Savings Institutions

NOTE: Observations for 2003 are first-quarter annualized data.
a. Net income equals net operating income plus securities and other gains/losses.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

FDIC-insured savings institutions reported net income for 2003:IQ of $4.43 billion, which was $796 million (21.9%) higher than the same quarter a year earlier and $448 million higher than 2002:IVQ. As in previous quarters, net income was buttressed by one-time gains in securities sales—to the tune of $1.60 billion.

S&Ls' non-interest (fee) income for 2003:IQ increased 16.2% from the same quarter a year earlier and $3.5 billion from 2002:IVQ. Total interest income continued its fall to a level 9.6% lower than a year earlier. However, the process of re-pricing S&Ls' loan portfolios seemed to be heading toward completion in the first quarter of 2003. The result has been a modest (1.0%) decline in net interest income in 2002:IQ– 2003:IQ because reductions in interest income from lending were nearly matched by declines in borrowing costs.

Savings institutions' strong earnings performance was 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 a low of 2.96% in 2000 and now stands at 3.36%, its highest level since 1993. Although S&Ls'

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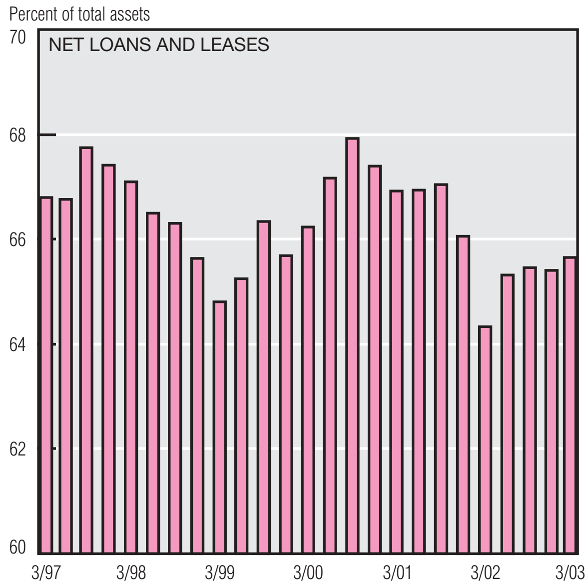
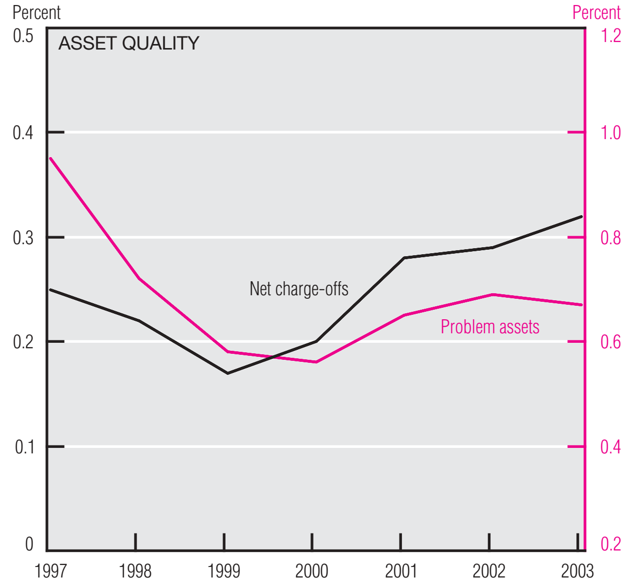
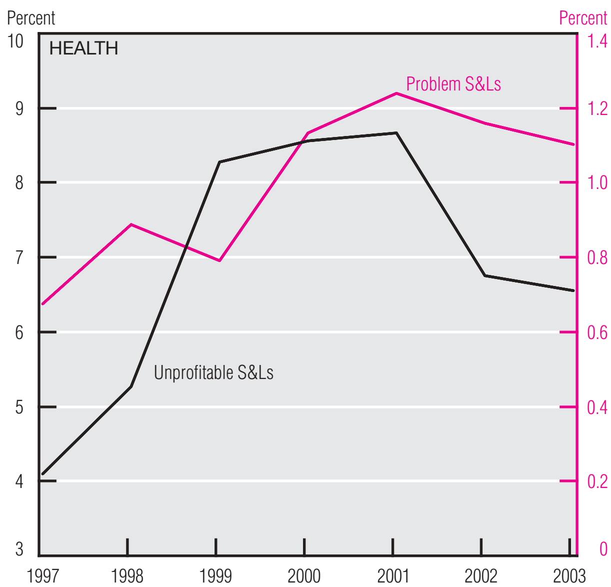
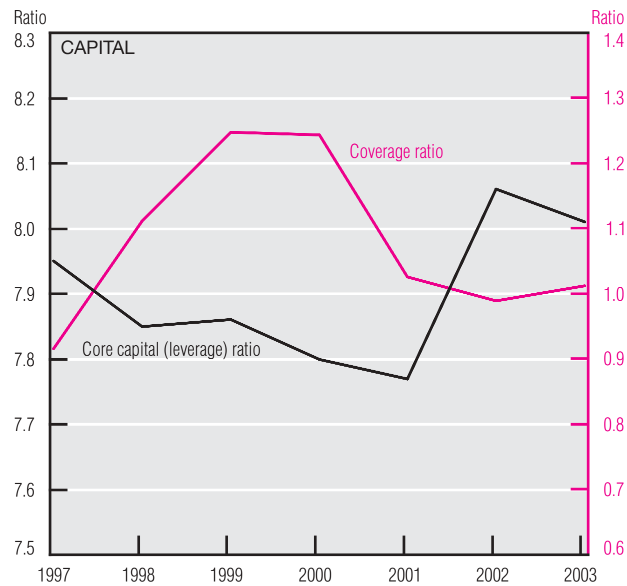
Savings Institutions *(cont.)*









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SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

asset growth increased to 5.53%, their return on assets went up to 1.28% and their return on equity rose to 13.64%.

In 2003:IQ, net loans and leases as a share of total assets (65.7%) was up slightly from the previous quarter but was still below its recent high of 67.9% in 2000:IIIQ, indicating a continued decline in savings institutions' direct holdings of loans.

Asset quality showed mixed signs in 2003:IQ. Net charge-offs (gross charge-offs minus recoveries) rose to 0.32. Problem assets (noncurrent assets plus other real estate) made up 0.67% of total assets, representing only a slight decrease in the problem asset ratio from 0.69% in 2002.

Asset quality does not seem to be a significant problem for FDIC-insured savings institutions as a whole, however. Problem S&Ls (those with substandard exam ratings) declined from 1.16% in 2002 to 1.10% in 2003:IQ. The percent of unprofitable institutions fell to 6.55%. The coverage ratio stood at $1.01 in loan loss reserves for every dollar of noncurrent loans. The increase in the coverage ratio since the previous quarter was caused primarily by a $162 million increase in loan loss reserves during a period when noncurrent loans declined by $34 million. For 2003:IQ, core capital, which protects savings institutions against unexpected losses, decreased to 8.01% from 8.06% in 2002.