R&G FINANCIAL CORP
Form 10-Q/A
August 16, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 June 30, 2002: 15,324,553 (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.)

R&G FINANCIAL CORPORATION

INDEX

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART 1 - FINANCIAL INFORMATION

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

	June 200
	(Unau
ASSETS	
Cash and due from banks	$ 90,
Money market investments:	
Securities purchased under agreements to resell	
Time deposits with other banks	34,
Mortgage loans held for sale, at lower of cost or market	229,
Mortgage backed securities held for trading, at fair value	55,
Trading securities pledged on repurchase agreements, at fair value	31,
Mortgage backed and investment securities available for sale, at fair value	2,004,
Available for sale securities pledged on repurchase agreements	557,
Mortgage backed and investment securities held to maturity, at amortized cost (estimated market value: 2002 - $29,457,701; 2001 - $60,682,234)	28,
Held to maturity securities pledged on repurchase agreements, at amortized cost (estimated market value: 2002 - $49,539,052; 2001 - $15,445,319)	49,
Loans receivable, net	2,438,
Accounts receivable, including advances to investors, net	32,
Accrued interest receivable	41,
Servicing asset	146,
Premises and equipment	36,
Other assets	97,
	$5,874,
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$2,534,
Fed funds purchased	10,
Securities sold under agreements to repurchase	1,602,
Notes payable	178,
Advances from FHLB	836,
Other borrowings	10,
Accounts payable and accrued liabilities	94,
Other liabilities	9,
	5,277,
Company-obligated mandatorily redeemable trust preferred securities	25,
Stockholders' equity:	
Preferred stock, $.01 par value, 20,000,000 shares authorized, non-cumulative perpetual monthly income preferred stock, $25 liquidation value:	
7.40% Series A, 2,000,000 shares authorized, issued and outstanding	50,
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 in 2002 (2001-18,440,556)	
Class B - $.01 par value, 60,000,000 shares authorized, 15,324,553 issued and outstanding in 2002 (2001-10,237,675)	
Additional paid-in capital	69,
Retained earnings	262,

Capital reserves of the Bank	11,
Accumulated other comprehensive income	14,
	571,
	$5,874,

The accompanying notes are an integral part of these statements.

3

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three month period ended June 30,	
	2002	2001
	(Unaudited) (Dollars in thousands	
Interest income:		
Loans	$ 38,980	$ 36,356
Money market and other investments	9,594	8,238
Mortgage-backed securities	29,041	19,897
Total interest income	77,615	64,491
Interest expense:		
Deposits	20,764	22,619
Securities sold under agreements to repurchase	12,713	11,960
Notes payable	1,585	2,978
Other	6,504	5,513
Total interest expense	41,566	43,070
Net interest income	36,049	21,421
Provision for loan losses	(4,550)	(2,100)
Net interest income after provision for loan losses	31,499	19,321
Other income:		
Net gain on origination and sale of loans	15,751	11,948
Loan administration and servicing fees	10,320	8,670
Service charges, fees and other	4,060	3,380
	30,131	23,998
Total revenues	61,630	43,319
Operating expenses:		
Employee compensation and benefits	9,544	7,299

Office occupancy and equipment	4,706	4,119
Other administrative and general	17,550	12,448
	31,800	23,866
Income before income taxes and cumulative effect from change in accounting principle	29,830	19,453
Income tax expense (benefit):		
Current	7,199	3,015
Deferred	(481)	1,000
	6,718	4,015
Income before cumulative effect from change in accounting principle	23,112	15,438
Cumulative effect from change in accounting principle, net of income tax benefit of $206	--	--
Net income	$ 23,112	$ 15,438
Earnings per common share before cumulative effect from change in accounting principle - Basic	$ 0.60	$ 0.44
Earnings per common share before cumulative effect from change in accounting principle - Diluted	$ 0.59	$ 0.43
Earnings per common share - Basic	$ 0.60	$ 0.44
- Diluted	$ 0.59	$ 0.43
Weighted average number of shares outstanding - Basic	31,306,700	28,766,054
- Diluted	31,654,798	29,483,654

The accompanying notes are an integral part of these statements.

4

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three month period ended June 30,		S pe
	2002	2001	2002
	(Unaudited)		(U
		(Dollars in thousands	
Net income	$ 23,112	$ 15,438	$ 44,64
Other comprehensive income, before tax:			
Unrealized gains (losses):			

Cash flow hedges	(3,201)	(3,751)	(1,20
Investment securities:			
Arising during period	36,697	(3,821)	22,61
Less: Reclassification adjustments for (gains) losses included in net income	(146)	228	(22
	36,551	(3,593)	22,39
	33,350	(7,344)	21,18
Income tax (expense) benefit related to items of other comprehensive income	(12,993)	2,864	(8,25
	20,357	(4,480)	12,93
Cumulative effect from change in accounting principle, net of income taxes of $745	--	--	-
Other comprehensive income (loss), net of tax	20,357	(4,480)	12,93
Comprehensive income, net of tax	$ 43,469	$ 10,958	$ 57,58

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six
	2002
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 investment 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 loans	
Gain on sales of mortgage-backed and investment securities available for sale	
Unrealized (profit) loss on trading securities and derivative instruments	
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
Increase in other liabilities

