

R&G FINANCIAL CORP
Form 10-Q
November 14, 2002

Table of Contents

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, 2002

OR

o 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)

280 Jesús T. Piñero Avenue
Hato Rey, San Juan, Puerto Rico 00918

(I.R.S. Employer
Identification No.)

(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 NO

Number of shares of Class B Common Stock outstanding as of September 30, 2002: 19,432,687 (Does not include 14,553,056 Class A Shares of Common Stock which are exchangeable into Class B Shares of Common Stock at the option of the holder.)

TABLE OF CONTENTS

PART I-FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

CONSOLIDATED STATEMENTS OF INCOME

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Item 2: Management's Discussion and Analysis

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Item 4: Controls and Procedures

PART II OTHER INFORMATION

Item 1: Legal Proceedings

Item 2: Changes in Securities

Item 3: Defaults Upon Senior Securities

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

Item 5: Other Information

Item 6: Exhibits and Reports on Form 8-K

SIGNATURES

Guarantee Agreement

Table of Contents

R&G FINANCIAL CORPORATION

INDEX

	Page
Part I Financial Information	
Item 1.	
Consolidated Financial Statements	
3	
Consolidated Statements of Financial Condition as of September 30, 2002 (Unaudited) and December 31, 2001	
3	
Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2002 and 2001 (Unaudited)	
4	
Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2002 and 2001 (Unaudited)	
5	
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and 2001 (Unaudited)	
6	
Notes to Unaudited Consolidated Financial Statements	
7	
Item 2.	
Management's Discussion and Analysis	

19
Item 3.
Quantitative and
Qualitative
Disclosures about
Market Risk
29
Item 4. Controls
and Procedures
30
**Part II Other
Information**

Item 1. Legal
Proceedings
31
Item 2. Changes
in Securities
31
Item 3. Defaults
upon Senior
Securities
31
Item 4.
Submission of
Matters
31
Item 5. Other
Information
31
Item 6. Exhibits
and Reports on
Form 8-K
31
Signatures
33

Table of Contents**PART 1-FINANCIAL INFORMATION****ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS****R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	September 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Cash and due from banks		
\$100,576,752	\$79,223,030	
Money market investments:		
Securities purchased under agreements to resell		
15,023,590		
Time deposits with other banks		
82,594,524	63,477,978	
Mortgage loans held for sale, at lower of cost or market		
225,007,503	236,434,204	
Mortgage backed securities held for trading, at fair value		
52,196,068	75,796,172	
Trading securities pledged on repurchase agreements, at fair value		
21,743,310	18,151,659	
Mortgage backed and investment securities available for sale, at fair value		
1,874,881,933	1,566,895,312	
Available for sale securities pledged on repurchase agreements		
745,908,244	514,783,468	
Mortgage backed and investment securities held to maturity, at amortized cost (estimated market value: 2002 - \$30,947,229; 2001 - \$60,682,234)		
30,702,699	60,425,371	
Held to maturity securities pledged on repurchase agreements, at amortized cost (estimated market value: 2002 - \$47,676,359; 2001 - \$15,445,319)		
47,027,256	15,206,183	
Loans receivable, net		
2,625,828,191	1,802,388,064	
Accounts receivable, including advances to investors, net		
33,355,088	23,056,424	
Accrued interest receivable		
41,769,788	35,426,760	
Servicing asset		
147,553,664	105,146,902	

Premises and equipment		
	37,476,521	22,401,045
Other assets		
	103,843,045	30,557,544

	\$6,170,464,586	\$4,664,393,706
--	-----------------	-----------------

LIABILITIES AND STOCKHOLDERS
EQUITY

Liabilities:

Deposits		
	\$2,814,349,618	\$2,061,223,825
Securities sold under agreements to repurchase		
	1,509,275,666	1,396,938,849
Notes payable		
	196,330,499	195,586,855
Advances from FHLB		
	870,725,000	464,125,000
Other borrowings		
	10,376,164	7,971,888
Accounts payable and accrued liabilities		
	121,211,711	71,867,012
Other liabilities		
	9,661,996	7,559,690

	5,531,930,654	4,205,273,119
--	---------------	---------------

Stockholders equity:

Preferred stock, \$.01 par value, 20,000,000 shares authorized, non-cumulative perpetual monthly income preferred stock, \$25 liquidation value:		
---	--	--

7.40% Series A, 2,000,000 shares authorized,
issued and outstanding

50,000,000 50,000,000

7.75% Series B, 1,000,000 shares authorized,
issued and outstanding

25,000,000 25,000,000

7.60% Series C, 2,760,000 shares authorized,
issued and outstanding

69,000,000 69,000,000

7.25% Series D, 2,760,000 shares authorized,
issued and outstanding

69,000,000

Common stock:

Class A \$.01 par value, 40,000,000 shares
authorized, 14,553,056 issued and outstanding
in 2002 (2001-16,053,056)

145,531 160,531

Class B \$.01 par value, 60,000,000 shares
authorized, 19,432,687 issued and outstanding
in 2002 (2001-10,237,675)

194,327 152,413

Additional paid-in capital

114,914,423 71,254,084

Retained earnings

280,337,149 229,997,012

Capital reserves of the Bank

11,629,328 11,629,328

Accumulated other comprehensive income

18,313,174 1,927,219

638,533,932 459,120,587

\$6,170,464,586 \$4,664,393,706

Table of Contents

**R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME**

	Three month period ended September 30,		Nine month period ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
	(Dollars in thousands except for per share data)			

Interest income:

Loans	\$50,086	\$40,509	\$127,569	\$114,292
Money market and other investments	9,480	8,075	28,113	23,683
Mortgage-backed securities	29,346	22,792	83,564	60,761

Total interest income	88,912	71,376	239,246	198,736
-----------------------	--------	--------	---------	---------

Interest expense:

Deposits	23,826	22,242	65,416	67,937
Securities sold under agreements to repurchase	12,708	12,112	37,764	36,628
Notes payable	1,795	3,523	5,152	8,545
Other	9,273	5,603	21,550	18,142

Total interest expense
 47,602 43,480 129,882 131,252

Net interest income
 41,310 27,896 109,364 67,484
 Provision for loan losses
 (3,970) (3,225) (13,520) (7,325)

Net interest income after provision for loan losses
 37,340 24,671 95,844 60,159

Other income:

Net gain on origination and sale of loans
 24,380 17,314 57,841 44,301
 Loan administration and servicing fees
 11,193 8,339 30,817 25,031
 Service charges, fees and other
 4,539 3,089 12,471 8,994

40,112 28,742 101,129 78,326

Total revenues
77,452 53,413 196,973 138,485

Operating expenses:

Employee compensation and benefits
12,535 8,991 32,087 23,840
Office occupancy and equipment
5,138 4,270 14,106 12,291
Other administrative and general
27,712 16,716 61,681 41,040

45,385 29,977 107,874 77,171

Income before income taxes and cumulative effect from change in accounting principle
32,067 23,436 89,099 61,314

