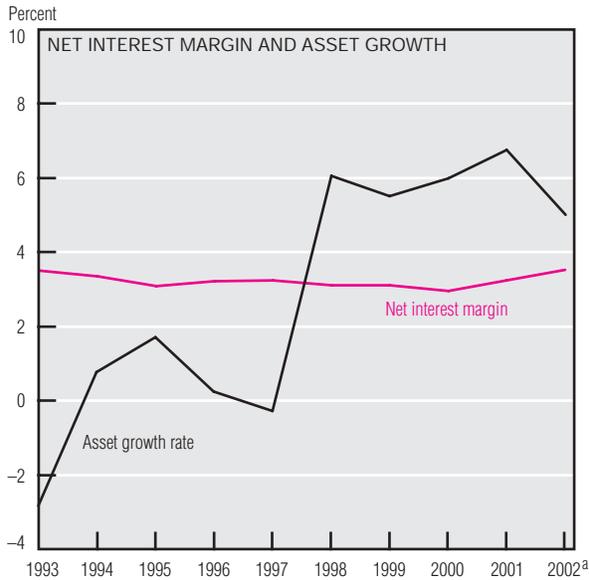
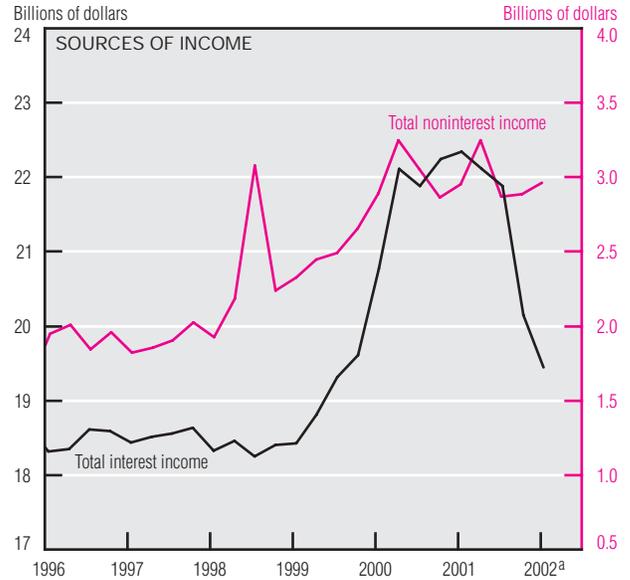
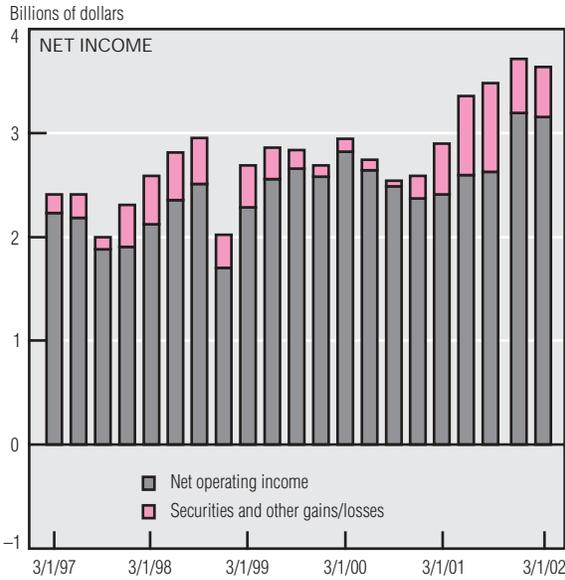


# Savings Associations



a. Observation for 2002 represents annualized first-quarter data.  
 SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

FDIC-insured savings associations reported net income of \$3.6 billion for 2002:1Q. This was an increase of \$739 million (24.5%) from a year earlier. Compared to the previous quarter, however, it amounted to a decrease of \$76 million.

Despite declining interest income, S&Ls' noninterest (fee) income remained quite strong, rising slightly to \$3 billion. Total interest income in 2002:1Q was 13% lower than a year

earlier. But because of lower interest rates, the cost of borrowing fell faster than interest income, producing a 22.7% increase in net interest income.

