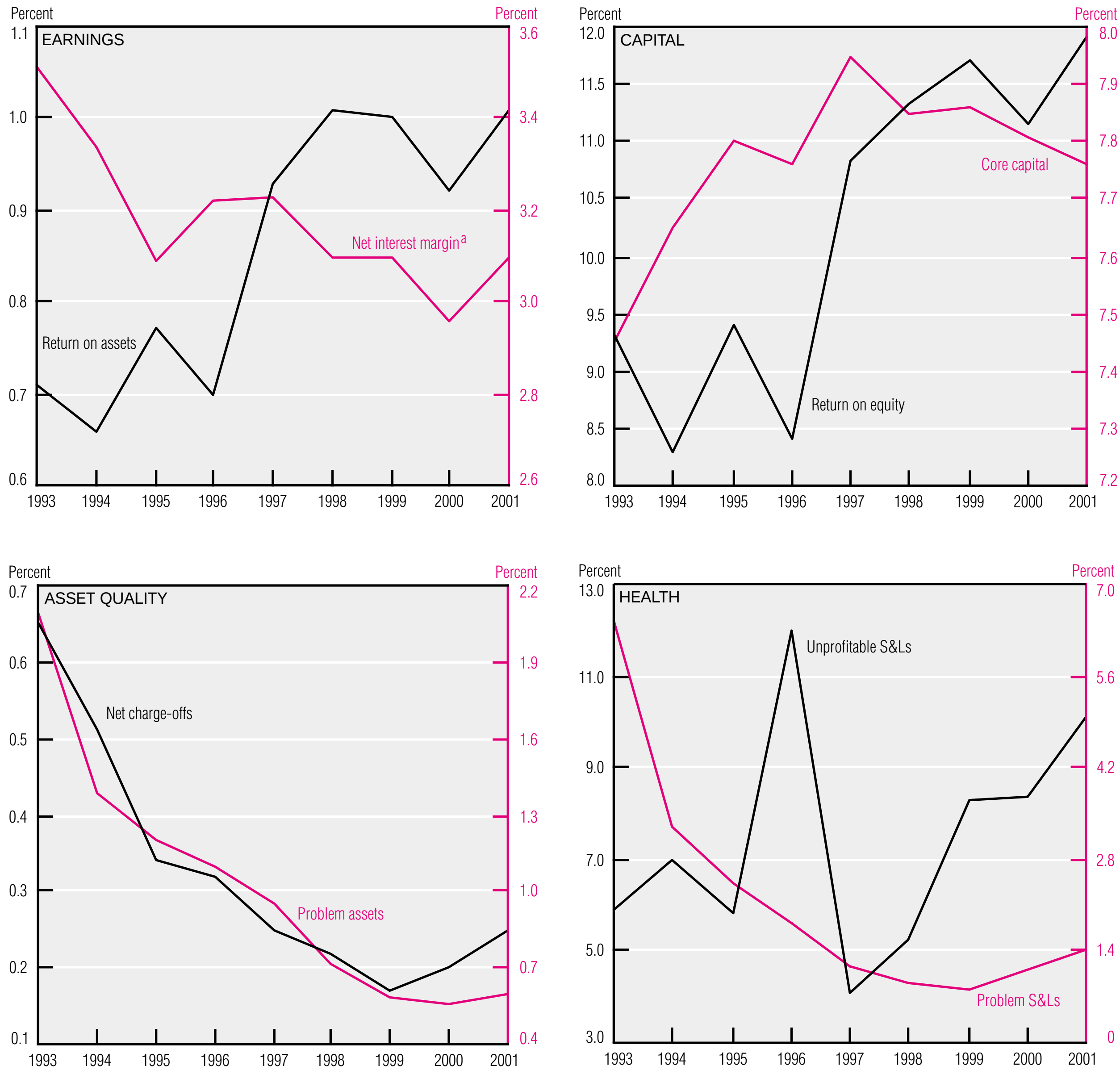
Savings and Loan Associations



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:IIQ in all charts.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In many ways, savings associations mirrored commercial banks in the first half of 2001, earning $6.2 billion and posting record second-quarter earnings of $3.4 billion. Annualized return on assets of 1.01% through 2001:IIQ was 9 basis points (bp) higher than for all of 2000. Like banks, savings associations used lower interest rates to boost first-half earnings through $1.847 billion in capital gains on the sale of assets. However, unlike banks, savings associations' earnings benefited by a 14 bp increase in net interest margin (to 3.10%).

Return on equity through 2001:IIQ was 11.90%, compared to 11.14% at the end of 2000. This increase was driven by a higher return on assets and a minor increase in leverage; core capital fell from 7.81% of total assets at the end of 2000 to 7.76% at the end of 2001:IIQ. Asset quality indicators show some weakening. By midyear 2001, savings associations' nonperforming assets had risen to 0.60% of total assets, and net charge-offs had grown to 0.25% of loans.

Other indicators also suggest weakening performance. Steady or increasing earnings have been accompanied by a rising number of unprofitable institutions. Over 10% of savings associations reported losses for the first half of 2001, the highest share since 1996, and 1.4% received substandard examination ratings at midyear, up from 1.13% at the end of 2000.

While most changes in the performance indicators are consistent with some weakening in the housing finance sector, the latest data do not suggest a significant deterioration.