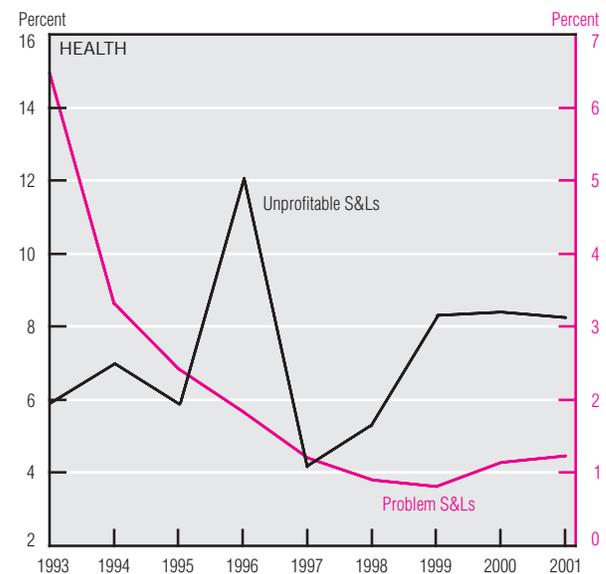
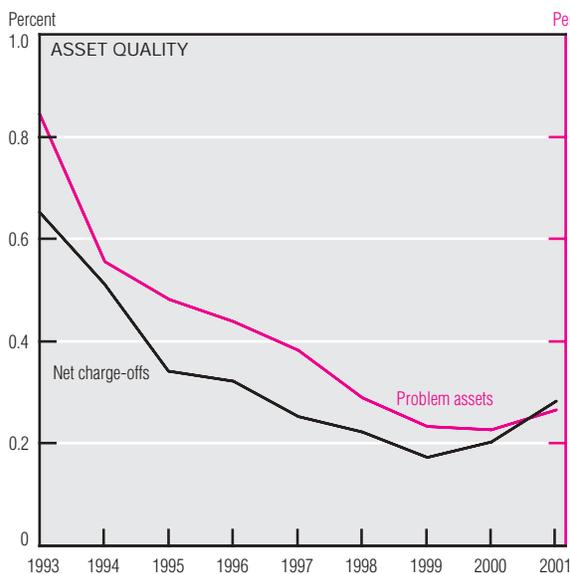
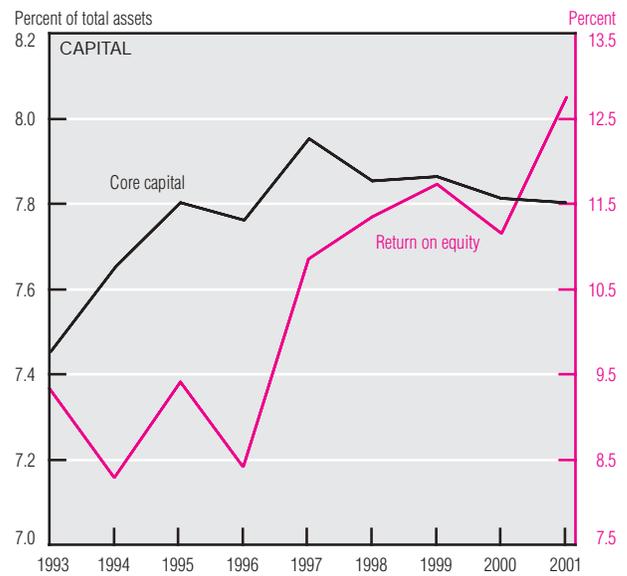


# Savings Associations



a. Interest income less interest expenses, both divided by average earning assets.  
 SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

Savings associations' performance mirrored that of commercial banks during 2001. Savings associations earned a record \$13.3 billion in 2001, translating into a return on assets of 1.08%—the highest since 1946. Like banks, savings associations took advantage of lower interest rates to boost earnings to \$4.2 billion through capital gains. However, savings associations' earnings benefited from a 27 basis point increase in their net interest margin to 3.23%.

Return on equity for 2001 was 12.73%, compared to 11.14% at the

end of 2000. The rise appears to have been driven by improvements in return on assets and a slight increase in leverage: Core capital decreased from 7.81% of total assets at the end of 2000 to 7.80% at the end of 2001. Asset-quality indicators for savings associations show some weakening. By year-end 2001, nonperforming (problem) assets had risen to 0.66% of total assets, and net charge-offs had increased to 0.28% of loans.

Other indicators of industry health are mixed. Unlike commercial banks, savings associations' steady or increasing profits have been

accompanied by a decrease in the number of unprofitable institutions from 8.36% in 2000 to 8.22% in 2001. On the other hand, the share of problem savings associations (those with substandard examination ratings) was 1.22% at year-end, up from 1.13% at the end of 2000.

While most of these changes are consistent with weakening in the housing finance sector, the latest data suggest no significant deterioration in savings associations' health. Like commercial banks, savings associations have yet to show more than minor effects of the slowing economy.