Total adjustments

Net cash provided by (used in) operating activities

Cash flows from investing activities:
Purchases of investment securities
Proceeds from sales of securities available for sale
Proceeds from maturities of securities held to maturity
Principal repayments on mortgage-backed securities and redemptions of investment securities
Net assets acquired, net of cash received
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
Increase (decrease) in federal funds purchased
Increase in securities sold under agreements to repurchase - net
Advances from (repayments to) FHLB, 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 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

$

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

On June 7, 2002, the Company acquired The Crown Group, Inc., a Florida corporation, and its wholly-owned savings bank subsidiary, Crown Bank, a Federal Savings Bank ("Crown Bank"), hereinafter collectively referred to as "Crown," for an aggregate of $100.0 million in cash. Crown had total assets of $723.1 million and total deposits of $472.6 million as of June 30, 2002. The acquisition resulted in goodwill totaling approximately $45.8 million which is included in other assets in the accompanying consolidated statement of financial condition as of June 30, 2002.

The Bank and Crown Bank provide a full range of banking services, including residential, commercial and personal loans and a diversified range of deposit products. The Bank operates through twenty-six branches located mainly in the northeastern part of the Commonwealth of Puerto Rico, and Crown Bank operates in the Orlando and Tampa/St. Petersburg metropolitan areas through 14 full-service offices. The Bank also provides private banking, trust and other financial services to its customers. The Bank and Crown Bank are subject to the regulations of certain federal and local agencies, and undergo 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, The 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 Continental Capital Corp. ("Continental Capital"), a wholly-owned subsidiary of Crown Bank.

The Company also owns R&G Acquisition Holdings Corporation, a Florida corporation and saving and loan holding company, which is the parent of Crown Bank. In April 2002, R&G Acquisition Holdings Corporation formed R&G Capital Trust I, a Delaware statutory business trust, which issued $25.0 million of trust preferred securities in a private placement. The Company has guaranteed certain obligations of R&G Acquisition Holdings to R&G Capital Trust I.

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

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the Company's financial condition as of June 30, 2002 and the results of operations and changes in its cash flows for the three and six months ended June 30, 2002 and 2001.

The results of operations for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002. The unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2001.

BASIS OF CONSOLIDATION

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

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that Statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occuring 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 conditions or results of operations of the Company.

8

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 (348,098 and 717,600 during the three month periods ended June 30, 2002 and 2001, respectively, and 353,249 and 719,728 during the six month periods ended June 30, 2002 and 2001, respectively), are included in the weighted average number of shares for purposes of the diluted earnings per share computation. No other adjustments are made to the computation of basic earnings per share to arrive at diluted earnings per share.

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

Three month period ended June 30, 2002	Three month period ended June 30, 2001	Six month period ended June 30, 2002	Six month period ended June 30, 2001
$0.08125	$0.04875	$0.1575	$0.12375

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.

	June 30, 2002	December 31, 2001
	(Unaudited)	
MORTGAGE-BACKED SECURITIES HELD FOR TRADING:		
GNMA certificates	$12,457,313	$18,151,659

FHLMC certificates	74,110,684	75,796,172
	$86,567,997	$93,947,831

	June 30, 2002	
	Amortized cost	Fair value
	(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	$ 367,442,719	$ 372,506,550
FNMA certificates:		
Due from five to ten years	434,794	450,759
Due over ten years	261,131,336	268,881,984
	261,566,130	269,332,743
FHLMC certificates:		
Due within one year	6,840	7,046
Due from one to five years	43,202	43,999
Due from five to ten years	1,175,592	1,218,966
Due over ten years	673,421,180	685,259,781
	674,646,814	686,529,792
GNMA certificates:		
Due from one to five years	25,030	25,155
Due from five to ten years	14,849,198	14,864,137
Due over ten years	492,228,988	490,930,098
	507,103,216	505,819,390
	1,810,758,879	1,834,188,475
INVESTMENT SECURITIES AVAILABLE FOR SALE:		
Mortgage securities portfolio mutual funds	18,079,833	18,158,181
Puerto Rico Government and Agencies Obligations- Due over ten years	15,716,063	15,716,063
U.S. Government and Agencies securities:		
Due within one year	7,000,000	7,038,850

Due from one to five years	341,320,396	344,994,653
Due from five to ten years	169,709,201	174,563,637
	518,029,597	526,597,140
Corporate debt obligations:		
Due from one to five years	55,984,999	57,301,790
Due from five to ten years	4,103,156	4,126,187
Over ten years	11,838,514	12,011,527
	71,926,669	73,439,504
FHLB stock	94,194,067	94,194,067
	717,946,229	728,104,955
	$2,528,705,108	$2,562,293,430

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.

