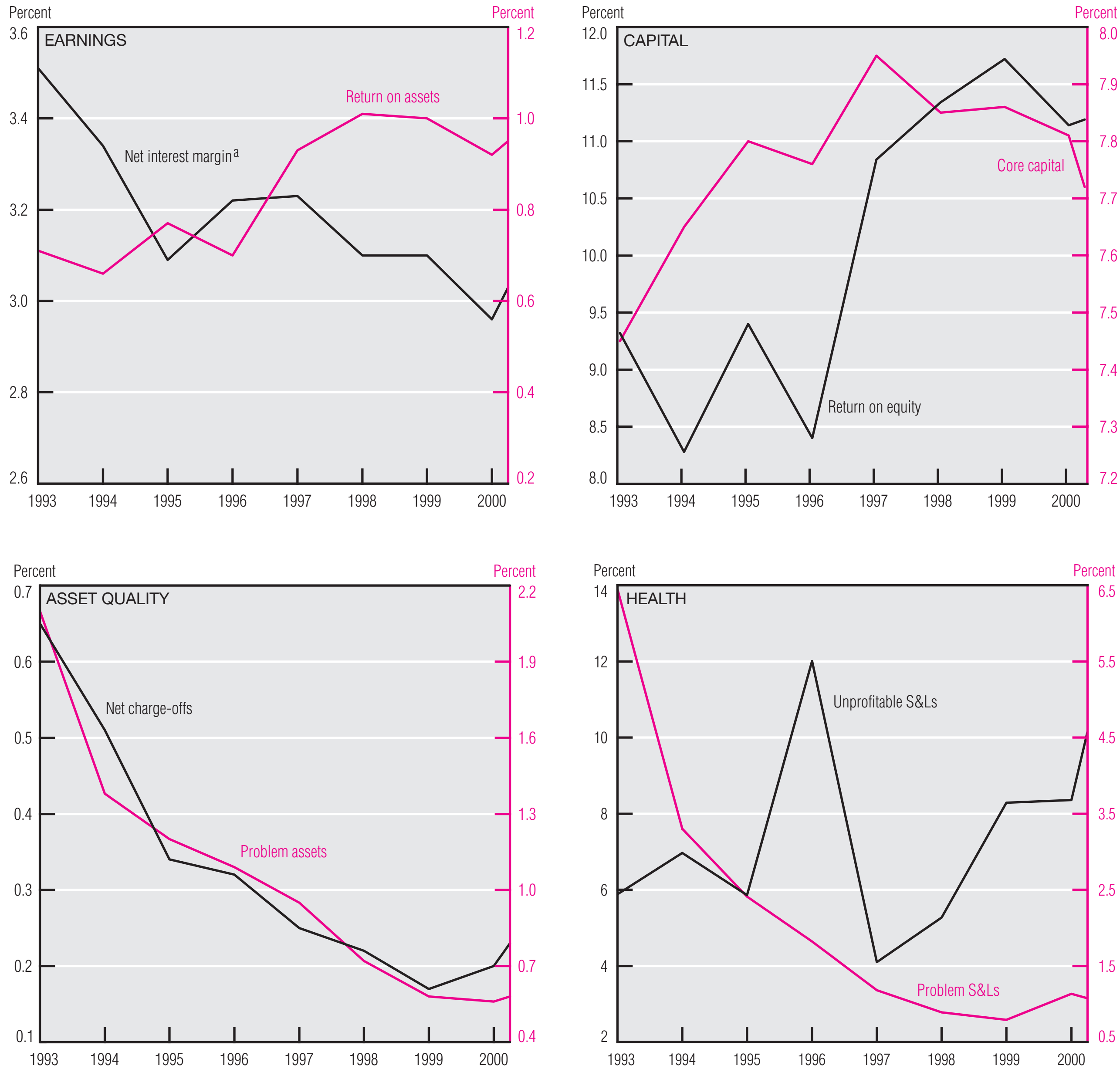
Savings and Loan Associations



a. The net interest margin equals interest income less interest expenses, both divided by average earning assets.
NOTE: Observations are annual except the last one, which is 2001:IQ in all charts.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In many ways, savings associations performed like commercial banks, with first-quarter earnings of $2.9 billion (up from $2.6 billion in 2000:IVQ and unchanged from 2000:IQ). Their annualized 0.95% return on assets for 2001:IQ was marginally higher than the 0.92% posted for 2000. Like banks, they used lower interest rates to boost their first-quarter earnings $761 million through capital gains on the sale of assets. But unlike banks, savings associations benefited from a slightly wider net interest margin (3.03%).

Return on equity rose from 11.14% in 2000 to 11.9% for 2001:IQ. This rise was apparently driven by the higher return on assets and a slight increase in leverage as core capital fell from 7.81% to 7.72% of total assets. Savings associations' asset-quality indicators are mixed. At the end of 2001:IQ, nonperforming assets rose slightly to 0.58% of total assets, still the second-lowest share in more than a decade, but net charge-offs rose slightly to 0.23%.

Other signs are mixed as well. Like banks, savings associations' steady or growing profits have been accompanied by a higher number of unprofitable institutions. More than 10% reported losses in 2001:IQ, the largest share since 1996. However, the share with substandard examination ratings was 1.07% at the end of 2001:IQ, down from 1.13% at the end of 2000.

Most performance indicators suggest little change in the health of savings associations. Like commercial banks, they currently show only minor effects of the slowing economy.