FDIC State Profile

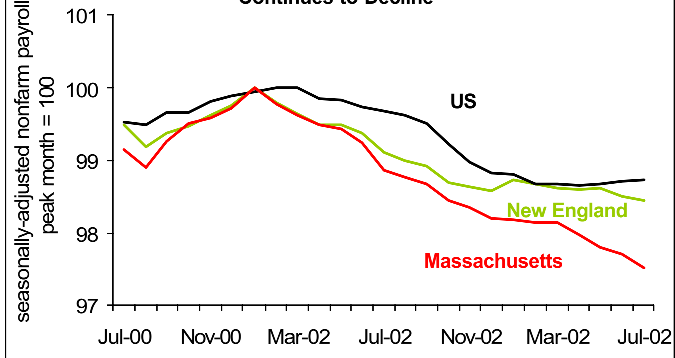
WINTER 2002

Massachusetts

Massachusetts is struggling the most of any New England state. Absent the dual catalysts of a strong technology sector and equity wealth effects, the economy continues to languish.

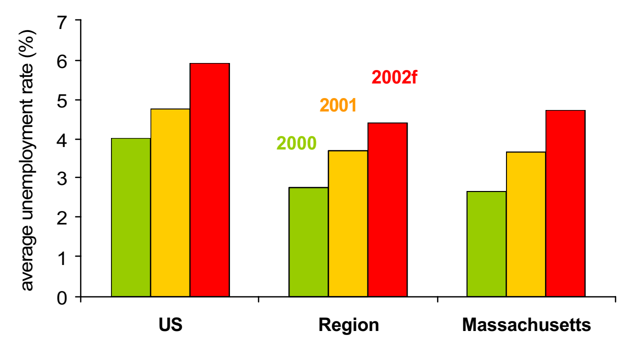
- Between January 2001 and July 2002, Massachusetts experienced the longest consecutive run of falling employment and the largest peak-to-trough percentage job loss in New England.
- Moreover, while employment in the other New England states had apparently stabilized during the first half of 2002, labor markets in Massachusetts continued to deteriorate (see top chart).
- Massachusetts is expected by the *New England Economic Project* to post the Region's highest unemployment rate this year; however, unlike the period following the last national recession in the early 1990s, the state's rate should not exceed the expected national average (see middle chart).
- Massachusetts benefited greatly from the strong stock market and information technology (IT) investment boom during the late 1990s due to the state's significant concentrations of employment in financial services and technology firms, as well as the businesses that support them.
- As a result, robust economic growth in Massachusetts in the late 1990s was strongly influenced by these developments, and the decline of these economic catalysts now is an added burden to the state's weakened economy.
- Massachusetts' housing market has remained robust in the face of recession. For typical households, steady home price appreciation has provided a strong offset to any wealth lost to the stock market.
- Some deceleration in the state's pace of home price appreciation was evident during the past eighteen months. Despite this, the current rate of appreciation (which is still well in excess of income growth) may prove unsustainable—particularly in the state's potentially overheated greater Boston market (see bottom chart).
- With continued weakness in national business investment and U.S. equity markets a distinct possibility, the recent malaise in the state's IT and financial services sectors seems likely to linger and impede economic growth for the remainder of this year.

Unlike the Nation, Massachusetts Employment Continues to Decline



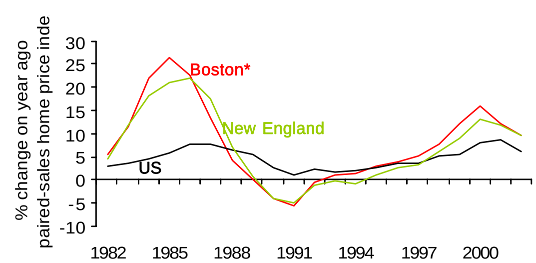
Source: BLS

The State's Unemployment Rate Is Forecast to Rise, but Stay Below the Ultimate National Peak



Source: BLS & 2002 forecast from the New England Economic Project

Home Equity Gains May Offset Lost Shock Wealth, but Recent Pace of Home Price Appreciation Raises Concern



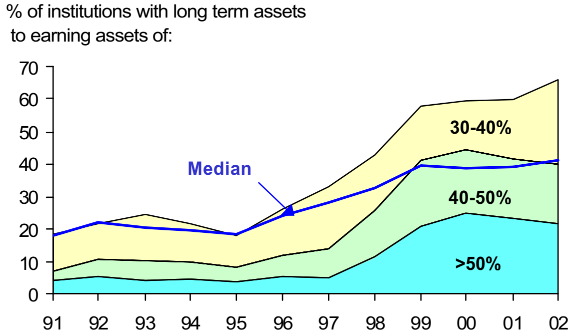
* Note: Massachusetts and Boston trends nearly identical

Source: OFHEC

Interest Rate Risk remains a concern for Massachusetts institutions that increased concentrations of fixed, long-term assets during the recent refinancing waves.

- With the conventional 30-year mortgage rate below 7.25 percent for the past 18 months, refinancing activity has been strong as borrowers seek to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions. Median long-term assets to earning assets is the highest it has been in the last decade (36 percent) and continues to rise, as one quarter of Massachusetts' institutions had long-term asset concentrations greater than 50 percent as of second quarter 2002. Strong long-term asset growth has been widespread in the state, with a median growth rate of 10 percent over the past year.
- This trend is especially pronounced in the state, as is true for the rest of New England, due to the large percentage of thrifts and residential lenders. Savings institutions represent 81 percent of insured institutions in Massachusetts, and residential real estate loans comprise 65 percent of the average loan portfolio in the state.

