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

1

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

AMENDMENT
NO. 2

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

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

Commission file number: 000-21137

R&G FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(787) 758-2424

(Registrant's telephone number, including area code)

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

YES [X] NO [ ]

Number of shares of Class B Common Stock outstanding as of March 31, 2001: 10,237,675 (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.)

1

2

Explanatory Note:

The undersigned registrant hereby amends and restates in its entirety:

(i) Item 1 of Part I - Financial Information of its quarterly report on Form 10Q for the quarter ended March 31, 2001; (ii) Item 2 of Part I - Management's Discussion and Analysis, and (iii) Item 6(a) of Part II - Exhibits.

2

3

PART 1-FINANCIAL INFORMATION

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

	March 2001
	(Unaudit
ASSETS	
Cash and due from banks	$ 35,86
Money market investments:	
Securities purchased under agreements to resell	30,17
Time deposits with other banks	4,47
Federal funds sold	15,03
Mortgage loans held for sale, at lower of cost or market	152,50
Mortgage-backed securities held for trading, at fair value	74,25
Trading securities pledged on repurchase agreements, at fair value	27,95
Mortgage-backed and investment securities available for sale, at fair value	901,75
Available for sale securities pledged on repurchase agreements, at fair value	548,50
Mortgage-backed and investment securities held to maturity, at amortized cost (estimated market value: 2001 - $5,756,553; 2000 - $5,111,404)	5,80
Held to maturity securities pledged on repurchase agreements, at amortized cost (estimated market value: 2001 - $16,908,060; 2000 - $18,265,000)	16,89
Loans receivable, net	1,662,50
Accounts receivable, including advances to investors, net	19,97
Accrued interest receivable	28,52
Servicing asset	97,45
Premises and equipment	20,40
Other assets	29,37
	$ 3,671,47
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 1,740,00
Fed funds purchased	
Securities sold under agreements to repurchase	892,31
Notes payable	173,07
Advances from FHLB	408,62
Other borrowings	8,83
Accounts payable and accrued liabilities	52,57
Other liabilities	6,57
	3,282,00

Stockholders' equity:	
Preferred stock, $.01 par value, 10,000,000 shares authorized:	
Non-cumulative perpetual:	
7.40% Monthly Income Preferred Stock, Series A, $25 liquidation value, 2,000,000 shares authorized, issued and outstanding	50,00
7.75% Monthly Income Preferred Stock, Series B, $25 liquidation value, 1,000,000 shares authorized, issued and outstanding	25,00
7.60% Monthly Income Preferred Stock, Series C, $25 liquidation value, 2,760,000 shares authorized, issued and outstanding	69,00
Common stock:	
Class A - $.01 par value, 40,000,000 shares authorized, 18,440,556 issued and outstanding	18
Class B - $.01 par value, 30,000,000 shares authorized, 10,237,675 issued and outstanding in 2001 (2000-10,230,029)	10
Additional paid-in capital	38,43
Retained earnings	195,55
Capital reserves of the Bank	7,44
Accumulated other comprehensive income (loss)	3,73
	389,46
	$ 3,671,47

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three mo period e March
	2001
	(Unaudi (Dollars in tho for per sh
Interest income:	
Loans	$ 37,428
Money market and other investments	7,370
Mortgage-backed securities	18,071
Total interest income	62,869
Interest expense:	
Deposits	23,076
Securities sold under agreements to repurchase	12,556
Notes payable	2,044
Other	7,026

