R&G FINANCIAL CORP
Form 10-Q
May 15, 2002

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 MARCH 31, 2002

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, 2002: 15,245,249 (Does not include 16,053,056 Class A Shares of Common Stock which are exchangeable into Class B Shares of Common Stock at the option of the holder.)

1

R&G FINANCIAL CORPORATION

INDEX

PART I - FINANCIAL INFORMATION

PART 1-FINANCIAL INFORMATION

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

	Mar 2 ------- (Unau
ASSETS	

Cash and due from banks	$ 54
Money market investments:	
Securities purchased under agreements to resell	
Time deposits with other banks	32
Short-term investments	58
Mortgage loans held for sale, at lower of cost or market	256
Mortgage-backed securities held for trading, at fair value	57
Trading securities pledged on repurchase agreements, at fair value	20
Mortgage-backed and investment securities available for sale, at fair value	1,700
Available for sale securities pledged on repurchase agreements, at fair value	540
Mortgage backed and investment securities held to maturity, at amortized cost (estimated market value: 2002 - $23,592,244; 2001 - $60,682,234)	24
Held to maturity securities pledged on repurchase agreements, at amortized cost (estimated market value: 2002 - $50,355,795; 2001 - $15,445,319)	50
Loans receivable, net	1,807
Accounts receivable, including advances to investors, net	26
Accrued interest receivable	37
Servicing asset	104
Premises and equipment	22
Other assets	37
	$ 4,831
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 2,014
Fed funds purchased	
Securities sold under agreements to repurchase	1,439
Notes payable	187
Advances from FHLB	527
Other borrowings	11
Accounts payable and accrued liabilities	110
Other liabilities	6
	4,297
Stockholders' equity:	
Preferred stock, $.01 par value, 10,000,000 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
7.75% Series B, 1,000,000 shares authorized, issued and outstanding	25
7.60% Series C, 2,760,000 shares authorized, issued and outstanding	69
7.25% Series D, 2,760,000 shares authorized, issued and outstanding	69
Common stock:	
Class A - $.01 par value, 40,000,000 shares authorized, 16,053,056 issued and outstanding	
Class B - $.01 par value, 40,000,000 shares authorized, 15,245,249 issued and outstanding in 2002 (2001-15,241,322)	
Additional paid-in capital	68
Retained earnings	246
Capital reserves of the Bank	11
Accumulated other comprehensive (loss) income	(5
	534

$ 4,831
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The accompanying notes are an integral part of these statements.

3

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three month period ende March 31,
	2002
	(Unaudited (Dollars in thousands except
Interest income:	
Loans	$ 38,503
Money market and other investments	9,039
Mortgage-backed securities	25,177
Total interest income	72,719
Interest expense:	
Deposits	20,826
Securities sold under agreements to repurchase	12,343
Notes payable	1,772
Other	5,773
Total interest expense	40,714
Net interest income	32,005
Provision for loan losses	(5,000)
Net interest income after provision for loan losses	27,005
Other income:	
Net gain on origination and sale of loans and sales of securities available for sale	17,710
Loan administration and servicing fees	9,304
Service charges, fees and other	3,872
	30,886
Total revenues	57,891
Operating expenses:	
Employee compensation and benefits	10,008
Office occupancy and equipment	4,262
Other administrative and general	15,926

	30,196
Income before income taxes and cumulative effect from change in accounting principle	27,695
Income tax expense:	
Current	5,496
Deferred	666
	6,162
Income before cumulative effect from change in accounting principle	21,533
Cumulative effect from change in accounting principle, net of income tax benefit of $206	--
Net income	$ 21,533
Earnings per common share before cumulative effect from change in accounting principle - Basic	$ 0.59
Earnings per common share before cumulative effect from change in accounting principle - Diluted	$ 0.58
Earnings per common share - Basic	$ 0.59
- Diluted	$ 0.58
Weighted average number of shares outstanding - Basic	31,295,713
- Diluted	31,654,473

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three month Mar
	2002
	(Una (Dollars i
Net income	$ 21,533
Other comprehensive income, before tax:	
Unrealized gains (losses):	
Derivative instruments	1,996

Investment securities:	
Arising during period	(14,083)
Less: Reclassification adjustments for gains included in net income	(75)
	(14,158)
	(12,162)
Income tax benefit (expense) related to items of other comprehensive income	4,743
	(7,419)
Cumulative effect from change in accounting principle, net of income taxes of $745	--
Other comprehensive (loss) income, net of tax	(7,419)
Comprehensive income, net of tax	$ 14,114

The accompanying notes are an integral part of these statements.

