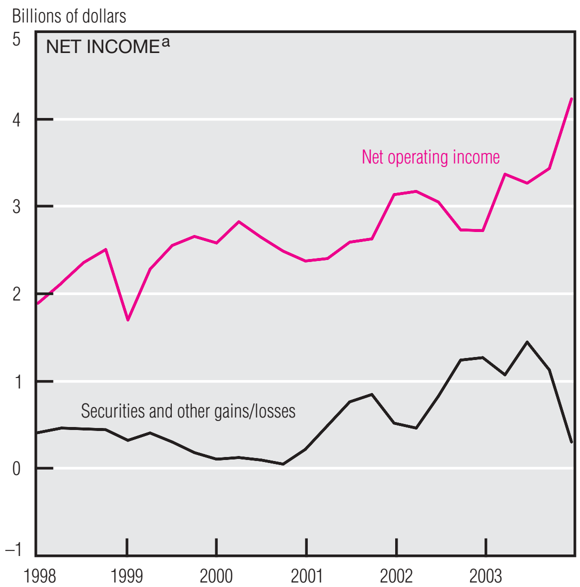
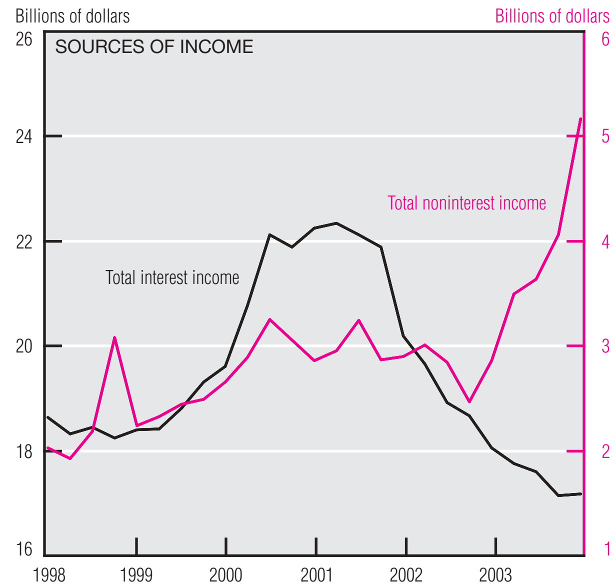
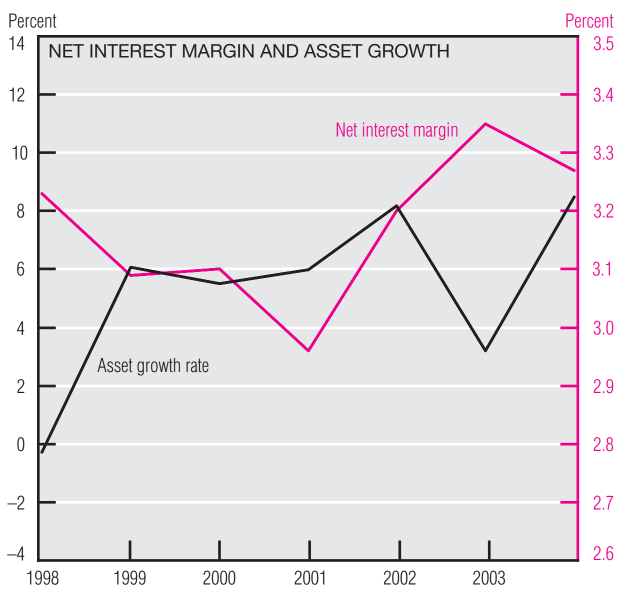
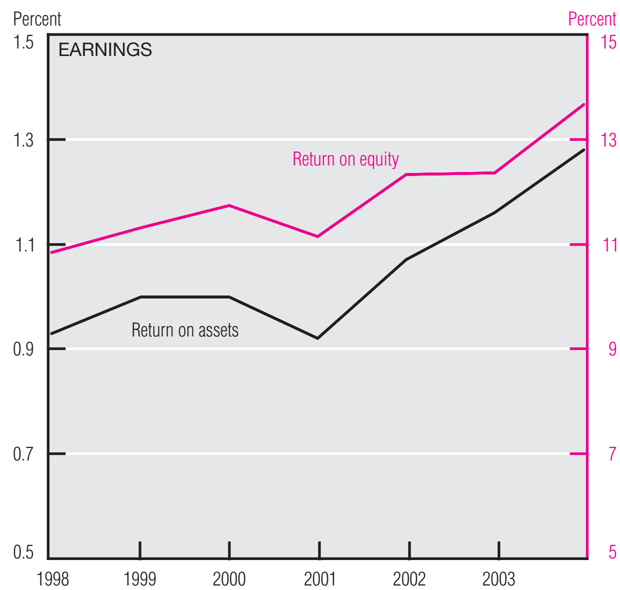
Savings Institutions









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 (S&Ls) reported net income of $4.53 billion for 2003:IVQ. This was $544 million higher than a year earlier but $33 million lower than the third quarter. One-time gains on securities sales were only $0.30 billion in 2003:IVQ, compared to $1.13 billion in 2003:IIIQ.

S&Ls' noninterest (fee) income stood at $5.17 billion, up 80.7% from a year earlier. Their total interest income of $17.2 billion is far below the recent high of $22.3 billion reached in 2001:IQ and 4.8% lower than a year earlier. However, they seem to have completed the process of repricing their loan portfolios around the end of 2003:IQ. In the face of this portfolio adjustment, net interest income has increased only 4.8% over the past year because reductions in interest income from lending were nearly matched by declines in borrowing between 2002:IVQ and 2003:IVQ.