Long Term Asset Concentrations Have Risen In Many Institutions in Massachusetts, Suggesting Increased Exposure



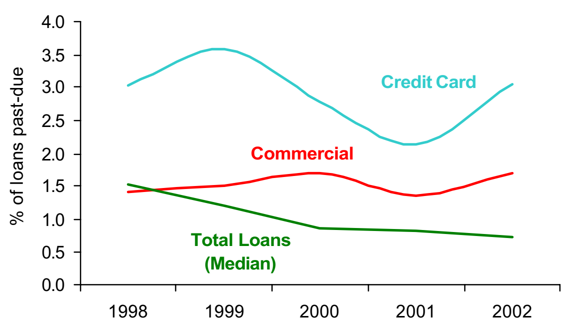
Source: Bank and Thrift Call Reports, Data Through 2nd Quarter

- Earnings could be pressured at those institutions with large concentrations in fixed-rate assets as margin compression may occur when interest rates rise with the recovering economy.

Although overall credit quality improved during the second quarter, certain loan delinquencies deteriorated and could become more pronounced with the weak economy.

- The median past-due ratio improved during the second quarter of 2002; however, commercial loan and credit card delinquencies increased at some institutions over the past year. This trend was particularly apparent in the *Boston* MSA.
- One quarter of Massachusetts' banks and thrifts report high-risk1 loan concentrations of at least 300 percent of capital, and the median high-risk[1] loan concentration ratio for the state continues to rise. The *Lowell*, MA MSA had the sixth highest median high-risk loan concentration (304 percent) of all New England MSAs as of the second quarter, and exposure levels continue to increase.
- Portfolios in the state have been shifting towards traditionally higher-risk loans due to strong commercial, commercial real estate and construction loan growth over past few years, which could contribute to further deterioration in asset quality.
- As the Massachusetts economy continues to struggle, delinquencies may increase as weakness in credit quality often lags the bottom of a business cycle.

Credit Quality Has Deteriorated in Certain Loan Categories in Massachusetts (All Institutions)



Source: Bank and Thrift Call Reports, Data as of 2nd Quarter

[1] High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

Massachusetts at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	220	227	229	233	240
Total Assets (in thousands)	191,190,802	178,588,828	162,329,662	209,266,436	192,065,098
New Institutions (# < 3 years)	3	2	3	2	3
New Institutions (# < 9 years)	6	7	8	6	7
Capital					
Tier 1 Leverage (median)	9.23	9.49	9.90	9.41	9.51
Asset Quality					
Past-Due and Nonaccrual (median %)	0.73%	0.82%	0.86%	1.22%	1.53%
Past-Due and Nonaccrual >= 5%	4	3	5	10	16
ALLL/Total Loans (median %)	0.99%	0.98%	0.98%	1.01%	1.02%
ALLL/Noncurrent Loans (median multiple)	4.75	4.43	3.78	2.84	2.05
Net Loan Losses/Loans (aggregate)	0.13%	0.07%	0.08%	0.26%	0.34%
Earnings					
Unprofitable Institutions (#)	6	7	5	5	4
Percent Unprofitable	2.73%	3.08%	2.18%	2.15%	1.67%
Return on Assets (median %)	0.84	0.77	0.88	0.83	0.95
25th Percentile	0.63	0.51	0.63	0.59	0.73
Net Interest Margin (median %)	3.77%	3.58%	3.72%	3.62%	3.83%
Yield on Earning Assets (median)	6.34%	7.32%	7.34%	7.12%	7.57%
Cost of Funding Earning Assets (median)	2.62%	3.79%	3.62%	3.46%	3.74%
Provisions to Avg. Assets (median)	0.04%	0.04%	0.04%	0.04%	0.03%
Noninterest Income to Avg. Assets (median)	0.39%	0.40%	0.37%	0.35%	0.35%
Overhead to Avg. Assets (median)	2.64%	2.66%	2.65%	2.65%	2.69%
Liquidity/Sensitivity					
Loans to Deposits (median %)	76.34%	80.26%	82.46%	77.67%	77.10%
Loans to Assets (median %)	61.74%	65.23%	66.19%	64.37%	64.13%
Brokered Deposits (# of Institutions)	14	14	15	19	23
Bro. Deps./Assets (median for above inst.)	1.24%	0.72%	0.74%	0.48%	0.19%
Noncore Funding to Assets (median)	16.62%	16.16%	15.15%	12.66%	11.82%
Core Funding to Assets (median)	72.26%	71.97%	72.61%	75.03%	76.51%
Bank Class					
State Nonmember	26	28	28	30	30
National	13	12	13	12	13
State Member	2	2	2	2	2
S&L	6	7	7	7	7
Savings Bank	15	14	15	15	16
Mutually Insured	158	164	164	167	172

MSA Distribution	# of Inst.	Assets	% Inst.	% Assetst
Boston MA-NH PMSA	130	157,314,775	59.09%	82.28%
Worcester MA-CT PMSA	15	3,721,629	6.82%	1.95%
No MSA	15	3,539,680	6.82%	1.85%
Springfield MA	14	6,994,807	6.36%	3.66%
Brockton MA PMSA	10	1,889,875	4.55%	0.99%
Lawrence MA-NH PMSA	9	3,032,850	4.09%	1.59%
Pittsfield MA	7	2,419,347	3.18%	1.27%
Providence-Fall River-Warwick RI-MA	6	3,918,438	2.73%	2.05%
Lowell MA-NH PMSA	5	1,583,952	2.27%	0.83%
Fitchburg-Leominster MA PMSA	4	667,684	1.82%	0.35%
Barnstable-Yarmouth MA	3	2,877,776	1.36%	1.51%
New Bedford MA PMSA	2	3,229,989	0.91%	1.69%

Source: Bank and Thift Call Reports