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
Reversal of impairment reserves
Provision for loan losses
Provision for bad debts in accounts receivable
Gain on sales of mortgage-backed and investment securities available for sale
Unrealized (gain) loss on trading securities and derivative instruments, net
Increase in mortgage loans held for sale
Net decrease (increase) in mortgage-backed securities held for trading
Increase in receivables
Increase in other assets
(Decrease) increase in notes payable and other borrowings

Increase in accounts payable and accrued liabilities
(Decrease) increase in other liabilities

Total adjustments

Net cash provided by (used in) in operating activities

Cash flows from investing activities:
Purchases of investment securities
Proceeds from sales of securities available for sale
Principal repayments on mortgage-backed securities and redemption of securities available f
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:
(Decrease) increase in deposits - net
Decrease in federal funds purchased
Increase in securities sold under agreements to repurchase - net
Advances (repayments) 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 (decrease) 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
Short-term investments
Securities purchased under agreements to resell
Time deposits with other banks
Federal funds sold

The accompanying notes are an integral part of these statements.

6

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 (the "Bank"), a Puerto Rico commercial bank, R&G Mortgage Corp. ("R&G Mortgage"), Puerto Rico's second largest mortgage banker, R&G Investments Corporation, a Puerto Rico 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.

The Bank provides a full range of banking services, including residential, commercial and personal loans and a diversified range of deposit products through twenty-six 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.

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 is licensed by the Secretary of the Treasury of Puerto Rico as a mortgage company and is duly authorized to do business in the Commonwealth of Puerto Rico.

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

The Company also 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 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 include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of March 31, 2002 and the results of operations and changes in its cash flows for the three months ended March 31, 2002 and 2001.

The results of operations for the three month period ended March 31, 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.

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 condition 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. Outstanding stock options granted in connection with the Company's Stock Option Plan (358,760 and 637,880 during the quarters ended March 31, 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:

Quarter Ended March 31, 2002	2001
$0.0765	$0.06

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.

	March 31, 2002 (Unaudited)	December 31, 2001
MORTGAGE-BACKED SECURITIES HELD FOR TRADING:		
GNMA certificates	$ 2,006,727	$18,151,659
FHLMC certificates	75,958,961	75,796,172
	$77,965,688	$93,947,831

	March 31, 2002 Amortized cost	Fair value	A
	(Unaudited)		
MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE:			
Collateralized mortgage obligations (CMO), CMO residuals (interest only), interest only strips (IO's) and other mortgage-backed securities	$ 298,141,163	$ 296,568,667	$
FNMA certificates:			
Due from five to ten years	449,462	456,906	
Due over ten years	247,102,225	251,548,303	
	247,551,687	252,005,209	

FHLMC certificates:			
Due from one to five years	63,008	64,207	
Due from five to ten years	1,216,431	1,238,126	
Due over ten years	567,027,868	564,636,402	
	568,307,307	565,938,735	
GNMA certificates:			
Due from one to five years	25,030	25,155	
Due from five to ten years	10,187,149	10,288,508	
Due over ten years	507,121,425	505,446,716	
	517,333,604	515,760,379	
	1,631,333,761	1,630,272,990	1,
INVESTMENT SECURITIES AVAILABLE FOR SALE:			
U.S. Government and Agencies securities:			
Due within one year	9,600,000	9,697,460	
Due from one to five years	227,838,195	226,671,500	
Due from five to ten years	249,219,498	248,062,768	
	486,657,693	484,431,728	
Corporate debt obligations			
Due from one to five years	53,627,036	53,919,670	
FHLB stock	72,146,767	72,146,767	
	612,431,496	610,498,165	
	$2,243,765,257	$2,240,771,155	$2,

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.