Total interest expense	44,702
Net interest income	18,167
Provision for loan losses	(2,000)
Net interest income after provision for loan losses	16,167
Other income:	
Net gain on origination and sale of loans and sales of securities available for sale	15,038
Loan administration and servicing fees	8,023
Service charges, fees and other	2,525
	25,586
Total revenues	41,753
Operating expenses:	
Employee compensation and benefits	7,550
Office occupancy and equipment	3,902
Other administrative and general	11,876
	23,328
Income before income taxes and cumulative effect from change in accounting principle	18,425
Income tax expense:	
Current	4,196
Deferred	900
	5,096
Income before cumulative effect from change in accounting principle	13,329
Cumulative effect from change in accounting principle, net of income tax benefit of $206	(323)
Net income	$ 13,006
Earnings per common share before cumulative effect from change in accounting principle - Basic	$ 0.40
Earnings per common share before cumulative effect from change in accounting principle - Diluted	$ 0.39
Earnings per common share - Basic	$ 0.39
- Diluted	$ 0.38
Weighted average number of shares outstanding - Basic	28,673,654
- Diluted	29,311,534

The accompanying notes are an integral part of these statements.

5

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three month Marc
	2001
	(Unaud (Dollars in
Net income	$ 13,006
Other comprehensive income, before tax:	
Unrealized gains (losses):	
Cash flow hedges	(1,991)
Investment securities:	
Arising during period	8,868
Less: Reclassification adjustments for (gains) losses included in net income	(1,472)
	7,396
	5,405
Income tax (expense) benefit related to items of other comprehensive income	(2,108)
	3,297
Cumulative effect from change in accounting principle, net of income taxes of $745	1,166
Other comprehensive income (loss), net of tax	4,463
Comprehensive income, net of tax	$ 17,469

The accompanying notes are an integral part of these statements.

5

6

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

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) loss on sales of mortgage-backed and investment securities available for sale
Unrealized loss on trading securities and derivative instruments
Increase in mortgage loans held for sale
Net (increase) decrease 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 operating activities

Cash flows from investing activities:
Purchases of investment securities available for sale
Proceeds from sales of securities available for sale
Principal repayments and redemption of investment securities
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 in 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
(Repayments) advances from FHLB, net
Net proceeds from issuance of preferred stock
Proceeds from issuance of common stock
Cash dividends:
Common stock
Preferred stock

Net cash provided by financing activities

Net increase 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

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

REPORTING ENTITY

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

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

R&G Mortgage is also 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), including B and C credit quality loans, through its wholly-owned subsidiary, Mortgage Store of Puerto Rico.

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

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

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (principally consisting of normal and recurring adjustments) necessary for a fair presentation of the Company's financial condition as of March 31, 2001 and the results of operations and changes in its cash flows for the three months ended March 31, 2001 and 2000.

The results of operations for the three month periods ended March 31, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001. The unaudited

consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2000.

BASIS OF CONSOLIDATION

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

ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND LIABILITIES.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Liabilities - A Replacement of SFAS 125." This Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS 125 without reconsideration. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. It is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. Management believes that the adoption of the new standards will not have a significant effect on the financial statements of the Company.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2000 consolidated statement of cash flows to conform with the 2001 financial statement presentation.

NOTE 2 - EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Outstanding stock options granted in connection with the Company's Stock Option Plan

(637,880 and 657,237 during the quarters ended March 31, 2001 and 2000, 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:

Quarter Ended March 31, 2001	2000
$0.06	$0.045

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. Expected maturities of debt securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

8

9

	March 31, 2001 (Unaudited)	December 31, 2000
MORTGAGE-BACKED SECURITIES HELD FOR TRADING:		
GNMA certificates	$ 27,959,398	$ 12,038,040
FHLMC certificates	74,250,751	--
	$ 102,210,149	$ 12,038,040

9

10

	March 31, 2001	
	Amortized cost	Fair value
	(Unaudited)	
MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE:		