Income tax expense:

Current
5,880 4,795 18,575 12,006
Deferred
1,139 1,236 1,324 3,136

7,019 6,031 19,899 15,142

Income before cumulative effect from change in accounting principle
25,048 17,405 69,200 46,172
Cumulative effect from change in accounting principle, net of income tax benefit of \$206
(323)

Net income
\$25,048 \$17,405 \$69,200 \$45,849

Earnings per common share before cumulative effect from change
in accounting principle Basic
\$0.64 \$0.48 \$1.83 \$1.32

Earnings per common share before cumulative effect from change
in accounting principle Diluted
\$0.63 \$0.46 \$1.81 \$1.29

Earnings per common share Basic
\$0.64 \$0.48 \$1.83 \$1.31

Diluted
\$0.63 \$0.46 \$1.81 \$1.28

Weighted average number of
shares outstanding Basic
33,053,988 30,895,298 31,892,007 29,453,062
 Diluted
33,301,846 31,639,707 32,209,740 30,181,107

The accompanying notes are an integral part of these statements.

3,448 13,648 16,386 12,465
Cumulative effect from change in accounting
principle, net of income taxes of \$745
1,166

Other comprehensive income, net of tax
3,448 13,648 16,386 13,631

Comprehensive income, net of tax
\$28,496 \$31,053 \$85,586 \$59,480

The accompanying notes are an integral part of these statements.

Table of Contents**R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine month period ended September 30,	
	2002	2001
	(Unaudited)	
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$69,200	\$45,849
<hr/>		
<hr/>		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		
5,132	4,897	
Amortization of premium on investment securities, net		
3,042	349	
Amortization of servicing rights		
20,856	11,904	
Provision of reserves for impairment on servicing asset		
6,500		
Provision for loan losses		
13,520	7,325	
Provision for bad debts in accounts receivable		
450		
Gain on sales of loans		
(793)		
Gain on sales of mortgage-backed and investment securities available for sale		
(449)	(932)	
Unrealized profit on trading securities and derivative instruments		
(151)	(554)	
Increase in mortgage loans held for sale		
(54,181)	(200,990)	
Net decrease (increase) in mortgage-backed securities held for trading		
20,739	(8,968)	
Increase in receivables		

(13,896) (10,387)
 Increase in other assets
 (6,687) (4,039)
 (Decrease) increase in notes
 payable and other borrowings
 (21,852) 96,650
 Increase in accounts payable and
 accrued liabilities
 22,619 15,698
 Increase in other liabilities
 1,343 3,641

Total adjustments
 (3,465) (85,749)

Net cash provided by (used in)
 operating activities
 65,735 (39,900)

Cash flows from investing
 activities:

Purchases of investment securities
 (889,752) (567,260)
 Proceeds from sales of securities
 available for sale
 431,949 205,905
 Principal repayments on
 mortgage-backed securities and
 redemptions of investment
 securities
 581,476 336,375
 Net assets acquired, net of cash
 received
 (63,679)
 Proceeds from sales of loans
 91,631
 Net originations of loans
 (820,786) (532,983)
 Purchases of FHLB stock, net
 (19,171) (13,847)
 Acquisition of premises and
 equipment
 (6,796) (5,688)
 Acquisition of servicing rights

(37,285) (20,114)

Net cash used in investing
activities
(824,044) (505,981)

Cash flows from financing
activities:

Increase in deposits net
284,987 198,623
Decrease in federal funds
purchased
(15,000)
Increase in securities sold under
agreements to repurchase net
92,234 356,903
Advances from (repayments to)
FHLB, net
288,500 (26,375)
Repayment of term notes
(35,500)
Proceeds from issuance of
preferred stock
90,799 66,602
Proceeds from issuance of common
stock
46,096 31,391
Cash dividends:

Common stock
(7,876) (5,644)
Preferred stock
(10,984) (7,200)

Net cash provided by financing
activities
783,756 563,800

Net increase in cash and cash
equivalents
25,447 17,919
Cash and cash equivalents at
beginning of period
157,724 69,090

Cash and cash equivalents at end of
period
\$183,171 \$87,009

Cash and cash equivalents include:

Cash and due from banks
\$100,577 \$5,382
Securities purchased under
agreements to resell
81,627
Time deposits with other banks
82,594

\$183,171 \$87,009

The accompanying notes are an integral part of these statements.

Table of Contents

**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 Premier Bank of Puerto Rico (the Bank), a commercial bank, Crown Bank, F.S.B. (Crown Bank), a federal savings bank, R&G Mortgage Corp. (R&G Mortgage), a Puerto Rico mortgage banking corporation, R&G Investments Corporation, a Puerto Rico corporation and licensed securities broker-dealer, and Home & Property Insurance Corp., a Puerto Rico insurance agency. The Company, currently in its 30th year of operations, operates as a financial holding company pursuant to the provisions of the Gramm-Leach-Bliley Act of 1999, and is primarily engaged in banking, mortgage banking, and securities and insurance brokerage through its subsidiaries.

On June 7, 2002, the Company acquired The Crown Group, Inc., a Florida corporation, and its wholly-owned savings bank subsidiary, Crown Bank, F.S.B. (Crown Bank), hereinafter collectively referred to as Crown, for an aggregate of \$100.0 million in cash. The acquisition resulted in goodwill totaling approximately \$46.3 million which is included in other assets in the accompanying consolidated statement of financial condition as of September 30, 2002.

The Bank and Crown Bank provide a full range of banking services, including residential, commercial and personal loans and a diversified range of deposit products. The Bank operates through twenty-seven branches located mainly in the northeastern part of the Commonwealth of Puerto Rico, and Crown Bank operates in the Orlando and Tampa/St. Petersburg metropolitan areas through 14 full-service offices. The Bank also provides private banking, trust and other financial services to its customers. The Bank and Crown Bank are subject to the regulations of certain federal and local agencies, and undergoes periodic examinations by those regulatory agencies.

R&G Mortgage 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 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, The Mortgage Store of Puerto Rico. 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.

The Company also originates 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 Continental Capital Corp. (Continental Capital), a wholly-owned subsidiary of Crown Bank.

The Company also owns R&G Acquisition Holdings Corporation (RAC), a Florida corporation and savings and loan holding company, which is the parent of Crown Bank. In April 2002, RAC formed R&G Capital Trust I, a Delaware statutory business trust, which issued \$25.0 million of trust preferred securities in a private placement. Such securities are included within notes payable in the accompanying Consolidated Statements of Financial Condition. The Company has guaranteed certain obligations of RAC to R&G Capital Trust I.

Table of Contents

Effective July 12, 2002, the Company began trading of its Class B Common Stock on the New York Stock Exchange (NYSE) under the new symbol RGF. At such time, the Company voluntarily delisted its Class B Common Stock from trading on the NASDAQ National Market under the symbol RGFC.

