FDIC State Profile

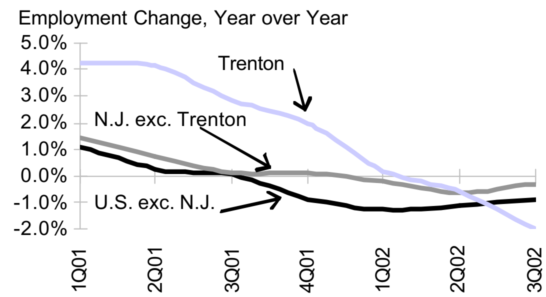
WINTER 2002

New Jersey

New Jersey is demonstrating economic resilience overall, but key industries face competition and weak fundamentals, which may hamper the state's near-term economic outlook.

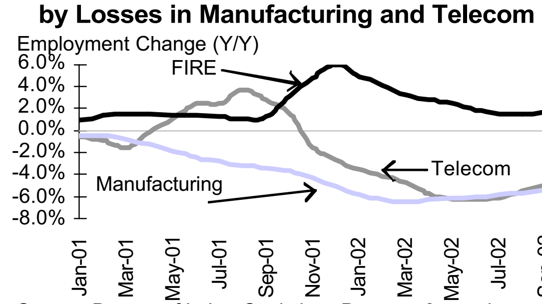
- New Jersey's employment losses occurred late in this economic downturn and have been shallow compared with the nation (see top chart). A few of the state's metro areas, however, are underperforming, with *Trenton*, showing the highest rate of job losses through third quarter 2002. Trenton, the state's capital, has been adversely affected by cutbacks in government spending due to fiscal problems. Employment in *Vineland* also has weakened, primarily because of job cuts in manufacturing and government.
- Employment in the state's finance, insurance and real estate (FIRE) sector surged after 9/11 as companies temporarily moved some operations out of Manhattan. However, the effects of these relocations have eroded, although job growth in the sector remains positive (see middle chart). Job declines in telecom, manufacturing and other sectors have offset gains in FIRE jobs in New Jersey.
- New Jersey's telecommunication firms continue to face overcapacity and soft demand pressuring earnings of service providers and equipment makers. Employment growth has been negative for the past year, and growth is not expected for several quarters. Lucent, Verizon and AT&T are among the state's largest employers, and all have announced layoffs.
- Large pharmaceutical companies continue to face fierce pressure from generic competitors, and are struggling to replenish a dwindling new product pipeline. Industry analysts estimate that generic products represent close to 50 percent of all drug sales. The industry's inventory-to-shipments ratio is climbing—a sign of weakening sector fundamentals.
- The Northern New Jersey office market continued to weaken (see bottom chart). In third quarter 2002 the office vacancy rate increased year-over-year from 13.8 percent to 16.2 percent, approximately equal to the national average. A moderate amount of new office space has been added over the past few quarters while demand has slackened.
- Single-family home prices have appreciated at double-digit rates for the past two years in *Newark*, *Bergen-Passaic*, and *Monmouth-Ocean;* but median household income has increased much more slowly, if at all. Although a "housing bubble" similar to the 1980s experience is not likely, home prices may be vulnerable to a rise in interest rates or a severe weakening in the economy.

