R&G FINANCIAL CORP
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ------------- TO -------------.

Commission file number: 000-21137

R&G FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Puerto Rico	66-0532217
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
280 Jesus T. Pinero Avenue Hato Rey, San Juan, Puerto Rico	00918
(Address of principal executive offices)	(Zip Code)

(787) 758-2424

(Registrant's telephone number, including area code)

Indicate by checkmark whether Registrant (a) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report (s) and (b) has been subject to such filing requirements for at least 90 days.

YES [X] NO [ ]

Number of shares of Class B Common Stock outstanding as of September 30, 2001: 14,693,700 (Does not include 16,233,056 Class A Shares of Common Stock which are exchangeable into Class B Shares of Common Stock at the option of the holder.)

R&G FINANCIAL CORPORATION

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PART I - FINANCIAL INFORMATION

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PART 1-FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS
R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

September 2001
(Unaudit

ASSETS	
Cash and due from banks	$ 5,38
Money market investments:	
Securities purchased under agreements to resell	81,62
Time deposits with other banks	
Federal funds sold	
Mortgage loans held for sale, at lower of cost or market	238,60
Mortgage-backed securities held for trading, at fair value	68,32
Trading securities pledged on repurchase agreements, at fair value	31,35
Mortgage-backed and investment securities available for sale, at fair value	1,325,45
Available for sale securities pledged on repurchase agreements	545,35
Mortgage-backed and investment securities held to maturity, at amortized cost (estimated market value: 2001 - $56,198,856; 2000 - $5,111,404)	55,99
Held to maturity securities pledged on repurchase agreements, at amortized cost (estimated market value: 2001 - $10,624,347; 2000 - $18,265,000)	10,67
Loans receivable, net	1,722,63
Accounts receivable, including advances to investors, net	21,73
Accrued interest receivable	34,03
Servicing asset	103,28
Premises and equipment	21,77
Other assets	31,80
	$ 4,298,04
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 1,874,68
Federal funds purchased	10,00
Securities sold under agreements to repurchase	1,184,65
Notes payable	200,63
Advances from FHLB	478,62
Other borrowings	8,20
Accounts payable and accrued liabilities	78,64
Other liabilities	9,12
	3,844,57
Stockholders' equity:	
Preferred stock, $.01 par value, 10,000,000 shares authorized:	
Non-cumulative perpetual:	
7.40% Monthly Income Preferred Stock, Series A, $25 liquidation value, 2,000,000 shares authorized, issued and outstanding	50,00
7.75% Monthly Income Preferred Stock, Series B, $25 liquidation value, 1,000,000 shares authorized, issued and outstanding	25,00
7.60% Monthly Income Preferred Stock, Series C, $25 liquidation value, 2,760,000 shares authorized, issued and outstanding	69,00
Common stock:	
Class A - $.01 par value, 40,000,000 shares authorized, 16,233,056 issued and outstanding in 2001 (2000-18,440,556)	16
Class B - $.01 par value, 40,000,000 shares authorized, 14,693,700 issued and outstanding in 2001 (2000-10,230,029)	14
Additional paid-in capital	69,77
Retained earnings	219,03
Capital reserves of the Bank	7,44
Accumulated other comprehensive income (loss)	12,90
	453,46
	$ 4,298,04

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The accompanying notes are an integral part of these statements.

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R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three month period ended September 30, 2001	2000
	(Unaudited) (Dollars in thousands	
Interest income:		
Loans	$ 40,509	42,337
Money market and other investments	8,075	6,676
Mortgage-backed securities	22,792	11,888
Total interest income	71,376	60,901
Interest expense:		
Deposits	22,242	21,439
Securities sold under agreements to repurchase	12,112	13,348
Notes payable	3,523	2,708
Other	5,603	7,528
Total interest expense	43,480	45,023
Net interest income	27,896	15,878
Provision for loan losses	(3,225)	(1,500)
Net interest income after provision for loan losses	24,671	14,378
Other income:		
Net gain on origination and sale of loans and sales of securities available for sale	17,314	11,407
Loan administration and servicing fees	8,339	7,730
Service charges, fees and other	3,089	1,784
	28,742	20,921
Total revenues	53,413	35,299
Operating expenses:		
Employee compensation and benefits	8,991	6,748
Office occupancy and equipment	4,270	3,375
Other administrative and general	16,716	10,260
	29,977	20,383
Income before income taxes and cumulative effect from change in accounting principle	23,436	14,916

Income tax expense:		
Current	4,795	2,712
Deferred	1,236	842
	6,031	3,554
Income before cumulative effect from change in accounting principle	17,405	11,362
Cumulative effect from change in accounting principle, net of income tax benefit of $206	--	--
Net income	$ 17,405	11,362
Earnings per common share before cumulative effect from change in accounting principle - Basic	$ 0.48	$ 0.35
Earnings per common share before cumulative effect from change in accounting principle - Diluted	$ 0.46	$ 0.34
Earnings per common share - Basic	$ 0.48	$ 0.35
- Diluted	$ 0.46	$ 0.34
Weighted average number of shares outstanding - Basic	30,895,298	28,663,526
- Diluted	31,639,707	29,314,874

The accompanying notes are an integral part of these statements.