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 include all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the Company's financial condition as of September 30, 2002 and the results of operations and changes in its cash flows for the three and nine months ended September 30, 2002 and 2001.

The results of operations for the three and nine month periods ended September 30, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002. 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, 2001.

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 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

On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived 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. The adoption of this Statement did not have an effect on the consolidated financial position or results of operations of the Company.

On January 1, 2002, the Company adopted also SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires 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 also requires that intangible assets with definite useful lives be amortized over the respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144.

Table of Contents

During the first quarter of 2002, based on further evaluation of the adoption effects of SFAS No. 142, management determined that the initial adoption of this Statement on January 1, 2002 had no effect on the financial conditions or results of operations of the Company.

NOTE 2 EARNINGS PER SHARE

Basic earnings per common share are computed by dividing net income (less preferred stock dividends) by the weighted average number of shares of common stock outstanding. The weighted average of outstanding stock options granted in connection with the Company's Stock Option Plan (247,858 and 744,409 during the three month periods ended September 30, 2002 and 2001, respectively, and 317,733 and 728,045 during the nine month periods ended September 30, 2002 and 2001, respectively), are included in the weighted average number of shares for purposes of the diluted earnings per share computation. No other adjustments are 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,	
2002	2001	2002	2001
\$0.086375	\$0.06775	\$0.243875	\$0.19150

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, 2002	December 31, 2001
(Unaudited)		
Mortgage-backed securities held for trading:		
GNMA certificates	\$9,606,660	\$18,151,659
FHLMC certificates	64,332,718	75,796,172
	<hr/>	<hr/>
	\$73,939,378	\$93,947,831
	<hr/>	<hr/>

Table of Contents

September 30, 2002		December 31, 2001	
Amortized cost	Fair value	Amortized cost	Fair value

(Unaudited)

Mortgage-backed securities available for sale:

Collateralized mortgage obligations (CMO):

Due from one to five years	\$14,106,119	\$14,106,119	\$	\$
Due from five to ten years	44,613,567	45,291,628	27,211,880	27,316,041
Due over ten years	389,008,931	394,361,198	202,546,424	202,468,023

	447,728,617	453,758,945	229,758,304	229,784,064
--	-------------	-------------	-------------	-------------

CMO residuals (interest only), interest only strips (IO s) and other mortgage-backed securities

	23,200,436	23,013,167	19,135,814	20,424,258
--	------------	------------	------------	------------

FNMA certificates:

Due from five to ten years	384,010	402,611	538,047	549,144
Due over ten years				

Edgar Filing: R&G FINANCIAL CORP - Form 10-Q

245,084,279 254,274,655 266,495,176 270,935,878

245,468,289 254,677,266 267,033,223 271,485,022

FHLMC certificates:

Due within one year

4,086 4,207

Due from one to five years

34,630 35,602 73,195 74,382

Due from five to ten years

1,048,135 1,097,104 1,264,702 1,292,010

Due over ten years

730,154,660 746,490,853 435,662,149 437,026,277

731,241,511 747,627,766 437,000,046 438,392,669

GNMA certificates:

Due from one to five years

50,063 50,313

Due from five to ten years

17,601,500 17,759,785 11,053,286 11,172,001

Due over ten years

486,164,541 491,663,293 513,507,515 511,638,456

503,766,041 509,423,078 524,610,864 522,860,770

1,951,404,894 1,988,500,222 1,477,538,251 1,482,946,783

Investment securities available for sale:

Mortgage securities portfolio mutual funds

3,261,194 3,223,400

Puerto Rico Government and Agencies Obligations-

Due over ten years

603,191 603,191

U.S. Government and Agencies securities:

Due within one year

20,000,000 20,000,000 9,600,000 9,806,480

Due from one to five years

286,922,156 292,025,164 156,522,492 157,408,260

Due from five to ten years

146,791,478 151,659,415 307,109,665 310,937,946

453,713,634 463,684,579 473,232,157 478,152,686

Corporate debt obligations:

Due from one to five years

55,986,973 57,745,706 53,636,583 54,502,744

Due from five to ten years

3,495,244 3,286,292

Over ten years

11,292,787 11,269,620

70,775,004 72,301,618 53,636,583 54,502,744

FHLB stock

92,477,167 92,477,167 66,076,567 66,076,567

620,830,190 632,289,955 592,945,307 598,731,997

\$2,572,235,084 \$2,620,790,177 \$2,070,483,558 \$2,081,678,780

Table of Contents

On January 1, 2001 the Company reclassified mortgage-backed securities available for sale with a fair value of \$75.9 million to held for trading. Upon transfer, the Company recognized a gain of approximately \$833,000.

September 30, 2002		December 31, 2001	
Amortized cost	Fair value	Amortized cost	Fair value

(Unaudited)

Mortgage-backed securities held to maturity:

GNMA certificates:

Due from five to ten years

\$5,889,933 \$5,893,169 \$7,180,376 \$7,111,405

Due over ten years

34,869,444 35,226,858 37,042,861 37,091,537

40,759,377 41,120,027 44,223,237 44,202,942

FNMA certificates:

Due over ten years

6,683,846 6,976,773 7,593,982 7,909,958

FHLMC certificates:

Due over ten years

108,253 108,484 128,335 124,863

47,551,476 48,205,284 51,945,554 52,237,763

Investment securities held to maturity:

U.S. Government and Agencies obligations- Due within one year

2,492,479 2,492,479

Puerto Rico Government and Agencies obligations:

Due from one to five years

27,120,000 27,354,000 12,691,000 12,731,365

Due from five to ten years

466,000 471,825 10,895,000 11,058,425

27,586,000 27,825,825 23,586,000 23,789,790

Other:

Due from one to five years
100,000 100,000 100,000 100,000

30,178,479 30,418,304 23,686,000 23,889,790

\$77,729,955 \$78,623,588 \$75,631,554 \$76,127,553

Table of Contents

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, 2002 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:

	Carrying Amount
	(Unaudited) (Dollars in thousands)
Mortgage-backed securities held for trading, at fair value	\$ 9,895
Mortgage-backed and investment securities available for sale, at fair value	
812,259	
Mortgage-backed securities held to maturity, at amortized cost	
423	
<hr/>	
\$822,577	
<hr/>	

NOTE 4 LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	September 30, 2002	December 31, 2001
	(Unaudited) (Dollars in thousands)	
Real estate loans:		
Residential first mortgage	\$1,426,670	\$996,885
Residential second mortgage	41,362	33,321
Land	39,805	9,188
Construction	316,324	227,271
Commercial	577,582	385,171
<hr/>		
<hr/>		
	2,401,743	1,651,836

Edgar Filing: R&G FINANCIAL CORP - Form 10-Q

Undisbursed portion of loans in
process
(94,388) (92,935)
Net deferred loan costs
170 21

2,307,525 1,558,922

Other loans:

Commercial
157,538 79,909
Consumer:

Secured by deposits
26,163 26,176
Secured by real estate
72,596 83,509
Other
91,866 71,507
Unearned interest
(414) (207)

347,749 260,894

Total loans
2,655,274 1,819,816
Allowance for loan losses
(29,446) (17,428)

\$2,625,828 \$1,802,388

Table of Contents

The changes in the allowance for loan losses follow:

	Nine months ended September 30,	
	2002	2001
	(Unaudited)	
	(Dollars in thousands)	
Balance, beginning of period	\$ 17,428	\$ 11,600
Provision for loan losses		
13,520	7,325	
Acquired reserves		
7,463		
Transferred reserves		
806		
Loans charged-off		
(9,763)	(4,961)	
Recoveries		
798	399	
<hr/>		
<hr/>		
Balance, end of period		
\$29,446	\$15,169	
<hr/>		
<hr/>		

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

	September 30, 2002	December 31, 2001
	(Dollars in thousands)	
	(Unaudited)	
Non-accruing loans:		
Residential real estate		
\$54,511	\$50,358	
Residential construction		
1,675	871	
Commercial real estate		
25,878	16,945	
Commercial business		
4,683	3,105	
Consumer unsecured		
641	303	

Total
87,388 71,582

Accruing loans greater than
90 days delinquent:

Residential real estate
9
Residential construction

Commercial real estate
682
Commercial business
540 462
Consumer
685 428

Total accruing loans greater
than 90 days delinquent
1,916 890

Total non-performing loans
89,304 72,472

Real estate owned, net of
reserves
18,660 10,061
Other repossessed assets
198 362

18,858 10,423

Total non-performing assets
\$108,162 \$82,895

Total non-performing loans
as a percentage of total loans
(1)
3.25% 3.79%

Table of Contents

	September 30, 2002	December 31, 2001
	(Dollars in thousands) (Unaudited)	
Total non-performing assets as a percentage of total assets	1.75%	1.78%
Allowance for loan losses as a percentage of total non-performing loans (2)	32.97%	24.05%
Allowance for loan losses as a percentage of total loans outstanding (2)	1.07%	0.91%
Net charge-offs to average loans outstanding	0.51%	0.32%

- (1) While the ratio of non-performing loans to total loans decreased from 3.79% to 3.25% from December 31, 2001 to September 30, 2002, such ratios were nonetheless larger than they would otherwise have been due to loan securitizations during 2000, 2001 and the first nine months of 2002, which reduced the amount of loans considered in the calculation of the ratio. Without giving effect to loan securitizations, as of September 30, 2002 and December 31, 2001, the ratio of non-performing loans to total loans would have been 2.45% and 2.75%, respectively. Non-performing loans at September 30, 2002 exclude \$27.3 million delinquent residential mortgage loans sold during the second quarter of 2002.
- (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, 2002 and December 31, 2001 would have been 2.30% and 84.6%, respectively, and 1.97% and 78.8%, respectively.

A significant amount of the increase in the Company's non-accruing commercial real estate and real estate owned is attributable to assets acquired in connection with the acquisition of Crown Bank in June 2002. Total non-accruing loans and real estate owned acquired in connection with such acquisition totaled \$13.2 million and \$5.1 million, respectively. Management believes that it established appropriate reserves with respect to such assets in connection with the acquisition.

Table of Contents

NOTE 5 MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

	For the nine month period ended September 30,	
	2002	2001
	(Unaudited) (Dollars in thousands)	
Balance at beginning of period	\$ 105,147	\$ 95,079
Rights originated		
19,041	19,002	
Rights purchased		
22,682	1,112	
Crown acquired		
32,478		
Scheduled amortization		
(13,669)	(8,210)	
Unscheduled amortization		
(7,187)	(2,500)	
Reserves for impairment		
(6,500)	(1,194)	
Other adjustments		
(4,438)		
<hr/>		
<hr/>		
Balance at end of period		
\$147,554	\$103,289	
<hr/>		
<hr/>		

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 on loans not sold as of the date of the financial statements, 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, 2002	December 31, 2001
(Unaudited) (Dollars in thousands)	

Table of Contents**NOTE 7 COMMITMENTS AND CONTINGENCIES**

At September 30, 2002, 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 \$704.7 million at September 30, 2002. Liability, if any, under the recourse provisions at September 30, 2002 is estimated by management to be insignificant.

In April 2002, R&G Acquisition Holdings Corporation (a wholly-owned subsidiary of R&G Financial) (RAC), a Florida corporation and savings and loan holding company, formed R&G Capital Trust I (R&G Capital Trust), a Delaware statutory business trust. R&G Capital Trust issued \$25.0 million of trust preferred securities in a private placement. The Company has guaranteed certain obligations of RAC to R&G Capital Trust.

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 September 30,		Nine month period ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
	(Dollars in thousands)			
Employee costs	\$ 19,524	\$ 14,811	\$ 51,940	\$ 40,858
Other administrative and general expenses	\$ 29,083	\$ 18,198	\$ 65,530	\$ 44,828

Table of Contents**NOTE 9 INDUSTRY SEGMENTS**

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

	(Dollars in thousands)							
	Three month period ended September 30,							
	2002				2001			
(Unaudited)								
	Banking	Mortgage Banking	Other	Segments Totals	Banking	Mortgage Banking	Other	Segments Totals
Revenues	\$39,991	\$35,733	\$2,310	\$78,034	\$30,343	\$22,526	\$1,419	\$54,288
Non-interest expenses	18,924	26,333	984	46,241	12,947	17,396	320	30,663
Income before income taxes	21,067	\$9,400	\$1,326	\$31,793	\$17,396	\$5,130	\$1,099	\$23,625

	Nine month period ended September 30,							
	2002				2001			
	(Unaudited)							
	Banking	Mortgage Banking	Other	Segments Totals	Banking	Mortgage Banking	Other	Segments Totals
Revenues	\$103,809	\$89,067	\$6,131	\$199,007	\$77,793	\$60,652	\$3,561	\$142,006
Non-interest expenses	378	58,996	2,466	110,840	34,180	44,374	809	79,363
Income before income taxes (and cumulative effect from change in accounting principle in 2001)	431	\$30,071	\$3,665	\$88,167	\$43,613	\$16,278	\$2,752	\$62,643

In April 2002, the Company through RAC, formed R&G Capital Trust, as a wholly-owned finance subsidiary. R&G Capital Trust does not qualify as an operating segment under SFAS No. 131 and has no independent operations and no other function other than the issuance of its securities and the related purchase of its junior subordinated debentures from RAC, and to distribute payments referred thereon to the holders of its securities.

