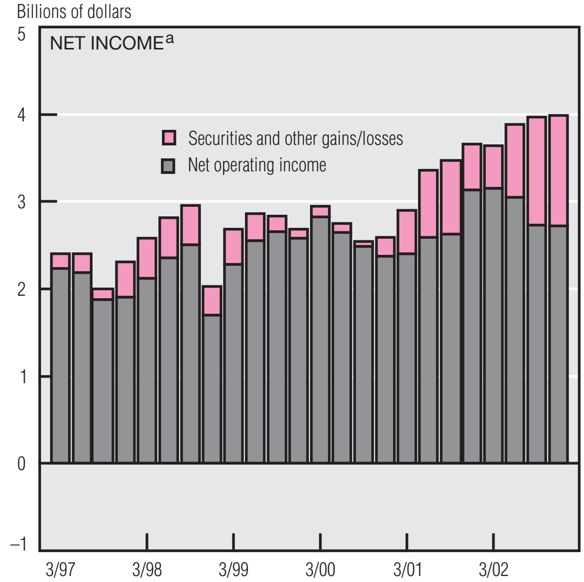
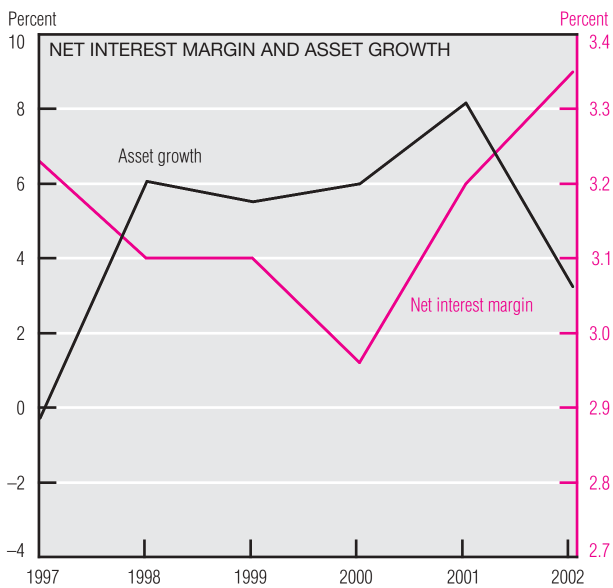
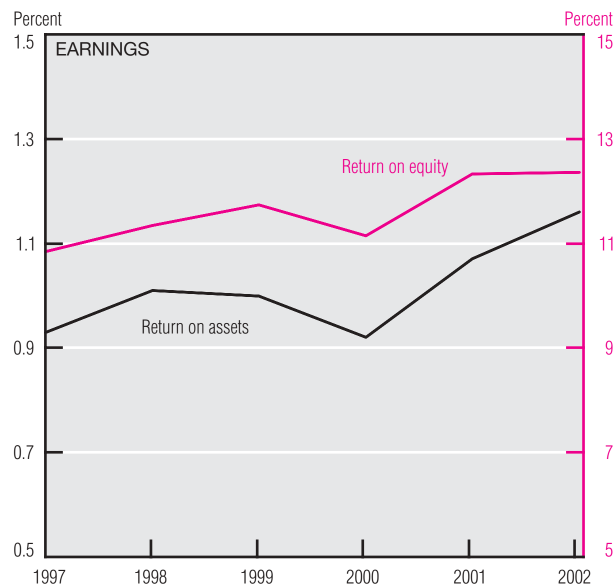
Savings Institutions







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

FDIC-insured saving institutions reported net income of $3.99 billion for 2002:IVQ, which was $329 million (9.0%) higher than a year earlier. Compared to the previous quarter, it increased by a modest $15 million. As in recent quarters, net income was buttressed by one-time gains in securities sales—to the tune of $1.86 billion.

S&Ls' noninterest (fee) income of $2.8 billion was higher than the previous quarter and almost back to its level a year earlier. Total interest income in the fourth quarter of 2002 was 10.6% lower than the same quarter the year before. The process of re-pricing S&Ls' loan portfolios seemed to be heading toward completion in 2002. It brought their cost of borrowing into line with lending costs, producing a modest (0.8%) increase for net interest income in 2001–02.

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). S&Ls' net interest margin continued to increase from its low of 2.96% in 2000 and now stands at 3.35%, its highest level since 1993. This factor, coupled with asset growth's decline to 3.24%, pushed S&Ls' return on assets to 1.16% and their return on equity to 12.36%.