10

	March 31, 2002		D
	Amortized cost	Fair value	Amorti cos
	(Unaudited)		
MORTGAGE-BACKED SECURITIES HELD TO MATURITY:			
GNMA certificates:			

Due from five to ten years	$ 6,631,506	$ 6,567,813	$ 7,18
Due over ten years	36,689,411	35,866,276	37,04
	43,320,917	42,434,089	44,22
FNMA certificates:			
Due over ten years	7,239,209	7,534,740	7,59
FHLMC certificates:			
Due over ten years	123,183	119,850	12
	50,683,309	50,088,679	51,94
INVESTMENT SECURITIES HELD TO MATURITY:			
Puerto Rico Government and Agencies obligations:			
Due from one to five years	12,691,000	12,867,910	12,69
Due from five to ten years	10,895,000	10,991,450	10,89
	23,586,000	23,859,360	23,58
Other:			
Due from one to five years	100,000	100,000	10
	23,686,000	23,959,360	23,68
	$74,369,309	$73,948,039	$75,63

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, 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)
Mortgage-backed securities held for trading, at fair value	$ 10,526,462
Mortgage-backed and investment securities available for sale, at fair value	841,539,197
Mortgage-backed securities held to maturity, at amortized cost	505,899
	$852,571,558

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	March 31, 2002	December 31, 2001
	(Unaudited)	
Real estate loans:		
Residential - first mortgage	$ 924,838,068	$ 996,885,290
Residential - second mortgage	35,244,402	33,320,705
Land	9,569,311	9,187,516
Construction	273,564,166	227,271,477
Commercial	427,056,914	385,171,236
	1,670,272,861	1,651,836,224
Undisbursed portion of loans in process	(101,793,190)	(92,934,804)
Net deferred loan costs	161,768	20,307
	1,568,641,439	1,558,921,727
Other loans:		
Commercial	80,521,509	79,908,650
Consumer:		
Secured by deposits	25,463,587	26,175,695
Secured by real estate	77,086,217	83,509,393
Other	74,950,431	71,506,951
Unearned interest	(259,828)	(206,654)
	257,761,916	260,894,035
Total loans	1,826,403,355	1,819,815,762
Allowance for loan losses	(18,543,244)	(17,427,698)
	$ 1,807,860,111	$ 1,802,388,064

The changes in the allowance for loan losses follow:

	Three months ended March 31, 2002	2001
	(Unaudited) (Dollars in thousands)	
Balance, beginning of period	$ 17,428	$ 11,600
Provision for loan losses	5,000	2,000
Loans charged-off	(3,989)	(1,641)
Recoveries	104	111
Balance, end of period	$ 18,543	$ 12,070

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

	March 31, 2002	December 31, 2001
	(Unaudited) (Dollars in thousands)	
Non-accruing loans:		
Residential real estate	$57,572	$50,358
Residential construction	927	871
Commercial real estate	16,853	16,945
Commercial business	3,275	3,105
Consumer unsecured	363	303
Total	78,990	71,582
Accruing loans greater than 90 days delinquent:		
Residential real estate	--	--
Residential construction	--	--
Commercial real estate	--	--
Commercial business	308	462
Consumer	426	428
Total accruing loans greater than 90 days delinquent	734	890
Total non-performing loans	79,724	72,472
Real estate owned, net of reserves	12,691	10,061
Other repossessed assets	69	362
	12,760	10,423
Total non-performing assets	$92,484	$82,895
Total non-performing loans as a percentage of total loans (1)	4.13%	3.79%
Total non-performing assets as a percentage of total assets	1.91%	1.78%
Allowance for loan losses as a percentage of total non-performing loans (2)	23.26%	24.05%

Allowance for loan losses as a percentage of total loans outstanding (2)	0.96%	0.91%
Net charge-offs to average loans outstanding	0.75%	0.32%

(1) The increase in the ratio was partially caused by significant loan securitizations during 2000, 2001 and the first quarter of 2002, which reduced the amount of loans held in portfolio which are considered in the calculation of the ratio. Without giving effect to loan securitizations, as of March 31, 2002 and December 31, 2001, the ratio of non-performing loans to total loans would have been 2.85% and 2.75%, 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, 2002 and December 31, 2001 would have been 1.92% and 83.7%, respectively, and 1.97% and 78.8%, respectively.