Table of Contents

The following is a reconciliation of reportable segment revenues and income before income taxes to the Company's consolidated amounts (unaudited):

Three month period ended September 30,		Nine month period ended September 30,	
2002	2001	2002	2001

(Dollars in thousands)

Revenues:

Total revenues for reportable segments	\$78,034	\$54,288	\$199,007	\$142,006
Elimination of intersegment revenues	(1,248)	(1,356)	(3,949)	(4,002)
Corporate revenues	666	481	1,915	481

Total consolidated revenues	\$77,452	\$53,413	\$196,973	\$138,485
-----------------------------	----------	----------	-----------	-----------

Income before income taxes:

Total income before income taxes for reportable segments	\$31,793	\$23,625	\$88,167	\$62,643
Elimination of intersegment profits	(171)	(479)	(388)	(1,259)
Unallocated corporate income (expenses), net	445	290	1,320	(70)

Income before income taxes, consolidated
 \$32,067 \$23,436 \$89,099 \$61,314

Total assets of the Company among its industry segments and a reconciliation of reportable segment assets to the Company's consolidated total assets as of September 30, 2002 and December 31, 2001 follows:

	September 30, 2002	December 31, 2001
	(Unaudited)	
	(Dollars in thousands)	
Assets:		
Banking		
\$5,382,997	\$3,929,980	
Mortgage Banking		
877,257	843,250	
Other		
114,511	8,083	
<hr/>		
<hr/>		
Total assets for reportable segments		
6,374,765	4,781,313	
Parent company assets		
65,554	81,644	
Elimination of intersegment balances		
(269,854)	(198,563)	
<hr/>		
<hr/>		
Consolidated total assets		
\$6,170,465	\$4,664,394	
<hr/>		
<hr/>		

Table of Contents

Item 2: Management's Discussion and Analysis

General

R&G Financial Corporation (the Company) is a Puerto Rico chartered diversified financial holding company that, through its wholly-owned subsidiaries, is engaged in banking, mortgage banking, securities brokerage and insurance activities. The Company, currently in its 30th year of operations, operated 86 branch offices (27 bank branches mainly located in the northeastern section of Puerto Rico, 14 bank branches in the Orlando and Tampa/St. Petersburg Florida markets, 40 mortgage offices in Puerto Rico and, 5 mortgage offices in the United States) as of September 30, 2002.

On June 7, 2002, the Company, through its Florida holding company, R&G Acquisition Holdings Corporation, acquired The Crown Group, Inc., a Florida corporation, and its wholly-owned savings bank subsidiary, Crown Bank, F.S.B. (Crown Bank), hereinafter collectively referred to as RAC, for an aggregate of \$100.0 million in cash. RAC operates Crown Bank in the Orlando and Tampa/St. Petersburg metropolitan areas through 14 full-service offices.

The Orlando market is one of the fastest growing markets in Florida, both generally and for Hispanics in particular, and provides the Company with what it believes is a cost effective way to access the Hispanic markets in the United States, while providing a strong platform for further expansion in Florida. Crown Bank's balance sheet is complementary to the Company's, and is predominantly secured by real estate. The acquisition was accretive to our earnings per share during the second (one month only) and third quarter of 2002.

The Company also provides a full range of banking services in Puerto Rico through R-G Premier Bank of Puerto Rico (the Bank), a Puerto Rico commercial bank. Banking activities include 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 other services through its private banking department.

Mortgage banking activities are conducted through R&G Mortgage Corp., Puerto Rico's second largest mortgage banker, The Mortgage Store of Puerto Rico, Inc., also a Puerto Rico mortgage company, and Continental Capital Corp., a New York mortgage banking company and wholly-owned subsidiary of Crown Bank with offices in New York, North Carolina and Florida. 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 began insurance operations in November 2000 through Home & Property Insurance Corp., a Puerto Rico insurance agency, and securities brokerage in early 2002 through R&G Investments Corporation, a Puerto Rico corporation and licensed broker-dealer.

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 \$11.25 billion as of September 30, 2002, from \$7.1 billion as of the same date a year ago, an increase of 63.2%. During the second quarter of 2002 the Company acquired a servicing portfolio of \$2.6 billion as part of the acquisition of Crown Bank. R&G Financial's strategy is to continue to increase the size of its mortgage servicing portfolio by relying principally on internal loan originations.

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, 2002, the Company held securities available for sale with a fair market value of \$2.6 billion, which included \$2.0 billion of mortgage-backed securities, of which \$509.4 million consisted primarily of Puerto Rico GNMA securities,

Table of Contents

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 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.

Financial Condition

At September 30, 2002, total assets amounted to \$6.2 billion, as compared to \$4.7 billion at December 31, 2001, an increase of \$1.5 billion or 32.3%. On June 7, 2002 the Company completed the acquisition of Florida based The Crown Group, Inc. ("Crown"), with total consolidated assets of \$712.3 million and deposits of \$469.7 million at the time of acquisition. Excluding the increase in assets due to the Crown acquisition, total assets increased by \$793.7 million or 17.0% from December 31, 2001. The \$793.7 million increase in total assets was primarily the result of a \$463.7 million or 22.3% increase in mortgage-backed and investment securities available for sale, and a \$358.7 million or 19.9% increase in loans receivable, net.

At September 30, 2002, R&G Financial had \$2.6 billion of borrowings (consisting of securities sold under agreements to repurchase, notes payable, FHLB advances and other borrowings), compared to \$2.1 billion at December 31, 2001. R&G Financial utilized repurchase agreements and FHLB Advances to fund its growth during the period.

At September 30, 2002, R&G Financial's allowance for loan losses totaled \$29.4 million, which represented a \$12.0 million or 69.0% increase from the level maintained at December 31, 2001. The allowance for loan losses at September 30, 2002 includes \$7.5 million of acquired reserves from the Crown acquisition. At September 30, 2002, R&G Financial's allowance represented approximately 1.07% of the total loan portfolio and 32.97% 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 2.30% and 84.6%, respectively. The increase in the allowance for loan losses reflects the increase in R&G Financial's commercial real estate and construction loan portfolio.

Non-performing loans amounted to \$89.3 million at September 30, 2002, an increase of \$16.8 million when compared to \$72.5 million at December 31, 2001. Such increase is net of \$27.3 million non-performing residential mortgage sold during the second quarter of 2002. At September 30, 2002, \$54.5 million or 61.0% of non-performing loans consisted of residential mortgage loans. Management attributes the increase in recent years to increased delays in the foreclosure process in Puerto Rico. 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 as a percentage of average loans outstanding amounted to 0.51% during the first nine-months of 2002, 0.32% during 2001 and 0.17% during 2000. 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 decreased from 3.79% to 3.25% from December 31, 2001 to September 30, 2002, such ratios were nonetheless larger than they would otherwise have been due to loan securitizations undertaken by the Company, which have reduced the amount of loans considered in the calculation of the ratio. Without giving effect to loan securitizations, at September 30, 2002 and December 31, 2001, the ratio of non-performing loans to total loans would have been 2.45% and 2.75%, respectively.