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R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three month period ended September 30,	
	2001	2000
	(Unaudited) (Dollars in t	
Net income	$ 17,405	$ 11,362
Other comprehensive income, before tax:		
Unrealized gains (losses):		
Cash flow hedges	(5,216)	--
Investment securities:		
Arising during period	27,277	3,784
Less: Reclassification adjustments for (gains) losses		

included in net income	312	176
	27,589	3,960
	22,373	3,960
Income tax expense related to items of other comprehensive income	(8,725)	(1,544)
	13,648	2,416
Cumulative effect from change in accounting principle, net of income taxes of $745	--	--
Other comprehensive income, net of tax	13,648	2,416
Comprehensive income, net of tax	$ 31,053	$ 13,778

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine m
	2001
Cash flows from operating activities:	(Dol
Net income	$ 45,84
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	4,89
Amortization of premium on investment securities, net	34
Amortization and provision for impairment of servicing rights	11,90
Provision for loan losses	7,32
Provision for bad debts in accounts receivable	45
Gain on sales of loans	(79
(Gain) loss on sales of securities available for sale	(93
Unrealized profit on trading securities and derivative instruments, net	(55
Increase in mortgage loans held for sale	(200,99
Net (increase) decrease in mortgage-backed securities held for trading	(8,96
Increase in receivables	(10,38
Increase in other assets	(4,03
Increase in notes payable and other borrowings	96,65
Increase in accounts payable and accrued liabilities	15,69
Increase in other liabilities	3,64
Total adjustments	(85,74
Net cash used in operating activities	(39,90

Cash flows from investing activities:	
Purchases of investment securities	(567,26
Proceeds from sales of securities available for sale	205,90
Principal repayments and redemptions of investment securities	336,37
Proceeds from sales of loans	91,63
Net originations of loans	(532,98
Purchases of FHLB stock, net	(13,84
Acquisition of premises and equipment	(5,68
Acquisition of servicing rights	(20,11
Net cash used by investing activities	(505,98
Cash flows from financing activities:	
Increase in deposits - net	198,62
Decrease in federal funds purchased	(15,00
Increase in securities sold under agreements to repurchase - net	356,90
(Repayments) advances from FHLB, net	(26,37
Payments on term notes	(35,50
Proceeds from issuance of preferred stock	66,60
Proceeds from issuance of common stock	31,39
Cash dividends:	
Common stock	(5,64
Preferred stock	(7,20
Net cash provided by financing activities	563,80
Net increase (decrease) in cash and cash equivalents	17,91
Cash and cash equivalents at beginning of period	69,09
Cash and cash equivalents at end of period	$ 87,00
Cash and cash equivalents include:	
Cash and due from banks	$ 5,38
Securities purchased under agreements to resell	81,62
Time deposits with other banks	-
Federal funds sold	-
	$ 87,00

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

REPORTING ENTITY

The accompanying unaudited consolidated financial statements include the accounts of R&G Financial Corporation (the Company), a diversified financial services company, and its wholly-owned subsidiaries, R&G Mortgage Corp. ("R&G Mortgage"), a Puerto Rico corporation, R-G Premier Bank of Puerto Rico (the "Bank"), a commercial bank chartered under the laws of the Commonwealth of Puerto Rico, Home & Property Insurance Corp., a Puerto Rico corporation and insurance agency, and R-G Investments Corporation, a Puerto Rico corporation and broker-dealer.

The Company, currently in its 29th year of operations, operates R&G Mortgage, which is engaged primarily in the business of originating FHA-insured, VA-guaranteed, and privately insured first and second mortgage loans on residential real estate. R&G Mortgage pools loans into mortgage-backed securities and collateralized mortgage obligation certificates for sale to investors. After selling the loans, it retains the servicing function. R&G Mortgage is also a seller-servicer of conventional loans. R&G Mortgage is licensed by the Secretary of the Treasury of Puerto Rico as a mortgage company and is duly authorized to do business in the Commonwealth of Puerto Rico.

R&G Mortgage also originates FHA insured, VA guaranteed and privately insured first and second mortgage loans on residential real estate (1 to 4 families) through its wholly-owned subsidiary, Mortgage Store of Puerto Rico.

The Company also operates the Bank, which provides a full range of banking services, including residential, commercial and personal loans and a diversified range of deposit products through twenty-five branches located mainly in the northeastern part of the Commonwealth of Puerto Rico. The Bank also provides private banking and trust and other financial services to its customers. The Bank is subject to the regulations of certain federal and local agencies, and undergoes periodic examinations by those regulatory agencies.

The Bank also is engaged in the business of originating FHA insured, VA guaranteed and privately insured first and second mortgage loans on residential real estate (1 to 4 families) in the States of New York, New Jersey, Connecticut, North Carolina and Florida, through its wholly-owned subsidiary, Continental Capital Corporation ("Continental Capital").

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of September 30, 2001 and the results of operations and changes in its cash flows for the three and nine months ended September 30, 2001 and 2000.

The results of operations for the three and nine months periods ended September 30, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001. The unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2000.

BASIS OF CONSOLIDATION

All significant intercompany balances and transactions have been eliminated in the accompanying unaudited financial statements.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Statement of Financial accounting standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. Upon the adoption of this Statement, the Company recognized a gain of approximately $1.9 million as other comprehensive income in stockholders' equity related to derivative instruments that were designated as cash flow hedges, and a loss of approximately $529,000 in the income statement related to derivative instruments that did not qualify for hedge accounting.

NEW ACCOUNTING PRONOUNCEMENTS

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lives Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment, or in a distribution to owners or is classified as held for sale. This Statements is effective for fiscal years beginning after December 15, 2001. Management has determined the impact of this Statement will not have a material effect on the consolidated financial position or the future results of operations of the Company.

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Asset and for Long-Lived Assets to Be Disposed Of or SFAS No. 144 upon adoption.

The Company is required to adopt the provisions of SFAS No. 141 immediately and SFAS No. 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142.

Upon adoption on January 1, 2002, the Company expects to recognize a gain as the cumulative effect of a change in accounting principle related to negative goodwill currently existing from an acquisition in prior years of one of the Company's subsidiaries accounted for under the purchase method of accounting, however, the amounts involved are not material. The Company expects to have unamortized goodwill in the amount of $4.6 million, which will be subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill (including that related to negative goodwill) was $352,000 and $447,000 for the nine months ended September 30, 2001 and for the year ended December 31, 2000, respectively. Because of the extensive effort needed to comply with adopting Statement Nos. 141 and 142, it is not practicable to reasonably estimate the impact, after initial adoption, of these pronouncements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle subsequent to January 1, 2002.

