Savings Institutions

NOTE: Observation for 2002 is second-quarter annualized data.
a. Net income equals net operating income plus securities and other gains and losses.
SOURCES: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, 2002:IIQ.

FDIC-insured savings institutions reported net income of $3.9 billion for 2002:IIQ; this was $519 million (15.5%) higher than a year earlier and $243 million higher than the previous quarter.

Savings and loans' noninterest (fee) income decreased to $2.8 billion, which was only slightly lower than the previous quarter but 13.6% lower than a year ago. Low mortgage rates continued to increase refinancing and reduced mortgage-servicing rights, leading to a 5.7% decline in noninterest income as compared to the previous quarter. The total interest income in 2002:IIQ was 15.4% lower than a year ago.

Savings institutions' strong earnings performance is once again apparent in the net interest margin, which is 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:IIQ, S&Ls' net interest margin reached 3.5%, its highest level since 1993. This factor, coupled with a steep decline in asset growth to 1.04%, pushed the S&Ls' return on assets to 1.22%, again the highest since 1993. Second-quarter annualized return on equity was 13.65%, also the highest since that year.

In 2002:IIQ, net loans and leases as a share of total assets rose to 65.3%, well below the recent high of

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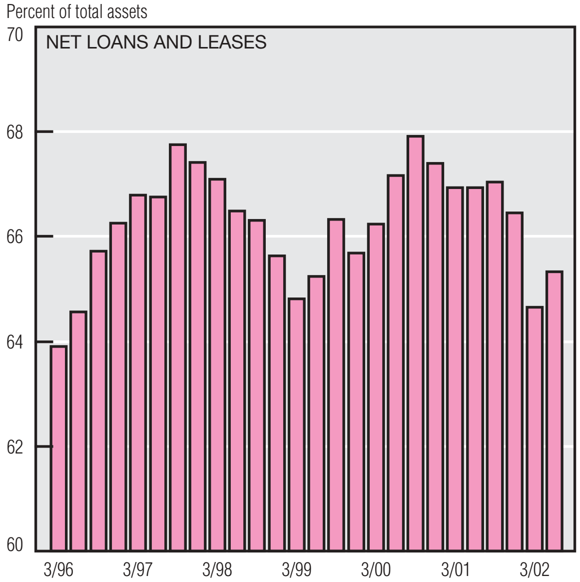
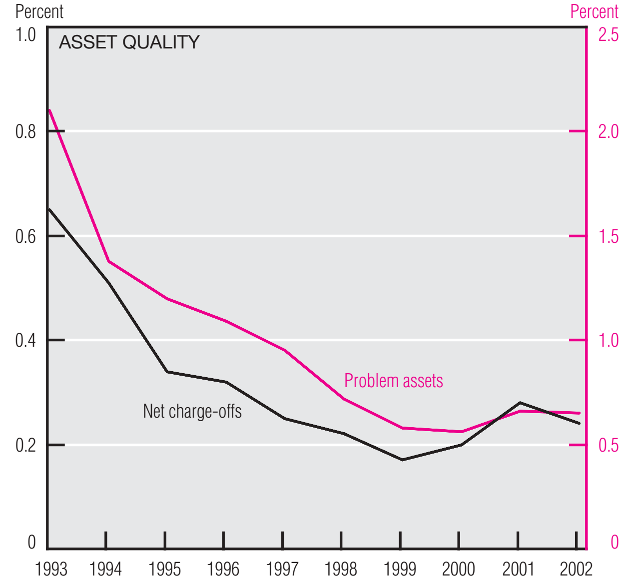
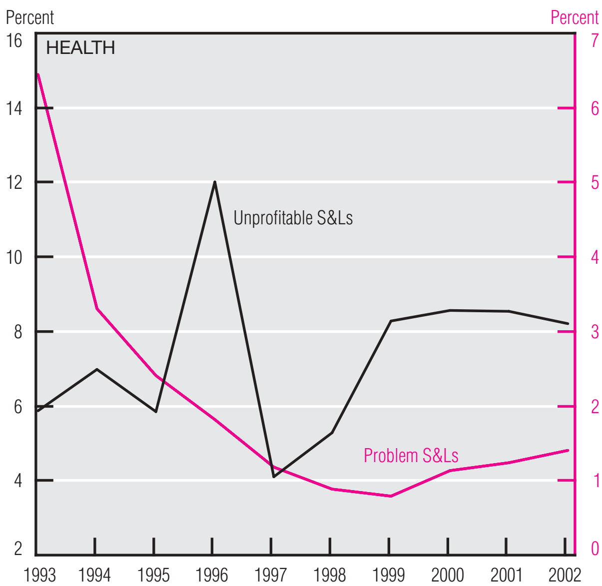
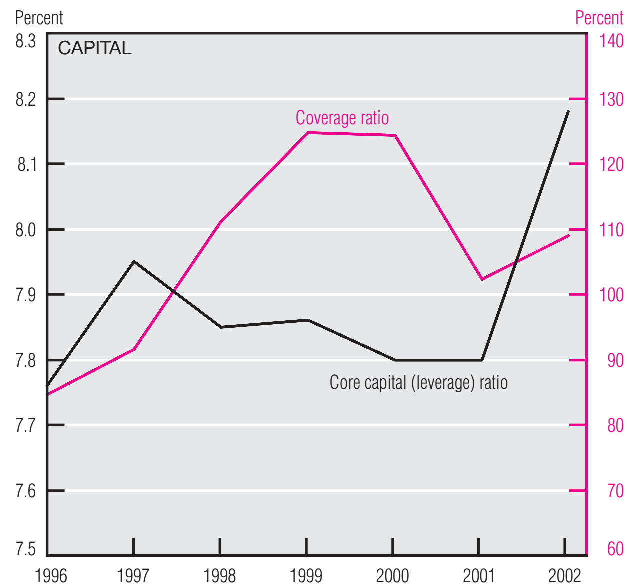
Savings Institutions (cont.)









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SOURCES: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, 2002:IIQ.

67.9% in 2000:IIIQ. Overall, the ratio still indicates declining activity in lending markets, despite the small monthly increase.

Asset quality showed a slight improvement in the second quarter. Net charge-offs (gross charge-offs minus recoveries) improved slightly compared to the previous quarter. Net charge-offs to loans stood at 0.24%, and problem assets (noncurrent assets plus other real estate) improved slightly to 0.65% of total assets. This was the first improvement after six consecutive quarterly increases in the level of problem assets.

The share of problem S&Ls (those with substandard exam ratings) reached 1.40%, the highest level since 1997. However, declining asset quality is not a significant problem for FDIC-insured saving institutions, where the percent of unprofitable institutions is falling. Since the end of 2001, the coverage ratio went from $1.02 up to $1.09 (109%) in loan-loss reserves for every $1.00 of noncurrent loans. The increase in the ratio was led by an increase of $184 million in loan-loss reserves and a $513 million decrease in noncurrent loans.

Core capital, which protects savings institutions against unexpected losses, increased from 7.80% in 2001 to 8.18% in 2002:IIQ; this was the highest since 1990, when the ratio was first calculated.