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R&G FINANCIAL CORP
Form 10-Q/A
October 02, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

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 check mark 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 NO

Number of shares of Class B Common Stock outstanding as of September 30, 2000: 10,225,696 (Does not include 18,440,556 Class A Shares of Common Stock which are exchangeable into Class B Shares of Common Stock at the option of the holder.)

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R&G FINANCIAL CORPORATION

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PART 1-FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

R&G FINANCIAL CORPORATION
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2000
	----- (Unaudited)
ASSETS	
Cash and due from banks	\$ 27,410,1
Money market investments:	

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Securities purchased under agreements to resell	6,163,2
Time deposits with other banks	12,921,1
Federal funds sold	
Mortgage loans held for sale, at lower of cost or market	115,143,8
Mortgage-backed securities held for trading, at fair value	11,901,0
Mortgage-backed securities available for sale, at fair value	940,887,1
Mortgage-backed securities held to maturity, at amortized cost (estimated market value: 2000 - \$20,350,936; 1999 - \$23,305,029)	20,500,8
Investment securities available for sale, at fair value	375,847,0
Investment securities held to maturity, at amortized cost (estimated market value: 2000- \$ 5,391,549; 1999- \$5,403,755)	5,432,1
Loans receivable, net	1,713,641,0
Accounts receivable, including advances to investors, net	17,253,6
Accrued interest receivable	27,257,9
Servicing asset	90,389,3
Premises and equipment	18,657,2
Other assets	25,616,1
	<hr/>
	\$ 3,409,021,9
	<hr/>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Deposits	\$ 1,582,358,2
Fed funds purchased	10,000,0
Securities sold under agreements to repurchase	838,201,6
Notes payable	161,533,0
Advances from FHLB	454,250,0
Other borrowings	9,133,7
Accounts payable and accrued liabilities	53,397,5
Other liabilities	6,380,0
	<hr/>
	3,115,254,3
	<hr/>

Stockholders'equity:

Preferred stock, \$.01 par value, 10,000,000 shares authorized:	
7.40% Monthly Income Preferred Stock, Series A, \$25 liquidation value, 2,000,000 shares authorized, issued and outstanding	50,000,0
7.75% Monthly Income Preferred Stock, Series B, \$25 liquidation value, 1,000,000 shares authorized, issued and outstanding	25,000,0
Common stock:	
Class A - \$.01 par value, 40,000,000 shares authorized, 18,440,556 issued and outstanding	184,4
Class B - \$.01 par value, 30,000,000 shares authorized, 10,225,696 issued and outstanding in 2000 (1999-10,217,731)	102,2
Additional paid-in capital	40,793,9
Retained earnings	179,330,3
Capital reserves of the Bank	5,095,6
Accumulated other comprehensive loss	(6,739,0)
	<hr/>
	293,767,6
	<hr/>
	\$ 3,409,021,9
	<hr/>

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,	
	2000	1999
	(Unaudited)	
	(Dollars in thousand)	
Interest income:		
Loans	\$42,337	\$31,659
Money market and other investments	6,676	3,006
Mortgage-backed securities	11,888	9,281
	-----	-----
Total interest income	60,901	43,946
	-----	-----
Interest expense:		
Deposits	21,439	14,114
Securities sold under agreements to repurchase	13,348	7,493
Notes payable	2,708	3,361
Other	7,528	3,174
	-----	-----
Total interest expense	45,023	28,142
	-----	-----
Net interest income	15,878	15,804
Provision for loan losses	(1,500)	(1,000)
	-----	-----
Net interest income after provision for loan losses	14,378	14,804
	-----	-----
Other income:		
Net gain on origination and sale of loans and sales of securities available for sale	11,407	8,674
Loan administration and servicing fees	7,730	6,535
Service charges, fees and other	1,784	1,434
	-----	-----
Total revenues	20,921	16,643
	-----	-----
	35,299	31,447
	-----	-----
Operating expenses:		
Employee compensation and benefits	6,748	6,182
Office occupancy and equipment	3,375	2,887
Other administrative and general	10,260	8,472
	-----	-----
	20,383	17,541
	-----	-----
Income before income taxes	14,916	13,906
	-----	-----
Income tax expense:		
Current	2,712	1,484
Deferred	842	2,305
	-----	-----
	3,554	3,789
	-----	-----
Net income	\$11,362	\$10,117
	=====	=====