	June 30, 2002		
	Amortized cost	Fair value	Am
	(Unaudited)		
MORTGAGE-BACKED SECURITIES HELD TO MATURITY:			
GNMA certificates:			
Due from five to ten years	$ 6,268,745	$ 6,208,528	$ 7
Due over ten years	36,356,768	36,630,553	37
	42,625,513	42,839,081	44
FNMA certificates:			
Due over ten years	6,887,153	7,172,368	7
FHLMC certificates:			
Due over ten years	115,036	115,281	
	49,627,702	50,126,730	51
INVESTMENT SECURITIES HELD TO MATURITY:			

U.S. Government and Agencies obligations-			
Due within one year	991,698	991,698	
Puerto Rico Government and Agencies obligations:			
Due from one to five years	13,120,000	13,196,500	12
Due from five to ten years	14,466,000	14,581,825	10
	27,586,000	27,778,325	23
Other:			
Due from one to five years	100,000	100,000	
	28,677,698	28,870,023	23
	$78,305,400	$78,996,753	$75

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 June 30, 2002 the Company had investment securities pledged as collateral on repurchase agreements where the counterparties do not have the right to sell or repledge the assets as follows:

	Carrying Amount
	(Unaudited) (Dollars in thousands)
Mortgage-backed securities held for trading, at fair value	$ 10,148
Mortgage-backed and investment securities available for sale, at fair value	1,099,675
Mortgage-backed securities held to maturity, at amortized cost	479
	$1,110,302

11

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	June 30, 2002	December 31, 2001
	(Unaudited)	
	(Dollars in thousands)	

Real estate loans:		
Residential - first mortgage	$ 1,307,610	$ 996,885
Residential - second mortgage	41,175	33,321
Land	33,619	9,188
Construction	306,904	227,271
Commercial	517,889	385,171
	2,207,197	1,651,836
Undisbursed portion of loans in process	(94,484)	(92,935)
Net deferred loan costs	(368)	20
	2,112,345	1,558,922
Other loans:		
Commercial	160,114	79,909
Consumer:		
Secured by deposits	25,469	26,176
Secured by real estate	77,129	83,509
Other	91,761	71,507
Unearned interest	(316)	(207)
	354,157	260,894
Total loans	2,466,502	1,819,816
Allowance for loan losses	(27,893)	(17,428)
	$ 2,438,609	$ 1,802,388

The changes in the allowance for loan losses follow:

	Six months ended June 30,	
	2002	2001
	(Unaudited) (Dollars in thousands)	
Balance, beginning of period	$ 17,428	$ 11,600
Provision for loan losses	9,550	4,100
Acquired reserves	7,463	--
Transferred reserves	--	806
Loans charged-off	(6,957)	(3,819)
Recoveries	409	289
Balance, end of period	$ 27,893	$ 12,976

12

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

June 30, December 31,

	2002	2001
	(Unaudited)	
	(Dollars in thousands)	
Non-accruing loans:		
Residential real estate	$44,146	$50,358
Residential construction	1,165	871
Commercial real estate	24,303	16,945
Commercial business	4,063	3,105
Consumer unsecured	690	303
Total	74,367	71,582
Accruing loans greater than 90 days delinquent:		
Residential real estate	--	--
Residential construction	--	--
Commercial real estate	--	--
Commercial business	684	462
Consumer	563	428
Total accruing loans greater than 90 days delinquent	1,247	890
Total non-performing loans	75,614	72,472
Real estate owned, net of reserves	18,174	10,061
Other repossessed assets	238	362
	18,412	10,423
Total non-performing assets	$94,026	$82,895
Total non-performing loans as a percentage of total loans (1)	2.95%	3.79%
Total non-performing assets as a percentage of total assets	1.60%	1.78%
Allowance for loan losses as a percentage of total non-performing loans (2)	36.89%	24.05%
Allowance for loan losses as a percentage of total loans outstanding (2)	1.09%	0.91%
Net charge-offs to average loans Outstanding	0.61%	0.32%

(1) The increase in the ratio was partially caused by loan securitizations undertaken by the Company, 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 June 30, 2002 and December 31, 2001, the ratio of non-performing loans to total loans would have been 2.14% 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 June 30, 2002 and December 31, 2001 would have been 2.31% and 88.6%, respectively, and 1.97% and 78.8%, respectively.

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

NOTE 5 - MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

	For the six month period ended June 30, 2002	2001
	(Unaudited) (Dollars in thousands)	
Balance at beginning of period	$ 105,147	$ 95,079
Rights originated	12,909	11,535
Rights purchased	43,042	815
Scheduled amortization	(7,508)	(5,271)
Unscheduled amortization	(3,414)	(1,350)
Reversal of impairment reserves	459	--
Other adjustments	(4,436)	--
Balance at end of period	$ 146,199	$ 100,808

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:

	June 30, 2002 (Unaudited)	December 31, 2001
	(Dollars in thousands)	
Passbook savings	$ 279,530	$ 199,756
NOW accounts	89,901	68,412
Super NOW accounts	256,547	236,898
Regular checking accounts (non-interest bearing)	81,125	78,213
Commercial checking accounts (non-interest bearing)	190,775	167,781
	618,348	551,304
Certificates of deposit:		
Under $100,000	668,024	429,913
$100,000 and over	964,691	874,495
	1,632,715	1,304,408
Accrued interest payable	4,129	5,756
	$2,534,722	$2,061,224

15

NOTE 7 - COMMITMENTS AND CONTINGENCIES

At June 30, 2002, the Company was 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 $578.3 million at June 30, 2002. Liability, if any, under the recourse provisions at June 30, 2002 is estimated by management to be insignificant.