Although the net interest margin declined slightly to 3.27% from the recent peak of 3.35% reached at the end of 2002, overall earnings 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 13.6% rate on a year-over-year basis, outstripping the relatively robust asset growth of 8.49% for the same period. As a result, S&Ls' return

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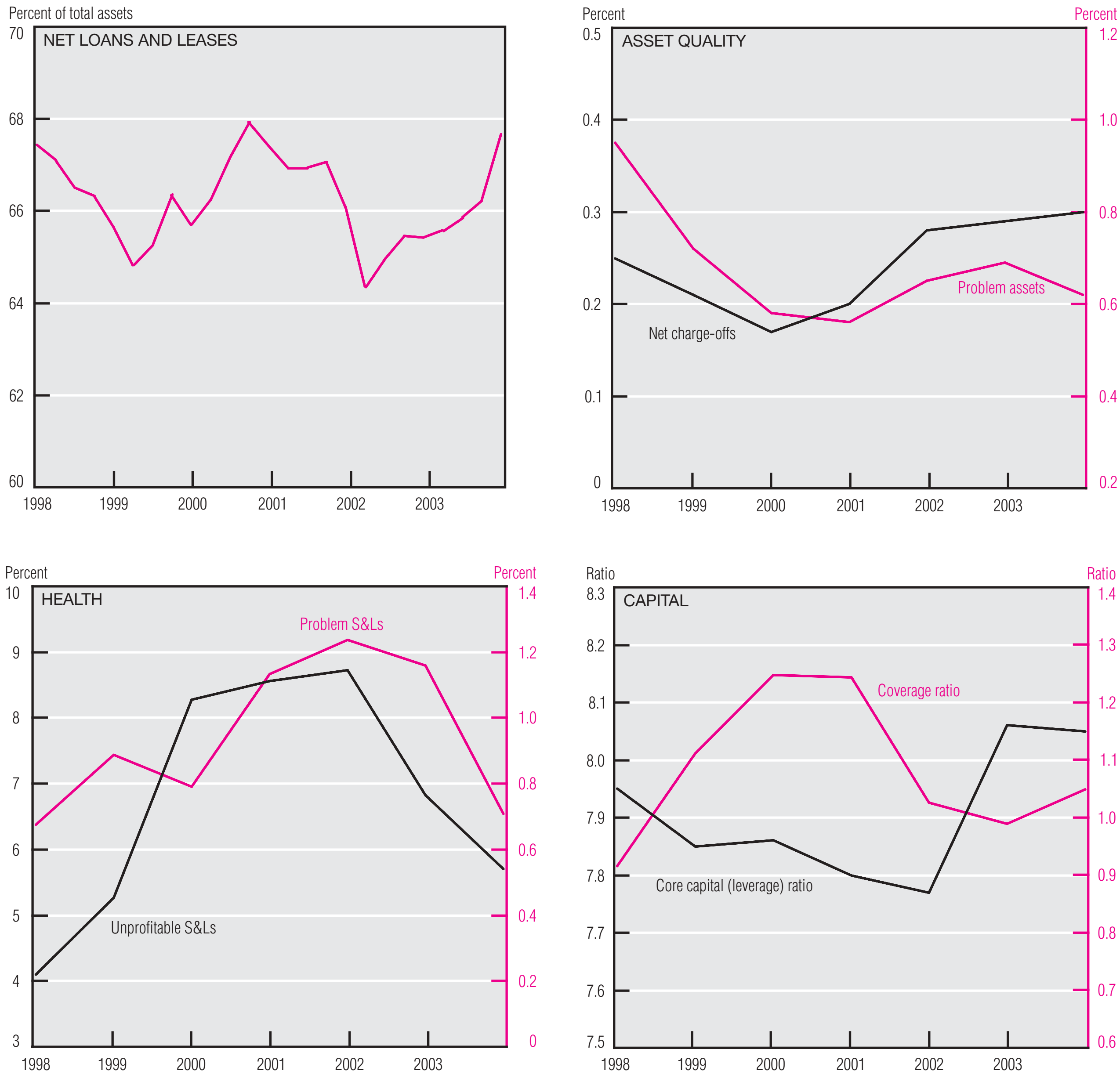

SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, various issues.

on assets continued its recent upward trend, rising to 1.28% in 2003:IVQ. A similar picture emerges for return on equity, which reached 13.66% for the quarter.

In 2003:IVQ, net loans and leases as a share of total assets reached 67.6%, up slightly from the previous quarter. This share was very close to its recent high of 67.9% in 2000:IIIQ, however, suggesting an end to the decline in savings institutions' direct holdings of loans.

Asset quality showed mixed signs in 2003:IVQ. Net charge-offs (gross charge-offs minus recoveries) rose to 0.30%. Problem assets (noncurrents assets plus other real estate) made up 0.62% of total assets for the quarter, which represented only a slight decrease in the problem asset ratio from its 2002 level of 0.69%.

However, asset quality is not currently a significant problem. Problem S&Ls (those with substandard exam ratings) declined significantly from 1.16% in 2002 to 0.71% in 2003:IVQ. The share of unprofitable institutions continued to fall, reaching 5.7%. The coverage ratio stands at $1.05 in loan loss reserves for every dollar of noncurrent loans. The slight increase in the coverage ratio between 2002 and 2003:IVQ resulted from a $185 million increase in loan loss reserves and a $307 million decrease in noncurrent loans during that period. In 2003:IVQ, core capital, which protects savings institutions against unexpected losses, decreased very slightly to 8.05% from 8.06% in 2002.