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Earnings per common share - Basic	\$0.35	\$0.32
	-----	-----
- Diluted	\$0.34	\$0.31
	-----	-----
Weighted average number of shares outstanding - Basic	28,663,526	28,639,528
- Diluted	29,314,874	29,342,647

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 September 30	
	2000	1999
	-----	-----
	(Unaudited)	(Unaudited)
	(Dollars)	(Dollars)
Net income	\$ 11,362	\$ 11,362
Other comprehensive income, before tax:		
Unrealized gains (losses) on securities:		
Arising during period	3,784	(1,544)
Less: Reclassification adjustments for losses included in net income	176	
	3,960	
Income tax (expense) benefit related to items of other comprehensive income	(1,544)	
Other comprehensive income (loss), net of tax	2,416	
Comprehensive income, net of tax	\$ 13,778	\$ 11,362
	=====	=====

The accompanying notes are an integral part of these statements.

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R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

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Cash flows from operating activities:

Net income

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation and amortization

Amortization of premium on investments and mortgage-backed securities, net

Amortization of servicing rights

Provision for loan losses

Provision for bad debts in accounts receivable

Gain on sales of loans

Loss on sales of mortgage-backed and investment securities available for sale

Unrealized (profit) loss on trading securities

(Increase) decrease in mortgage loans held for sale

Net decrease (increase) in mortgage-backed securities held for trading

Increase in receivables

Increase in other assets

Increase (decrease) in notes payable and other borrowings

Increase in accounts payable and accrued liabilities

Increase in other liabilities

Total adjustments

Net cash (used in) provided by operating activities

Cash flows from investing activities:

Purchases of investment securities

Proceeds from sales and maturities of securities available for sale

Proceeds from maturities of securities held to maturity

Proceeds from sales of loans

Net originations of loans

Purchases of FHLB stock, net

Acquisition of premises and equipment

Acquisition of servicing rights

Net cash used by investing activities

Cash flows from financing activities:

Increase in deposits - net

(Decrease) increase in federal funds purchased

Increase in securities sold under agreements to repurchase - net

Advances from FHLB, net

Payments on term notes

Proceeds from issuance of common stock

Cash dividends:

Common stock

Preferred stock

Net cash provided by financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

Cash and cash equivalents include:

Cash and due from banks

Securities purchased under agreements to resell

Time deposits with other banks

Federal funds sold

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The accompanying notes are an integral part of these statements.

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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) and its wholly-owned subsidiaries, R&G Mortgage Corp. ("R&G Mortgage"), a Puerto Rico corporation, and R-G Premier Bank of Puerto Rico (the "Bank"), a commercial bank chartered under the laws of the Commonwealth of Puerto Rico.

The Company, currently in its 28th 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 is also engaged in the business of originating non-conforming conventional first mortgage loans on residential real estate (1 to 4 families), including B and C credit quality loans, through its wholly-owned subsidiary, Champion Mortgage Corporation.

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-three 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 State of New York 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, 2000 and the results of operations and changes in its cash flows for the three and nine months ended September 30, 2000 and 1999.

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The results of operations for the three and nine month periods ended September 30, 2000 are not necessarily indicative of the results to be expected for the year ending December 31, 2000. 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, 1999.

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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

In June 1998, the FASB issued SFAS No. 133- "Accounting for Derivative Instruments and Hedging Activities" and in June 2000 issued SFAS No. 138- "Accounting for Certain Derivative Instruments and Certain Hedging Activities."

These Statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statements require that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be designated and accounted as a hedge. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.