NOTE 5 - MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

	For the three month period ended March 31, 2002	2001
	(Unaudited)	
Balance at beginning of period	$ 105,146,902	$ 95,078,530
Rights originated	5,077,622	5,278,107
Rights purchased	238,188	433,468
Scheduled amortization	(3,513,102)	(2,663,712)
Unscheduled amortization	(1,973,491)	(675,000)
Reversal of impairment reserves	458,633	--
Other adjustments	(619,283)	--
Balance at end of period	$ 104,815,469	$ 97,451,393

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, 2002 (Unaudited)	December 31, 2001
	(Dollars in Thousands)	
Passbook savings	$ 272,171	$ 199,756
NOW accounts	72,296	68,412
Super NOW accounts	265,084	236,898
Regular checking accounts (non-interest bearing)	71,576	78,213
Commercial checking accounts (non-interest bearing)	105,287	167,781
	514,243	551,304
Certificates of deposit:		
Under $100,000	372,369	429,913
$100,000 and over	850,326	874,495
	1,222,695	1,304,408
Accrued interest payable	5,567	5,756
	$2,014,676	$2,061,224

NOTE 7 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS TO BUY AND SELL GNMA CERTIFICATES

As of March 31, 2002, the Company had open commitments to issue GNMA certificates of approximately $30.2 million.

COMMITMENTS TO SELL MORTGAGE LOANS

As of March 31, 2002 the Company had commitments to sell mortgage loans to third party investors amounting to approximately $281.5 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, 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 $559.2 million at March 31, 2002. Liability, if any, under the recourse provisions at March 31, 2002 is estimated by management to be insignificant.

NOTE 8 - SUPPLEMENTAL INCOME STATEMENT INFORMATION

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

Total employee costs and other expenses before capitalization follows:

	Three month period ended March 31,	
	2002	2001
	(Unaudited)	
Employee costs	$16,242,933	$12,697,825
Other administrative and general expenses	$17,170,851	$12,715,609

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 Mar				
	2002				
	(Unaudited)				
	Banking	Mortgage Banking	Other	Segment Totals	Banking

Revenues	$32,509	$24,492	$1,623	$58,624	$24,797
Non-interest expenses	14,668	16,003	725	31,396	10,564
Income before income taxes (and cumulative effect from change in accounting principle in 2001)	$17,841	$ 8,489	$ 898	$27,228	$14,233

17

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 March 31, 2002	2001
	(Dollars in thousands)	
Revenues:		
Total revenues for reportable segments	$ 58,624	$ 43,390
Elimination of intersegment revenues	(1,340)	(1,637)
Corporate revenues	607	--
Total consolidated revenues	$ 57,891	$ 41,753
Income before income taxes:		
Total income before income taxes for reportable segments	$ 27,228	$ 18,967
Elimination of intersegment profits	(17)	(479)
Unallocated corporate income (expenses), net	484	(63)
Income before income taxes, consolidated	$ 27,695	$ 18,425

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 March 31, 2002 and December 31, 2001 follows:

	March 31, 2002	December 31, 2001
	(Unaudited)	
Assets:		

Banking	$ 3,963,615,379	$ 3,929,980,434
Mortgage Banking	872,016,298	843,249,867
Other	107,996,670	8,082,867
Total assets for reportable segments	4,943,628,347	4,781,313,168
Parent company assets	139,794,015	81,643,383
Elimination of intersegment balances	(251,994,162)	(198,562,845)
Consolidated total assets	$ 4,831,428,200	$ 4,664,393,706

18

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 68 branch offices (38 mortgage offices in Puerto Rico, 4 mortgage offices in the United States, and 26 bank branches mainly located in the northeastern section of Puerto Rico) as of March 31, 2002.

