

Press Releases

August 23, 2006

OTS 06-037 - Thrift Industry Performance Remains Strong in Second Quarter

Office of Thrift Supervision

FOR RELEASE at 12:00 P.M. EDT

For further information

Wednesday, August 23, 2006

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OTS 06-037

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Thrift Industry Performance Remains Strong in Second Quarter

WASHINGTON, DC -- The Office of Thrift Supervision (OTS) reported today that the nation's thrift industry posted strong earnings and profitability, solid loan growth and healthy asset quality in the second quarter of 2006. In particular, OTS noted that:

- Industry aggregate earnings totaled \$4.21 billion, unchanged from the prior quarter, and up four percent from the year-ago second quarter.
- Profitability, as measured by return on average assets, was 1.11 percent in the second quarter, down from 1.14 percent in the prior quarter and 1.18 percent one year ago. Compared to the prior quarter, increases in net interest margin and other noninterest income were more than offset by lower fee income and higher loan loss provisions, as well as an increase in noninterest expense.
- The industry's aggregate net interest margin increased by three basis points in the quarter, to 280 basis points (or 2.80 percent of average assets), as asset yields increased slightly more than liability costs over the quarter, but was down from 285 basis points one year ago. Due to a regulatory reporting change, 2006 net interest margin is not directly comparable to that of prior years.

Although industry earnings and profitability continued to be strong in the second quarter, OTS cautioned that the persistence of a flat-to-inverted yield curve, coupled with declining mortgage loan demand, could be expected to constrain earnings in future reporting periods. Regarding the industry's mortgage lending activity, OTS noted that:

- Total one- to four-family mortgage originations for the industry in the second quarter were \$148.4 billion, down 12 percent from \$169.4 billion in the second quarter one year ago, but up four percent from the \$142.6 billion originated in the first quarter, as lower mortgage interest rates during the quarter led to continued strength in existing and new home sales.
- OTS-regulated savings institutions accounted for approximately 25 percent of total one- to four-family originations nationwide in the second quarter of 2006, unchanged from the prior quarter, and up from 23 percent in the comparable year-ago quarter.
- An estimated 37 percent of thrift originations were ARMs in the second quarter, down from 44 percent in the prior quarter, and from 42 percent in the comparable year-ago

quarter. In contrast, the ARM share for all lenders was estimated at 28 percent in the second quarter, 33 percent in the second quarter one year ago, and 25 percent in the first quarter.

- The volume of mortgage refinancing was lower from the second quarter one year ago and from the prior quarter. Refinancing activity accounted for 31 percent of thrift originations in the second quarter, up slightly from 30 percent in the second quarter one year ago, but down from 35 percent in the prior quarter.

With respect to industry capital and asset quality, OTS indicated that:

- The industry's equity capital ratio stood at 9.25 percent at the end of the quarter -- well in excess of minimum requirements -- and equity capital held by savings institutions reached a record \$142 billion. Over 99 percent of the industry exceeds well-capitalized regulatory standards. No institutions were less than adequately capitalized at the end of the second quarter.
- Asset quality remained strong overall at the end of the second quarter for all loan types, with the ratio of troubled assets-to-total assets improving to 0.62 percent from 0.64 percent in the prior quarter. Excluding repurchased loans from Government National Mortgage Association (GNMA) mortgage pools -- which are backed by U.S. government guarantees and pose low risk -- troubled assets, including loans 90 days or more past due, was unchanged at 0.47 percent of total assets.
- Loans 30-89 days past due increased to 0.64 percent of assets from 0.61 in the prior quarter. Excluding repurchased GNMA loans, past due loans increased to 0.57 percent of assets from 0.55 percent in the prior quarter and 0.54 percent in the year-ago second quarter.

The agency also noted that it is closely watching delinquency and foreclosure rate increases in localized U.S. markets. While these increases have not impacted thrift overall asset quality, OTS encourages institutions to monitor credit quality and potential borrower weakness in their market areas. Moreover, OTS continues to advise institutions to carefully monitor the effect rising interest rates are having on the performance of alternative mortgage loan products and to manage risks accordingly.

OTS indicated that at the end of the second quarter:

- There were 854 savings institutions, holding assets of \$1.53 trillion, an increase of 10.5 percent over the year. In addition, OTS supervised 480 U.S.-domiciled holding company enterprises, with consolidated assets of approximately \$7.5 trillion.
- The number of problem thrifts -- those with composite examination ratings of 4 or 5 -- dropped to four from six in the prior quarter and seven one year ago, while the number of 3-rated institutions increased to 49 from 44 in the prior quarter. All 3-rated thrifts were well capitalized at the end of the quarter.

Complete industry results for the first quarter of 2006 are available on the OTS website at www.ots.treas.gov.

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-37a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-37b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-37c.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.