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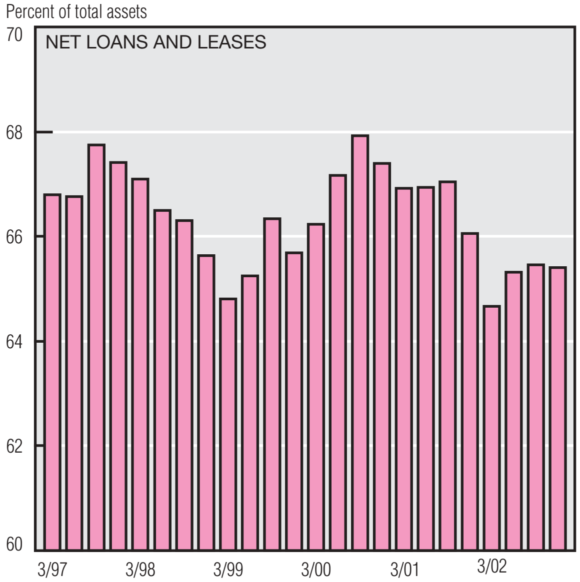
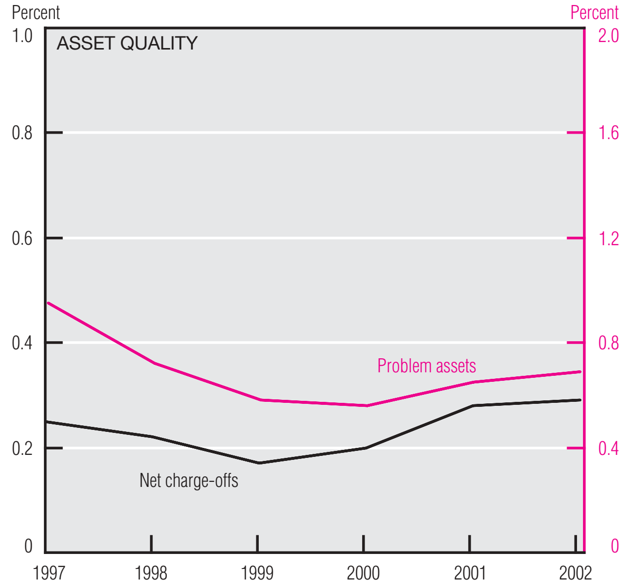
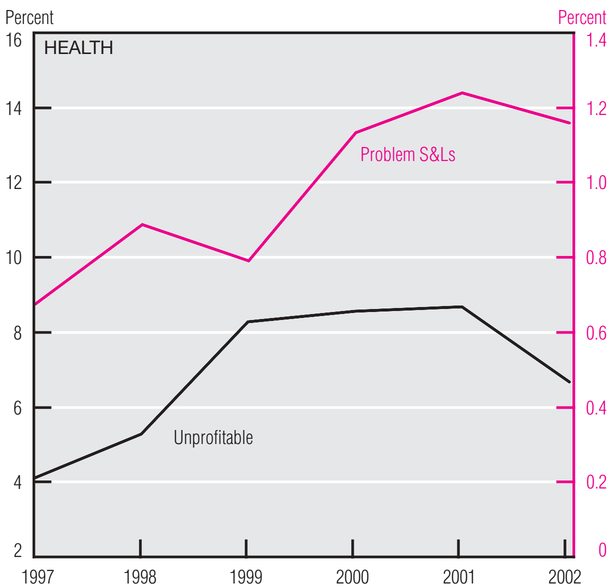
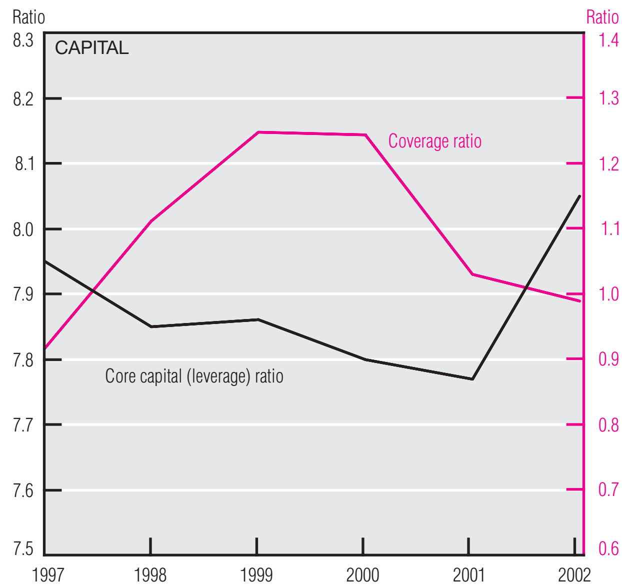
Savings Institutions (cont.)









NOTE: Observation for 2002 is fourth-quarter annualized data.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

In 2002:IVQ, net loans and leases as a share of total assets were 65.4%, unchanged since the previous quarter. This is less than its recent high of 67.9% in 2000:IIIQ and indicates a continued decline in savings institutions' direct holdings of loans.

Asset quality declined slightly in 2002. Net charge-offs (gross charge-offs minus recoveries) of 0.29% showed almost no change from 0.28% in 2001. Problem assets (non-current assets plus other real estate) made up 0.69% of total assets in 2002, only a slight increase from 0.65% in 2001.

However, asset quality is not a significant problem for FDIC-insured savings institutions. Problem S&Ls (those with substandard exam ratings) declined from 1.24% in 2001 to 1.16% in 2002. The percent of unprofitable institutions is falling and currently stands at 6.68%. The coverage ratio stands at 99 cents in loan loss reserves for every dollar of noncurrent loans, down from $1.03 at the end of 2001. The decline in the coverage ratio was caused primarily by a larger ($768 million) increase in noncurrent loans, compared to a $482 million increase in loan loss reserves since the end of 2001. For 2002:IIIQ, core capital, which protects saving institutions against unexpected losses, increased to 8.05% from 7.77% in 2001.