - (Dated 08/26/2002) - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-35b.pdf>

Selected Indicators Q2 2002 (Dated 08/26/2002) - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-35c.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).