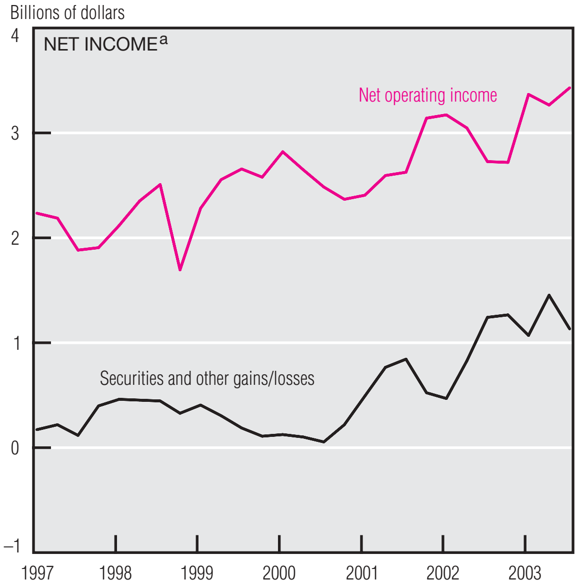
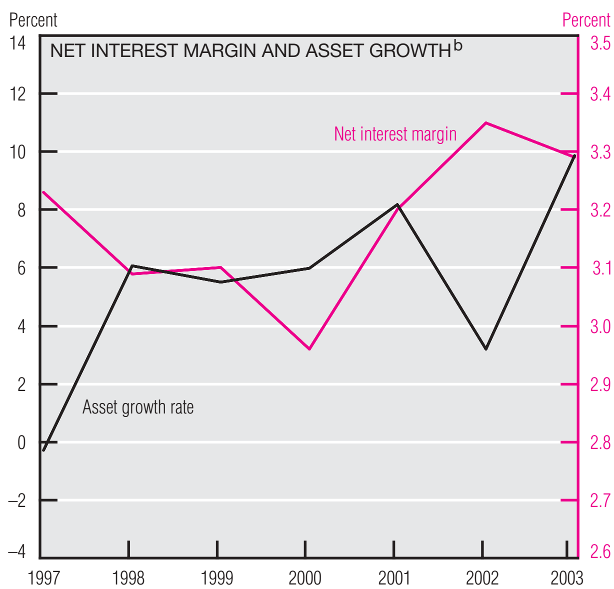
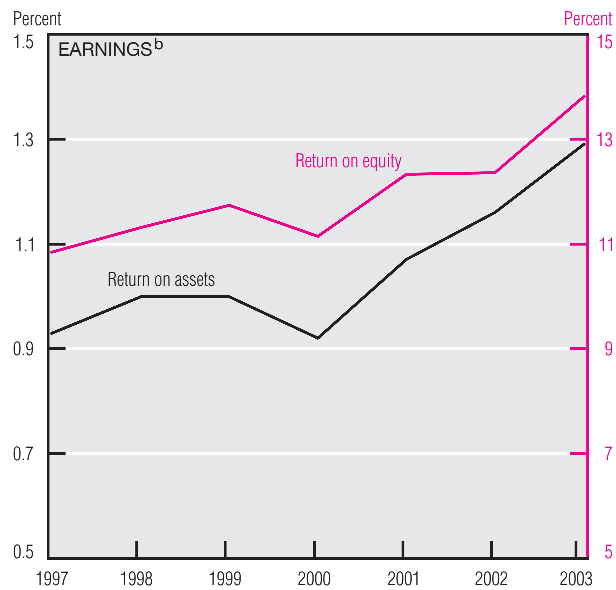
Savings Institutions







a. Net income equals net operating income plus securities and other gains and losses.
b. Data for 2003 are annualized based on the first three quarters.
SOURCES: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

FDIC-insured savings institutions (S&Ls) reported net income of $4.56 billion for 2003:IIIQ. This was $590 million (14.9%) higher than a year earlier but $152 million lower than the second quarter. As in previous quarters, net income was buttressed by one-time gains on the sale of securities—to the tune of $1.13 billion.

S&Ls' noninterest (fee) income stood at $4.06 billion, up 64.7% from a year earlier. Their total interest income of $17.1 billion is far below the recent high of $22.3 billion in the first quarter of 2001 and 8.1% lower than a year ago. However, the process of repricing S&Ls' loan portfolios seems to have been completed around the end of 2003:IQ. In the face of this portfolio adjustment, net interest income has increased only 2.1% over the past year, because reductions in interest income from lending have been nearly matched by declines in borrowing between 2002:IIIQ and 2003:IIIQ.

Although the net interest margin declined slightly to 3.29% from its recent peak of 3.35% at the end of 2002, overall earning performance continued to be strong. (The net interest margin is calculated as interest and 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 income grew at a 14.9% rate on a year-over-year basis, outstripping the relatively robust asset growth of 9.86% for the same period. As a result, S&Ls'

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Savings Institutions *(cont.)*

NOTE: Observations are through 2003:IIIQ. Data are annualized.
SOURCES: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

return on assets continued its recent upward trend, rising to 1.29% in 2003:IIIQ. A similar picture emerges for return on equity, which reached 13.81% for the quarter.

In 2003:IIIQ, net loans and leases as a share of total assets rose slightly to 66.2% compared to the previous quarter. This share was less than its recent high of 67.9% in 2000:IIIQ, however, indicating a continued decline in savings institutions' direct holdings of loans.

Asset quality showed mixed signs in 2003:QIII. Net charge-offs (gross charge-offs minus recoveries) rose to 0.31%. Problem assets (noncurrent assets plus other real estate owned) made up 0.63% of total assets for the quarter, a slightly smaller share than the 0.69% posted in 2002.

However, asset quality is not currently a significant problem for FDIC-insured savings institutions. Problem S&Ls (those with substandard exam ratings) declined significantly to 0.77% in 2003:QIII compared to 1.16% in 2002. The percent of unprofitable institutions continued to fall, reaching 5.47%. The coverage ratio stood at $1.06 in loan loss reserves for every dollar of noncurrent loans. The slight increase in the coverage ratio compared to 2002 resulted from a $351 million increase in loan loss reserves and a $208 million decrease in noncurrent loans for the same period. In 2003:IIIQ, core capital, which protects savings institutions against unexpected losses, decreased to 7.89% from 8.06% in 2002.