

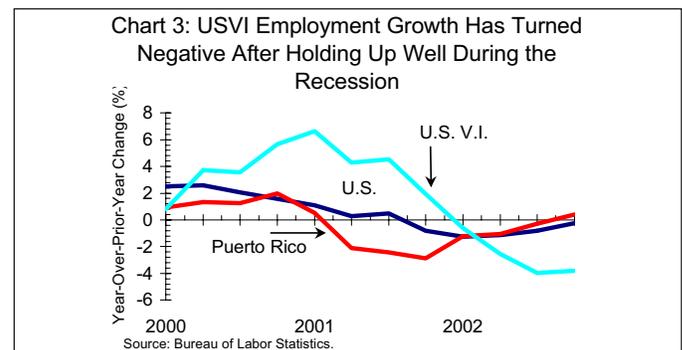
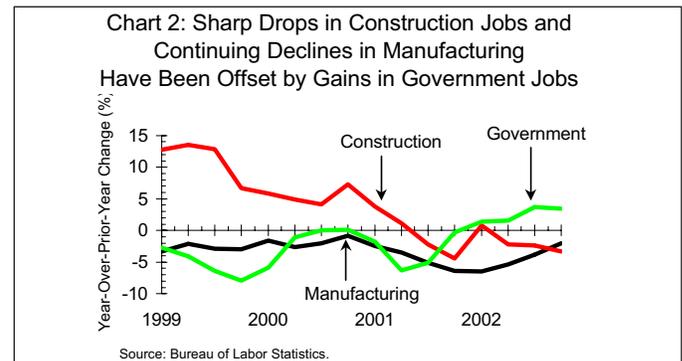
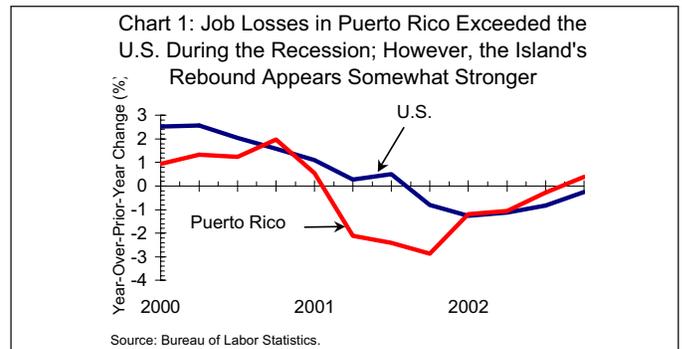
# FDIC State Profile

SPRING 2003

## Puerto Rico and the U.S. Virgin Islands

The Puerto Rico economy contracted more sharply than the nation during the 2001 recession. However, the rate of job loss on the island eased considerably during 2002. The U.S. Virgin Islands' economy also lagged the national economy in 2002.

