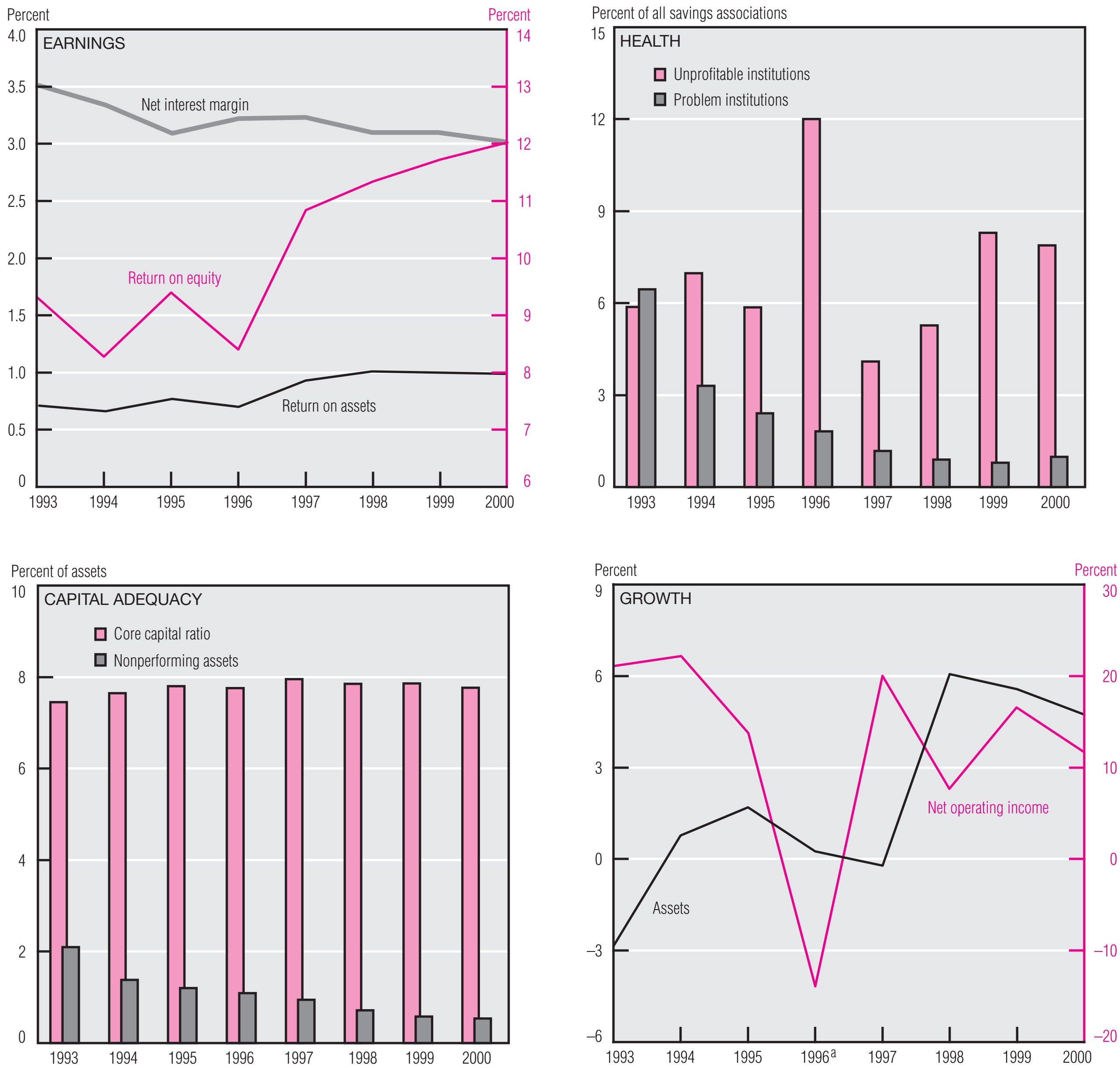
Savings Association Performance



a. The sharp 1996 decline in operating income growth resulted partly from a special insurance assessment on savings and loans deposits.
NOTE: All data are for FDIC-insured institutions through 2000:IIQ.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, 2000:IIQ.

Savings associations' earnings held steady in the first six months of 2000, reaching $5.66 billion by June 30. Return on assets for the quarter stayed strong at 0.99%, just below the historical peak of 1.01% in 1998. Furthermore, return on equity hit 12.02%, its highest level since 1985. But unlike 1985, when return on equity was driven by high degrees of leverage, return on equity in 2000 has been generated by the robust return on assets and a steady net interest margin exceeding 3%. On the other hand, the increase in the share of savings associations reporting losses (from 4.1% in 1997 to 7.88% in 2000:IIQ) suggests the need for caution in interpreting the otherwise positive earnings trends.

Savings associations' balance sheets showed improved asset quality, as nonperforming assets fell to 0.54% of total assets, the lowest level in the last seven years. Core capital remained healthy at 7.77% of total assets, only a small decrease from 1999. Despite the higher number of savings associations with substandard examination ratings, problem institutions remained less than 1% of the total.

The 12-month asset growth rate through 2000:IIQ was 4.74%, slightly less than the 5.57% growth rate for 1999 and dramatically lower than the 7.75% rate for the first six months of that year. The 11.77% rate of growth in operating income during the first half of 2000 suggests that asset growth did not occur at the expense of profit margins.

Overall, recent industry performance suggests that specialized housing lenders, such as savings associations, continue to thrive although their role in the economy may be less important than in the past.