The Company is required to adopt SFAS No. 133 effective January 1, 2001. As of September 30, 2000, the Company's derivative instruments consist of interest rate swap agreements with aggregate notional amounts of \$140 million which are tied to specifically identified liabilities which will qualify as cash flow hedges under the provisions of SFAS No. 133, and certain caps purchased during the third quarter of 2000, with aggregate notional amounts of \$200 million. Due to the relatively limited extent to which the Company is using derivative instruments and the simple nature of the instruments used, management, based on presently available information, does not expect the impact of adoption to be significant.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share for the three and nine month periods ended September 30, 2000 and 1999 are computed by dividing net income for such periods by the weighted average number of shares of common stock outstanding during such periods. 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.

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.

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	September 30, 2000 ----- (Unaudited)	December 31, 1999 -----
Mortgage-backed securities held for trading:		
GNMA certificates	\$11,901,000 =====	\$43,563,811 =====

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	September 30, 2000 ----- (Unaudited)		December 31, 1999 -----
	Amortized cost -----	Fair value -----	Amortized cost -----
Mortgage-backed securities available for sale:			
CMO residuals and other mortgage-backed securities	\$ 22,187,166 -----	\$ 24,007,674 -----	\$ 20,709,000 -----
FNMA certificates:			
Due from five to ten years	649,319	636,942	740,000
Due over ten years	101,854,526 -----	101,437,977 -----	110,854,000 -----
	102,503,845 -----	102,074,919 -----	111,595,000 -----
FHLMC certificates:			
Due from one to five years	157,810	156,123	98,000
Due from five to ten years	1,641,586	1,611,460	1,891,000
Due over ten years	216,631,765 -----	216,317,654 -----	14,586,000 -----
	218,431,161 -----	218,085,237 -----	16,576,000 -----
GNMA certificates:			
Due from one to five years	25,587	25,440	
Due from five to ten years	11,032,910	10,969,570	
Due over ten years	594,444,560 -----	585,724,289 -----	570,748,000 -----
	605,503,057 -----	596,719,299 -----	570,748,000 -----
	\$948,625,229 =====	\$940,887,129 =====	\$719,629,000 =====
Investment securities available for sale:			
U.S. Treasury securities:			
Due within one year	\$ 5,000,000 -----	\$ 5,000,000 -----	\$ 4,998,000 -----
U.S. Government and Agencies securities:			

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Due within one year	6,000,000	5,888,500	
Due from one to five years	207,257,125	205,756,509	133,955
Due from five to ten years	120,839,492	119,142,083	92,236
	-----	-----	-----
	334,096,617	330,787,092	226,192
	-----	-----	-----
FHLB stock	40,059,967	40,059,967	32,825
	-----	-----	-----
	\$379,156,584	\$375,847,059	\$264,016
	=====	=====	=====

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	September 30, 2000		
	Amortized cost	Fair value	Am
	-----	-----	-----
	(Unaudited)		
Mortgage-backed securities held to maturity:			
GNMA certificates:			
Due within one year	\$5,825	\$6,247	
Due from one to five years	-	-	
Due from five to ten years	9,237,668	8,967,766	1
Due over ten years	1,867,575	1,787,452	
	-----	-----	-----
	11,111,068	10,761,465	1
	-----	-----	-----
FNMA certificates:			
Due over ten years	9,222,026	9,427,930	1
	-----	-----	-----
FHLMC certificates:			
Due over ten years	167,710	161,541	
	-----	-----	-----
	\$20,500,804	\$20,350,936	\$2
	=====	=====	=====
Investment securities held to maturity:			
Puerto Rico Government and Agencies obligations:			
Due from one to five years	\$1,800,000	\$1,786,500	\$
Due from five to ten years	3,632,199	3,605,049	
	-----	-----	-----
	\$5,432,199	\$5,391,549	\$
	=====	=====	=====

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NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

September 30, 2000	December 31, 1999
-----	-----
Unaudited)	