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

NOTE 8 - SUPPLEMENTAL INCOME STATEMENT INFORMATION

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

Total employee costs and other expenses before capitalization follows:

	Three month period ended June 30,		Six month p June
	2002	2001	2002
	(Unaudited)		(Unaudited)
		(Dollars in thousands)	
Employee costs	$16,173	$13,349	$32,416
Other administrative and general expenses	$18,784	$13,915	$35,954

16

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 June 30

	2002 (Unaudited)					
	Banking	Mortgage Banking	Other	Segments Totals	Banking	Mo B
Revenues	$31,309	$28,760	$2,280	$62,349	$22,653	
Non-interest expenses	15,293	16,660	757	32,710	10,669	
Income before income taxes	$16,016	$12,100	$1,523	$ 29,639	$11,984	

Six month period ended June 30

	2002 (Unaudited)					
	Banking	Mortgage Banking	Other	Segments Totals	Banking	Mo B
Revenues	$63,818	$53,252	$3,903	$120,973	$47,450	
Non-interest expenses	29,961	32,663	1,482	64,106	21,233	
Income before income taxes						

(and cumulative effect from change in accounting principle in 2001)	$33,857	$20,589	$2,421	$ 56,867	$26,217

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

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 thous	
Revenues:		
Total revenues for reportable segments	$62,349	$44,328
Elimination of intersegment revenues	(1,361)	(1,009)
Corporate revenues	642	--
Total consolidated revenues	$61,630	$43,319
Income before income taxes:		
Total income before income taxes for reportable segments	$29,639	$20,051
Elimination of intersegment profits	(200)	(301)
Unallocated corporate income (expenses), net	391	(297)
Income before income taxes, consolidated	$29,830	$19,453

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 June 30, 2002 and December 31, 2001 follows:

	June 30, 2002	December 31, 2001

	(Unaudited) (Dollars in thousands)	
Assets:		
Banking	$5,115,702	$3,929,980
Mortgage Banking	816,344	843,250
Other	111,839	8,083
Total assets for reportable segments	6,043,885	4,781,313
Parent company assets	63,736	81,644
Elimination of intersegment balances	(233,468)	(198,563)
Consolidated total assets	$5,874,153	$4,664,394

18

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

R&G Financial Corporation (the "Company" or "R&G Financial") 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 82 branch offices (26 bank branches mainly located in the northeastern section of Puerto Rico, 14 bank branches in the Orlando and Tampa/St. Petersburg Florida markets, 38 mortgage offices in Puerto Rico and, 4 mortgage offices in the United States) as of June 30, 2002.

On June 7, 2002, the Company, through its Florida holding company, R&G Acquisition Holdings Corporation, acquired The Crown Group, Inc., a Florida corporation, and its wholly-owned savings bank subsidiary, Crown Bank, a Federal Savings Bank, hereinafter collectively referred to as "RAC". RAC, which had total assets of $731.1 million, and total deposits of $472.6 million as of June 30, 2002, operates Crown Bank in the Orlando and Tampa/St. Petersburg metropolitan areas through 14 full-service offices.

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

The Company also provides a full range of banking services in Puerto Rico through R-G Premier Bank of Puerto Rico (the "Bank"), a Puerto Rico commercial bank. Banking activities include commercial banking services, corporate and construction lending, consumer lending and credit cards, offering a diversified range of deposit products and, to a lesser extent, trust and other services through its private banking department.

Mortgage banking activities are conducted through R&G Mortgage Corp., Puerto Rico's second largest mortgage banker, The Mortgage Store of Puerto Rico, Inc., also a Puerto Rico mortgage company, and Continental Capital Corp., a New York mortgage banking company 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 corporation and a licensed broker-dealer.

The Company is the second largest mortgage loans originator and servicer of mortgage loans on single family residences in Puerto Rico. R&G Financial's mortgage servicing portfolio increased to approximately $11.1 billion as of June 30, 2002, from $6.9 billion as of the same date a year ago, an increase of 60.4%. During the second quarter of 2002 the Company acquired a servicing portfolio of $2.9 billion as part of the acquisition of Crown Bank. R&G Financial's strategy is to continue to increase the size of its mortgage servicing portfolio by relying principally on internal loan originations.

As part of its strategy to maximize net interest income, R&G Financial maintains a substantial portfolio of mortgage-backed and investment securities. At June 30, 2002, the Company held securities available for sale with a fair market value of $2.6 billion, which included $1.8 billion of mortgage-backed

19

securities, of which $505.8 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 June 30, 2002, total assets amounted to $5.9 billion, as compared to $4.7 billion at December 31, 2001, an increase of $1.2 billion or 25.9%. On June 7, 2002 the Company completed the acquisition of Florida based The Crown Group, Inc. ("Crown"), with total consolidated assets of $712.3 million at the time of acquisition. Excluding the increase in assets due to the Crown acquisition, total assets increased by $497.4 million or 10.7% from December 31, 2001. The $497.4 million increase in total assets was primarily the result of a $380.1 million or 18.3% increase in mortgage-backed and investment securities available for sale, and a $185.0 million or 10.3% increase in loans receivable, net.

At June 30, 2002, R&G Financial had $2.6 billion of borrowings (consisting of securities sold under agreements to repurchase, notes payable, FHLB advances and other borrowings), compared to $2.1 billion at December 31, 2001. R&G Financial utilized repurchase agreements and FHLB Advances to fund its growth during the period. Crown Bank had total deposits of $472.6 million as of June 30, 2002.