NOTE 2 - EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per common share for the three and nine month periods ended September 30, 2001 and 2000 are computed by dividing net income for such periods by the weighted average number of shares of common stock outstanding during such periods. The weighted average of outstanding stock options granted in connection with the Company's Stock Option Plan are included in the weighted average number of shares for purposes of the diluted earnings per share computation (744,409 and 651,348 during the three month periods ended September 30, 2001 and 2000, respectively, and 728,045 and 654,017 during the nine month periods ended September 30, 2001 and 2000, respectively). No other adjustments were made to the computation of basic earnings per share to arrive at diluted earnings per share.

Dividends per share on common stock declared and paid by the Company were as follows:

Three month period ended September 30,		Nine month period ended September 30,	
2001	2000	2001	2000
$0.06775	$0.0565	$0.1915	$0.15025

NOTE 3 - INVESTMENT AND MORTGAGE-BACKED SECURITIES

The carrying value and estimated fair value of investment and mortgage-backed securities by category are shown below. The fair value of investment securities is based on quoted market prices and dealer quotes, except for the investment in Federal Home Loan Bank (FHLB) stock which is valued at its redemption value.

	September 30, 2001 (Unaudited)	Decembe 200
MORTGAGE-BACKED SECURITIES HELD FOR TRADING:		
GNMA certificates	$ 20,286,695	$ 12,03
FHLMC certificates	79,393,850	
	$ 99,680,545	$ 12,03

	September 30, 2001 Amortized cost	Fair value
	(Unaudited)	
MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE:		
CMO's, CMO residuals (interest only), interest only strips (IO's) and other mortgage-backed securities	$ 162,776,898	$ 168,857,299
FNMA certificates:		
Due from five to ten years	554,178	570,457
Due over ten years	301,223,686	307,805,478
	301,777,864	308,375,935
FHLMC certificates:		
Due within one year	3,463	3,651
Due from one to five years	88,258	89,409
Due from five to ten years	1,417,265	1,459,435
Due over ten years	389,291,864	397,200,008
	390,800,850	398,752,503
GNMA certificates:		
Due from one to five years	50,071	50,321
Due from five to ten years	8,345,285	8,306,638
Due over ten years	527,931,498	526,412,587
	536,326,854	534,769,546
	1,391,682,466	1,410,755,283
INVESTMENT SECURITIES AVAILABLE FOR SALE:		
U.S. Government and Agencies securities:		
Due within one year	9,600,000	9,863,140
Due from one to five years	54,959,086	56,217,540
Due from five to ten years	280,854,312	289,244,770
	345,413,398	355,325,450
Corporate debt obligations - Due from one to five years	43,688,842	44,908,636
FHLB stock	59,820,067	59,820,067
	448,922,307	460,054,153
	$1,840,604,773	$1,870,809,436

	September 30, 2001 Amortized cost	September 30, 2001 Fair value
	(Unaudited)	
MORTGAGE-BACKED SECURITIES HELD TO MATURITY:		
GNMA certificates:		
Due within one year	$ --	$ --
Due from five to ten years	7,146,854	7,031,160
Due over ten years	37,781,717	37,638,933
	44,928,571	44,670,093
FNMA certificates:		
Due over ten years	7,912,342	8,197,219
FHLMC certificates:		
Due over ten years	131,948	128,378
	52,972,861	52,995,690
INVESTMENT SECURITIES HELD TO MATURITY:		
Puerto Rico Government and Agencies obligations:		
Due from one to five years	2,280,000	2,302,800
Due from five to ten years	11,311,603	11,424,713
	13,591,603	13,727,513
Other	100,000	100,000
	13,691,603	13,827,513
	$ 66,664,464	$ 66,823,203

In addition to the investment and mortgage-backed securities pledged on repurchase agreements and reported as pledged assets in the statement of financial condition, at September 30, 2001 the Company had investment securities pledged as collateral on repurchase agreements where the counterparties do not have the right to sell or repledge the assets as follows:

Mortgage-backed and investment securities available for sale, at fair value

Mortgage-backed securities held to maturity, at amortized cost

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	September 2001 (Unaudit
Real estate loans:	
Residential - first mortgage	$ 994,16
Residential - second mortgage	33,82
Land	7,83
Construction	190,40
Commercial	348,86
	1,575,08
Undisbursed portion of loans in process	(91,39
Net deferred loan costs	39
	1,484,08
Other loans:	
Commercial	78,44
Consumer:	
Secured by deposits	29,09
Secured by real estate	89,42
Other	56,88
Unamortized interest	(13
	253,71
Total loans	1,737,80
Allowance for loan losses	(15,16
	$ 1,722,63

The changes in the allowance for loan losses follow:

Nine

	Se
	2001
	(U
	(Dolla
Balance, beginning of period	$ 11,600
Provision for loan losses	7,325
Transferred reserves	806
Loans charged-off	(4,961)
Recoveries	399
Balance, end of period	$ 15,169

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The following table sets forth the amounts and categories of R&G Financial's non-performing assets at the dates indicated.

	September 30
	2001
	(Dolla
Non-accruing loans:	
Residential real estate	$ 100,891
Residential construction	832
Commercial real estate	15,647
Commercial business	3,534
Consumer unsecured	403
Total	121,307
Accruing loans greater than 90 days delinquent:	
Residential real estate	--
Residential construction	--
Commercial real estate	--
Commercial business	391
Consumer	546
Total accruing loans greater than 90 days delinquent	937
Total non-performing loans	122,244
Real estate owned, net of reserves	9,160
Other repossessed assets	883
	10,043
Total non-performing assets	$ 132,287

Total non-performing loans as a percentage of total loans (1)	6.68
Total non-performing assets as a percentage of total assets	3.08
Allowance for loan losses as a percentage of total non-performing loans (2)	12.41
Allowance for loan losses as a percentage of total loans outstanding (2)	0.83
Net charge-offs to average loans outstanding	0.33

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(1) The increase in the ratio was mainly caused by loan securitizations during the last two quarters of 2000 and the first three quarters of 2001, which reduced the amount of loans held in portfolio which are considered in the calculation of the ratio. Without giving effect to loan securitizations, as of September 30, 2001 and December 31, 2000, the ratio of non-performing loans to total loans would have been 4.87% and 4.46%, respectively.

