FDIC State Profile

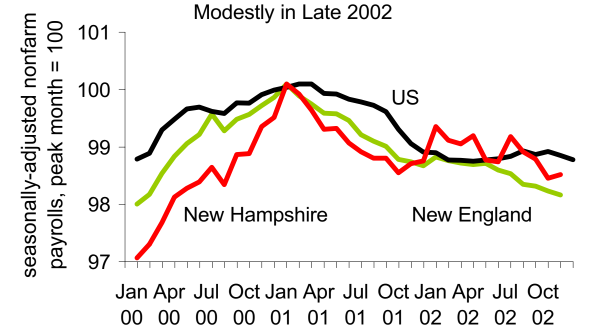
SPRING 2003

New Hampshire

New Hampshire's economy has been undermined by weakness in manufacturing and technology (IT), and the future performance of these sectors will have a direct effect on the state's economic prospects in 2003.

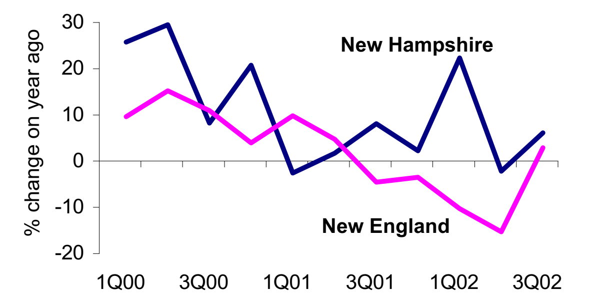
- Despite some modest stabilization during late summer, the state's employment inched lower late last year (see **Chart 1**).
- The state's rural northern counties have suffered from job losses in non-IT manufacturing industries, such as pulp and paper mills, but these employers have shown recent signs of stabilization.
- Due in part to southern New Hampshire's reliance on IT-related jobs, the state saw New England's most pronounced deterioration in per capita income growth between year-end 2000 and mid-2002.
- Tax revenue collections are down in New Hampshire. However, without the dependence on cyclical personal income tax revenue, the effect is the least pronounced of all New England states (see **Chart 2**).
- Spending cuts and hiring freezes have been enacted to close the $58 million budget gap in fiscal year 2003, and more policy actions are likely with a $148 million deficit in fiscal year 2004.

Chart 1: New Hampshire's Employment Eased Modestly in Late 2002



Source: BLS, SIC basis

Chart 2: State Tax Revenues Were Weak During the Economic Downturn, But Fared Better than New England

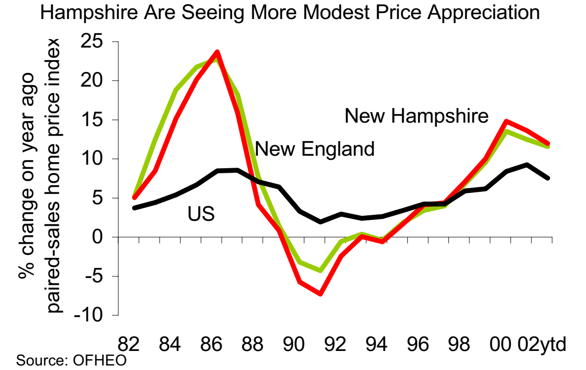


Source: Rockefeller Institute

New Hampshire's housing market remains a pocket of strength.

- New Hampshire's housing market boomed during the latter half of the 1990s, posting the strongest sales gain of any state in New England.
- The state's housing market has benefited from its proximity to Boston's higher-cost housing markets in recent years.
- Also, until recently, New Hampshire housing was boosted by strong IT-related job growth and steady demand for second/vacation homes.
- The current economic downturn has led to a somewhat slower rate of home price appreciation, but significant price declines appear unlikely unless the IT slump and/or national economic weakness are protracted (see **Chart 3**).

Chart 3: Like Massachusetts, Housing Markets in New Hampshire Are Seeing More Modest Price Appreciation

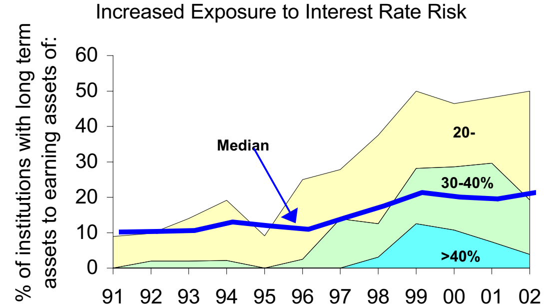


Source: OFHEO

Interest Rate Risk remains a concern for institutions with increased concentrations of fixed, long-term assets, resulting from the recent refinancing waves.

- With the conventional 30-year mortgage rate below 7.0 percent for the past 12 months, refinancing activity has been strong as borrowers continue to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions without matching liability extension. During the past year, median long-term assets increased 20 percent, the highest levels in a decade. One-fifth of New Hampshire's institutions have long-term asset concentrations greater than 30 percent of earning assets (see **Chart 4**).
- The extension of asset maturities is especially pronounced in the state, as well as New England, due to the large percentage of thrifts and residential lenders. Savings institutions represent over half of insured institutions in New Hampshire, and residential real estate loans comprise 53 percent of the average loan portfolio in the state.