New Jersey Job Losses Have Been Mild; But Trenton Has Weakened Recently



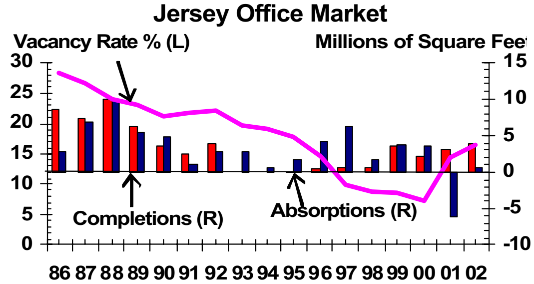
Source: Bureau of Labor Statistics

Gains in the FIRE Sector Have Been Offset by Losses in Manufacturing and Telecom



Source: Bureau of Labor Statistics. Data are 3-month moving averages

Softening Has Occurred in the Northern New Jersey Office Market

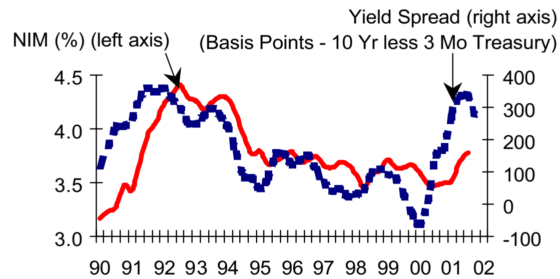


Source: Torto Wheaton Research. 2002 is an estimate.

Widening net interest margins (NIMs) helped boost profitability for most of New Jersey's insured institutions during the past year, but margin compression may resume.[1]

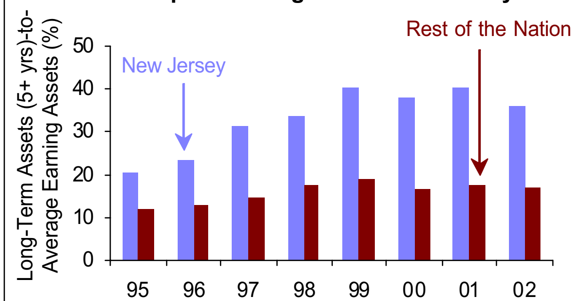
- The median NIM increased following steepening in the Treasury yield curve in 2001 and the first half of 2002 (see top chart). Significant reduction in short-term interest rates helped lower banks' funding costs and more than offset the decline in asset yields that reflected the decline in long-term interest rates. NIM widening was widespread, as four of five of the state's insured institutions reported a higher NIM in second quarter 2002 compared with a year earlier.
- During third quarter 2002, however, the yield curve flattened as long-term interest rates neared historic lows, and short-term interest rates stabilized, trends that could limit margin improvement in coming quarters.
- Historically low long-term interest rates have contributed to record refinancing levels nationally, as consumers have locked in long-term, fixed-rate residential mortgage loans. Asset maturities have lengthened on average, and liability maturities have remained short.
- New Jersey's median ratio of long-term assets-to-total assets remains well above that of the rest of the nation (see middle chart). A higher concentration of residential lenders in New Jersey (37 percent) compared with the rest of the nation (10 percent), and more widespread use of long-term mortgage products in the large metropolitan areas of the Northeast compared with the rest of the nation, contributed to the higher ratio.

NIMs Benefit from Steepening Yield Curve in 2002



Note: Excludes institutions less than three years old. Median data displayed. NIM figures are through 2q02. Yield Spread data are through 3q02. Source: Bank and Thrift Call Reports

Long-Term Asset Concentrations are Widespread Among Banks in New Jersey

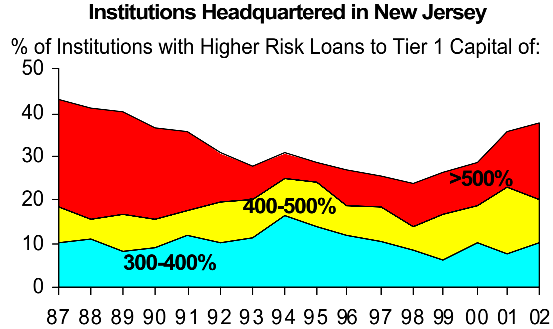


Note: Excludes credit card and agricultural banks, thrifts, and banks less than three years old. Median data displayed. Data for 2002 are as of June 30, 2002. Prior period data are as of December 31st. Source: Bank Call Reports

Credit quality has remained favorable among insured institutions headquartered in New Jersey despite the economic downturn. However, exposure to traditionally higher-risk loans has increased in recent years.

- The median loan delinquency rate among insured institutions headquartered in New Jersey remained stable during the past year and, at .97 percent, is the fourth lowest among all states. However, as credit quality typically lags the business cycle, loan performance may yet weaken, even if the state's economic recovery strengthens.
- The percentage of insured institutions that hold traditionally higher-risk loan (HRL) concentrations of at least 300 percent of capital has increased (see bottom chart). Almost one-half of these institutions were chartered during the 1990s expansion, most in central and northern New Jersey, and until recently, had not experienced an economic slowdown. While concentrations have increased, the median HRL concentration for insured institutions headquartered in New Jersey remains below the national average.