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Real estate loans:		
Residential - first mortgage	\$ 1,130,951,987	\$ 1,097,891,436
Residential - second mortgage	21,672,953	13,028,816
Land	4,606,068	1,952,043
Construction	127,731,837	78,104,787
Commercial	275,445,496	226,036,358
	-----	-----
	1,560,408,341	1,417,013,440
Undisbursed portion of loans in process	(57,553,039)	(33,526,181)
Net deferred loan costs (fees)	1,629,635	(436,852)
	-----	-----
	1,104,484,937	1,383,050,407
	-----	-----
Other loans:		
Commercial	55,014,864	54,230,506
Consumer:		
Secured by deposits	23,268,977	20,538,734
Secured by real estate	97,818,366	76,944,484
Other	44,558,041	37,653,140
Unamortized discount	(374,533)	(356,142)
Unearned interest	(72,583)	(83,722)
	-----	-----
	220,213,132	188,927,000
	-----	-----
Total loans	1,724,698,069	1,571,977,407
Allowance for loan losses	(11,057,048)	(8,970,605)
	-----	-----
	\$ 1,713,641,021	\$ 1,563,006,802
	=====	=====

The changes in the allowance for loan losses follow:

	Nine months ended September 30,	
	2000	1999
	-----	-----
	(Unaudited)	
	(Dollars in thousands)	
Balance, beginning of period	\$ 8,971	\$ 8,055
Provision for loan losses	4,350	3,400
Loans charged-off	(2,924)	(3,039)
Recoveries	660	594
	-----	-----
Balance, end of period	\$ 11,057	\$ 9,010
	=====	=====

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

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	September 30, 2000 -----	December 31, 1999 -----
	(Unaudited)	
	(Dollars in thousands)	
Non-accruing loans:		
Residential real estate	\$69,632	\$47,413
Residential construction	529	478
Commercial real estate	10,752	9,005
Commercial business	1,156	1,255
Consumer unsecured	843	802
Other	60	61
	-----	-----
Total	82,972	59,014
	-----	-----
Accruing loans greater than 90 days delinquent:		
Residential real estate	--	--
Residential construction	--	--
Commercial real estate	--	--
Commercial business	314	63
Consumer	236	274
	-----	-----
Total accruing loans greater than 90 days delinquent	550	337
	-----	-----
Total non-performing loans	83,522	59,351
	-----	-----
Real estate owned, net of reserves	7,753	5,852
Other repossessed assets	572	466
	-----	-----
Total non-performing assets	8,325	6,318
	-----	-----
Total non-performing loans as a percentage of total loans	4.69%	3.69%
	-----	-----
Total non-performing assets as a percentage of total assets	2.69%	2.26%
	-----	-----
Allowance for loan losses as a percentage of total non-performing loans	13.24%	15.11%
	-----	-----
Allowance for loan losses as a percentage of total loans outstanding	0.62%	0.56%
	-----	-----
Net charge-offs tgo average loans outstanding	0.16%	0.25%
	-----	-----

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NOTE 5 - MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

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	For the nine month period ended 2000	September 30, 1999
	-----	-----
	(Unaudited)	
Balance at beginning of period	\$84,252,506	\$58,221,052
Rights originated	8,312,646	11,698,042
Rights purchased	5,019,821	6,658,717
Scheduled amortization	(7,195,586)	(5,158,357)
	-----	-----
Balance at end of period	\$90,389,387	\$71,419,454
	=====	=====

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 30, 2000	December 31, 1999
	-----	-----
	(Unaudited)	
	(Dollars in Thousands)	
Passbook savings	\$ 113,560	\$ 113,576
	-----	-----
NOW accounts	38,894	38,765
Super NOW accounts	94,765	93,913
Regular checking accounts (non-interest bearing)	60,260	54,020
Commercial checking accounts (non-interest bearing)	73,149	103,575
	-----	-----
	267,068	290,273
	-----	-----
Certificates of deposit:		
Under \$100,000	465,198	390,315
\$100,000 and over	729,127	531,714
	-----	-----
	1,194,325	922,029
	-----	-----
Accrued interest payable	7,405	4,628
	-----	-----
	\$1,582,358	\$1,330,506
	=====	=====

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Commitments to buy and sell GNMA certificates

As of September 30, 2000, the Company had open commitments to issue GNMA certificates of approximately \$124.5 million.

