Press Releases

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OTS 99-11 - U.S. Thrift industry Earns Record $7.6 Billion in 1998

Office of Thrift Supervision

News Release

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U.S. Thrift industry Earns Record $7.6 Billion in 1998

WASHINGTON, D.C., March 2, 1999 - The nation's thrift industry earned a record $7.6 billion in 1998, eclipsing the previous record of $6.4 billion in 1997, Director Ellen Seidman of the Office of Thrift Supervision (OTS) reported today. Fourth quarter earnings of $1.4 billion, however, were down from the record third quarter earnings of $2.2 billion and $1.7 billion for the fourth quarter 1997 due to one-time restructuring charges, primarily related to mergers and acquisitions.

Low mortgage rates, a healthy economy, low unemployment and booming housing sales helped thrifts set new yearly and quarterly records for mortgage originations, which boosted earnings. Fourth-quarter single family mortgage originations were $81.5 billion, surpassing the record of $67.7 billion in second-quarter originations. For all of 1998, single-family mortgage originations were $276 billion, 46 percent higher than the 1993 high of $189 billion. Total mortgage originations, including multi-family and non-residential, of $93.6 billion in the fourth quarter and $318.4 billion for 1998, were both records. The previous annual high was $265.5 billion in 1986, when 3,247 thrifts were operating, nearly three times the 1,145 thrifts today.

"While the industry continues to be financially strong, recent information from our examiners raises concerns in three areas," said Director Seidman. "We see some thrifts getting into higher risk lending without adequately managing those risks, there is some lowering of lending standards, and we find more construction lending being done on speculation," she said. Those thrifts are receiving "heightened supervisory attention," she added.

Return on average assets (ROA) of 97 basis points for 1998 was 15 percent above the 84 basis points for 1997. Fourth-quarter ROA was 70 basis points, down from 113 basis points in the third quarter and 87 basis points one year ago.

The booming 1998 mortgage market was heavily influenced by the low and flat yield curve. Borrowers strongly preferred 30-year, fixed-rate mortgages, and thrifts saw these mortgages increase to 14.3 percent of assets in the fourth quarter from 13.4 percent in the third quarter and 11.0 percent one year ago. Adjustable-rate mortgages made up 31.7 percent of industry assets in the fourth quarter.

Equity capital declined slightly to $67.3 billion, or 8.23 percent of assets, from $68.3 billion or 8.58 percent in the third quarter. The growth in total industry assets, one-time charges and dividend payments accounted for the fourth quarter decline in the aggregate industry capital ratio. However, 98 percent of the OTS-supervised thrifts continued to meet or exceed well-capitalized standards, the same as in the third quarter.

Thrifts continued to rely less on deposits to fund loans and more on federal home loan bank advances. Deposits fell to 61.0 percent of assets from 62.6 percent in the third quarter and 65.4 percent one year ago. But thrifts continue to manage the liability side of their balance sheets well, with the weighted average maturity of liabilities increasing to 23 months at the end of 1998 compared to 14 months at year end 1997.

The number of thrifts supervised by OTS continued to decline, falling to 1,145 at the end of the fourth quarter, a net reduction of 25 from the third quarter. For all of 1998, OTS supervised thrifts declined by 70, the lowest annual reduction since 1986. During 1998, 109 thrifts left OTS jurisdiction, mainly as a result of mergers or acquisitions, while 39 institution came under OTS supervision for the first time, including 25 start-up institutions.

Even though the net number of OTS supervised thrifts declined, their total assets increased to $817.2 billion in the forth quarter from $795.2 billion in the third quarter. For 1998, thrift assets grew $40 billion, an annual rate of 5.2 percent.

Troubled assets fell to $6.3 billion in the fourth quarter, or 0.77 percent of assets, the lowest since the measure was first used in 1990.

Problem thrifts, those with CAMELS ratings of 4 or 5, declined to 15 in the fourth quarter from 18 in the third quarter. This net decline between the third and fourth quarters reflected improvement for five thrifts offset by three other thrifts that were downgraded to the problem category.