CMO residuals (interest only), interest only strips (IO's) and other mortgage-backed securities	$ 21,360,052	$ 23,285,695
FNMA certificates:		
Due from five to ten years	585,573	592,893
Due over ten years	201,790,782	203,856,070
	202,376,355	204,448,963
FHLMC certificates:		
Due within one year	10,160	10,160
Due from one to five years	120,718	120,305
Due from five to ten years	1,510,485	1,528,603
Due over ten years	247,693,447	250,485,187
	249,334,810	252,144,255
GNMA certificates:		
Due from one to five years	50,732	50,694
Due from five to ten years	9,986,301	9,957,393
Due over ten years	558,349,400	554,436,481
	568,386,433	564,444,568
	1,041,457,650	1,044,323,481
INVESTMENT SECURITIES AVAILABLE FOR SALE:		
U.S. Government and Agencies securities:		
Due within one year	6,300,000	6,310,390
Due from one to five years	137,745,706	139,005,675
Due from five to ten years	198,836,533	200,653,134
	342,882,239	345,969,199
Corporate debt obligations		
Due from one to five years	13,308,927	13,564,121
FHLB stock	46,401,467	46,401,467
	402,592,633	405,934,787
	$1,444,050,283	$1,450,258,268

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

11

March 31, 2001

	Amortized cost	Fair value
	(Unaudited)	
MORTGAGE-BACKED SECURITIES HELD TO MATURITY:		
GNMA certificates:		
Due within one year	$ --	$ --
Due from one to five years	--	--
Due from five to ten years	8,366,441	8,139,690
Due over ten years	1,823,260	1,758,991
	10,189,701	9,898,681
FNMA certificates:		
Due over ten years	8,693,152	8,950,676
FHLMC certificates:		
Due over ten years	151,784	147,677
	19,034,637	18,997,034
INVESTMENT SECURITIES HELD TO MATURITY:		
Puerto Rico Government and Agencies obligations:		
Due from one to five years	1,928,000	1,928,000
Due from five to ten years	1,739,579	1,739,579
	3,667,579	3,667,579
	$ 22,702,216	$ 22,664,613

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 March 31, 2001 the Company had investment securities pledged as collateral on repurchase agreements where the counterparties do not have the right to sell or repledge the assets as follows:

	Carrying Amount
Mortgage-backed and investment securities available for sale, at fair value	$322,740,716
Mortgage-backed securities held to maturity, at amortized cost	1,983,930
	$324,724,646

11

12

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	March 31, 2001	December 31, 2000
	(Unaudited)	
Real estate loans:		
Residential - first mortgage	$ 1,000,654,551	$ 998,983,595
Residential - second mortgage	30,003,535	27,419,145
Land	7,027,929	6,049,179
Construction	164,634,423	151,692,483
Commercial	311,071,210	304,104,485
	1,513,391,648	1,488,248,887
Undisbursed portion of loans in process	(90,013,154)	(78,163,117)
Net deferred loan costs	1,777,120	908,553
	1,425,155,614	1,410,994,323
Other loans:		
Commercial	76,399,868	59,120,394
Consumer:		
Secured by deposits	28,764,256	26,925,836
Secured by real estate	100,039,368	100,357,019
Other	44,304,222	45,563,186
Unearned interest	(85,725)	(85,055)
	249,421,989	231,881,380
Total loans	1,674,577,603	1,642,875,703
Allowance for loan losses	(12,069,831)	(11,599,643)
	$ 1,662,507,772	$ 1,631,276,069

The changes in the allowance for loan losses follow:

	Three months ended March 31, 2001	Three months ended March 31, 2000
	(Unaudited) (Dollars in thousands)	

Balance, beginning of period	$ 11,600	$ 8,971
Provision for loan losses	2,000	1,350
Loans charged-off	(1,641)	(1,027)
Recoveries	111	226
Balance, end of period	$ 12,070	$ 9,520