Chart 4: Long Term Asset Concentrations Have Risen In Many Institutions in New Hampshire, Suggesting Increased Exposure to Interest Rate Risk

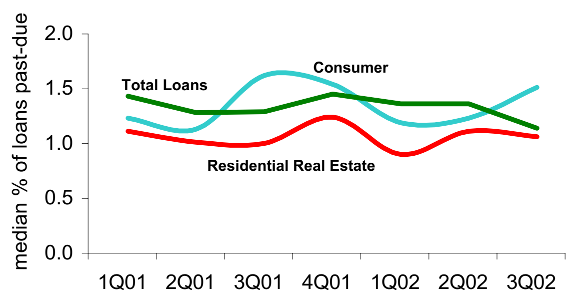


Source: Bank Call Reports, Data Through 3rd Quarter

While overall credit quality continued to improve during the third quarter, some deterioration in consumer loan quality was observed, which could become more pronounced with the struggling economy.

- The median past-due ratio improved slightly during the third quarter of 2002. However, the consumer delinquency rate has increased over the past few quarters as income growth has decelerated and personal bankruptcy filings have increased, and residential real estate loans past-due are higher than year-ago levels (see **Chart 5**). Should household financial conditions continue to weaken, residential and consumer past-due levels may increase further.
- Over forty-five percent of New Hampshire's banks and thrifts report high-risk[1] loan concentrations of at least 300 percent of capital as of third quarter 2002. The median high-risk loan to capital ratio for the state is the third highest in the Region (283 percent) and continues to increase. The ***Manchester*** MSA had the highest high-risk concentration ratio out of all MSAs in New England as of third quarter 2002 (484 percent), and exposure levels continue to rise.

Chart 5: Credit Quality Has Deteriorated in Certain Loan Categories in New Hampshire Insured Institutions



Source: Bank and Thrift Call Reports

- Portfolios in the state have been shifting towards traditionally higher-risk loans due to strong commercial, construction, and commercial real estate loan growth over the past few years, which could contribute to deterioration in asset quality.

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

New Hampshire at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	32	34	35	39	39
Total Assets (in thousands)	29,167,162	35,676,142	31,705,348	28,361,307	22,568,989
New Institutions (# < 3 years)	0	2	2	3	3
New Institutions (# < 9 years)	3	4	5	4	5

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.18	8.73	8.43	8.88	8.89

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.09%	1.24%	1.08%	1.40%	1.96%
Past-Due and Nonaccrual ≥ 5%	1	3	1	1	5
ALLL/Total Loans (median %)	1.13%	1.16%	1.30%	1.38%	1.34%
ALLL/Noncurrent Loans (median multiple)	3.14	2.42	3.52	3.31	1.90
Net Loan Losses/Loans (aggregate)	14.23%	6.02%	4.55%	2.57%	2.64%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	2	3	2	2	
Percent Unprofitable	0.00%	5.88%	8.57%	5.13%	5.13%
Return on Assets (median %)	1.00	0.88	1.01	0.98	1.06
25th Percentile	0.77	0.65	0.70	0.79	0.87
Net Interest Margin (median %)	4.39%	4.17%	4.25%	4.17%	4.37%
Yield on Earning Assets (median)	6.63%	7.74%	7.90%	7.64%	8.10%
Cost of Funding Earning Assets (median)	2.29%	3.66%	3.76%	3.42%	3.83%
Provisions to Avg. Assets (median)	0.10%	0.08%	0.10%	0.12%	0.12%
Noninterest Income to Avg. Assets (median)	0.54%	0.55%	0.45%	0.55%	0.55%
Overhead to Avg. Assets (median)	3.03%	3.11%	3.14%	3.07%	2.99%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	77.22%	80.04%	83.18%	78.16%	80.99%
Loans to Assets (median %)	63.93%	68.15%	68.72%	66.75%	68.51%
Brokered Deposits (# of institutions)	1	1	3	4	7
Bro. Deps./Assets (median for above inst.)	47.79%	50.29%	1.58%	1.42%	1.45%
Noncore Funding to Assets (median)	15.64%	15.85%	13.08%	11.64%	11.55%
Core Funding to Assets (median)	71.47%	71.16%	72.59%	76.33%	77.72%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	9	9	10	13	12
National	5	6	6	6	6
State Member	0	0	0	1	1
S&L	1	1	1	1	1
Savings Bank	5	6	6	6	6
Mutually Insured	12	12	12	12	13

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	22	21,256,536	68.75%	72.88%
Portsmouth-Rochester NH-ME PMSA	4	594,843	12.50%	2.04%
Manchester NH PMSA	2	6,622,842	6.25%	22.71%
Lawrence MA-NH PMSA	2	433,487	6.25%	1.49%
Nashua NH PMSA	1	11,275	3.13%	0.04%
Boston MA-NH PMSA	1	248,179	3.13%	0.85%