(2) Because of the nature of the collateral, R&G Financial's historical charge-offs with respect to residential real estate loans have been low. Excluding R&G Financial's residential loan portfolio, the allowance for loan losses to total loans and to total non-performing loans at September 30, 2001 and December 31, 2000 would have been 1.89% and 71.0%, respectively, and 1.61% and 73.7%, respectively.

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NOTE 5 - MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

	For the nine mo 2001
Balance at beginning of period	$ 95,078,530
Rights originated	19,002,167
Rights purchased	1,112,264
Scheduled amortization	(8,210,037)
Unscheduled amortization	(2,500,000)
Reserves for impairment	(1,194,000)

Balance at end of period	$ 103,288,924

The portion of the Company's mortgage loans servicing portfolio consisting of the servicing asset that was originated by the Company prior to the adoption of SFAS No. 122 is not reflected as an asset on the Company's Consolidated Financial Statements, and is not subject to amortization or impairment.

NOTE 6 - DEPOSITS

Deposits are summarized as follows:

	September 2001
	(Dol
Passbook savings	$ 133,0
NOW accounts	55,0
Super NOW accounts	150,8
Regular checking accounts (non-interest bearing)	78,6
Commercial checking accounts (non-interest bearing)	109,6
	394,1
Certificates of deposit:	
Under $100,000	510,2
$100,000 and over	831,6
	1,341,8
Accrued interest payable	5,6
	$ 1,874,6

NOTE 7 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS TO BUY AND SELL GNMA CERTIFICATES

As of September 30, 2001, the Company had open commitments to issue GNMA certificates of approximately $21.0 million.

COMMITMENTS TO SELL MORTGAGE LOANS

As of September 30, 2001 the Company had commitments to sell mortgage loans to third party investors amounting to approximately $181.2 million.

LEASE COMMITMENTS

The Company is obligated under several noncancellable leases for office space and equipment rentals, all of which are accounted for as operating leases. The leases expire at various dates with options for renewals.

OTHER

At September 30, 2001, the Company is liable under limited recourse provisions resulting from the sale of loans to several investors, principally FHLMC. The principal balance of these loans, which are serviced by the Company, amounts to approximately $581.0 million at September 30, 2001. Liability, if any, under the recourse provisions at September 30, 2001 is estimated by management to be insignificant.

NOTE 8 - SUPPLEMENTAL INCOME STATEMENT INFORMATION

Employee costs and other administrative and general expenses are shown in the Consolidated Statements of Income net of direct loan origination costs. Direct loan origination costs are capitalized as part of the carrying cost of mortgage loans and are offset against mortgage loan sales and fees when the loans are sold, or amortized as a yield adjustment to interest income on loans held for investment.

Total employee costs and other expenses before capitalization follows:

	(Unaudite		
	Three month period ended September 30,		
	2001	2000	
Employee costs	$ 14,811,263	$ 10,335,570	$
Other administrative and general expenses	$ 18,197,774	$ 11,337,002	$

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NOTE 9 - INDUSTRY SEGMENTS

The following summarized information presents the results of the Company's operations for its traditional banking and mortgage banking activities:

	Three month period ended September
	2001

	(Dollars in thousands)				
	Banking	Mortgage Banking	Other	Segment Totals	Banking
Revenues	$ 30,343	$ 21,923	$ 1,419	$ 53,685	$ 21,558
Non-interest expenses	12,947	17,396	320	30,663	9,543
Income before income taxes and cumulative effect from change in accounting principle	$ 17,396	$ 4,527	$ 1,099	$ 23,022	$ 12,015

	Nine month period ended Septe				
	2001				
	Banking	Mortgage Banking	Other	Segment Totals	Banking
Revenues	$ 77,793	$ 60,049	$ 3,561	$141,403	$ 55,562
Non-interest expenses	34,180	44,374	809	79,363	27,359
Income before income taxes and cumulative effect from change in accounting principle	$ 43,613	$ 15,675	$ 2,752	$ 62,040	$ 28,203

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

R&G Financial Corporation (the "Company") is a diversified financial holding company that, through its wholly-owned subsidiaries, is engaged in mortgage banking, banking, broker-dealer and insurance activities. Its mortgage banking activities include the origination, purchase, sale and servicing of mortgage loans on single-family residences, the issuance and sale of various types of mortgage-backed securities, the holding of mortgage loans, mortgage-backed securities and other investment securities for sale or investment, and the purchase and sale of servicing rights associated with such mortgage loans and, to a lesser extent, the origination of construction loans and mortgage loans secured by income producing real estate and land (the "mortgage banking business").

The Company is also engaged in providing a full range of banking services, including commercial banking services, corporate and construction lending, consumer lending and credit cards, offering a diversified range of deposit products and, to a lesser extent, trust and investment services through its private banking department.

R&G Financial is currently in its 29th year of operations. The Company is the second largest mortgage loans originator and servicer of mortgage loans on single family residences in Puerto Rico. R&G Financial's mortgage servicing portfolio increased to approximately $7.1 billion as of September 30, 2001, from $6.5 billion as of the same date a year ago, an increase of 8.8%. R&G Financial's strategy is to increase the size of its mortgage servicing portfolio by relying principally on internal loan originations. R&G Financial is experiencing strong growth in originations due to a strong housing market in Puerto Rico and continued branch expansion, together with low interest rates and state-of-the art technology.

As part of its strategy to maximize net interest income, R&G Financial maintains a loans portfolio of $1.7 billion, which consisted principally of residential real estate loans backed by a very strong housing market, and a substantial portfolio of mortgage-backed and investment securities. At September 30, 2001, the Company held securities available for sale with a fair market value of $1.9 billion, which included $1.4 billion of mortgage-backed securities of which $534.8 million consisted primarily of Puerto Rico GNMA securities, the interest on which is tax-exempt to the Company. These securities are generally held by the Company for longer periods prior to sale in order to maximize the tax-exempt interest received thereon.

