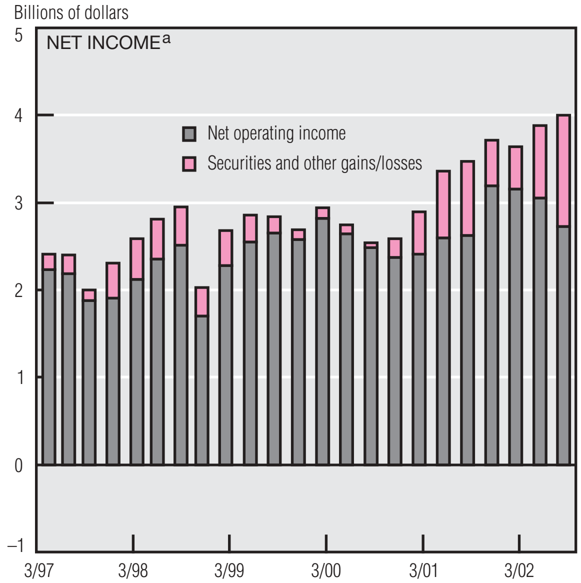
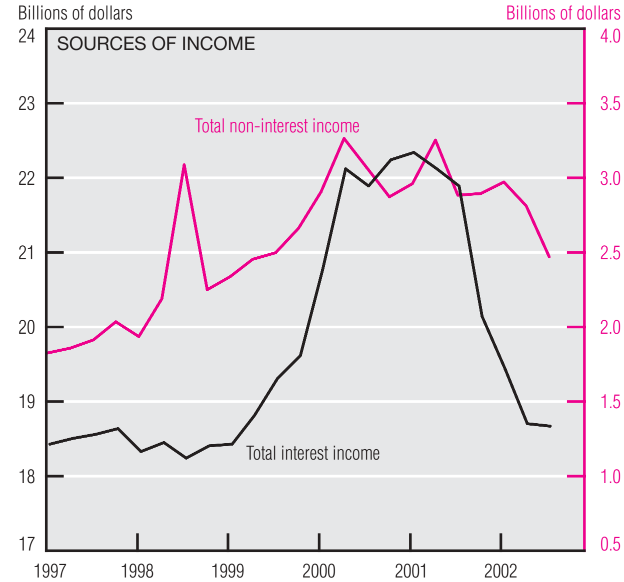
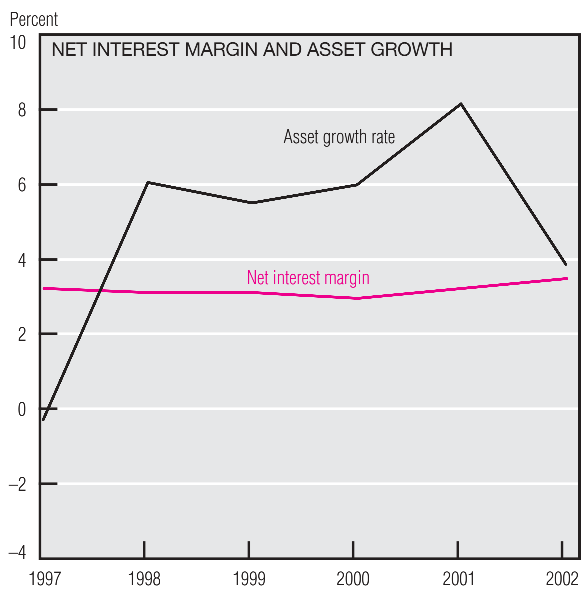
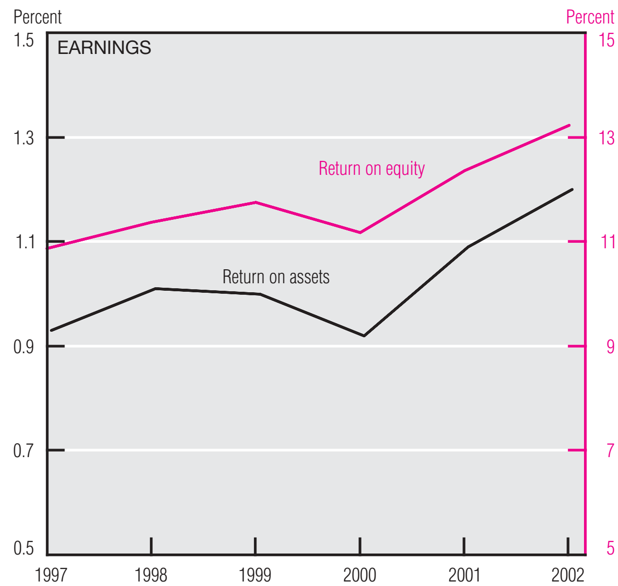
Savings Institutions









NOTE: Observations for 2002 are third-quarter annualized data.
a. Net income equals net operating income plus securities and other gains and losses.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

FDIC-insured saving institutions reported net income of $3.97 billion for 2002:IIIQ, which was $511 million (14.8%) higher than a year earlier. Compared to the previous quarter, it increased by $90 million. As in recent quarters, net income was buttressed by one-time gains in securities sales—to the tune of $1.87 billion.

S&Ls' non-interest (fee) income decreased slightly from the previous quarter to $2.5 billion and was 14.7% lower than the third quarter a year earlier. Total interest income in 2002:IIIQ was 12.9% lower than the same quarter of 2001. However, lower interest rates reduced the cost of borrowing faster than interest income, resulting in a 7.3% increase in net interest income.