Table of Contents

Stockholders' equity increased from \$459.1 million at December 31, 2001 to \$638.5 million at September 30, 2002. The \$179.4 million or 39.1% increase was due primarily to the issuance of 2,760,000 shares of the Company's 7.25% Monthly Income Preferred Stock, Series D, during the first half of 2002 for aggregate net proceeds of \$66.6 million, the issuance of 2,525,000 shares of Class B common stock in August 2002 for aggregate net proceeds of \$45.2 million, the \$69.2 million net income recognized during the period, net of dividends declared, and a \$16.4 million increase in other comprehensive income, due mainly to unrealized gains on securities available for sale during the period of \$35.3 million (\$21.5 million net of taxes).

Results of Operations

During the three and nine months ended September 30, 2002, R&G Financial reported net income of \$25.0 million and \$69.2 million, or \$.63 and \$1.81 of earnings per diluted share, respectively, compared to net income before the cumulative effect of a change in accounting principle of \$17.4 million and \$45.8 million or \$0.46 and \$1.28 of earnings per diluted share for the comparative periods in 2001, which reflects an increase in earnings per share of 37.0% and 41.4% for the three and six months periods ending September 30, 2002 over the comparable periods in 2001.

Net interest income increased by \$41.9 million or 62.1% during the nine month period ended September 30, 2002 to \$109.4 million, primarily due to an increase in the average balance of interest-earning assets, together with a 47 basis point increase in the net interest margin from 2.49% to 2.96%. The provision for loan losses amounted to \$13.5 million during the nine months ended September 30, 2002, a 84.6% increase over the prior comparable period, as R&G Financial increased its general reserves to reflect the expected continued growth in commercial lending, which involves greater credit risk than residential lending.

R&G Financial also increased its non-interest income by \$22.8 million or 29.1% during the nine months ended September 30, 2002 over the prior comparable period to \$101.1 million. Net gain on sale of loans increased significantly, by \$13.5 million or 30.6% over the prior comparable period, which was due both to an increased volume of loans originated and sold as well as increased profits made on loans sold. Loan administration and servicing fees also increased by \$5.8 million or 23.1% over the comparable periods, due to the growth in the Company's loan servicing portfolio.

Net interest income increased by \$13.4 million or 48.1% to \$41.3 million during the quarter ended September 30, 2002, due to an increase in the average balance of interest-earning assets, together with a 10 basis points increase in the net interest margin from 2.86% to 2.96%. Net gain on sale of loans increased 40.8% to \$24.4 million during the three month period ended September 30, 2002.

Total expenses increased by \$30.7 million or 39.8% during the nine months ended September 30, 2002 over the prior comparable period, primarily due to a \$20.6 million or 50.3% increase in other administrative and general expenses, primarily due to increased amortization of \$10.1 million of the Company's servicing asset, together with a \$7.0 million provision for valuation impairment reserves during the third quarter of 2002, and increased advertising expenses to increase loan production and other marketing initiatives. Employee compensation and benefits increased by \$8.2 million or 34.6% associated with general growth in Company operations as well as increased loan production. These increases were accompanied by a \$1.8 million or 14.8% increase in occupancy expenses.

Total expenses increased by \$15.4 million or 51.4% during the three month period ended September 30, 2002 over the prior comparable period, due to a \$11.0 million or 65.8% increase in other general and administrative expenses, comprised primarily of the \$7.0 million provision for valuation impairment reserves of the Company's servicing asset, a \$3.5 million or 39.4% increase in employee compensation and benefits, and a \$868,000 or 20.3% increase in occupancy expenses.

Table of Contents

Interest Rate Risk Management

The following table summarizes the anticipated maturities or repricing of R&G Financial's interest-earning assets and interest-bearing liabilities as of September 30, 2002, 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.

(Dollars in Thousands)	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years	Over Five Years	Total
Interest-earning assets(1):						
Loans receivable	\$1,153,448	\$249,875	\$372,741	\$234,100	\$645,354	\$2,655,518
Mortgage loans held for sale	59,673	165,335	225,008			
Mortgage-backed securities(2)(3)	164,755	459,435	316,316	260,650	906,817	2,107,973
Investment Securities(3)	234,571	150,320	199,883	73,243	6,469	664,486
Other interest-earning assets(4)	82,595		82,595			
Total	\$1,695,042	\$1,024,965	\$888,940	\$567,993	\$1,558,640	\$5,735,580

Interest bearing liabilities:

Deposits (5)

NOW and Super NOW accounts

\$20,994 \$59,263 \$65,149 \$52,771 \$224,973 \$423,150

Passbook savings accounts

7,980 23,144 57,622 46,098 184,394 319,238

Regular and commercial checking

19,137 53,583 58,901 47,710 203,393 382,724

Certificates of deposit

305,327 614,898 452,917 309,524 2,254 1,684,920

FHLB advances

87,000 64,000 285,725 294,000 140,000 870,725

Securities sold under agreements to repurchase (6)

280,458 592,036 258,582 378,200 1,509,276

Other borrowings(7)

47,905 133,596 206 181,707

Total

768,801 1,540,520 1,179,102 1,128,303 755,014 5,371,740

Effect of hedging instruments

180,000 (10,000) (90,000) (80,000)

Excess (deficiency) of interest-earning assets over interest-bearing liabilities
\$1,106,241 \$(525,555) \$(290,162) \$(650,310) \$723,626 \$363,840

Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities
\$1,106,241 \$580,686 \$290,524 \$(359,786) \$363,840

Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets
17.93% 9.41% 4.71% (5.83)% 5.90%

(footnotes on following page)

Table of Contents

- (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, if any.
- (5) Does not include non-interest-bearing deposit accounts.
- (6) Includes federal funds purchased, if any.
- (7) Comprised of warehousing lines, notes payable, trust preferred securities and other borrowings.

As of September 30, 2002, the Company had a one year positive gap of approximately \$580.7 million which constituted 9.41% of total assets at such date, compared to a positive gap of approximately \$462.6 million or 9.92% of total assets at December 31, 2001. R&G Financial's positive gap within one year at September 30, 2002 and December 31, 2001 is due primarily to an increasing amount of adjustable rate loans resulting from greater emphasis in commercial and construction lending as well as to the extension during 2001 and 2002 of the maturity dates of certain borrowings of the Company into longer-term maturities at very attractive rates, taking advantage of reduced interest rates during such period. The Company estimates that as of September 30, 2002, approximately 53% of all borrowings of the Company had maturity dates longer than one year. In addition, the Company has 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 Crown Bank, and average daily balances for the Bank in each case during the periods presented.