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

	March 31, 2001	December 31, 2000
	(Unaudited)	
	(Dollars in thousands)	
Non-accruing loans:		
Residential real estate	$ 87,532	$ 79,234
Residential construction	985	487
Commercial real estate	14,286	11,881
Commercial business	3,222	1,414
Consumer unsecured	444	1,186
Total	106,469	94,202
Accruing loans greater than 90 days delinquent:		
Residential real estate	--	--
Residential construction	--	--
Commercial real estate	--	--
Commercial business	540	420
Consumer	242	360
Total accruing loans greater than 90 days delinquent	782	780
Total non-performing loans	107,251	94,982
Real estate owned, net of reserves	9,463	9,056
Other repossessed assets	527	583
	9,990	9,639
Total non-performing assets	$ 117,241	$ 104,621
Total non-performing loans as a percentage of total loans(1)	6.08%	5.52%
Total non-performing assets as a percentage of total assets	3.19%	2.96%
Allowance for loan losses as a percentage of total non-performing loans(2)	11.25%	12.21%

Allowance for loan losses as a percentage of total loans outstanding(2)	0.68%	0.67%
Net charge-offs to average loans outstanding	0.35%	0.17%

----

(1) The increase in the ratio was partially caused by significant loan securitizations during the last two quarters of 2000 and the first quarter of 2001, which reduced the amount of loans held in portfolio which are considered in the calculation at the ratio. Without giving effect to loan securitizations, as of March 31, 2001 and December 31, 2000, the ratio of non-performing loans to total loans would have been 4.75% and 4.46%, respectively.

(2) Because of the nature of the collateral, R&G Financial's historical charge-offs with respect to residential real estate loans have been low. Excluding R&G Financial's residential loan portfolio, the allowance for loan losses to total loans and to total non-performing loans at March 31, 2001 and December 31, 2000 would have been 1.58% and 61.2%, respectively, and 1.61% and 73.7%, respectively.

NOTE 5 - MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

	For the three month period ended March 31, 2001	2000
	(Unaudited)	
Balance at beginning of period	$ 95,078,530	$ 84,252,506
Rights originated	5,278,107	2,275,134
Rights purchased	433,468	2,391,309
Scheduled amortization	(2,663,712)	(2,315,595)
Unscheduled amortization	(675,000)	--
Balance at end of period	$ 97,451,393	$ 86,603,354

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:

	March 31, 2001 (Unaudited)	December 31, 2000
	(Dollars in Thousands)	
Passbook savings	$ 120,259	$ 116,776
NOW accounts	46,163	43,271
Super NOW accounts	105,528	97,172
Regular checking accounts (non-interest bearing)	68,090	70,760
Commercial checking accounts (non-interest bearing)	132,720	101,178
	352,501	312,381
Certificates of deposit:		
Under $100,000	520,399	489,221
$100,000 and over	738,288	749,081
	1,258,687	1,238,302
Accrued interest payable	8,557	8,603
	$ 1,740,004	$ 1,676,062

NOTE 7 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS TO BUY AND SELL GNMA CERTIFICATES

As of March 31, 2001, the Company had open commitments to issue GNMA certificates of approximately $77.6 million.

COMMITMENTS TO SELL MORTGAGE LOANS

As of March 31, 2001, the Company had commitments to sell mortgage loans to third party investors amounting to approximately $19.1 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 March 31, 2001, the Company is liable under limited recourse provisions resulting from the sale of loans to several investors, principally FHLMC. The principal balance of these loans, which are serviced by the Company, amounts to approximately $567.8 million at March 31, 2001. Liability, if any, under the recourse provisions at March 31, 2001 is estimated by management to be insignificant.

NOTE 8 - SUPPLEMENTAL INCOME STATEMENT INFORMATION

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

Total employee costs and other expenses before capitalization follows:

	(Unaudited) Three month period ended March 31, 2001	2000
Employee costs	$ 12,697,825	$ 11,110,703
Other administrative and general expenses	$ 12,715,609	$ 10,497,469

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

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

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

R&G Financial is currently in its 29th year of operations. The Company is the second largest mortgage loans originator and servicer of mortgage loans on single family residences in Puerto Rico. R&G Financial's mortgage servicing portfolio increased to approximately $6.8 billion as of March 31, 2001, from $6.3 billion as of the same date a year ago, an increase of 7.5%. R&G Financial's strategy is 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 March 31, 2001, the Company held securities available for sale with a fair market value of $1.45 billion, which included $1.0 billion of mortgage-backed securities of which $564.4 million consisted primarily of Puerto Rico GNMA securities, the interest on which is tax-exempt to the Company. These securities are generally held by the Company for longer periods prior to sale in order to maximize the tax-exempt interest received thereon.

