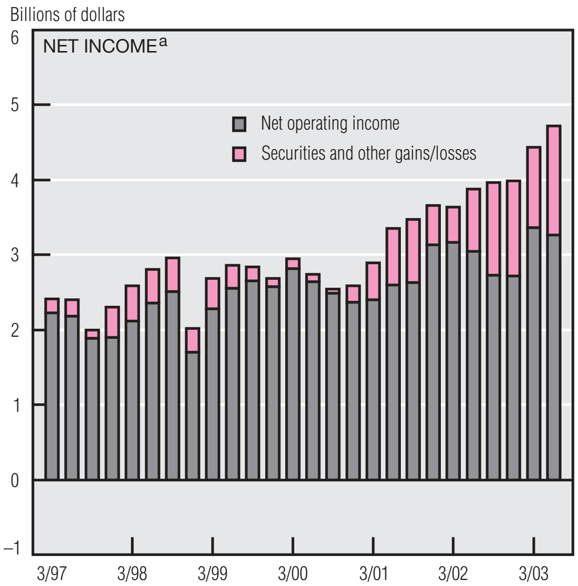
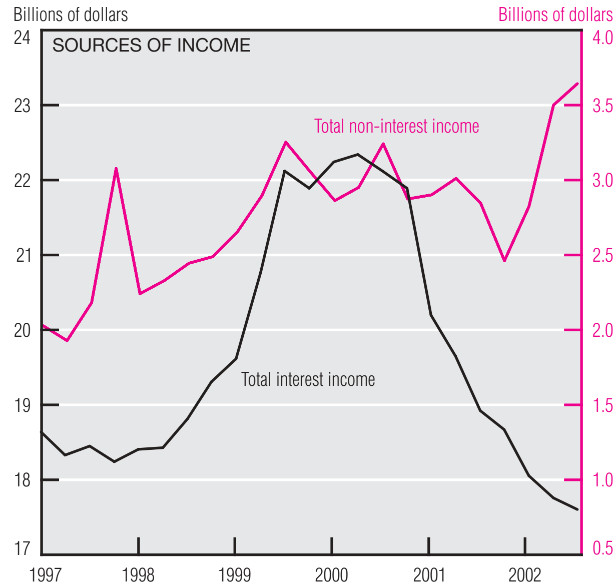
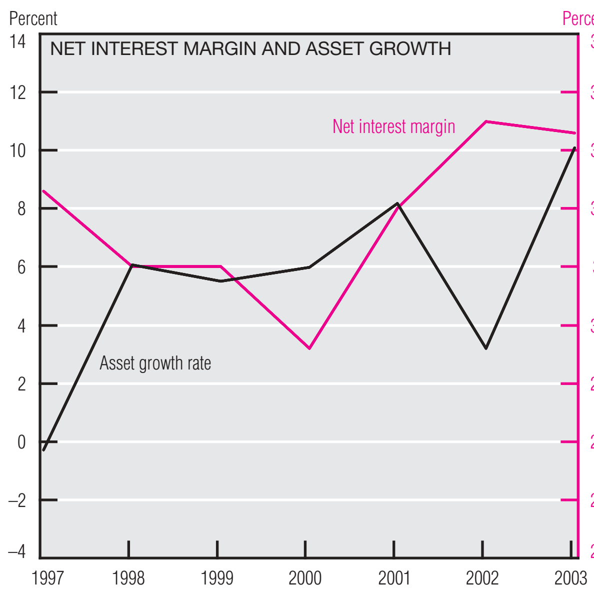
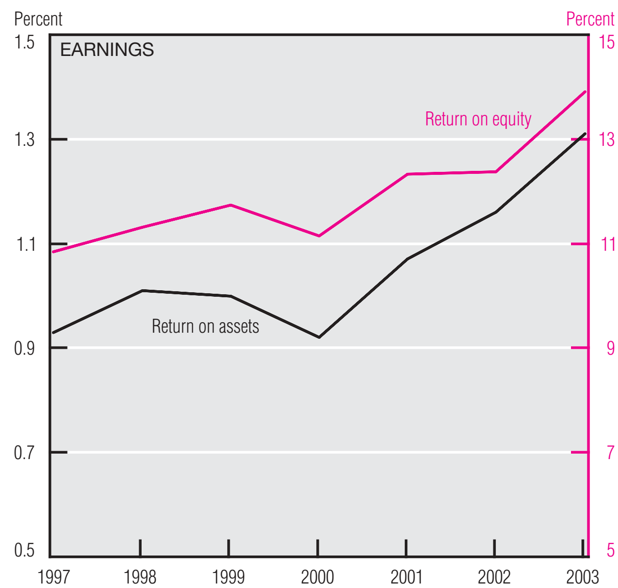
Depository Institutions









NOTE: Observations for 2003 are second-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 savings institutions reported net income of $4.72 billion for 2003:IIQ, $838 million (21.6%) higher than the same quarter a year earlier. Compared to 2003:IQ, this was an increase of $281 million. As in previous quarters, net income was buttressed by one-time gains on the sale of securities, to the tune of $1.45 billion.

S&Ls' non-interest (fee) income stood at $3.64 billion, 28.0% higher than a year earlier. Total interest income continued to fall, reaching a level 6.9% lower than a year earlier. However, the process of re-pricing S&Ls' loan portfolios seems to have been completed toward the end of 2003:IQ. This adjustment resulted in a modest (2.3%) increase in net interest income between 2002:IIQ and 2003:IIQ because reductions in interest income from lending were nearly matched by declines in borrowing costs.

Overall earnings performance continued to be strong despite a small drop in the net interest margin (calculated as interest and dividends earned on interest-bearing assets minus interest paid to depositors and creditors, expressed as a percentage of average earning assets). S&Ls' net interest margin declined slightly from 3.35% in 2002 to 3.33% in 2003. Although S&Ls' assets grew at a rate of 10.08% on a year-over-year basis, their net income grew at a 21.6% rate

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Depository Institutions *(cont.)*

NOTE: Observations for 2003 are second-quarter annualized data.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

over the same period, raising the return on assets to 1.31% and the return on equity to 13.91%.

In 2003:IIQ, net loans and leases as a share of total assets (65.8%) were up slightly from the previous quarter. This is lower than its recent high of 67.9% in 2000:IIIQ, indicating a continued decline in S&Ls' direct loan holdings.

Asset quality showed mixed signs in 2003:IIQ. Net charge-offs (gross charge-offs minus recoveries) rose to 0.31%. Problem assets (non-current assets plus other real estate) made up 0.64% of total assets, which represented only a slight decrease in the problem asset ratio from its 2002 level of 0.69%.

However, asset quality is not a significant problem for FDIC-insured saving institutions. Problem S&Ls (those with substandard exam ratings) declined significantly to 0.84% in 2003:IIQ from 1.16% in 2002. The percent of unprofitable institutions has been falling and now is 4.95%. The coverage ratio stands at $1.08 in loan loss reserves for every dollar of non-current loans. The increase in the coverage ratio since the previous quarter resulted from a $231 million increase in loan loss reserves, coupled with a $288 million decline in non-current loans during the same period. Core capital, which protects savings institutions against unexpected losses, decreased to 8.03% in 2003:IIQ from 8.06% in 2002.