Commitments to sell mortgage loans

As of September 30, 2000 the Company had commitments to sell mortgage loans to third party investors amounting to approximately \$14.4 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, 2000, 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 \$630.1 million at September 30, 2000. Liability, if any, under the recourse provisions at September 30, 2000 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:

	Three month period ended		(Unaudited)
	September 30,		
	2000	1999	
	-----	-----	
Employee costs	\$10,335,570	\$10,282,044	\$
Other administrative and general expenses	\$11,337,002	\$9,453,187	\$
	-----	-----	

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Set forth below are the direct loan origination costs that were capitalized as part of the carrying cost of mortgage loan inventory or offset against mortgage loan sales and fees and interest income.

	Three month period ended September 30,		Nine month p Septem
	2000	1999	2000
Offset against mortgage loan sales and fees	\$ 763,202	\$ 2,795,943	\$ 1,436,152
Offset against interest income on loans	\$ 608,022	\$ 776,065	\$ 2,192,003
Capitalized as part of loans held for sale and loans held for investment	\$ 3,294,554	\$ 1,509,523	\$10,825,107

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Item 2: Management's Discussion and Analysis

General

R&G Financial Corporation (the "Company") is a financial holding company that, together with its wholly-owned subsidiaries, is engaged in mortgage banking and banking 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, the purchase and sale of servicing rights associated with such mortgage loans (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, and trust and investment services, offering a diversified range of deposit products and private banking services.

R&G Financial is currently in its 28th 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 \$6.5 billion as of September 30, 2000, from \$5.5 billion as of the same date a year ago, an increase of 19.5%. R&G Financial's strategy is to increase the size of its mortgage servicing portfolio by relying principally on internal loan originations.

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As part of its strategy to maximize net interest income, R&G Financial maintains a substantial portfolio of mortgage-backed and investment securities. At September 30, 2000, the Company held securities available for sale with a fair market value of \$1.3 billion, which included \$940.9 million of mortgage-backed securities of which \$596.7 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 substantially all non-conforming conventional mortgage loans and certain consumer, construction, land, and commercial loans which are held for investment and classified as Loans Receivable.

Financial Condition

At September 30, 2000, the Company's total assets amounted to \$3.4 billion, as compared to \$2.9 billion at December 31, 1999. The \$497.0 million or 17.1% increase in total assets during the nine month period ended September 30, 2000 was attributable to a \$378.8 million or 17.0% increase in loans receivable, net, and mortgage-backed securities available for sale, which reflects net originations following repayments and sales, and the eventual securitization of these loans into mortgage-backed securities, and a \$117.7 million or 45.6% increase in investment securities available for sale, which is primarily the result of the purchase of \$107.9 million of such securities during the period.

The increase in the Company's assets were primarily funded by increased deposits of \$251.9 million or 18.9%, increased repurchase agreements of \$106.9 million or 14.6% and by a \$70.3 million or 18.3% increase in FHLB advances during the nine month period ended September 30, 2000.

At September 30, 2000, the Company's stockholders' equity amounted to \$293.8 million, which is an increase of \$24.2 million or 9.0% from the amount reported at December 31, 1999. The primary reason for the increase was the net income earned for the period, together with a \$1.1 million decrease in unrealized losses on securities available for sale, net of income tax benefits, which was partially offset by \$8.4 million in dividends paid during the period. At September 30, 2000, the Bank's leverage and Tier 1 risk-based capital amounted to 6.19% and 11.46% of adjusted total assets, respectively, compared to a 4.0% minimum requirement, and its total risk-based capital amounted to 12.23%, compared to an 8.0% minimum requirement.

Results of Operations

The Company reported net income of \$11.4 million and \$31.6 million during the three and nine months period ended September 30, 2000, as compared to \$10.1 million and \$33.1 million during the prior comparable periods.