A substantial portion of R&G Financial's total mortgage loan originations has consistently been comprised of refinance loans. R&G Financial's future results could be adversely affected by a significant increase in mortgage interest rates that reduces refinancing activity. However, the Company believes that refinancing activity is less sensitive to interest rate changes in Puerto Rico than in the mainland United States because a significant amount of refinance loans are made for debt consolidation purposes.

R&G Financial customarily sells or securitizes into mortgage-backed securities substantially all the loans it originates, except for certain non-conforming conventional mortgage loans and certain consumer, construction, land, and commercial loans which are held for investment and classified as loans receivable. At September 30, 2001 R&G Financial maintained a very low credit risk profile, as its loans receivable portfolio consisted principally of $1.1 billion in residential real estate.

At September 30, 2001 R&G Financial operated 25 banking and 34 mortgage banking branches in Puerto Rico and four mortgage offices in the US, with about 1,500 professionals.

FINANCIAL CONDITION

At September 30, 2001, total assets amounted to $4.3 billion, as compared to $3.5 billion at December 31, 2000. The $758.6 million or 21.4% increase in total assets was primarily the result of a $352.4 million or 23.2% increase in mortgage-backed and investment securities available for sale, a $101.3 million or 841.8% increase in mortgage-backed securities held for trading, a $43.1 million or 183.4% increase in mortgage-backed and investment

securities held to maturity, a $143.1 million or 149.6% increase in mortgage loans held for sale and a $91.4 million or 5.6% increase in loans receivable, net.

At September 30, 2001, deposits totaled $1.9 billion, an increase of $198.6 million or 11.9% when compared to December 31, 2000. In addition, at September 30, 2001, R&G Financial had $1.9 billion of borrowings (consisting of securities sold under agreements to repurchase, notes payable, FHLB advances and other borrowings), as compared to $1.5 billion at December 31, 2000. R&G Financial mainly utilized deposits (primarily retail certificates of deposits) and repurchase agreements to fund its growth in assets during the period.

At September 30, 2001, R&G Financial's allowance for loan losses totaled $15.2 million, which represented a $3.6 million or 30.8% increase from the level maintained at December 31, 2000. At September 30, 2001, R&G Financial's allowance represented approximately 0.83% of the total loan portfolio and 12.41% of total non-performing loans. However, excluding R&G Financial's residential loan portfolio, which has minimal charge-off experience, the allowance for loan losses to total loans and to total non-performing loans would have been 1.89% and 71.0%, respectively, at September 30, 2001. The increase in the allowance for loan losses reflects the increase in R&G Financial's commercial real estate and construction loan portfolio as well as the increase in R&G Financial non-performing loans during the year.

Non-performing loans amounted to $122.2 million at September 30, 2001, an increase of $62.9 million when compared to $59.4 million at December 31, 1999. However, $60.2 million or 96% of such increase consisted of residential mortgage loans, which resulted to a large extent from increased delays over the period in the foreclosure process in Puerto Rico. As noted above, because of the nature of the real estate collateral, R&G Financial has historically recognized a low level of loan charge-offs. R&G Financial's aggregate charge-offs amounted to 0.33% during the first three quarters of 2001, 0.17% during 2000 and 0.25% during 1999. Although loan delinquencies have historically been higher in Puerto Rico than in the United States, actual foreclosures and any resulting loan charge-offs have historically been lower than in the United States. While the ratio of non-performing loans to total loans increased from 5.52% at December 31, 2000 to 6.68% at September 30, 2001, the increase in the ratio was made larger than it would otherwise have been due to significant loan securitizations during the last two quarters of 2000 and the first three quarters of 2001, which reduced the amount of loans considered in the calculation of the ratio. Without giving effect to loan securitizations, as of September 30, 2001 and December 31, 2000, the ratio of non-performing loans would have been 4.87% and 4.46%, respectively.

Stockholders' equity increased from $308.8 million at December 31, 2000 to $453.5 million at September 30, 2001. The $144.7 million or 46.8% increase was due primarily to the issuance of 2,207,500 shares of Class B common stock in late June and early July 2001 for aggregate net proceeds of $31.1 million, the issuance of 2,760,000 shares of the Company's 7.60% Monthly Income Preferred Stock, Series C, in March 2001 for aggregate net proceeds of $66.6 million and the net income recognized, together with a $13.6 million increase in other comprehensive income during the period.

RESULTS OF OPERATIONS

During the three and nine months ended September 30, 2001, R&G Financial reported net income before the cumulative effect of a change in accounting principle of $17.4 million and $46.2 million, or $0.46 and $1.29 of earnings per diluted share, respectively, compared to $11.4 million and $31.6 million or $0.34 and $0.93 of earnings per diluted share for the respective comparative periods in 2000.

Net interest income increased by $18.1 million or 36.7% during the nine month period ended September 30, 2001 to $67.5 million, primarily due to an increase in the average balance of interest-earning assets, together with a 25 basis point increase in the net interest margin from 2.24% to 2.49%. With interest rates currently declining, R&G Financial expects a gradual improvement in its net interest margin, as evidenced by the improvement in its margin during the three month period ended September 30, 2001 as discussed below. The provision for loan losses amounted to $7.3 million during the nine months ended September 30, 2001, a 68.4% increase over the prior comparable period, as R&G Financial increased it general reserves reflecting the continued growth in commercial lending, which involves greater credit risk than residential lending.

R&G Financial also experienced an increase in non-interest income during the nine months ended September 30, 2001 over the prior comparable period. Net gain on sale of loans increased significantly, by $16.1 million or 57.0% over the prior comparable period, which was due both to the volume of loans originated and sold as well as increased profits made on loans sold. Loan administration and servicing fees also increased by $2.3 million or 10.2% over the comparable periods, due to the growth in the loan servicing portfolio, while other miscellaneous revenue sources increased $3.8 million or 72.7%, primarily as a result of the Company's fee-based insurance operations which began in late 2000.