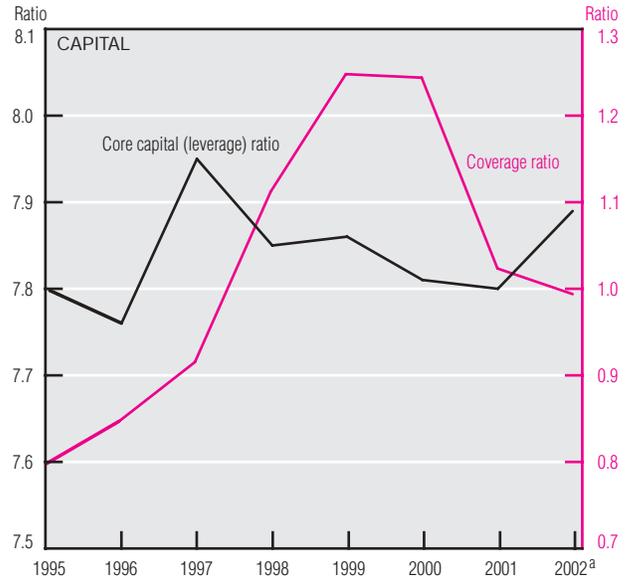
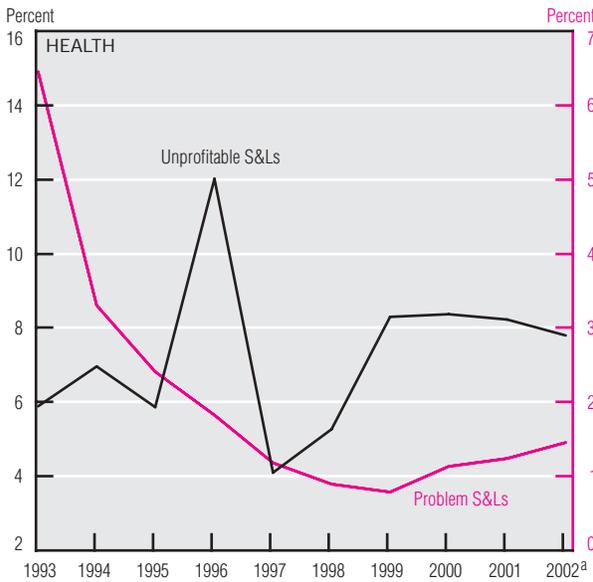
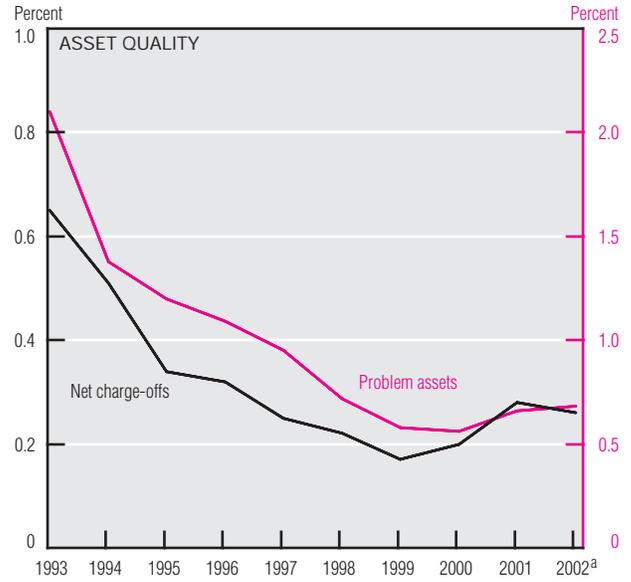
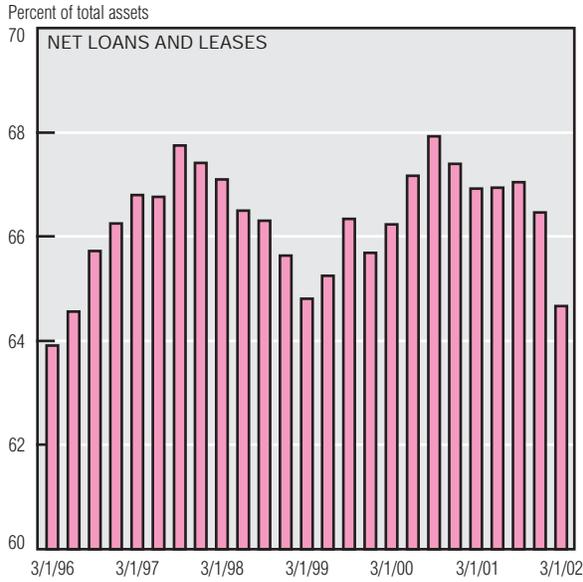
Savings institutions' strong earnings performance is once again apparent in the net interest margin (the difference between interest and dividends earned on interest-bearing assets and interest paid to depositors and creditors; it is expressed as

a percentage of average earning assets). During 2002:1Q, S&Ls' net interest margin rose to 3.52%. This factor, coupled with asset growth's drop to 5.01%, pushed S&Ls' return on assets to 1.11%. First-quarter return on equity went up to 12.83%. The 2002:1Q levels for all three of these indicators were the highest since 1993.

Net loans and leases as a share of total assets fell from 66.5% in

(continued on next page)

# Savings Associations (cont.)



a. Observation for 2002 represents annualized first-quarter data.  
 SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

2001:IVQ to 64.7% in 2002:IQ, well below its recent high of 67.9% in 2000:IIIQ. This ratio indicates continued decline in lending-market activity.

Asset quality showed a slight improvement in 2002:IQ. Net charge-offs (gross charge-offs minus recoveries) declined slightly from the previous quarter, reaching \$570 million (about 0.26% of S&Ls' loans and leases). Net charge-offs rose for

residential mortgages and real estate construction loans but declined for loans to individuals. Problem assets (nonperforming loans and repossessed real estate) were on the rise, reaching 0.68% of total assets.

Problem S&Ls (those with substandard examination ratings) rose to 1.45%, the highest level since 1997. However, asset quality is not a significant problem for FDIC-insured savings associations, where the percent of unprofitable institutions is

falling. Since the end of 2001, the coverage ratio has dropped from \$1.02 in loan loss reserves for every dollar of noncurrent loans to 99 cents per dollar. The \$205 million increase in loan loss reserves was less than the \$430 million increase in noncurrent loans; the result was a decline in the coverage ratio. In 2002:IQ, core capital, which protects savings associations against unexpected losses, rose to 7.89% from 7.80% in 2001.