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

R&G Financial customarily sells or securitizes into mortgage-backed securities substantially all the loans it originates, except for certain non-conforming conventional mortgage loans and certain consumer, construction, land, and commercial loans which are held for investment and classified as Loans Receivable.

FINANCIAL CONDITION

At March 31, 2001, total assets amounted to $3.7 billion, as compared to $3.1 billion at March 31, 2000. The $549.6 million or 17.6% increase in total assets between the comparable periods was primarily the result of a $425.9 million or 41.6% increase in mortgage-backed and investment securities available for sale, an $87.2 million or 582.9% increase in mortgage-backed securities held for trading and a $54.5 million or 55.7% increase in mortgage loans held for sale, which more than offset a $52.3 million or 3.0% decline in loans receivable, net.

At March 31, 2001, total deposits totaled $1.7 billion, an increase of $305.1 million or 21.3% when compared to March 31, 2000. In addition, at March 31, 2001, R&G Financial had $1.5 billion of borrowings (consisting of securities sold under agreements to repurchase, notes payable, FHLB advances and other borrowings), as compared to $1.4 billion at March 31, 2000. R&G Financial utilized deposits (primarily certificates of deposits) and FHLB advances to fund its growth during the period.

At March 31, 2001, R&G Financial's allowance for loan losses totaled $12.1 million, which represented a $470,000 or 4.1% increase from the level maintained at December 31, 2000. At March 31, 2001, R&G Financial's allowance represented approximately 0.68% of the total loan portfolio and 11.25% of total non-performing loans. However, excluding R&G Financial's residential loan portfolio, which has minimal charge-off experience, the allowance for loan losses to total loans and to total non-performing loans would have been 1.58% and 61.2%, respectively, at March 31, 2001. The increase in the allowance for loan losses reflects the increase in R&G Financial's commercial real estate and construction loan portfolio as well as the increase in R&G Financial non-performing loans during the year.

Non-performing loans amounted to $107.3 million at March 31, 2001, an increase of $47.9 million when compared to $59.4 million at December 31, 1999. However, $40.1 million or 84% of such increase consisted of residential mortgage loans, which resulted to a large extent from increased delays over the period in the foreclosure process in Puerto Rico. Because of the nature of the real estate collateral, R&G Financial has historically experienced a low level of loan charge-offs. R&G Financial's aggregate charge-offs amounted to 0.35% during the first quarter of 2001, 0.17% during 2000 and 0.25% during 1999. Although loan delinquencies have historically been higher in Puerto Rico than in the United States, actual foreclosures and any resulting loan charge-offs have historically been lower than in the United States. While the ratio of non-performing loans to total loans increased from 3.69% to 5.52% from December 31, 1999 to December 31, 2000 and to 6.08% at March 31, 2001, the increase in the ratio was made larger than it would otherwise have been due to significant loan securitizations during the last two quarters of 2000 and the first quarter of 2001, which reduced the amount of loans considered in the calculation of the ratio. Without giving effect to loan securitizations, during the three months ended March 31, 2001 and the year ended December 31, 2000, the ratio of non-performing loans would have been 4.75% and 4.46%, respectively.

Stockholders' equity increased from $308.8 million at December 31, 2000 to $389.5 million at March 31, 2001. The $80.6 million or 26.1% increase was due primarily to net income recognized during the period.

RESULTS OF OPERATIONS

During the three months ended March 31, 2001, R&G Financial reported net income before the cumulative effect of a change in accounting principle of $13.3 million or $0.39 of earnings per diluted share, compared to $9.5 million or $0.28 of earnings per diluted share for the comparative three month period ended March 31, 2000.

