# An Update on Emerging Issues in Banking

**Ten Largest Thrift Companies:**
Earnings rebound sharply from the previous quarter.

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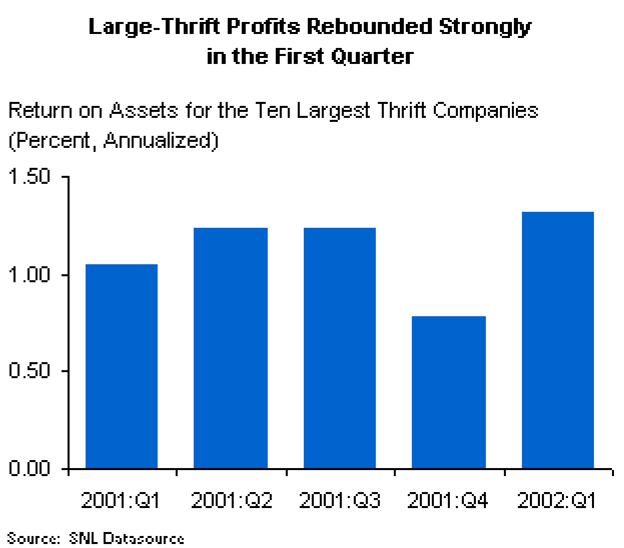
Earnings of the 10 largest thrift companies increased by $830 million in the first quarter of 2002, to $1.8 billion, from $982 million in the fourth quarter of 2001, when write-downs of intangible assets and large restructuring charges held down earnings. Losses on first-quarter securities sales limited the improvement in earnings. Earnings were also 47 percent higher than a year ago, when these thrifts' net income was $1.2 billion. The weighted-average return on assets (ROA) for these companies was 1.32 percent, up from 0.78 percent last quarter and 1.05 percent a year ago. Favorable interest rates led to a 6-basis-point improvement in net interest margins and helped produce a $412-million increase in net interest income. Growth in earning assets, partially from the consummation of a merger, also contributed significantly to this increase. Detailed aggregate and individual company information are available in the FDIC report, "Ten Largest Thrift Companies."

Chart 1




Noninterest income returned to a more normal level of $1.5 billion, following the fourth-quarter write-downs of mortgage servicing rights at several companies. Fourth-quarter earnings of the ten largest were also depressed by charges taken by one company as it eliminated a business line. Losses on securities sales were

$212 million this quarter compared to gains of $498 million in the fourth quarter.

Asset quality declined slightly with nonperforming assets growing by $399 million (10 percent) to 0.80 percent of assets in the first quarter, up from 0.78 percent in the fourth quarter. Net charge-offs rose $12 million (7 percent) to $185 million. The charge-off rate was 0.24 percent of average loans, up from 0.23 percent in the previous quarter. This modest decline in key asset quality measures continues an ongoing trend of lagged response by large thrifts to weakness in the economy.

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Chart 1

**Large-Thrift Profits Rebounded Strongly in the First Quarter**

| Year:Quarter | Return on Assets for the Ten Largest Thrift Companies (Percent, Annualized) |
|---|---|
| 2001:Q1 | 1.05 |
| 2001:Q2 | 1.23 |
| 2001:Q3 | 1.23 |
| 2001:Q4 | 0.78 |
| 2002:Q1 | 1.32 |