Press Releases

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OTS 96-24 - Thrifts Reduce Their Aggregate New Charge-off Rate on Bad Loans and Investments Nearly in Half

Office of Thrift Supervision

News Release

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THRIFTS CUT CHARGE-OFFS IN HALF OVER FIVE YEARS

WASHINGTON, D.C., April 9, 1996 -- Over the past five years, the thrift industry has reduced its aggregate net charge-off rate on bad loans and investments nearly in half, an indication of the industry's sound management and strong recovery, the Office of Thrift Supervision (OTS) reported today.
The industry-wide ratio of charge-offs to aggregate average loans and investments at the end of 1995 was 0.36 percent, compared with 0.70 percent at year-end 1991. A charge-off is the write-off of an asset that is considered unrecoverable.

In the industry's largest loan category, 1 to 4 family mortgages, the charge-off rate declined to 0.17 percent in 1995 from 0.25 percent in 1994. This category accounts for 46 percent of the industry's investments.

OTS cautioned, however, that charge-off levels increased in 1995 for several other loan types. These included multi-family and nonresidential construction loans -- up from 0.27 and 0.46 percent, respectively, to 0.46 and 0.67 percent. Auto loans, credit card loans, other consumer loans and revolving 1-4 home equity loans also increased.

"These recent trends highlight the need for continuing close supervisory attention to ensure that thrifts do not allow their credit standards to deteriorate," wrote John Downey, executive director for supervision at OTS, in a cover memorandum to the agency's five regional directors.

The report also covers a 12-quarter period -- from March 31, 1993, through Dec. 31, 1995 -- on a regional basis and by CAMEL (examination) ratings.

The OTS Central and Midwest regions had the lowest average charge-offs at 0.21 and 0.26 percent, respectively, for the 12 quarters. The Northeast and Southeast regions were neck-and-neck at 0.37 and 0.38 percent, while the West Region was well above the other regions at 1.01 percent. That higher mark reflected asset quality problems in the West Region, particularly in California, during the 12-quarter period.

In several categories, including construction loans, mortgages and commercial loans, the West Region's net charge-offs were well above the rates for the other four regions.

There also is a direct link between CAMEL rating and the level of charge-offs. The report shows progressively higher levels of charge-offs as institutions' ratings deteriorate. Thrifts receiving a 1 rating on their exam had an average charge-off ratio of 0.18 percent, and 2 rated thrifts averaged 0.43 percent. The industry-wide average was 0.56 percent. By comparison, the charge-off ratios for institutions rated 3, 4 and 5 were 1.12, 1.43 and 6.13 percent, respectively.

The report by CAMEL rating and by region was based on the thrift financial reports (TFRs) of 1,371 thrift institutions that existed and reported TFR data during the entire 12 quarters, OTS said.

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