Net interest income increased by $1.4 million or 8% during the comparable periods to $18.2 million, primarily due to an increase in the average balance of interest-earning assets, which was partially offset by a 25 basis point decline in the net interest margin from 2.43% to 2.18%. With interest rates currently declining, R&G Financial expects a gradual improvement in its net interest margin, as evidenced by the two basis point improvement when compared with the year ended December 31, 2000. The provision for loan losses amounted to $2.0 million during the three months ended March 31, 2001, a 48% increase over the prior comparable period, as R&G Financial increased it general reserves to reflect the expected continued growth in commercial lending, which involves greater credit risk than residential lending.

R&G Financial also experienced an increase in non-interest income during the three months ended March 31, 2001 over the comparable period. Net gain on sale of loans increased significantly, by $7.7 million or 105% over the prior comparable period, which was due both to the volume of loans originated and sold as well as the increased profits made on loans sold. Loan administration and servicing fees also increased by $412,000 or 5% over the comparable periods, due to the growth in the loan servicing portfolio.

Total expenses increased by $3.3 million or 16% during the three months ended March 31, 2001 over the comparable period, primarily due to a $2.3 million or 24% increase in other administrative and general expenses, primarily due to increased amortization of servicing rights and increased advertising expenses associated with increased loan production.

INTEREST RATE RISK MANAGEMENT

The following table summarizes the anticipated maturities or repricing or R&G Financial's interest-earning assets and interest-bearing liabilities as of March 31, 2001, based on the information and assumptions set forth in the notes below. For purposes of this presentation, the interest earning components of loans held for sale and mortgage-backed securities held in connection with the Company's mortgage banking business, as well as all securities held for trading, are assumed to mature within one year. In addition, investments held by the Company which have call features are presented according to their contractual maturity date.

19

20

(Dollars in Thousands)	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	More T Three Y to Five
Interest-earning assets(1):				
Loans receivable:				
Residential real estate loans	$ 35,164	$ 99,035	$ 222,306	$ 172,3
Construction loans	48,876	11,498	14,247	
Commercial real estate loans	311,071	--	--	
Consumer loans	41,604	38,187	53,431	25,2
Commercial business loans	56,229	8,733	9,669	1,7
Mortgage loans held for sale	26,987	19,397	43,642	33,7
Mortgage-backed securities(2)(3)	57,747	604,815	109,910	89,6
Investment Securities(3)	156,765	160,680	82,026	7,0
Other interest-earning assets(4)	49,684	--	--	
Total	$ 784,127	$ 942,345	$ 535,231	$ 329,7
Interest bearing liabilities:				
Deposits(5)				
NOW and Super NOW accounts	$ 7,725	$ 21,216	$ 23,322	$ 18,8
Passbook savings accounts	3,006	8,718	21,707	17,3
Regular and commercial checking	10,038	28,110	30,904	25,0
Certificates of deposit	411,790	593,374	92,442	154,1
FHLB advances	70,000	83,000	78,125	177,5
Securities sold under agreements to				

repurchase(6)	518,615	35,503	--	103,2
Other borrowings(7)	34,332	134,084	13,500	
Total	1,055,506	904,005	260,000	496,1
Effect of hedging instruments	(380,000)	25,000	210,000	65,0
	$ 675,506	$ 929,005	$ 470,000	$ 561,1
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 108,621	$ 13,340	$ 65,231	$ (231,3
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 108,621	$ 121,961	$ 187,192	$ (44,1
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	2.96%	3.32%	5.10%	(1.

(footnotes on following page)

----

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

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

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

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

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

(6) Includes federal funds purchased.