Net interest income increased by $12.0 million or 75.7% to $27.9 million during the quarter ended September 30, 2001, due to an increase in the average balance of interest-earning assets, together with a 82 basis points increase in the net interest margin from 2.04% to 2.86%. Net gain on sale of loans increased 51.8% to $17.3 million during the three month ended September 30, 2001.

Total expenses increased by $16.9 million or 28.0% during the nine months ended September 30, 2001 over the prior comparable period, primarily due to a $10.7 million or 35.1% increase in other administrative and general expenses, primarily due to increased amortization of the Company's servicing asset and increased advertising expenses, to increase loan production. Employee compensation and benefits increased by $3.9 million or 19.5% associated with employees hired to accommodate increased loan production. These increases were accompanied by a $2.3 million or 23.5% increase in occupancy expenses.

Total expenses increased by $9.6 million or 47.1% during the three month period ended September 30, 2001 over the prior comparable period, due to a $6.5 million or 62.9% increase in other general and administrative expenses of which $3.2 million or 50% of such increase is related to increased amortization and reserves for impairment of the Company's servicing asset, a $2.2 million or 33.2% increase in employee compensation and benefits, and a $895,000 or 26.5% increase in occupancy expenses.

INTEREST RATE RISK MANAGEMENT

The following table summarizes the anticipated maturities or repricing or R&G Financial's interest-earning assets and interest-bearing liabilities as of September 30, 2001, based on the information and assumptions set forth in the notes below. For purposes of this presentation, the interest earning components of loans held for sale and mortgage-backed securities held in connection with the Company's mortgage banking business, as well as all securities held for trading, are assumed to mature within one year. In addition, investments held by the Company which have call features are presented according to their contractual maturity date.

	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	More Three to Fiv
			(Dollars in thousa	
Interest-earning assets(1):				
Loans receivable:				
Residential real estate loans	$ 35,020	$ 98,695	$ 222,065	$172
Construction loans	76,250	22,756	--	
Commercial real estate loans	348,862	--	--	
Consumer loans	50,428	36,891	51,476	23
Commercial business loans	60,397	7,982	8,684	1
Mortgage loans held for sale	31,361	32,088	72,159	55
Mortgage-backed securities(2)(3)	157,946	419,535	217,389	169
Investment Securities(3)	101,916	191,793	135,424	40
Other interest-earning assets(4)	81,627	--	--	
Total	$ 943,807	$ 809,740	$ 707,197	$462
Interest bearing liabilities:				
Deposits (5)				
NOW and Super NOW accounts	$ 10,380	$ 28,810	$ 31,670	$ 25
Passbook savings accounts	3,327	9,647	24,016	19
Regular and commercial checking	9,414	26,360	28,977	23
Certificates of deposit	372,626	657,982	96,477	209
FHLB advances	120,000	10,000	78,125	192
Securities sold under agreements to repurchase (6)	555,028	201,001	235,813	115
Other borrowings(7)	31,425	154,661	22,761	
Total	1,102,200	1,088,461	517,839	585
Effect of hedging instruments	(355,000)	--	210,000	65
	$ 747,200	$1,088,461	$ 727,839	$650
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 196,607	$(278,721)	$ (20,642)	$(187
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 196,607	$ (82,114)	$ (102,756)	$(290
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	-4.57%	-1.91%	-2.39%	-

(footnotes on following page)

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(1) Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather that in the period in which they are due, and fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, in each case as adjusted to take into account estimated prepayments.

(2) Reflects estimated prepayments in the current interest rate environment.

(3) Includes securities held for trading, available for sale and held to maturity.

(4) Includes securities purchased under agreement to resell, time deposits with other banks and federal funds sold.

(5) Does not include non-interest-bearing deposit accounts.

(6) Includes federal funds purchased.

(7) Comprised of warehousing lines, notes payable and other borrowings.

As of September 30, 2001, the Company had a one year negative gap of approximately $82.1 million which constituted 1.91% of total assets as such date, compared to a negative gap of approximately $477.8 million or 13.5% of total assets at December 31, 2000. R&G Financial's negative gap within one year at December 31, 2000 was due primarily to its large fixed-rate mortgage loans receivable portfolio held for investment and a portion of its portfolio of FHLB notes and other US agency securities which have call features but were not likely to be exercised by such agencies due to the actual interest rate environment. During the nine months ended September 30, 2001, the Company extended the maturity dates of certain borrowings into longer-term maturities at lower rates to take advantage of reductions in interest rates during the period. In addition, the Company entered into certain derivative instruments and increased its portfolio of investment securities held for trading, reducing its gap exposure. While the above table presents the Company's loans receivable portfolio held for investment purposes according to its maturity date, from time to time the Company may negotiate special transactions with FHLMC and/or FNMA or other third party investors for the sale of such loans. There can be no assurance, however, that the Company will be successful in consummating any such transactions.

The following table presents for the periods indicated R&G Financial's total dollar amount of interest from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities expressed both in dollars and rates, and the net interest margin. The table does not reflect any effect of income taxes. All average balances are based on the average of month-end balances for R&G Mortgage and average daily balances for the Bank in each case during the periods presented.

