

Ten Largest Thrift Companies:

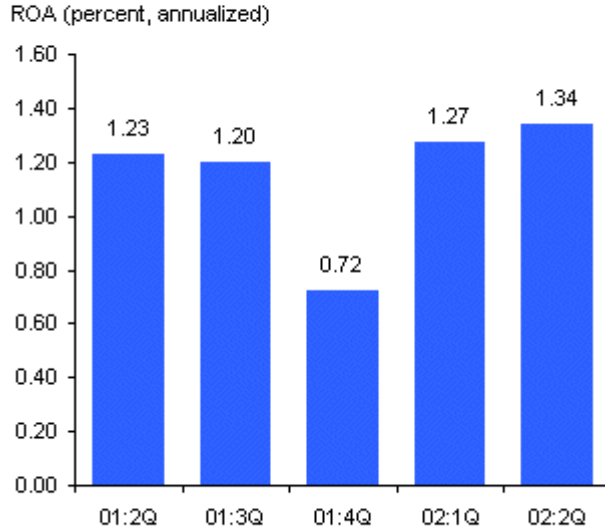
Interest-Rate Environment Supports Strong Earnings

August 15, 2002

Since the onset of recession in early 2001, economic conditions have been less than ideal for many households, businesses, and commercial lenders. However, the interest-rate environment accompanying the recession has been generally supportive of high earnings for the nation's 10 largest thrift institutions (hereafter, the "10 Largest"), which specialize in mortgage lending. Earnings for the 10 Largest rose in the second quarter to \$1.7 billion, a \$24 million increase from first-quarter results. The weighted average return on assets (ROA) was 1.34 percent, up from 1.27 percent in the first quarter (Chart 1). A detailed discussion of overall results and information on individual companies are available in the FDIC's report, [Ten Largest Thrift Companies](#).

Chart 1

Return on Assets for the 10 Largest Thrifts Rises with a Decline in Total Assets



Source: SNL DataSource; FDIC

The yield curve remained relatively steep in the second quarter, limiting declines in net interest margins, while falling long-term interest rates helped produce large gains on sales of securities for the 10 Largest. The fact that long-term, fixed mortgage rates again approached 30-year lows during the quarter helped to support high volumes of home sales and mortgage refinancing. The result has been continued strong originations of mortgage loans accompanied by a reduction in the value of mortgage servicing rights. However, today's report shows that the 10 Largest were somewhat successful in buffering themselves from the adverse effects of mortgage prepayments through the use of hedging strategies.

Current economic trends appear to point to continued high volumes of mortgage origination for the 10 Largest in the third quarter. With 30-year Treasury yields falling below 5.0 percent this week, long-term mortgage rates could at least briefly dip to their lowest levels in a generation. Meanwhile, mixed signals about the pace of the apparent economic recovery give no sign that short-term interest rates will rise dramatically in the near-term, which implies that net interest margins should also remain relatively strong during the third quarter.

Chart 1
Return on Assets for the 10 Largest Thrifts Rises with a Decline in Total Assets

Quarter	Quarterly Net Income
2001:Q2	1.23
2001:Q3	1.2
2001:Q4	0.72
2002:Q1	1.27
2002:Q2	1.34

Source: SNL DataSource; FDIC