On December 19, 2001, the Company entered into a definitive merger agreement pursuant to which it will acquire The Crown Group, Inc., a Florida corporation, and its wholly-owned savings bank subsidiary, Crown Bank, a Federal Savings Bank, hereinafter collectively referred to as "Crown." Crown, which had total assets of $664 million, total deposits of $461 million and stockholders' equity of $64 million as of March 31, 2002, operates in the Tampa-St. Petersburg-Clearwater and Orlando 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's balance sheet is complementary to the Company's, and is predominantly secured by real estate.

Under the terms of the merger agreement, as amended, holders of Crown common stock will receive an aggregate of $100.0 million in cash. The acquisition, which is expected to be accretive to our earnings per share in 2002, is expected to close during the second quarter of 2002, pending the receipt of all requisite regulatory approvals and the approval of Crown's shareholders.

The Company provides a full range of banking services through R-G Premier Bank of Puerto Rico, 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 investment 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 Corporation, a New York mortgage banking company with offices in New York and North Carolina. 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 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 $7.3 billion as of March 31, 2002, from $6.8 billion as of the same date a year ago, an increase of 7.6%. 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, 2002, the Company held securities available for sale with a fair market value of $2.2 billion, which included $1.6 billion of mortgage-backed securities, of which $515.8 million consisted primarily of Puerto Rico GNMA securities, the interest on which is tax-exempt to the Company. These securities are generally held by the Company for longer periods prior to sale in order to maximize the tax-exempt interest received thereon.

A substantial portion of R&G Financial's total mortgage loan originations has 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, 2002, total assets amounted to $4.8 billion, as compared to $4.7 billion at December 31, 2001. The $167.0 million or 3.6% increase in total assets between the comparable periods was primarily the result of a $159.1 million or 7.6% increase in mortgage-backed and investment securities available for sale.

At March 31, 2002, R&G Financial had $2.2 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 March 31, 2002, R&G Financial's allowance for loan losses totaled $18.5 million, which represented a $1.1 million or 6.4% increase from the level maintained at December 31, 2001. At March 31, 2002, R&G Financial's allowance represented approximately 0.96% of the total loan portfolio and 23.26% 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 1.92% and 83.7%, respectively, at March 31, 2002. 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 $79.7 million at March 31, 2002, an increase of $7.3 million when compared to $72.5 million at December 31, 2001. At March 31, 2002, $57.6 million or 72.2% of non-performing loans consisted of residential mortgage loans, which have 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 recognized a low level of loan charge-offs. R&G Financial's aggregate charge-offs as a percentage of average loans outstanding amounted to 0.32% 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

increased from 3.79% to 4.13% from December 31, 2001 to March 31, 2002, the increase in the ratio was made larger than it would otherwise have been due to significant loan securitizations during 2000, 2001 and the first quarter of 2002, 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, 2002 and December 31, 2001, the ratio of non-performing loans to total loans would have been 2.85% and 2.75%, respectively.

Stockholders' equity increased from $459.1 million at December 31, 2001 to $534.4 million at March 31, 2002. The $75.3 million or 16.4% increase was due primarily to the issuance of 2,760,000 shares of the Company's 7.25% Non-Cumulative Perpetual Monthly Income Preferred Stock, Series D, in March 2002 for aggregate net proceeds of $66.6 million, as well as the net income recognized during the period.

RESULTS OF OPERATIONS

During the three months ended March 31, 2002, R&G Financial reported net income of $21.5 million or $0.58 of earnings per diluted share, compared to $13.3 million before the cumulative effect of a change in accounting principle, or $0.39 of earnings per diluted share for the comparative three month period ended March 31, 2001.

Net interest income increased by $13.8 million or 76.2% during the comparable period to $32.0 million, primarily due to an increase in the average balance of interest-earning assets, together with a 74 basis point increase in the net interest margin, from 2.18% to 2.92%. The provision for loan losses amounted to $5.0 million during the three months ended March 31, 2002, a 150% increase over the prior comparable period, as R&G Financial increased it general reserves reflecting the continued growth in commercial lending, which involves greater credit risk than residential lending.