	For the three month perio			
	2001			
	Average Balance	Interest	Yield / Rate	Aver Bala
	(Dollars in thousan			
Interest-Earning Assets:				
Cash and cash equivalents(1)	$ 30,431	$ 324	4.26%	$ 1
Investment securities available for sale	420,479	6,851	6.52	32
Investment securities held to maturity	13,706	200	5.84	
Mortgage-backed securities held for trading	113,846	1,802	6.33	1
Mortgage-backed securities available for sale	1,208,431	20,255	6.70	71
Mortgage-backed securities held to maturity	48,868	735	6.02	2
Loans receivable, net (2)	2,011,547	40,509	8.06	1,97
FHLB of New York Stock	55,380	700	5.06	4
Total interest-earning assets	3,902,688	$ 71,376	7.32%	3,11
Non-interest-earning assets	310,280			22
Total assets	$4,212,968			$3,33
Interest-Bearing Liabilities:				
Deposits	$1,872,192	$ 22,242	4.75%	$1,56
Securities sold under agreements to repurchase (3)	1,098,472	12,135	4.42	80
Notes payable	280,165	3,523	5.03	18
Other borrowings(4)	433,739	5,580	5.15	45
Total interest-bearing liabilities	3,684,568	$ 43,480	4.72%	3,01
Non-interest-bearing liabilities	103,108			3
Total liabilities	3,787,676			3,05
Stockholders' equity	425,292			28
Total liabilities and stockholders' equity	$ 4,212,968			$3,33
Net interest income; interest rate spread (5)		$ 27,896	2.60%	
Net interest margin			2.86%	
Average interest-earning assets to average				

interest-bearing liabilities	105.92%

(footnotes on page 24)

	For the nine month period en			
	2001			
	Average Balance	Interest	Yield/ Rate	Av Ba
	(Dollars in thous			
Interest-Earning Assets:				
Cash and cash equivalents(1)	$ 37,109	$ 1,345	4.83%	$
Investment securities available for sale	394,164	19,770	6.69	
Investment securities held to maturity	7,506	325	5.77	
Mortgage-backed securities held for trading	108,557	5,117	6.28	
Mortgage-backed securities available for sale	1,114,439	54,343	6.50	
Mortgage-backed securities held to maturity	29,049	1,301	5.97	
Loans receivable, net (2)	1,866,557	114,292	8.16	1,
FHLB of New York Stock	49,933	2,243	5.99	
Total interest-earning assets	3,607,314	$ 198,736	7.35%	2,
Non-interest-earning assets	301,899			
Total assets	$3,909,213			$3,
Interest-Bearing Liabilities:				
Deposits	$1,773,775	$ 67,937	5.11%	$1,
Securities sold under agreements to repurchase (3)	973,255	36,717	5.03	
Notes payable	235,968	8,545	4.83	
Other borrowings(4)	446,538	18,053	5.39	
Total interest-bearing liabilities	3,429,536	$ 131,252	5.10%	2,
Non-interest-bearing liabilities	92,456			
Total liabilities	3,521,992			2,
Stockholders' equity	387,221			
Total liabilities and stockholders' equity	$3,909,213			$3,

Net interest income; interest rate spread (5)	$ 67,484	2.25%
Net interest margin		2.49%
Average interest-earning assets to average interest-bearing liabilities		105.18%

(footnotes on page 24)

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(1) Comprised of cash and due from banks, securities purchased under agreements to resell, time deposits with other banks and federal funds sold.

(2) Includes mortgage loans held for sale and non-accrual loans.

(3) Includes federal funds purchased.

(4) Comprised of long-term debt, advances from the FHLB of New York and other borrowings.

(5) Interest rate spread represents the difference between R&G Financial's weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities. Net interest margin represents net interest income as a percent of average interest-earning assets.

MORTGAGE LOAN SERVICING

The following table sets forth certain information regarding the mortgage loan servicing portfolio of R&G Financial for the periods indicated.

	At or fo
	2001
	(Do
Composition of Servicing Portfolio at period end:	
GNMA	$ 2,958,9
FNMA/FHLMC	2,337,5
Other mortgage loans (3)	1,808,2
Total servicing portfolio (3)	$ 7,104,7

Activity in the Servicing Portfolio:	
Beginning servicing portfolio	$ 6,634,0
Add: Loan originations and purchases	1,415,8
Servicing of portfolio loans acquired	1,3
Less: Sale of servicing rights(1)	(164,8
Run-offs(2)	(781,6
Ending servicing portfolio(3)	$ 7,104,7
Number of loans serviced	113,1
Average loan size	$
Average servicing fee rate	0.5

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(1) Includes loans sold, servicing released, by Continental Capital, totaling $164.9 million and $130.5 million in 2001 and 2000, respectively.

(2) Run-offs refers to regular amortization of loans, prepayments and foreclosures.

(3) At the dates shown, included $1.0 billion and $1.1 billion of loans serviced for the Bank, respectively, which constituted 14.1% and 17.4% of the total servicing portfolio, respectively.

Substantially all of the mortgage loans in R&G Financial's servicing portfolio are secured by single (one-to-four) family residences secured by real estate located in Puerto Rico. At September 30, 2001 less than 7% of the Company's mortgage servicing portfolio was related to mortgages secured by real property located outside Puerto Rico.

The Company reduces the sensitivity of its servicing income to increases in prepayment rates through a strong retail origination network that has increased or maintained the size of R&G Financial's servicing portfolio even during periods of high prepayments. In addition, a substantial portion of the Company's servicing portfolio consists of tax-exempt FHA/VA mortgage loans which carry lower interest rates than those on conventional loans, which tends to reduce risks related to R&G Financial's servicing portfolio. During the nine months ended September 30, 2001 the Company recognized $2.5 million of unscheduled amortization of mortgage servicing rights and made provisions for impairment of mortgage servicing rights of approximately $1.2 million. These amounts include $475,000 and $594,000 of unscheduled amortization and provisions for impairment, respectively, attributable to Continental Capital, the Company's wholly-owned mortgage banking subsidiary in the State of New York.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY - Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. It is management's policy to maintain greater liquidity than required in order to be in a position to fund loan purchases and originations, to meet withdrawals from deposit accounts, to make principal and interest payments with respect to outstanding borrowings and to make investments that take advantage of interest rate spreads. The Company monitors its liquidity in accordance with guidelines established by the Company and applicable regulatory requirements. The Company's need for liquidity is affected by loan demand, net changes in deposit levels and the scheduled maturities of its borrowings. The Company can minimize the cash required during the times of heavy loan demand by modifying its credit policies or reducing its marketing efforts. Liquidity demand caused by net reductions in deposits are usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB of New York and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally invested in short-term investments such as securities purchased under agreements to resell, federal funds sold and certificates of deposit in other financial institutions. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At September 30, 2001, the Company had $104.5 million in borrowings capacity under unused warehousing and other lines of credit, $560.5 million in borrowings capacity under unused lines of credit with the FHLB of New York and $15 million under unused federal funds lines of credit. The Company has generally not relied upon brokered deposits as a source of liquidity.

