

Press Releases

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OTS 06-023 - Thrift Industry Performance Remains Strong in First Quarter

Office of Thrift Supervision

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Contact: Katie Fitzgerald

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202/906-6677

Thrift Industry Performance Remains Strong in First 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 first quarter of 2006. In particular, OTS noted that:

- Industry aggregate earnings totaled \$4.22 billion, up five percent from the year-ago first quarter, but down two percent from the record \$4.32 billion in the fourth quarter of 2005.
- Profitability, as measured by return on average assets, was 1.14 percent in the first quarter, down from 1.19 percent in the prior quarter and 1.22 percent one year ago. Increases in mortgage loan servicing fee income and lower loan loss provisions were offset by lower overall fee income and other noninterest income, as well as an increase in noninterest expense.
- The industry's aggregate net interest margin increased one basis point in the quarter to 277 basis points (or 2.77 percent of average assets). Due to a regulatory reporting change, first quarter net interest margin is not directly comparable to that of prior periods.

Although industry earnings and profitability were strong in the first quarter, OTS cautioned that earnings will likely be constrained in future reporting periods by a flat yield curve and declining mortgage loan demand. Regarding the industry's mortgage lending activity, OTS noted that:

- Total 1-4 family mortgage originations for the industry in the first quarter were \$142.6 billion, up slightly from \$141.5 billion in the year-ago first quarter, but down 13 percent from \$163.9 billion in the fourth quarter of 2005.
- OTS-regulated savings institutions accounted for approximately 26 percent of total 1-4 family originations nationwide in the first quarter, up from 24 percent in the prior quarter and 23 percent one year ago.
- An estimated 44 percent of industry originations were adjustable rate mortgages (ARMs), compared to 50 percent in the prior and year-ago quarters. The ARM share for all lenders was an estimated 30 percent in the first quarter, and 33 percent one year ago.
- Mortgage refinancing activity remained relatively strong at \$58.2 billion, representing 35 percent of total industry originations.

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

- The industry's equity capital ratio stood at 9.36 percent at the end of the quarter - well in excess of minimum requirements - and equity capital held by savings institutions reached \$140.4 billion, a record level. Over 99 percent of the industry exceeds well-capitalized standards and no institution was less than adequately capitalized at the end of the first quarter.
- Asset quality remained strong, with the ratio of troubled assets-to-total assets holding at 0.64 percent in the first 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, stood at 0.47 percent of total assets, unchanged from one year ago, and up from 0.44 percent in the prior quarter.
- Loans 30-89 days past due decreased to 0.61 percent of assets from 0.67 in the prior quarter. Excluding repurchased GNMA loans, past due loans decreased to 0.55 percent of assets from 0.59 percent in the prior quarter, but were up from 0.53 percent in the year-ago first quarter.

The agency also noted that it is continuing to evaluate risk management, underwriting programs and portfolio performance of alternative mortgage loan products. While these loans have been a valuable source of mortgage credit, OTS reminds institutions to approach the mortgage market with caution and with thorough due diligence when introducing new products.

OTS indicated that at the end of the first quarter:

- There were 856 savings institutions, holding assets of \$1.50 trillion, an increase of 11.8 percent over the year. In addition, OTS supervised 481 U.S.-domiciled holding company enterprises, with consolidated assets of approximately \$7.2 trillion.
- The number of problem thrifts - those with composite examination ratings of 4 or 5 - dropped to six from seven in the prior quarter and eight one year ago, and the number of 3-rated institutions declined to 44 from 45 in the prior quarter and 53 one year ago. 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-2006-23a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-23b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-23c.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.