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OTS 97-15 - 4th Quarter 1996 Industry Earnings

Office of Thrift Supervision

NEWS

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For further information
Contact: Paul Lockwood
202/906-6693

THRIFTS EARN $4.8 BILLION IN 1996; ACHIEVE FOURTH BEST EARNINGS YEAR

WASHINGTON, D.C., March 6, 1997 -- The nation's thrift industry earned $4.8 billion in 1996, including $1.5 billion in the fourth quarter, Director Nicolas Retsinas of the Office of Thrift Supervision (OTS) reported today.

The industry overcame the one-time special insurance premium assessment to post the fourth best earnings year in history. "It was a remarkable year for the thrift industry," Retsinas said. Without the special premium assessed in the third quarter to recapitalize the Savings Association Insurance Fund (SAIF), the industry would have earned $6.9 billion, a 28 percent increase above 1995's record of $5.4 billion.

Strengthened net interest income, derived primarily from lower interest costs, and higher fee income bolstered 1996 earnings. With relatively low and stable interest rates, the industry enjoyed a $1.3 billion drop in its cost of funds, as older, higher-rate certificates of deposit matured and were replaced by CDs at current market rates.

The strong earnings performance allowed the thrift industry to retain high capital levels. Equity capital inched back up to 7.92 percent of assets in the fourth quarter from 7.82 percent in the third quarter. The percentage of thrifts that met or exceeded the highest capital category -- well capitalized -- returned to 97 percent in the fourth quarter after dipping to 95 percent in the third quarter because of the SAIF assessment. At year-end, only one thrift was less than adequately capitalized.

Thrifts have steadily improved their asset quality during this current economic expansion. Troubled assets were $9.0 billion in the fourth quarter, the lowest amount since they were first measured in 1990. Thrifts' ratio of troubled assets to total assets fell to 1.17 percent in the fourth quarter from 1.19 percent in the third quarter. Loan delinquencies also dropped during the fourth quarter in nearly all loan categories, except for a slight increase in the ratio of noncurrent consumer loans to total consumer loans from 0.86 percent in the third quarter to 0.89 percent at the end of 1996. The number of problem thrifts, those with CAMELS ratings of 4 or 5, fell to 29 in the fourth quarter from 31 in the third quarter and 41 one year ago.

The number of OTS-regulated thrifts stood at 1,334 at year-end, down from 1,437 at the end of 1995. Their total assets of $769.3 billion dipped only slightly from $pres91.0 billion one year ago.

During 1996, 120 institutions left OTS supervision primarily through mergers, acquisitions or conversions to other charters. Much of this consolidation occurred within the thrift industry, including 36 mergers of OTS-regulated thrifts and 24 conversions to or acquisitions by state savings banks. In the same period, 17 new thrifts came under OTS supervision for the first time. Of that number, eight were start-up institutions. One credit union, two state commercial banks and six state savings banks converted to OTS charters.

The thrift industry has increased lending to consumers and small businesses, while continuing its mortgage specialist role. Small business commercial loans were the fastest growing portion of the industry's aggregate loan portfolio, increasing 22 percent annually over the past three years from $5.2 billion at year-end 1993 to $9.4 billion at year-end 1996. Consumer loans -- for home improvements, home equity loans, autos, mobile homes, education and credit cards -- also increased from $35.4 billion to $39.9 billion over the same period. However, during this same period, thrifts increased their single family mortgages by more than $25 billion, an annual increase of 2.7 percent. Single family mortgages still account for almost half (49.9 percent) of total thrift assets and 71.6 percent of all loans.

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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.

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