203,668 309,390

Total assets
\$5,781,267 \$4,212,968

Interest-Bearing Liabilities:

Deposits
\$2,698,319 \$23,826 3.53% \$1,872,192 \$22,242 4.75%
Securities sold under agreements to repurchase (3)
1,376,646 12,708 3.69 1,098,472 12,135 4.42
Notes payable
232,472 1,795 3.09 266,811 3,523 5.28
Other borrowings(4)
827,888 9,273 4.48 433,739 5,580 5.15

Total interest-bearing liabilities

Edgar Filing: R&G FINANCIAL CORP - Form 10-Q

5,135,325 \$47,602 3.71% 3,671,214 \$43,480 4.74%

Non-interest-bearing liabilities

40,993 116,462

Total liabilities

5,176,318 3,787,676

Stockholders equity

604,949 425,292

Total liabilities and stockholders' equity
\$5,781,267 \$4,212,968

Net interest income; interest rate spread (5)
\$41,310 2.67% \$27,896 2.57%

Net interest margin
2.96% 2.86%

Average interest-earning assets to average interest-bearing liabilities
108.61% 106.33%

(footnote on page 26)

338,364 301,599

Total assets
\$5,264,589 \$3,909,213

Interest-Bearing Liabilities:

Deposits
\$2,340,924 \$65,416 3.73% \$1,773,775 \$67,937 5.11%
Securities sold under agreements to repurchase (3)
1,399,763 37,764 3.60 973,255 36,717 5.03
Notes payable
252,815 5,152 2.72 231,468 8,545 4.92
Other borrowings(4)
643,326 21,550 4.47 446,538 18,053 5.39

Total interest-bearing liabilities

Edgar Filing: R&G FINANCIAL CORP - Form 10-Q

4,636,828 \$129,882 3.73% 3,425,036 \$131,252 5.11%

Non-interest-bearing liabilities

112,911 96,956

Total liabilities

4,749,739 3,521,992

Stockholders equity

514,850 387,221

Total liabilities and stockholders' equity
\$5,264,589 \$3,909,213

Net interest income; interest rate spread(5)
\$109,364 2.75% \$67,484 2.24%

Net interest margin
2.96% 2.49%

Average interest-earning assets to average interest-bearing liabilities
106.24% 105.33%

(footnotes on following page)

Table of Contents

(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, trust preferred securities 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 for the nine months ended September 30,	
	2002	2001
(Dollars in thousands)		
Composition of Servicing Portfolio at period end:		
GNMA	\$2,721,221	\$2,958,985
FNMA/FHLMC	5,926,375	2,337,570
Other mortgage loans (3)	2,602,507	1,808,222

Total servicing portfolio (3)
 \$11,250,103 \$7,104,777

Activity in the Servicing Portfolio:

Beginning servicing portfolio
 \$7,224,571 \$6,634,059
 Add: Loan originations and purchases
 1,529,819 1,415,853
 Servicing of portfolio loans acquired (4)
 4,168,844 3,837
 Less: Sale of servicing rights(1)
 (176,644) (164,875)
 Run-offs(2)
 (1,496,487) (784,097)

Ending servicing portfolio(3)
 \$11,250,103 \$7,104,777

Number of loans serviced
 162,823 113,181
 Average loan size
 \$69 \$63
 Average servicing fee rate
 0.51% 0.50%

(1) Corresponds to loans sold, servicing released, by Continental Capital.

Table of Contents

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

(3) At the dates shown, included \$981.1 million and \$1.0 billion of loans serviced for the Bank, respectively, which constituted 8.7% and 14.1% of the total servicing portfolio, respectively, and \$120.8 million of loans in Crown Bank's portfolio as of September 30, 2002, or 1.1% of the total servicing portfolio at such date. (4) Includes \$2.6 billion acquired through Crown Bank acquisition in June 2002.

A large portion 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, 2002, 62.6% of the Company's mortgage servicing portfolio was related to mortgages secured by real property located in 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 in Puerto Rico 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 month periods ended September 30, 2002 and 2001, the Company recognized \$7.2 million and \$2.5 million, respectively, of unscheduled amortization on mortgage servicing rights, and made provisions for impairment of approximately \$6.5 million and \$1.2 million during such respective periods.

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

Edgar Filing: R&G FINANCIAL CORP - Form 10-Q

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, 2002, the Company had \$119.7 million in borrowing capacity under unused warehousing and other lines of credit, \$768.7 million in borrowings capacity under unused lines of credit with the FHLB of New York and \$25.0 million under unused fed funds lines of credit. The Company has generally not relied upon brokered deposits as a source of liquidity.

Table of Contents

At September 30, 2002, the Company had outstanding commitments to originate and/or purchase mortgage and non-mortgage loans (including unused lines of credit) of \$365.9 million. Certificates of deposit which are scheduled to mature within one year totaled \$916.7 million at September 30, 2002, and borrowings that are scheduled to mature within the same period amounted to \$1.2 billion. The Company anticipates that it will have sufficient funds available to meet its current loan commitments.

Capital Resources - The Company issued \$25 million in Trust Preferred Securities in April 2002 through R&G Capital Trust I, a subsidiary of RAC. The Trust Preferred Securities increased the Company's regulatory capital, which allows for the continued growth of our franchise. The ability to treat these Trust Preferred Securities as regulatory capital under Federal Reserve guidelines, coupled with the Federal income tax deductibility of the related expense, provides the Company with a cost-effective form of capital.

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 I 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, 2002, 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 6.80%, 12.77% and 13.74%, respectively. At September 30, 2002 Crown Bank also met each of its capital requirements, with Tier 1 (core) capital, Tier 1 risk-based capital and total risk-based capital ratios of 8.44%, 11.86% and 12.91%, 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.

Critical Accounting Policies

The Company considers its Allowance for Loan Losses policy critical to its sound operations. The Company provides for loan losses each period by an amount resulting from both (a) an estimate by management of loan losses that occurred during the period and (b) the ongoing adjustment of prior estimates of losses occurring in prior periods. The provision for loan losses increases the allowance for loan losses which is netted against loans on the consolidated statements of financial condition. As losses are confirmed, the loan is written down, reducing the allowance for loan losses. See Note 1 of the

Table of Contents

Notes to the Consolidated Financial Statements as of December 31, 2001 for further information regarding the Company's provision and allowance for loan losses policy.

The Company also considers, as critical to the sound operations of the Company, its policy for the measurement and periodic evaluation for impairment of its servicing asset and retained interests resulting from the sale or securitization of residential mortgage loans and/or financial asset transfers of mortgage loans accounted for as sales.

As of September 30, 2002, the Company had a servicing asset of \$147.6 million, and retained interests (CMO residuals and interest only strips) resulting from financial asset transfers accounted for as sales totaling \$22.7 million. Such assets are initially recorded at their fair value at the time of sale or securitization. Once recorded, such assets are periodically evaluated and adjusted accordingly using discounted future cash flows techniques, via Company simulation models and through external consultants. Generally, the value of such assets decline with decreases in interest rates and conversely increases when interest rates increase. An impairment is recognized on the Company's servicing asset whenever the prepayment pattern of the underlying mortgage loans indicates that the fair value of such asset is lower than its carrying amount. Retained interests are adjusted periodically to their estimated fair value, and are included within mortgage-backed securities available for sale on the consolidated statements of financial condition. See Notes 1 and 3 of the Notes to the Consolidated Financial Statements as of December 31, 2001 for further information regarding the Company's servicing asset and retained interests policy.