At June 30, 2002, R&G Financial's allowance for loan losses totaled $27.9 million, which represented a $10.5 million or 60.0% increase from the level maintained at December 31, 2001. The allowance for loan losses at June 30, 2002 includes $7.5 million of acquired reserves from the Crown acquisition. At June 30, 2002, R&G Financial's allowance represented approximately 1.09% of the total loan portfolio and 36.89% of total non-performing loans. However, excluding R&G Financial's residential loan portfolio, which has minimal charge-off experience, the allowance for loan losses to total loans and to total non-performing loans would have been 2.31% and 88.6%, respectively. The increase in the allowance for loan losses reflects the increase in R&G Financial's commercial real estate and construction loan portfolio.

Non-performing loans amounted to $75.6 million at June 30, 2002, a decrease of $3.1 million when compared to $72.5 million at December 31, 2001. During the quarter ended June 30, 2002, the Company sold approximately $27.3 million of non-performing residential mortgage loans. At June 30, 2002, $44.1 million or 58.4% of non-performing loans consisted of residential mortgage loans. Management attributes the increase in recent years to increased delays in the foreclosure process in Puerto Rico. Because of the nature of the real estate collateral, R&G Financial has historically recognized a low level of loan charge-offs. R&G Financial's aggregate charge-offs as a percentage of average loans outstanding amounted to 0.32% during 2001 and 0.17% during 2000. Although loan delinquencies have historically been higher in Puerto Rico than in the United States, actual foreclosures and any resulting loan charge-offs have historically been lower than in the United States. While the ratio of non-performing loans to total loans decreased from 3.79% to 2.95% from December 31, 2001 to June 30, 2002, such ratios were nonetheless larger than they would otherwise have been due to loan securitizations undertaken by the Company, which have reduced the amount of loans considered in the calculation of the ratio. Without giving effect to loan securitizations, at June 30, 2002 and December 31, 2001, the ratio of non-performing loans to total loans would have been 2.14% and 2.75%, respectively.

Stockholders' equity increased from $459.1 million at December 31, 2001 to $571.4 million at June 30, 2002. The $112.2 million or 24.4% increase was due primarily to the issuance of 2,760,000 shares of

20

the Company's 7.25% Monthly Income Preferred Stock, Series D, during the first half of 2002 for aggregate net proceeds of $66.6 million, the net income recognized during the period, net of dividends declared, and a $12.9 million increase in other comprehensive income, due to unrealized gains on securities available for sale during the period of $22.6 million ($13.8 million net of taxes).

RESULTS OF OPERATIONS

During the three and six months ended June 30, 2002, R&G Financial reported net income of $23.1 million and $44.6 million, or $0.59 and $1.17 of earnings per diluted share, respectively, compared to net income before the cumulative effect of a change in accounting principle of $15.4 million and $28.8

million or $0.43 and $0.81 of earnings per diluted share for the comparative periods in 2001, which reflects an increase in earnings per share of 37.2% and 44.4% for the three and six months periods ending June 30, 2002 over the comparable periods in 2001.

Net interest income increased by $28.5 million or 71.9% during the six month period ended June 30, 2002 to $68.1 million, primarily due to an increase in the average balance of interest-earning assets, together with a 67 basis point increase in the net interest margin from 2.29% to 2.96%. The provision for loan losses amounted to $9.6 million during the six months ended June 30, 2002, a 232.9% 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 six months ended June 30, 2002 over the prior comparable period. Net gain on sale of loans increased significantly, by $6.5 million or 24.0% over the prior comparable period, which was due both to an increased volume of loans originated and sold as well as increased profits made on loans sold. Loan administration and servicing fees also increased by $2.9 million or 17.6% over the comparable periods, due to the growth in the loan servicing portfolio.

Net interest income increased by $14.6 million or 68.3% to $36.0 million during the quarter ended June 30, 2002, due to an increase in the average balance of interest-earning assets, together with a 61 basis points increase in the net interest margin from 2.39% to 3.00%. Net gain on sale of loans increased 31.8% to $15.8 million during the three month ended June 30, 2002.

Total expenses increased by $14.8 million or 31.4% during the six months ended June 30, 2002 over the prior comparable period, primarily due to a $9.2 million or 37.6% increase in other administrative and general expenses, primarily due to increased amortization of the Company's servicing asset and increased advertising expenses to increase loan production and other marketing initiatives. Employee compensation and benefits increased by $4.7 million or 31.7% associated with general growth in Company operations as well as increased loan production. These increases were accompanied by a $947,000 or 11.8% increase in occupancy expenses.

Total expenses increased by $7.9 million or 33.2% during the three month period ended June 30, 2002 over the prior comparable period, due to a $5.1 million or 41.0% increase in other general and administrative expenses, a $2.2 million or 30.8% increase in employee compensation and benefits, and a $587,000 or 14.3% increase in occupancy expenses.

INTEREST RATE RISK MANAGEMENT

The following table summarizes the anticipated maturities or repricing of R&G Financial's interest-earning assets and interest-bearing liabilities as of June 30, 2002, based on the information and assumptions set forth in the notes below. For purposes of this presentation, the interest earning components of loans held for sale and mortgage-backed securities held in connection with the Company's mortgage banking business as well as all securities held for trading, are assumed to mature within one year. In addition, investments held by the Company which have call features are presented according to their contractual maturity date.