R&G Financial also experienced an increase in non-interest income during the three months ended March 31, 2002 over the comparable period. Net gain on sale of loans increased by $2.7 million or 17.8% over the prior comparable period, which was due both to the volume of loans sold as well as the increased profits made on loans sold. Loan administration and servicing fees also increased by $1.3 million or 16.0% over the comparable periods, due to the growth in the loan servicing portfolio.

Total expenses increased by $6.9 million or 29.4% during the three months ended March 31, 2002 over the comparable period, primarily due to a $2.5 million or 32.6% increase in employee compensation and benefits associated with general growth in Company operations as well as to accommodate increased loan production, and a $8.1 million or 67.8% increase in other administrative and general expenses, primarily due to increased amortization on the Company's servicing assets as well as increased advertising expenses related to increased loan production and other marketing initiatives.

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, 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 Th Three Ye to Five Y
Interest-earning assets(1):				
Loans receivable:				
Residential real estate loans	$ 215,384	$ 86,075	$ 194,720	$ 155,1
Construction loans	167,302	4,439	30	
Commercial real estate loans	427,056	--	--	
Consumer loans	57,816	35,560	51,143	21,8
Commercial business loans	63,386	7,103	8,109	1,5
Mortgage loans held for sale	32,436	224,491	--	
Mortgage-backed securities(2)(3)	176,838	398,899	244,052	194,5
Investment Securities(3)	122,273	82,394	213,567	188,5
Other interest-earning assets(4)	90,784	--	--	
Total	$ 1,353,275	$ 838,961	$ 711,621	$ 561,6

Interest bearing liabilities:				
Deposits(5)				
NOW and Super NOW accounts	$ 16,897	$ 47,231	$ 51,918	$ 42,0
Passbook saving accounts	6,804	19 732	49,127	39,3
Regular and commercial checking	8,841	24,759	27,220	22,0
Certificates of Deposit	401,261	354,664	174,129	289,6
FHLB Advances	221,000	--	78,125	228,0
Securities sold under agreements to repurchase(6)	597,395	247,120	188,781	268,1
Other borrowings(7)	57,064	139,582	2,289	
Total	1,309,262	833,088	571,589	889,1
Effect of hedging instruments	355,000	(200,000)	(10,000)	(65,0
Excess (deficiency) of interest-earnings assets over interest-bearing liabilities	$ 399,013	$ (194,127)	$ 130,032	$(392,5
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 399,013	$ 204,886	$ 334,918	$ (57,6
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	8.26%	4.24%	6.93%	(1.

(footnotes on following page)

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

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

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

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

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

(6) Includes federal funds purchased, if any.

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

As of March 31, 2002, the Company had a one year positive gap of approximately $204,886 million which constituted 4.24% 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 March 31, 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 of the maturity dates of certain borrowings of the Company into longer-term maturities at very attractive rates, taking advantage of reductions in interest rates during such year. The Company estimates that as of March 31, 2002, close to 45% of all borrowings of the Company have 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 average daily balances for the Bank in each case during the periods presented.

	For the three month period end			
	2002			
(Dollars in Thousands)	Average Balance	Interest	Yield/ Rate	Aver Bala
Interest-Earning Assets:				
Cash and cash equivalents(1)	$ 40,204	$ 232	2.31%	$ 44
Investment securities available for sale	542,083	7,754	5.72	349
Investment securities held to maturity	23,686	322	5.44	3
Mortgage-backed securities held for trading	93,042	1,261	5.42	92
Mortgage-backed securities available for sale	1,494,962	23,155	6.20	1,019
Mortgage-backed securities held to maturity	51,369	761	5.93	19
Loans receivable, net(2)	2,075,727	38,503	7.42	1,759
FHLB of New York Stock	67,377	731	4.34	46
Total interest-earning assets	4,388,450	$72,719	6.63%	3,334

Non-interest-earning assets	359,461			271
Total assets	$4,747,911			$3,605
Interest-Bearing Liabilities:				
Deposits	$2,062,033	$20,826	4.04%	$1,688
Securities sold under agreements to repurchase(3)	1,309,024	12,343	3.77	844
Notes payable	257,008	1,772	2.76	178
Other borrowings(4)	494,135	5,773	4.67	487
Total interest-bearing liabilities	4,122,200	$40,714	3.95%	3,198
Non-interest-bearing liabilities	128,960			58
Total liabilities	4,251,160			3,256
Stockholders' equity	496,751			349
Total liabilities and stockholders' equity	$4,747,911			$3,605
Net interest income; interest rate spread(5)		$32,005	2.68%	
Net interest margin			2.92%	
Average interest-earning assets to average interest-bearing liabilities			106.46%	

(footnotes on page 25)

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

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

(3) Includes federal funds purchased, if any.

