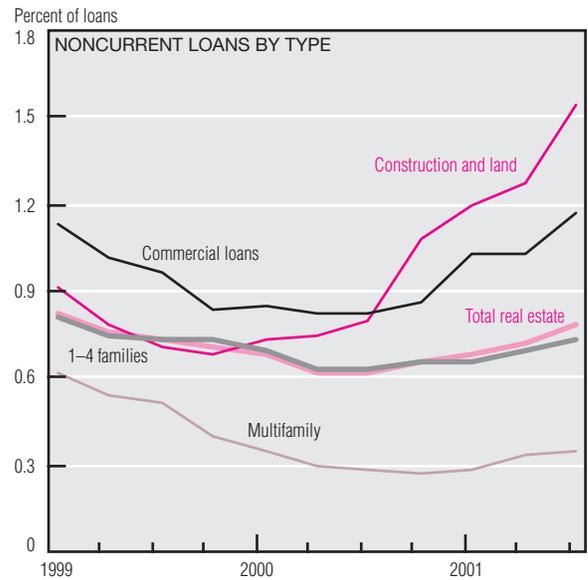
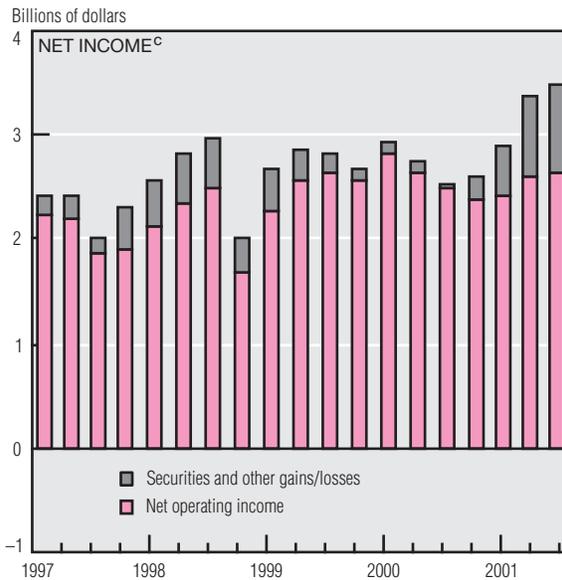
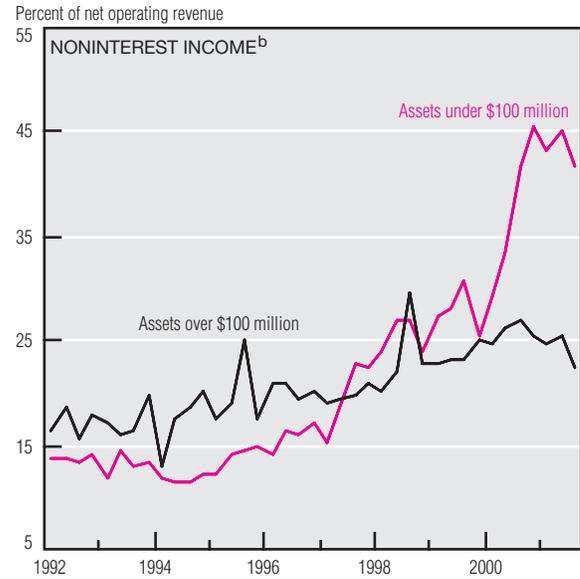
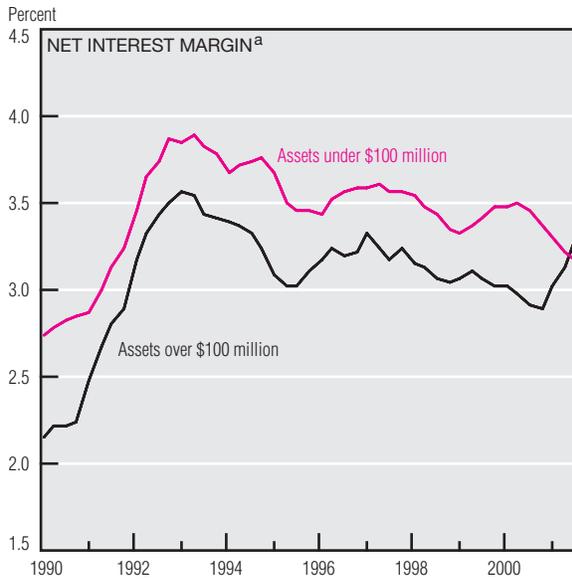


Savings and Loan Associations



a. Interest and dividends earned on interest-bearing assets minus interest paid to creditors, expressed as a percent of average earning assets.

b. Net operating revenue equals net interest income plus noninterest income.

c. Net income equals net operating income plus securities and other gains and losses.

SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, 2001:IIIQ.

In 2001:IIIQ, the net interest margin (NIM) of large savings institutions rose 14 basis points (bp) to 3.28% over the previous quarter. Low interest rates reduced the cost of borrowing faster than interest income, resulting in higher net interest income. Small institutions' NIM fell 5 bp to 3.17%, reflecting the large share of fixed rate deposits in their liability structure. In a declining interest rate environment, they had less flexibility to adjust their cost of funds. This was the first quarter since 1990 in which large savings institutions had a higher NIM than small ones.

With most mortgage refinancing activity already behind us, current and prospective income from servicing fees is lower. This explains why savings institutions' total noninterest income declined \$372 million (11%) from the second quarter.

Despite this drawback, total net income for 2001:IIIQ was \$3.5 billion, \$936 million higher than it was a year earlier. This improvement is mainly the result of larger gains from selling securities at appreciated prices in a low interest rate environment. Note that mortgage-backed securities constitute the majority (about three-

quarters) of the securities portfolio. The average return on assets of 1.09% for the 2001:IIIQ was the second-best quarterly ROA since the record of 1.14% set in 1998:IIIQ.

The noncurrent-loans rate on real estate loans increased 6 bp to 0.82%. Home mortgages account for the majority (69%) of real estate loans made by savings institutions. Weakness in this category is the main culprit in the deterioration of the industry's noncurrent loans rate. Home mortgages' noncurrent rate increased 5 bp to 0.76% during the third quarter.