(Dollars in thousands)	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Year

Interest-earning assets(1):				
Loans receivable	1,063,013	241,958	360,980	218,597
Mortgage loans held for sale	60,995	169,001		
Mortgage-backed securities(2)(3)	157,891	418,677	296,150	236,901
Investment securities(3)	165,177	190,556	304,624	84,558
Other interest-earning assets(4)	33,704	300		
Total	1,480,780	1,020,492	961,754	540,056
Interest-bearing liabilities:				
Deposits(5)				
NOW and Super NOW accounts	17,322	48,502	53,318	43,188
Passbook saving accounts	6,987	20,265	50,455	40,364
Regular and commercial checking	13,593	38,065	41,845	33,895
Certificates of deposit	319,373	633,130	359,309	318,384
FHLB advances	169,000	33,000	193,725	301,000
Securities sold under agreements to repurchase(6)	627,198	446,357	200,639	190,000
Other borrowings(7)	65,416	133,850	435	
Total	1,218,889	1,353,169	899,726	926,831
Effect of hedging instruments	180,000	(10,000)	--	(90,000)
Excess (deficiency) of interest-earnings assets over interest-bearing liabilities	441,891	(342,677)	62,028	(476,775)
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	441,891	99,214	161,242	(315,533)
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	7.52%	1.69%	2.74%	(5.37)%

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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 agreements 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 June 30, 2002, the Company had a one year positive gap of approximately $99.2 million which constituted 1.7% 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 June 30, 2002 and December 31, 2001 is due primarily to an increasing amount of adjustable rate loans resulting from greater emphasis in commercial and construction lending as well as to the extension during 2001 and 2002 of the maturity dates of certain borrowings of the Company into longer-term maturities at very attractive rates, taking advantage of reduced interest rates during such period. The Company estimates that as of June 30, 2002, close to 43.9% of all borrowings of the Company had maturity dates longer than one year. In addition, the Company has entered into certain derivative instruments and increased its portfolio of investment securities held for trading, reducing its gap exposure.

While the above table presents the Company's loans receivable portfolio held for investment purposes according to its maturity date, from time to time the Company may negotiate special transactions with FHLMC and/or FNMA or other third party investors for the sale of such loans. There can be no assurance, however, that the Company will be successful in consummating any such transactions.

21

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.

22

	For the three month period			
	2002			
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Ave Bal
Interest-earning assets:				
Cash and cash equivalents(1)	$69,505	$364	2.09%	
Investment securities available for sale	561,682	8,167	5.82	4
Investment securities held to maturity	24,137	329	5.45	
Mortgage-backed securities held for trading	82,130	1,113	5.42	1
Mortgage-backed securities available for sale	1,739,599	27,199	6.25	1,1

Mortgage-backed securities held to maturity	50,087	729	5.82	
Loans receivable, net (2)	2,195,686	38,980	7.10	1,8
FHLB of New York stock	76,726	734	3.83	
Total interest-earning assets	4,799,552	$77,615	6.47%	3,5
Non-interest-earning assets	312,196			3
Total assets	$5,111,748			$3,8
Interest-bearing liabilities:				
Deposits	$2,255,429	$20,764	3.68%	$1,7
Securities sold under agreements to repurchase (3)	1,512,876	12,713	3.36	9
Notes payable	269,235	1,585	2.35	2
Other borrowings(4)	604,288	6,504	4.31	4
Total interest-bearing liabilities	4,641,828	$41,566	3.58%	3,4
Non-interest-bearing liabilities	130,047			1
Total liabilities	4,771,875			3,5
Stockholders' equity	339,873			3
Total liabilities and stockholders' equity	$5,111,748			$3,8
Net interest income; interest rate spread (5)		$36,049	2.89%	
Net interest margin			3.00%	
Average interest-earning assets to average interest-bearing liabilities			103.40%	

(footnote on page 26)

(Dollars in thousands)	For the six month period en 2002 Average Balance	Interest	Yield/ Rate	Ave Bal

Interest-earning assets:				
Cash and cash equivalents(1)	$ 54,935	$ 596	2.17%	$
Investment securities available for sale	551,936	15,921	5.77	
Investment securities held to maturity	23,913	651	5.44	
Mortgage-backed securities held for trading	87,556	2,374	5.42	
Mortgage-backed securities available for sale	1,617,957	50,354	6.22	1,
Mortgage-backed securities held to maturity	50,725	1,490	5.87	
Loans receivable, net (2)	2,136,038	77,483	7.25	1,
FHLB of New York Stock	72,078	1,465	4.07	
Total interest-earning assets	4,595,138	$ 150,334	6.54%	3,
Non-interest-earning assets	367,492			
Total assets	$4,962,630			$3,
Interest-bearing liabilities:				
Deposits	$2,159,265	$ 41,590	3.85%	$1,
Securities sold under agreements to repurchase (3)	1,411,513	25,056	3.55	
Notes payable	263,155	3,357	2.55	
Other borrowings(4)	549,516	12,277	4.47	
Total interest-bearing liabilities	4,383,449	$ 82,280	3.75%	3,
Non-interest-bearing liabilities	247,559			
Total liabilities	4,631,008			3,
Stockholders' equity	331,622			
Total liabilities and stockholders' equity	$4,962,630			$3,
Net interest income; interest rate spread (5)		$ 68,054	2.79%	
Net interest margin			2.96%	
Average interest-earning assets to average interest-bearing liabilities			104.83%	

(footnotes on following page)

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

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

(3) Includes federal funds purchased.