(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, 2002	2001
	(Dollars in Thousands)	
Composition of Servicing Portfolio at period end:		
GNMA	$ 2,873,566	$3,018,637
FNMA/FHLMC	2,562,129	2,075,226
Other mortgage loans (3)	1,875,371	1,697,698
Total servicing portfolio (3)	$ 7,311,066	$6,791,561
Activity in the Servicing Portfolio:		
Beginning servicing portfolio	$ 7,224,591	$6,634,059
Add: Loan originations and purchases	457,818	393,512
Servicing of portfolio loans acquired	1,798	1,361
Less: Sale of servicing rights(1)	(55,423)	(41,249)
Run-offs(2)	(317,718)	(196,122)
Ending servicing portfolio(3)	$ 7,311,066	$6,791,561
Number of loans serviced	113,456	111,925
Average loan size	$ 64	$ 61
Average servicing fee rate	0.52%	0.50%

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

25

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

(3) At the dates shown, included $942.6 million and $986.2 million of loans serviced for the Bank, respectively, which constituted 12.9% and 14.5% 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, 2002 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, 2002 and 2001, the Company recognized $1,973,000 and $675,000, respectively, of unscheduled amortization on 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, 2002, the Company had $105.5 million in borrowing capacity under unused warehousing and other lines of credit, $670.9 million in borrowings capacity under unused lines of credit with the FHLB of New York and $25 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, 2002, the Company had outstanding commitments to originate and/or purchase mortgage and non-mortgage loans of $176.2 million (including unused lines of credit). Certificates of deposit which are scheduled to mature within one year totaled $1.0 billion at March 31, 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.

In December 2001, the Company entered into a definite merger agreement, as amended, pursuant to which it will acquire The Crown Group, Inc., a Florida savings and loan holding company, and its wholly-owned savings bank subsidiary, Crown Bank, a Federal Savings Bank, hereinafter collectively referred to as "Crown". The cost of the acquisition to R-G Financial is $100 million of cash.

In March 2002, the Company completed the public offering of its Series D Non-Cumulative Perpetual Monthly Income Preferred Stock, with aggregate gross proceeds of $69.0 million. In April 2002, the Company completed the private issuance of $25.0 million pooled trust preferred securities. Both of these transactions facilitate the funding for the Crown acquisition. The Company expects the balance of the funds for the Crown acquisition will come from its general working capital.

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, 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 6.62%, 12.04% and 12.86%, 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.

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 March 31, 2002 is presented on page 21 of this Report. Management believes there have been no material changes in the Company's market risk since December 31, 2001.

PART II - OTHER INFORMATION

ITEM 1: Legal Proceedings

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

ITEM 2: Changes in Securities

Not applicable

ITEM 3: Defaults Upon Senior Securities

Not applicable

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

Not applicable

ITEM 5: Other Information

Not applicable.

ITEM 6: Exhibits and Reports on Form 8-K

a) Exhibits

None

b) The Registrant filed a report on Form 8-K on February 28, 2002, announcing that it had entered into a Second Amendment to the Agreement and Plan of Reorganization between the Registrant, its Florida subsidiary, R&G Acquisition Holdings Corporation and The Crown Group, Inc. and its wholly-owned subsidiary Crown Bank, a Federal Savings Bank.

The Registrant filed a report on Form 8-K on March 7, 2002 announcing the filing of the definitive Certificate of Designation for its 7.25% Non-Cumulative Perpetual Monthly Income Preferred Stock, Series D, the offering for which closed on March 5, 2002.

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: May 15, 2002

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)