Saving institutions' strong earnings performance is once again apparent in the net interest margin (calculated as interest plus dividends earned on interest-bearing assets minus interest paid to depositors and creditors; it is expressed as a percentage of average earning assets). During 2002:IIIQ, S&Ls' net interest margin declined only slightly to 3.48% from 3.52% in the second quarter, its highest level since 1993. This factor, coupled with a decline in asset growth to 3.87%, pushed S&Ls' return on assets to 1.2% and their return on equity to 13.19%.

In 2002:IIIQ, net loans and leases as a share of total assets increased to 65.4%. This is less than the recent

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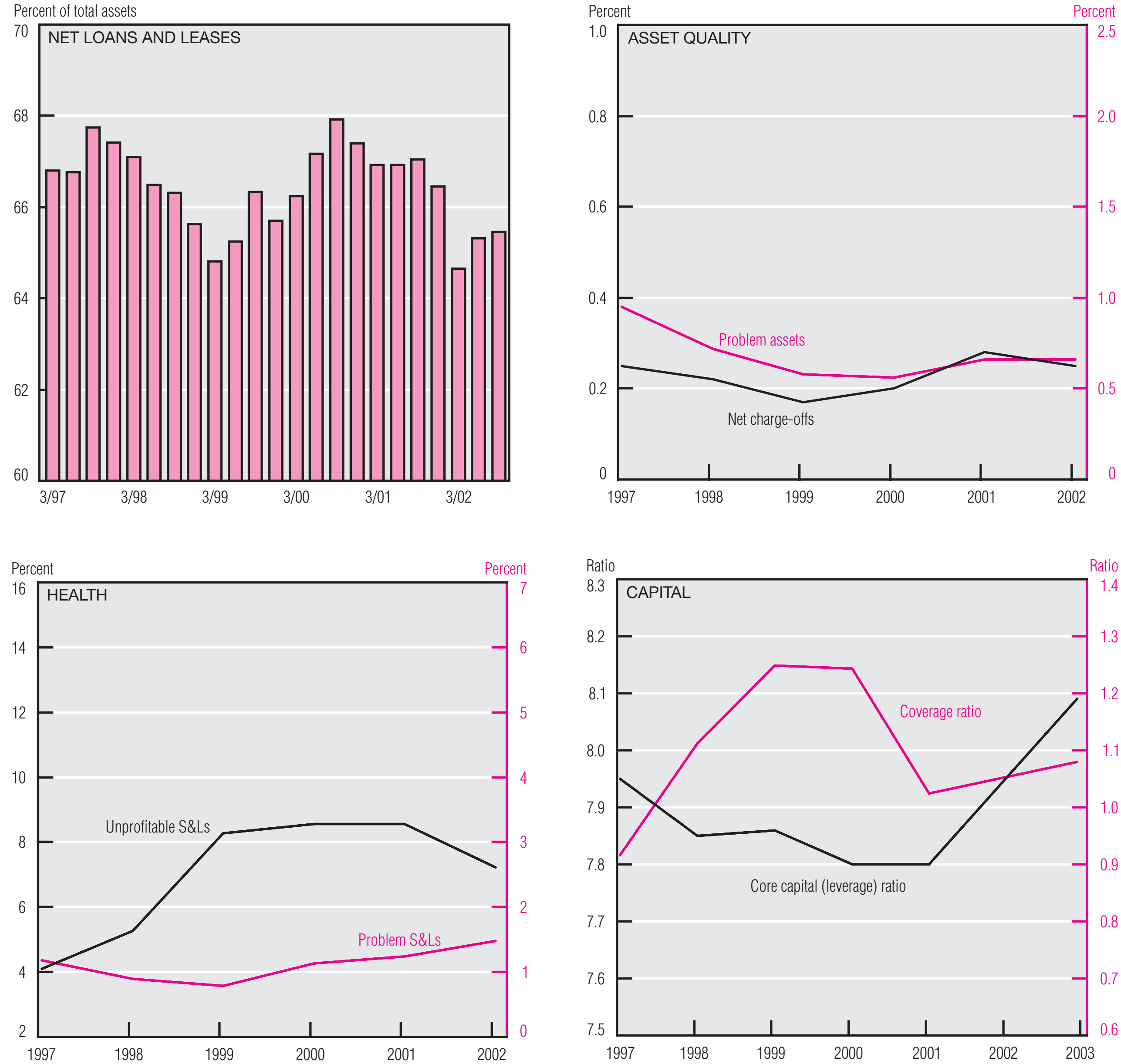
Savings Institutions *(cont.)*



NOTE: Observations for 2002 are third-quarter annualized data.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

high of 67.9% in 2000:IIIQ and indicates a continued decline in savings institutions' direct holdings of loans.

Asset quality improved slightly in the third quarter. Net charge-offs (gross charge-offs minus recoveries) improved slightly from the end of 2001. The ratio of net charge-offs to loans stood at 0.25%. Problem assets (non-current assets plus other real estate) made up 0.66% of total assets. This represented only a slight increase in the problem asset ratio from 2002:IIQ and mirrors the results from 2001:IIIQ.

Problem S&Ls (those with substandard exam ratings) reached 1.48%, the highest level since 1997. However, asset quality is not a significant problem for FDIC-insured saving institutions, where the percent of unprofitable institutions is falling. The coverage ratio in 2002:IIIQ was $1.08 in loan-loss reserves for every dollar of non-current loans, up from $1.02 at the end of 2001. The increase in the coverage ratio resulted from a $687 million increase in loan loss reserves, which more than offset the $239 million rise in non-current loans since the end of 2001. For 2002:IIIQ, core capital, which protects saving institutions against unexpected losses, increased to 8.09% from 7.77% in 2001.