Total revenues for the nine month period ended September 30, 2000 amounted to \$101.2 million compared to \$90.6 million for the prior comparable period. The 11.7% increase was due to an increase in net interest income of \$7.8 million or 18.8% during the nine months ended September 30, 2000 over the prior

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comparable period, primarily due to a \$34.3 million or 40.4% increase in interest income on loans, primarily associated with an increase in the average balance of the outstanding loan portfolio.

Contributing to the 11.7% increase in revenues during the nine month period ended September 30, 2000 was a \$3.8 million or 20.1% increase in loan administration and servicing fees due to an increase in the Company's loan servicing portfolio.

Total revenues for the quarter ended September 30, 2000 amounted to \$35.3 million, a \$3.9 million or 12.2% increase over the comparable quarter in 1999. The increase in total revenues during the 2000 quarter was primarily attributable to a \$2.7 million or 31.5% increase in net gain on origination and sale of loans, which reflects improved margins on the sale of loans to third party investors as a result of less volatility in interest rates for mortgage loans during the 2000 quarter, and a \$1.2 million or 18.3% increase in loan administration and servicing fees.

Total expenses increased by \$12.3 million or 25.8% during the nine months ended September 30, 2000 over the prior comparable period. The nine month period ended September 30, 2000 includes expenses associated with the operations of Continental Capital, the Bank's mortgage banking subsidiary in Long Island, New York, acquired in late 1999, which was a significant reason for the increase in expenses during the period. Excluding expenses associated with Continental Capital, expenses during the period increased by \$5.9 million or 12.4%, due primarily to a \$4.0 million or 17.1% increase in other miscellaneous expenses, mainly as a result of a \$2.0 million increase in amortization expenses of the Company's servicing asset. In addition, occupancy expenses increased by \$1.6 million or 19.4%, related to the operation of six additional branches completed during the latter part of 1999 and an additional branch completed in early 2000, while employee compensation and benefits increased by a mere \$355,000 or 2.2% in spite of the hiring of additional employees for new branch openings and the Company's commercial loan department expansion, in both instances after June of last year

Total expenses increased by \$2.8 million or 16.2% during the three month period ended September 30, 2000, including expenses associated with Continental Capital. Total expenses for the quarter ended September 30, 2000, excluding Continental Capital operations, increased by \$761,000 or 9.0% as compared to the prior comparable period. The increase was due to a \$343,000 or 11.9% increase in occupancy expenses, and a \$917,000 or 10.8% increase in other miscellaneous expenses, which was partially offset by a \$499,000 or 8.1% decrease in employee compensation and benefits, which decrease was achieved notwithstanding the hiring of new employees for new branch openings and expansion of the Company's commercial loan department after June 1999.

Total income tax expense decreased by \$235,000 or 6.2%, and \$222,000 or 2.3% during the three and nine month period ended September 30, 2000, respectively over the prior comparable periods. The Company's effective tax rate amounted to 24.0% and 22.9%, respectively, during the three and nine months periods ended September 30, 2000 compared to 27.2% and 22.4% in the 1999 comparable periods. The decrease in the Company's effective tax rate during the quarter ended September 30, 2000 is primarily related to certain tax credits recorded in the third quarter of 2000 related to the implementation of certain tax strategies of the Company in such period.

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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

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of September 30, 2000, 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 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.