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

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

MORTGAGE LOAN SERVICING

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

	At or for the six months ended June 30,	
	2002	2001
	(Dollars in thousands)	
Composition of Servicing Portfolio at period end:		
GNMA	$ 2,801,568	$ 2,974,223
FNMA/FHLMC	5,402,976	2,175,019
Other mortgage loans (3)	2,906,365	1,778,375
Total servicing portfolio (3)	$ 11,110,909	$ 6,927,617
Activity in the Servicing Portfolio:		
Beginning servicing portfolio	$ 7,224,571	$ 6,634,059
Add: Loan originations and purchases	970,064	936,008
Servicing of portfolio loans acquired (4)	3,756,870	1,736
Less: Sale of servicing rights(1)	(105,090)	(103,746)
Run-offs(2)	(735,506)	(540,440)
Ending servicing portfolio(3)	$ 11,110,909	$ 6,927,617
Number of loans serviced	162,311	112,098
Average loan size	$ 68	$ 62

Average servicing fee rate	0.48%	0.51%

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

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

(3) At the dates shown, included $913.7 million and $986.2 million of loans serviced for the Bank, respectively, which constituted 8.2% and 14.5% of the total servicing portfolio, respectively, and $392.7 million of loans in Crown Bank's own portfolio as of June 30, 2002, or 3.5% of the total servicing portfolio at such date.

(4) Includes $2.9 billion acquired through Crown Bank acquisition in June 2002.

A large portion of the mortgage loans in R&G Financial's servicing portfolio are secured by single (one-to-four) family residences secured by real estate located in Puerto Rico. At June 30, 2002, 62.4% of the Company's mortgage servicing portfolio was related to mortgages secured by real property located in Puerto Rico.

The Company reduces the sensitivity of its servicing income to increases in prepayment rates through a strong retail origination network that has increased or maintained the size of R&G Financial's servicing portfolio even during periods of high prepayments. In addition, a substantial portion of the Company's servicing portfolio consists of tax-exempt FHA/VA mortgage loans in Puerto Rico which carry lower interest rates than those on conventional loans, which tends to reduce risks related to R&G Financial's servicing portfolio. During the six month periods ended June 30, 2002 and 2001, the Company recognized $3.4 million and $1.4 million, 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 June 30, 2002, the Company had $113.2 million in borrowing capacity under unused warehousing and other lines of credit, $696.2 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 June 30, 2002, the Company had outstanding commitments to originate and/or purchase mortgage and non-mortgage loans of $105.0 (including unused lines of credit) million. Certificates of deposit which are scheduled to mature within one year totaled $949.0 million at June 30, 2002, and borrowings that are scheduled to mature within the same period amounted to $1.5 billion. The Company anticipates that it will have sufficient funds available to meet its current loan commitments.

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

The FDIC's capital regulations establish a minimum 3.0 % Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier 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 June 30, 2002, the Bank met each of its capital requirements, with Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios of 6.61%, 12.46% and 13.38%, respectively. At June 30, 2002 Crown Bank also met each of its capital requirements, with Tier 1 (core) capital, Tier 1 risk-based capital and total risk-based capital ratios of 8.61%, 12.01% and 13.23%, respectively.

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

CRITICAL ACCOUNTING POLICIES

The Company considers its Allowance for Loan Losses policy as a policy critical to its sound operations. The Company provides for loan losses each period by an amount resulting from both (a) an estimate by management of loan losses that occurred during the period and (b) the ongoing adjustment of prior estimates of losses occurring in prior periods. The provision for loan losses increases the allowance for loan losses which is netted against loans on the consolidated statements of financial condition. As losses are confirmed, the loan is written down, reducing the allowance for loan losses. See Note 1 of the Notes to the Consolidated Financial Statements as of December 31, 2001 for further information regarding the Company's provision and allowance for loan losses policy.

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

As of June 30, 2002, the Company had a servicing asset of $146.2 million, and retained interests (CMO residuals and interest only strips) resulting from financial asset transfers accounted for as sales totaling $19.2 million. Such assets are initially recorded at their fair value at the time of sale or securitization. Once recorded, such assets are periodically evaluated and adjusted accordingly using discounted future cash flows techniques, via Company simulation models and through external consultants. Generally, the value of such assets decline with decreases in interest rates and conversely increases when interest rates increase. An impairment is recognized on the Company's servicing asset whenever the prepayment pattern of the underlying mortgage loans indicates that the fair value of such asset is lower than its carrying amount. Retained interests are adjusted periodically to their estimated fair value, and are included within mortgage-backed securities available for sale on the consolidated statements of financial condition. See Notes 1 and 3 of the Notes to the Consolidated Financial Statements as of December 31, 2001 for further information regarding the Company's servicing asset and retained interests policy.

RECENT LEGISLATION

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

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

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

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

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risks at December 31, 2001 are presented in Item 7A of the Company's Annual report on Form 10-K. Information at June 30, 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.

28

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

The Company's Annual Meeting of Stockholders was held on April 30, 2002.

