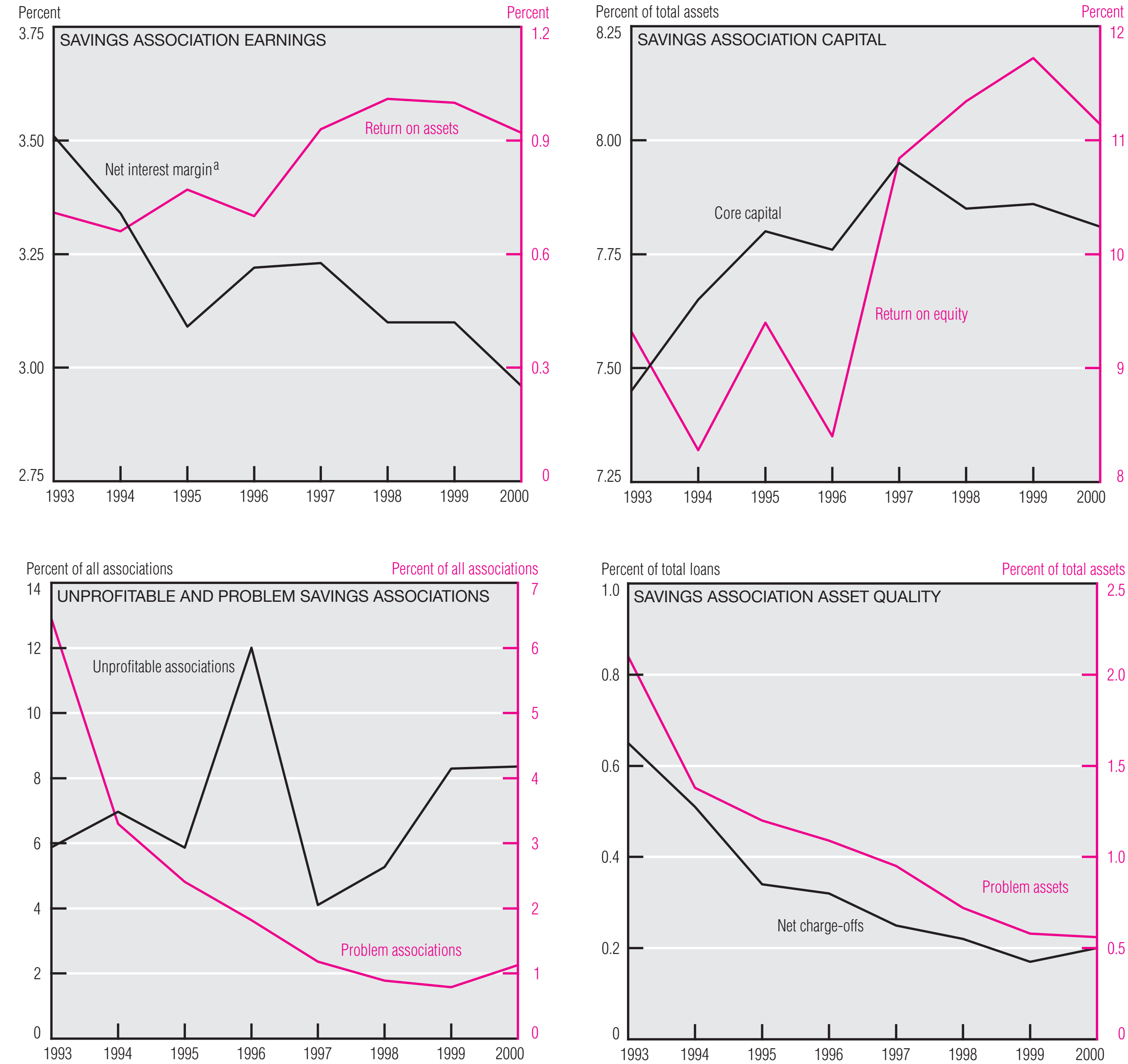
# Savings Associations




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

In many ways, savings associations' performance mirrored commercial banks' in 2000. Savings associations' earnings were $10.7 billion, slightly below the 1999 record of $10.826 billion. Return on assets was 0.92%, down from 1.00% in 1999—its second consecutive annual decrease. The earnings slowdown is also reflected in the net interest margin's drop below 2.96% to its lowest level since 1991.

Return on equity's fall (from 11.72% at year-end 1999 to 11.14% at year-end 2000) was apparently driven by a lower return on assets; core capital remained a healthy 7.81% of total assets, only a small decrease from 1999. Further signs of weakening include a greater number of problem institutions and more savings associations reporting losses. The share of savings associations reporting losses rose steadily from 4.1% in 1997 to 8.36% at year-end 2000. In addition, 1.13% of savings associations received substandard examination ratings in 2000, the largest share since 1997.

Asset-quality indicators are mixed. At year-end 2000, problem assets fell to 0.56% of total assets, the smallest share in over a decade. On the other hand, net charge-offs rose slightly to 0.20%.

Most changes in performance indicators are consistent with some weakening in housing finance, but the latest data do not suggest significant deterioration in savings associations' health. As with banks, the question for savings associations is whether the deterioration noted in 2000 will remain negligible this year.