(Dollars in Thousands)	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	More Than Three to Five Years
Interest-earning assets(1):				
Loans receivable:				
Residential real estate loans	\$39,781	\$110,557	\$248,372	\$1,000,000
Construction loans	45,118	11,218	13,843	1,000,000
Commercial real estate loans	271,299	918	983	1,000,000
Consumer loans	36,889	36,513	52,671	1,000,000
Commercial business loans	32,863	9,337	11,064	1,000,000
Mortgage loans held for sale	17,927	48,922	48,295	1,000,000
Mortgage-backed securities(2) (3)	90,575	484,575	94,579	1,000,000
Investment Securities(3)	65,134	121,548	144,283	1,000,000
Other interest-earning assets(4)	19,084	--	--	1,000,000
Total	\$618,670	\$823,588	\$614,090	\$3,000,000
Interest bearing liabilities:				
Deposits (5)				
NOW and Super NOW accounts	\$6,132	\$18,793	\$20,659	\$1,000,000
Passbook savings accounts	2,838	8,232	20,498	1,000,000
Regular and commercial checking	7,222	18,599	20,442	1,000,000
Certificates of deposit	303,332	645,230	92,040	1,000,000
FHLB advances	359,250	5,000	--	1,000,000
Securities sold under agreements to repurchase (6)	848,202	--	--	1,000,000
Other borrowings(7)	135,167	25,000	10,500	1,000,000
Total	1,662,143	720,854	164,139	2,000,000
Effect of hedging instruments	(330,000)	40,000	210,000	2,000,000
	\$1,332,143	\$760,854	\$374,139	\$2,000,000
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	(\$713,473)	\$62,734	\$239,951	\$1,000,000
Cummulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	(\$713,473)	(\$650,739)	(\$410,788)	(\$3,000,000)

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Cummulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	(20.92)%	(19.08)%	(12.05)%

(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 than 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, 2000 and December 31, 1999, the Company had a one year negative gap of approximately \$650.7 million and \$691.8 million, respectively. R&G Financial's negative gap within one year is due primarily to its large fixed-rate mortgage loans receivable portfolio held for investment and its portfolio of FHLB notes and other US agency securities which have call features but are not likely to be exercised by such agencies due to the actual interest rate environment. 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.

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For the three month period

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2000

(Dollars in Thousands)	Average Balance	Interest	Yield / Rate	Av Ba
Interest-Earning Assets:				
Cash and cash equivalents(1)	\$17,094	\$291	6.81%	\$
Investment securities available for sale	324,333	5,640	6.96	1
Investment securities held to maturity	5,493	79	5.75	
Mortgage-backed securities held for trading	17,956	228	5.08	
Mortgage-backed securities available for sale	715,493	11,288	6.31	5
Mortgage-backed securities held to maturity	21,222	372	7.01	
Loans receivable, net (2)	1,972,807	42,337	8.58	1,4
FHLB of New York Stock	40,085	666	6.65	
Total interest-earning assets	3,114,483	\$60,901	7.82%	2,2
Non-interest-earning assets	225,467			1
Total assets	\$3,339,950			\$2,4
Interest-Bearing Liabilities:				
Deposits	\$1,568,110	\$21,439	5.47%	\$1,1
Securities sold under agreements to repurchase (3)	800,996	13,348	6.67	5
Notes payable	187,950	2,708	5.76	1
Other borrowings(4)	459,902	7,528	6.55	2
Total interest-bearing liabilities	3,016,958	\$45,023	5.97%	2,1
Non-interest-bearing liabilities	34,670			
Total liabilities	3,051,628			2,2
Stockholders' equity	288,322			2
Total liabilities and stockholders' equity	\$3,339,950			\$2,4
Net interest income; interest rate spread (5)		\$15,878	1.85%	
Net interest margin			2.04%	
Average interest-earning assets to average interest-bearing liabilities			103.23%	

(footnotes on page 21)

For the nine month period
2000

(Dollars in Thousands)	Average Balance	Interest	Yield / Rate
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Interest-Earning Assets:

Cash and cash equivalents (1)	\$15,001	\$732	6.50%	
Investment securities available for sale	289,265	15,174	6.99	
Investment securities held to maturity	5,435	237	5.81	
Mortgage-backed securities held for trading	20,706	891	5.74	
Mortgage-backed securities available for sale	702,921	32,903	6.24	
Mortgage-backed securities held to maturity	21,847	1,040	6.35	
Loans receivable, net (2)	1,849,630	119,115	8.58	1
FHLB of New York Stock	37,287	1,803	6.45	
<hr style="border-top: 1px dashed black;"/>				
Total interest-earning assets	2,942,092	\$171,895	7.79%	2
<hr style="border-top: 1px dashed black;"/>				
Non-interest-earning assets	236,340			
<hr style="border-top: 1px dashed black;"/>				
Total assets	\$3,178,432	\$2		