1. With respect to the election of four directors to serve three-year terms expiring at the Annual Meeting of Stockholders to be held in the year 2005 or until their respective successors are elected and qualified, the following were the number of shares voted for each nominee:

Victor J. Galan	Class A - For 16,053,056	Withheld 0	Against 0
	Class B - For 11,842,000	Withheld 0	Against 1,443,597
Ramon Prats	Class A- For 16,053,056	Withheld 0	Against 0
	Class B - For 13,052,243	Withheld 0	Against 233,354
Enrique Umpierre-Suarez	Class A- For 16,053,056	Withheld 0	Against 0
	Class B- For 11,874,321	Withheld 0	Against 1,411,276
Eduardo McCormack	Class A- For 16,053,056	Withheld 0	Against 0
	Class B - For 13,087,016	Withheld 0	Against 198,581

2. With respect to the ratification of the appointment of PricewaterhouseCoopers, LLP as the Company's independent auditors for the fiscal year ending December 31, 2002, the following are the number of shares voted:

Class A - For 16,053,056	Withheld 0	Against 0
Class B - For 13,197,390	Withheld 2,190	Against 86,017

3. With respect to the amendment of the Company's Certificate of Incorporation to increase the authorized number of shares of preferred stock from 10,000,000 to 20,000,000, the following are the number of shares voted:

Class A - For 16,053,056	Withheld 0	Against 0
Class B - For 3,629,268	Withheld 5,558,441	Against 4,097,888

4. With respect to the amendment of the Company's Certificate of Incorporation to increase the authorized number of shares of Class B Common Stock from 30,000,000 to 60,000,000, the following are the number of shares voted:

Class A -	For 16,053,056	Withheld 0	Against 0
Class B -	For 12,717,736	Withheld 21,201	Against 546,660

ITEM 5: Other Information

Not applicable.

ITEM 6: Exhibits and Reports on Form 8-K

(a) Exhibits

No.	Description
2.1	Amended and Restated Agreement and Plan of Merger by and between R&G Financial Corporati Puerto Rico and R-G Interim Premier Bank, dated as of September 27, 1996(1)
2.2	Agreement and Plan of Reorganization by and among R&G Financial Corporation, R&G Acquisi Corporation, The Crown Group, Inc. and Crown Bank, a Federal Savings Bank dated as of De
3.1.0	Certificate of Incorporation of R&G Financial Corporation (3)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of R&G Financial Corporatio
3.1.2	Amended and Restated Certificate of Incorporation of R&G Financial Corporation (4)
3.1.3	Amendment to the Amended and Restated Certificate of Incorporation of R&G Financial Corp
3.1.4	Second Amendment to Amended and Restated Certificate of Incorporation of R&G Financial C
3.1.5	Certificate of Resolutions designating the terms of the Series A Preferred Stock (6)
3.1.6	Certificate of Resolutions designating the terms of the Series B Preferred Stock (7)
3.1.7	Certificate of Resolutions designating the terms of the Series C Preferred Stock (12)
3.1.8	Certificate of Resolutions designating the terms of the Series D Preferred Stock (13)
3.2	Bylaws of R&G Financial Corporation (3)
4.0	Specimen of Stock Certificate of R&G Financial Corporation (3)
4.1	Form of Series A Preferred Stock Certificate of R&G Financial Corporation (9)
4.2	Form of Series B Preferred Stock Certificate of R&G Financial Corporation (10)
4.3	Form of Series C Preferred Stock Certificate of R&G Financial Corporation (11)
4.4	Form of Series D Preferred Stock Certificate of R&G Financial Corporation (14)
10.1	Master Custodian Agreement between R&G Mortgage Corporation and R-G Premier Bank of Puer as amended on June 27, 1996(3)
10.2	Master Production Agreement between R&G Mortgage and R-G Premier Bank of Puerto Rico dat on August 30, 1991 and March 31, 1995 (3)
10.3	Data Processing Computer Service Agreement between R&G Mortgage and R-G Premier Bank of 1994 (3)
10.4	Securitization Agreement by and between R&G Mortgage and R-G Premier Bank of Puerto Rico
10.5	R&G Financial Corporation Stock Option Plan (3)(*)
99.1	CEO/CFO Certification

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

(2) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on December 20, 2001.

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

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

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

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

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

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

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

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

(11) Incorporated by reference from the Registrant's Form 10-K filed with the SEC on April 14, 2001.

(12) Incorporated by reference from the Registrant's Form 10K filed with the SEC on April 14, 2001.

(13) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on March 7, 2002.

(14) Incorporated by reference from the Registrant's Registration Statement on From S-3 (File No. 333-81214) filed with the SEC on January 22, 2002.

(15) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on June 18, 2002.

(*) Management contract or compensatory plan or arrangement.

(b) Reports on Form 8K

(1) The Registrant filed a current report on Form 8-K on April 15, 2002, announcing the completion of the sale by R&G Capital Trust I of $25.0 million of trust preferred securities in a private placement.

(2) The Registrant filed a current report on Form 8-K on April 23, 2002, with respect to its first quarter earnings release.

(3) The Registrant filed a current report on Form 8-K on June 7, 2002, announcing the closing of its acquisition of The Crown Group, Inc. and fling the third amendment to the Agreement and Plan of Reorganization concerning the acquisition of The Crown Group, Inc.

(4) The Registrant filed a current report on Form 8-K on June 18, 2002, filing the Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant as filed with the Department of State of the Commonwealth of Puerto Rico on May 9, 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: August 16, 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)