Exposures to Higher Risk Loans have Risen at Institutions Headquartered in New Jersey



Higher-Risk Loans is the total of construction & development, commercial real estate, and commercial & industrial loans. Source: Bank and Thrift Call Reports

[1] Data are as of June 30, 2002, unless otherwise noted.

New Jersey at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	153	151	149	145	156
Total Assets (in thousands)	127,335,605	111,729,706	160,260,179	145,349,084	133,979,083
New Institutions (# <3 years)	21	29	23	19	11
New Institutions (# <9 years)	43	43	36	27	24
Capital					
Tier 1 Leverage (median)	9.70	10.54	9.64	9.31	9.20
Asset Quality					
Past-Due and Nonaccrual (median %)	0.93%	0.83%	0.88%	1.26%	1.72%
Past-Due and Nonaccrual ≥ 5%	6	8	8	14	18
ALLL/Total Loans (median %)	0.98%	0.96%	0.90%	0.95%	0.98%
ALLL/Noncurrent Loans (median multiple)	2.17	2.11	1.95	1.36	1.07
Net Loan Losses/Loans (aggregate)	0.24%	0.23%	0.29%	0.28%	0.26%
Earnings					
Unprofitable Institutions (#)	21	26	23	20	11
Percent Unprofitable	13.73%	17.22%	15.44%	13.79%	7.05%
Return on Assets (median %)	0.83	0.66	0.78	0.77	0.91
25th Percentile	0.52	0.26	0.42	0.45	0.62
Net Interest Margin (median %)	3.73%	3.51%	3.74%	3.60%	3.70%
Yield on Earning Assets (median)	6.23%	7.13%	7.33%	7.00%	7.38%
Cost of Funding Earning Assets (median)	2.39%	3.70%	3.62%	3.34%	3.73%
Provisions to Avg. Assets (median)	0.10%	0.08%	0.07%	0.08%	0.08%
Noninterest Income to Avg. Assets (median)	0.38%	0.37%	0.38%	0.36%	0.37%
Overhead to Avg. Assets (median)	2.79%	2.83%	2.72%	2.66%	2.60%
Liquidity/Sensitivity					
Loans to Deposits (median %)	69.23%	69.75%	71.25%	68.67%	65.77%
Loans to Assets (median %)	57.40%	58.23%	58.77%	56.36%	55.05%
Brokered Deposits (# of Institutions)	18	12	12	11	13
Bro. Deps./Assets (median for above inst.)	5.43%	11.54%	1.42%	0.93%	1.01%
Noncore Funding to Assets (median)	14.94%	13.74%	13.79%	10.89%	9.79%
Core Funding to Assets (median)	73.98%	73.08%	74.05%	76.74%	78.30%
Bank Class					
State Nonmember	52	51	48	43	40
National	24	24	25	26	26
State Member	6	5	5	5	5
S&L	11	11	13	16	19
Savings Bank	34	34	31	29	37
Mutually Insured	26	26	27	26	29

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Newark NJ PMSA	33	14,923,541	21.57%	11.72%
Bergen-Passaic NJ PMSA	28	42,885,894	18.30%	33.68%
Middlesex-Somerset-Hunterdon NJ PMSA	23	26,521,827	15.03%	20.83%
Philadelphia PA-NJ PMSA	22	12,546,177	14.38%	9.85%
Jersey City NJ PMSA	12	15,194,486	7.84%	11.93%
Monmouth-Ocean NJ PMSA	11	5,323,347	7.19%	4.18%
Trenton NJ PMSA	10	4,816,044	6.54%	3.78%
Atlantic-Cape May NJ PMSA	9	1,995,411	5.88%	1.57%
Vineland-Millville-Bridgeton NJ PMSA	5	3,128,878	3.27%	2.46%