At September 30, 2001, the Company had outstanding commitments to originate and/or purchase mortgage and non-mortgage loans of $154.0 million (including unused lines of credit). Certificates of deposit which are scheduled to mature within one year totaled $1.0 billion at September 30, 2001, and borrowings that are scheduled to mature within the same period amounted to $1.0 billion. The Company anticipates that it will have sufficient funds available to meet its current loan commitments.

CAPITAL RESOURCES - The FDIC's capital regulations establish a minimum 3.0 % Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier 1 leverage ratio for such other banks from 4.0% to 5.0% or more. Under the FDIC's regulations, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain purchased mortgage servicing rights.

The FDIC also requires that banks meet a risk-based capital standard. The risk-based capital standard for banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At September 30, 2001, the Bank met each of its capital requirements, with Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios of 6.67%, 12.00% and 12.73%, respectively.

In addition, the Federal Reserve Board has promulgated capital adequacy guidelines for bank holding companies which are substantially similar to those adopted by FDIC regarding state-chartered banks, as described above. The Company is currently in compliance with such regulatory capital requirements.

INFLATION AND CHANGING PRICES

The unaudited consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars (except with respect to securities which are carried at market value), without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements made in this Form 10-Q that relate to future events are made pursuant to the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon current expectations and R&G Financial assumes no obligation to update this information. Because actual results may differ materially from expectations, R&G Financial cautions readers not to place undue reliance on these statements. A number of factors, including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, and competition, could cause actual results to differ materially from historical results and those presently anticipated or projected. For a detailed discussion of the important factors affecting R&G Financial, please see the Company's Form 10-K for the year ended December 31, 2000 and Form 10-Q for the quarters ended March 31 and June 30, 2001 filed with the Securities and Exchange Commission.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risks at December 31, 2000 are presented in Item 7A of the Company's Annual report on Form 10-K. Information at September 30, 2001 is presented on page 19 of this Report. Management believes there have been no material changes in the Company's market risk since December 31, 2000.

PART II - OTHER INFORMATION

ITEM 1: Legal Proceedings

The Registrant is involved in routine legal proceedings occurring in the ordinary course of business which, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Registrant.

ITEM 2: Changes in Securities

Not applicable

ITEM 3: Defaults Upon Senior Securities

Not applicable

ITEM 4: Submission of Matters to a Vote of Security Holders

Not applicable

ITEM 5: Other Information

Not applicable

ITEM 6: Exhibits and Reports on Form 8-K

a) Exhibits

EXHIBIT NO.	EXHIBIT
2.0	Amended and Restated Agreement and Plan of Merger by between R&G Financial Corporation, the Bank and R-G Premier Bank, dated as of September 27, 1996(1)
3.1	Certificate of Incorporation of R&G Financial Corpor
3.2.1	Amended and Restated Certificate of Incorporation of Financial Corporation(4)
3.2.2	Certificate of Amendment to Amended and Restated Cer of R&G Financial Corporation(9)
3.3	Bylaws of R&G Financial Corporation(2)
3.4	Certificate of Resolutions designating the terms of Series A Preferred Stock(6)
3.5	Certificate of Resolutions designating the terms of Series B Preferred Stock(7)
3.6	Certificate of Resolutions designating the terms of Series C Preferred Stock(8)
4.0	Specimen of Stock Certificate of R&G Financial Corpo

4.1	Form of Series A Preferred Stock Certificate of R&G Corporation(3)
4.2	Form of Series B Preferred Stock Certificate of R&G Corporation(5)
4.3	Form of Series C Preferred Stock Certificate of R&G Corporation(8)
10.1	Master Purchase, Servicing and Collection Agreement R&G Mortgage and the Bank dated February 16, 1990, a on April 1, 1991, December 1, 1991, February 1, 1994 July 1, 1994(2)
10.2	Master Custodian Agreement between R&G Mortgage and dated February 16, 1990, as amended on June 27, 1996
10.3	Master Production Agreement between R&G Mortgage and dated February 16, 1990, as amended on August 30, 19 March 31, 1995(2)
10.4	Data Processing Computer Service Agreement between R Mortgage and R-G Premier Bank dated December 1, 1994
10.5	Securitization Agreement by and between R&G Mortgage Bank, dated as of July 1, 1995(2)
10.6	R&G Financial Corporation Stock Option Plan(2)(*)

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(1) Incorporated by reference from the Registration Statement on Form S-4 Registration No. 333-13199) filed by the Registrant with the Securities and Exchange Commission ("SEC") on October 1, 1996.

(2) Incorporated by reference from the Registration Statement on Form S-1 (Registration No. 333-06245) filed by the Registrant with the SEC on June 18, 1996, as amended.

(3) Incorporated by reference from the Registrant's Registration Statement on Form S-3 (Registration No. 333-60923), as amended, filed with the SEC on August 7, 1998.

(4) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on November 19, 1999.

(5) Incorporated by reference from the Registrant's Registration Statement on Form S-3 (Registration No. 333-90463), filed with the SEC on November 5, 1999.

(6) Incorporated by reference from the Registrant's Current Report on Form 8-K

filed with the SEC on August 31, 1998.

(7) Incorporated by reference from the Registrant's Form 10-K filed with the SEC on April 13, 2000.

(8) Incorporated by reference from Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (File No. 333-55834), filed with the SEC on March 7, 2001.

(*) Management contract or compensatory plan or arrangement.

(9) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on June 12, 2001.

b) Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

R&G FINANCIAL CORPORATION

Date: November 9, 2001

By: /S/ VICTOR J. GALAN

Victor J. Galan, Chairman
and Chief Executive Officer
(Principal Executive Officer)

By: /S/ JOSEPH R. SANDOVAL

Joseph R. Sandoval
Senior Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)