Interest-Bearing Liabilities:

Deposits	\$1,465,850	\$57,496	5.23%	\$1
Securities sold under agreements to repurchase (3)	747,268	35,597	6.35	
Notes payable	193,342	8,972	6.19	
Other borrowings (4)	432,248	20,459	6.31	
<hr style="border-top: 1px dashed black;"/>				
Total interest-bearing liabilities	2,838,708	\$122,524	5.75%	1
<hr style="border-top: 1px dashed black;"/>				
Non-interest-bearing liabilities	59,372			
<hr style="border-top: 1px dashed black;"/>				
Total liabilities	2,898,080	2		
<hr style="border-top: 1px dashed black;"/>				
Stockholders' equity	280,352			
<hr style="border-top: 1px dashed black;"/>				
Total liabilities and stockholders' equity	\$3,178,432	\$2		
<hr style="border-top: 1px dashed black;"/>				
Net interest income; interest rate spread (5)		\$49,371	2.04%	
		=====		
Net interest margin			2.24%	
			=====	
Average interest-earning assets to average interest-bearing liabilities			103.64%	
			=====	

(footnotes on following page)

-
- (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

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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 for the nine months ended September 30,	
	2000	1999
	-----	-----
	(Dollars in Thousands)	
Composition of Servicing Portfolio at period end:		
GNMA	\$ 3,004,759	\$ 2,630,922
FNMA/FHLMC	1,715,331	1,307,124
Other mortgage loans (3)	1,810,896	1,529,119
	-----	-----
Total servicing portfolio (3)	\$ 6,530,986	\$ 5,467,165
	=====	=====
Activity in the Servicing Portfolio:		
Beginning servicing portfolio	\$ 6,177,511	\$ 4,827,798
Add: Loan originations and purchases	937,852	1,184,844
Servicing of portfolio loans acquired	31,404	288
Less: Sale of servicing rights(1)	(171,578)	(--)
Run-offs(2)	(444,203)	(545,765)
	-----	-----
Ending servicing portfolio(3)	\$ 6,530,986	\$ 5,467,165
	=====	=====
Number of loans serviced	110,192	101,796
Average loan size	\$ 59	\$ 54
Average servicing fee rate	0.507%	0.533%

(1) Includes loans sold, servicing released, by Continental Capital totaling \$130.5 million.

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

(3) At the dates shown, included \$1.1 billion and \$913.0 million of loans serviced for the Bank, respectively, which constituted 17.4% and 16.7% 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, 2000 less than 8% 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

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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.

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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, 2000, the Company had \$283.4 million in borrowing capacity under warehousing and other lines of credit, \$718.3 million in borrowings capacity under a line of credit with the FHLB of New York and \$25 million under federal funds lines of credit. The Company has generally not relied upon brokered deposits as a source of liquidity.

At September 30, 2000, the Company had outstanding commitments to extend credit totaling \$35.2 million (excluding the undisbursed portion of loans in process). Certificates of deposit which are scheduled to mature within one year totaled \$937.4 million at September 30, 2000, and borrowings that are scheduled to mature within the same period amounted to \$1.4 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

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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

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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, 2000, 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 6.19%, 11.46% and 12.23%, 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

In addition to historical information, forward-looking statements are contained herein that are subject to risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause future results to vary from current expectations, include, but are not limited to, the impact of economic conditions (both generally and more specifically in the markets in which the Company operates), the impact of government legislation and regulation (which changes

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from time to time and over which the Company has no control), and other risks detailed in this Form 10-Q and in the Company's other Securities and Exchange Commission ("SEC") filings. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the SEC.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risks at December 31, 1999 are presented in Item 7A of the Company's Annual report on Form 10-K. Information at September 30, 2000 is presented on page 17 of this Report. Management believes there have been no material changes in the Company's market risk since December 31, 1999.

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.

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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

No.

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Financial Data Schedule

E-1

b) No Form 8-K reports were filed during the quarter.

SIGNATURES

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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: October 2, 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)