Recent Legislation

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, or the SOA. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission, or the SEC, under the Securities Exchange Act of 1934, or the Exchange Act. Given the extensive SEC role in implementing rules relating to many of the SOA's new requirements, the final scope of these requirements remains to be determined.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

This SOA addresses, among other matters: audit committees; certification of financial statements by the chief executive officer and the chief financial officer; the forfeiture of bonuses and profits made by directors and senior officers in the twelve month period covered by restated financial statements; a prohibition on insider trading during pension plan black out periods; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers; expedited filing requirements for Forms 4s; disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; real time filing of periodic reports; the formation of a public accounting oversight board; auditor independence; and various increased criminal penalties for violations of securities laws.

The SOA contains provisions which became effective upon enactment on July 30, 2002 and provisions which will become effective from within 30 days to one year from enactment. The SEC has been delegated the task of enacting rules to implement various of the provisions with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risks at December 31, 2001 are presented in Item 7A of the Company's Annual report on Form 10-K. Information at September 30, 2002 is presented on page 22 of this Report. Management believes there have been no material changes in the Company's market risk since December 31, 2001.

Table of Contents

Item 4. Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act) Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission (SEC) filings. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect these controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

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) Item 601 exhibits:

No.	Description
2.1	Amended and Restated Agreement and Plan of Merger by and between R&G Financial Corporation, R-G Premier Bank of Puerto Rico and R-G Interim Premier Bank, dated as of September 27, 1996(1)
2.2	Agreement and Plan of Reorganization by and among R&G Financial Corporation, R&G Acquisition Holdings Corporation, The Crown Group, Inc. and Crown Bank, a Federal Savings Bank dated as of December 19, 2001, as amended
(2)3.1.0	Certificate of Incorporation of R&G Financial Corporation
(3)3.1.1	Certificate of Amendment to the Certificate

of
Incorporation
of R&G
Financial
Corporation (3)

Table of Contents

No.	Description
3.1.2	Amended and Restated Certificate of Incorporation of R&G Financial Corporation
(4)3.1.3	Amendment to the Amended and Restated Certificate of Incorporation of R&G Financial Corporation
(5)3.1.4	Second Amendment to Amended and Restated Certificate of Incorporation of R&G Financial Corporation
(15)3.1.5	Certificate of Resolutions designating the terms of the Series A Preferred Stock
(6)3.1.6	Certificate of Resolutions designating the terms of the Series B Preferred Stock
(7)3.1.7	Certificate of Resolutions designating the terms of the Series C Preferred Stock
(12)3.1.8	Certificate of Resolutions designating

the terms of
the Series D
Preferred
Stock (13)3.2
Bylaws of
R&G
Financial
Corporation
(3)4.0
Specimen of
Stock
Certificate of
R&G
Financial
Corporation
(3)4.1 Form
of Series A
Preferred
Stock
Certificate of
R&G
Financial
Corporation
(9)4.2 Form
of Series B
Preferred
Stock
Certificate of
R&G
Financial
Corporation
(10)4.3 Form
of Series C
Preferred
Stock
Certificate of
R&G
Financial
Corporation
(11)4.4 Form
of Series D
Preferred
Stock
Certificate of
R&G
Financial
Corporation
(14)10.1
Master
Custodian
Agreement
between R&G
Mortgage
Corporation
and R-G
Premier Bank
of Puerto Rico
dated
February 16,
1990, as
amended on
June 27, 1996

(3)10.2
Master
Production
Agreement
between R&G
Mortgage and
R-G Premier
Bank of
Puerto Rico
dated
February 16,
1990, as
amended on
August 30,
1991 and
March 31,
1995 (3)10.3
Data
Processing
Computer
Service
Agreement
between R&G
Mortgage and
R-G Premier
Bank of
Puerto Rico
dated
December 1,
1994 (3)10.4
Securitization
Agreement by
and between
R&G
Mortgage and
R-G Premier
Bank of
Puerto Rico,
dated as of
July 1, 1995
(3)10.5 R&G
Financial
Corporation
Stock Option
Plan
(3)(*)10.6
Guarantee
Agreement
between R&G
Financial
Corporation,
R&G
Acquisition
Holdings
Corporation
and
Wilmington
Trust as
Guarantee
Trustee with
respect to the
Capital

Edgar Filing: R&G FINANCIAL CORP - Form 10-Q

Securities
issued by
R&G Capital
Trust I.

- (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 Registrant s Current Report on Form 8-K filed with the SEC on December 20, 2001.
- (3) 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.
- (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 Current Report on Form 8-K filed with the SEC on June 12, 2001.
- (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.(9) 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.(10) 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.(11) Incorporated
by reference
from the
Registrant's
Registration
Statement on
Form S-3 (File
No. 333-55834),
filed with the
SEC on
February 16,
2001.(12) Incorporated
by reference
from the
Registrant's
Form 10-K filed
with the SEC on
April 14,
2001.(13) Incorporated
by reference
from the
Registrant's
Current Report
on Form 8-K
filed with the

SEC on March 7,
2002.(14) Incorporated
by reference
from the
Registrant s
Registration
Statement on
Form S-3 (File
No. 333-81214)
filed with the
SEC on
January 22,
2002.(15) Incorporated
by reference
from the
Registrant s
Current Report
on Form 8-K
filed with the
SEC on June 18,
2002.(*) Management
contract or
compensatory
plan or
arrangement.

Table of Contents

(b) Reports on Form 8-K

- (1) The Registrant filed a current report on Form 8-K on July 3, 2002, announcing the filing of a listing application with The New York Stock Exchange to list its Class B Common Stock.
- (2) The Registrant filed a current report on Form 8-K on July 11, 2002, announcing receipt of approval to list its Class B Common Stock on The New York Stock Exchange (the NYSE), and that the Class B Common would begin trading on the NYSE on July 12, 2002 and be delisted from the Nasdaq National Market effective July 11, 2002.
- (3) The Registrant filed a current report on Form 8-K on July 17, 2002, with an attached press release announcing its earning for the second quarter and six months ended June 30, 2002.
- (4) The Registrant filed a current report on Form 8-K on July 30, 2002, announcing the pricing of an offering of 3.5 million shares of is Class B Common Stock at a price of \$19.00 per share.
- (5) The Registrant filed a current report on Form 8-K on August 2, 2002, announcing the closing of the offering of 3.5 million shares of its Class B Common Stock.

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 14, 2002 By: /S/ VICTOR J. GALAN

Víctor J. Galán, 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)

Table of Contents

CERTIFICATIONS

I, Víctor J. Galán, certify that:

1. I have reviewed this quarterly report on Form 10-Q of R&G Financial Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Víctor J. Galán
Chairman of the Board and
Chief Executive Officer

Table of Contents

I, Joseph R. Sandoval, certify that:

1. I have reviewed this quarterly report on Form 10-Q of R&G Financial Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Joseph R. Sandoval
Senior Vice President and Chief
Financial Officer