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

As of March 31, 2001, the Company had a one year positive gap of approximately $122.0 million, which constituted 3.32% of total assets at such date, compared to a negative gap of approximately $477.8 million or 13.5%, of total assets at December 31, 2000. R&G Financial's negative gap within one year at December 31, 2000 was due primarily to its large fixed-rate mortgage loans receivable portfolio held for investment and a portion of its portfolio of FHLB notes and other US agency securities which have call features but were not likely to be exercised by such agencies due to the actual interest rate environment. During the quarter ended March 31, 2001, the Company extended the maturity dates of certain borrowings into longer-term maturities at lower rates to take advantage of reductions in interest rates during the quarter. In addition, the Company entered into certain derivative instruments and increased its portfolio of investment securities held for trading, reducing its gap exposure. While the above table presents the Company's loans receivable portfolio held for investment purposes according to its maturity date, from time to time the Company may negotiate special transactions with FHLMC and/or FNMA or other third party investors for the sale of such loans. There can be no assurance, however, that the Company will be successful in consummating any such transactions.

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

	For the three month perio			
	2001			
(Dollars in Thousands)	Average Balance	Interest	Yield / Rate	A B
Interest-Earning Assets:				
Cash and cash equivalents(1)	$ 44,287	609	5.50	$
Investment securities available for sale	349,735	5,939	6.79	2
Investment securities held to maturity	3,687	53	5.75	
Mortgage-backed securities held for trading	92,657	1,711	7.39	
Mortgage-backed securities available for sale	1,019,067	16,064	6.31	6
Mortgage-backed securities held to maturity	19,440	295	6.07	
Loans receivable, net (2)	1,759,195	37,428	8.51	1,7
FHLB of New York Stock	46,240	770	6.66	
Total interest-earning assets	3,334,308	$ 62,869	7.54%	2,7
Non-interest-earning assets	271,150			2
Total assets	$3,605,458			$3,0
Interest-Bearing Liabilities:				
Deposits	$1,688,221	23,076	5.47	$1,3
Securities sold under agreements to repurchase (3)	844,030	12,556	5.95	6

Notes payable	178,107	2,044	4.59	2
Other borrowings(4)	487,918	7,026	5.76	3
Total interest-bearing liabilities	3,198,276	$ 44,702	5.59%	2,6
Non-interest-bearing liabilities	58,033			
Total liabilities	3,256,309			2,7
Stockholders' equity	349,149			2
Total liabilities and stockholders' equity	$3,605,458			$3,0
Net interest income; interest rate spread (5)		$ 18,167	1.95%	
Net interest margin			2.18%	
Average interest-earning assets to average interest-bearing liabilities			104.25%	

22

(footnotes on page 23)

23

---

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

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

(3) Includes federal funds purchased.

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

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

MORTGAGE LOAN SERVICING

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

At or for the three months ended

	March 31, 2001	March 31, 2000
	(Dollars in Thousands)	
Composition of Servicing Portfolio at period end:		
GNMA	$ 3,018,637	$ 2,941,361
FNMA/FHLMC	2,075,226	1,512,169
Other mortgage loans(3)	1,697,698	1,866,477
Total servicing portfolio(3)	$ 6,791,561	$ 6,320,007
Activity in the Servicing Portfolio:		
Beginning servicing portfolio	$ 6,634,059	$ 6,177,511
Add: Loan originations and purchases	393,512	341,284
Servicing of portfolio loans acquired	1,361	--
Less: Sale of servicing rights(1)	(41,249)	(36,727)
Run-offs(2)	(196,122)	(162,061)
Ending servicing portfolio(3)	$ 6,791,561	$ 6,320,007
Number of loans serviced	111,925	108,727
Average loan size	$ 61	$ 58
Average servicing fee rate	0.50%	0.53%

----

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

23

24

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

(3) At the dates shown, included $986.2 million and $1.2 billion of loans serviced for the Bank, respectively, which constituted 14.5% and 18.4% of the total servicing portfolio, respectively.

