

Press Releases

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OTS 06-018 - OTS Sounds Warning on Credit Quality

Office of Thrift Supervision

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OTS Sounds Warning on Credit Quality

WASHINGTON, D.C. -- At a speech before the New York Bankers Association (NYBA) today, Office of Thrift Supervision (OTS) Director John Reich expressed concerns about weakening credit quality with some financial institutions.

Although the industry has enjoyed record levels of profitability and capital, margins are declining at some institutions. Reich cautioned the bankers that "now is precisely the time to pay attention" to leading indicators that may foreshadow future credit quality concerns. He identified inadequate loan documentation, misaligned loan pricing relative to credit risks, declining underwriting standards, liberalization of loan terms, and increasing reliance on wholesale funding as areas of concern to OTS.

Given the tremendous growth in originations the last several years, Reich noted, it is not surprising that volumes are stabilizing. What concerns us, he observed, is how some institutions are reacting to this phenomenon. In response, OTS has increased its vigilance and we are digging deeper into loan portfolios, Reich stated, and "paying close attention to the fundamentals, including loan documentation, pricing, loan-to-value ratios, and overall underwriting standards."

In his speech, which is available from the OTS website at www.ots.treas.gov, Director Reich also spoke about OTS's Complex and International Organizations program, the upcoming notice of proposed rulemaking on Basel II capital standards, and the need for regulatory burden relief legislation.

Speech - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-18a.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.