Substantially all of the mortgage loans in R&G Financial's servicing portfolio are secured by single (one-to-four) family residences secured by real estate located in Puerto Rico. At March 31, 2001 less than 7% of the Company's mortgage servicing portfolio was related to mortgages secured by real property located outside Puerto Rico.

The Company reduces the sensitivity of its servicing income to increases in prepayment rates through a strong retail origination network that has increased or maintained the size of R&G Financial's servicing portfolio even during periods of high prepayments. In addition, a substantial portion of the Company's servicing portfolio consists of tax-exempt FHA/VA mortgage loans which carry lower interest rates than those on conventional loans, which tends to reduce risks related to R&G Financial's servicing portfolio. During the quarter ended March 31, 2001 the Company recognized $675,000 unscheduled amortization of mortgage servicing rights.

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 March 31, 2001, the Company had $157.0 million in borrowing capacity under unused warehousing and other lines of credit, $230.7 million in borrowings capacity under unused lines of credit with the FHLB of New York and $40 million under unused fed funds lines of credit. The Company has generally not relied upon brokered deposits as a source of liquidity.

At March 31, 2001, the Company had outstanding commitments to originate and/or purchase mortgage and non-mortgage loans (including unused lines of credit) of $137.1 million. Certificates of deposit which are scheduled to mature within one year totaled $1.0 billion at March 31, 2001, and borrowings that are scheduled to mature within the same period amounted to $831.5 million. The Company anticipates that it will have sufficient funds available to meet its current loan commitments.

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

The FDIC also requires that banks meet a risk-based capital standard. The risk-based capital standard for banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At March 31, 2001, the Bank met each of its capital requirements, with Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios of 7.05%, 13.29% and 14.05%, 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 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.

PART II - OTHER INFORMATION

ITEM 6: Exhibits and Reports on Form 8-K

(a) List of Exhibits:

EXHIBIT NO.	EXHIBIT
2.0	Amended and Restated Agreement and Plan of Merger by and between R&G Financial Corporation, the Bank and R-G Interim Premier Bank, dated as of September 27, 1996(1)
3.1	Certificate of Incorporation of R&G Financial Corporation(2)
3.2	Certificate of Amendment to Certificate of Incorporation of R&G Financial Corporation(2)
3.2.1	Amended and Restated Certificate of Incorporation of R&G Financial Corporation(4)
3.3	Bylaws of R&G Financial Corporation(2)
3.4	Certificate of Resolutions designating the terms of the Series A Preferred Stock(6)
3.5	Certificate of Resolutions designating the terms of the Series B Preferred Stock(7)
3.6	Certificate of Resolutions designating the terms of the Series C Preferred Stock(8)
4.0	Specimen of Stock Certificate of R&G Financial Corporation(2)
4.1	Form of Series A Preferred Stock Certificate of R&G Financial Corporation(3)
4.2	Form of Series B Preferred Stock Certificate of R&G Financial Corporation(5)
4.3	Form of Series C Preferred Stock Certificate of R&G Financial Corporation(8)
10.1	Master Purchase, Servicing and Collection Agreement between R&G Mortgage and the Bank dated February 16, 1990, as amended on April 1, 1991, December 1, 1991, February 1, 1994 and July 1, 1994(2)
10.2	Master Custodian Agreement between R&G Mortgage and the Bank

dated February 16, 1990, as amended on June 27, 1996(2)

10.3	Master Production Agreement between R&G Mortgage and the Bank dated February 16, 1990, as amended on August 30, 1991 and March 31, 1995(2)
10.4	Data Processing Computer Service Agreement between R&G Mortgage and R-G Premier Bank dated December 1, 1994(2)
10.5	Securitization Agreement by and between R&G Mortgage and the Bank, dated as of July 1, 1995(2)
10.6	R&G Financial Corporation Stock Option Plan(2)(*)

----

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

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

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

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

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

(6) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on August 31, 1998.

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

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

(*) Management contract or compensatory plan or arrangement.

(b) 8-K filed February 16, 2001.

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: 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)