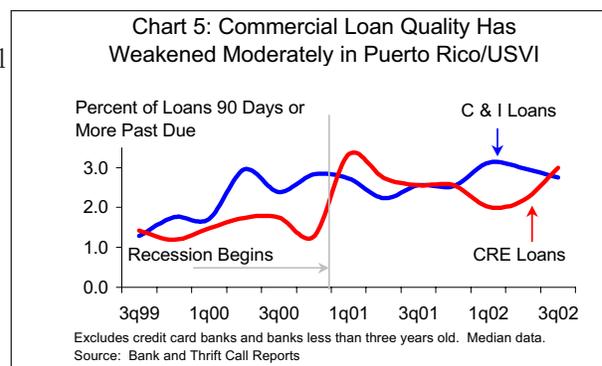
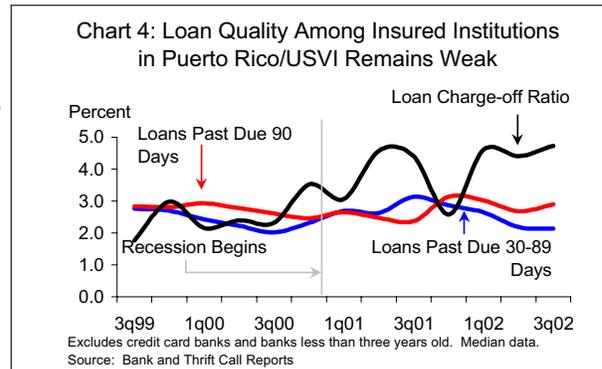
- After declining more sharply than the U.S. during the recession, employment losses in Puerto Rico eased in late 2001 and the first three quarters of 2002 and became slightly positive in the fourth quarter of 2002 (chart 1). The improvement reflected gains in services and government.
- Manufacturing is Puerto Rico's dominant economic sector, accounting for 40 percent of gross product, more than double the 17 percent share for the national economy. Some of the decline in manufacturing employment was attributable to problems in the national economy. The phase out of section 936 of the U.S. tax code, and the implementation of trade liberalization policies, such as the North American Free Trade Agreement, also has contributed to job losses. Employment gains, in the pharmaceutical industry, have only partially offset manufacturing job losses.
- Employment in Puerto Rico's construction sector, which represents 7 percent of total employment compared with 5 percent in the nation, has trended downward during the past two years (chart 2). This is surprising since both public construction, in schools and infrastructure, as well as private construction has been increasing. Some of the drop in construction employment may reflect the completion of rebuilding efforts related to Hurricane Georges, which hit Puerto Rico in 1999.
- The government sector, which represents 28 percent of Puerto Rico's workforce compared with 16 percent in the U.S., has added jobs in support of public works programs and new education hires.
- The economic slowdown in the U.S. and the fear of terrorism has had a major negative impact upon Puerto Rico's tourism industry. Although visitor arrivals to Puerto Rico through mid-year 2002 have been strong compared with other Caribbean destinations, such as Jamaica and Barbados, hotel occupancy rates, cruise ship visitors, and passenger movement are down from prior years.
- The U.S. Virgin Islands' economy slowed in 2002. Employment declined 2.7 in 2002 (chart 3) as tourism waned and with the completion of a near-by refinery, which resulted in a decline in construction jobs. Tourism is the USVI's



most important industry sector, representing 70 percent of gross product. The number of tourists fell 7 percent during the first three quarters of 2002. Hardest hit was **St. Croix**. Continuing fiscal problems have historically limited the local government's ability to aid its economy.

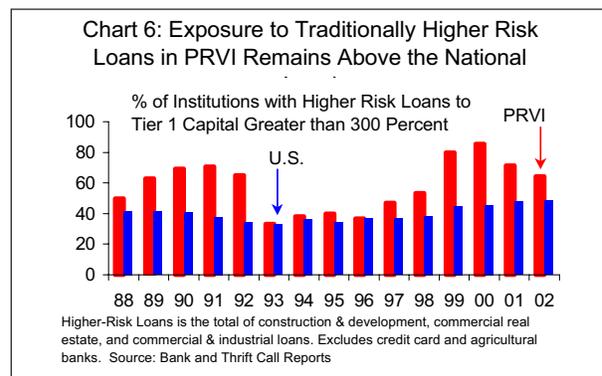
## Credit quality among insured institutions headquartered in Puerto Rico/U.S. Virgin Islands (PRVI) has weakened moderately during the economic slowdown.<sup>1</sup>

- Loan delinquency and charge-off rates among insured institutions headquartered in PRVI generally have increased since the start of the U.S. recession.
- Although the median percentage of loans that are 30 to 89 days past due has shown recent signs of improvement, the percentage of loans at least 90 days past due and those charged off has increased (**chart 4**). Past-due and charge-off ratios remain well above U.S. levels.
- Delinquency rates on consumer and residential real estate loans have increased since the start of the economic downturn in 2001, but have shown recent improvement. Nonetheless, weak employment conditions in the islands' key industries could have a lagged effect on consumer loan quality.
- The percentage of delinquent commercial and industrial (C&I) loans (90 days or more past due) has been relatively stable in 2002, but remains above levels of the late 1990s (**chart 5**). Additionally, commercial credit quality may be affected adversely following the sharp increase in debt related to business bankruptcies reported in Puerto Rico in late-2002.
- The median commercial real estate (CRE) loan delinquency rate remains below the levels reached in the early stages of the U.S. recession, but it increased in third quarter 2002.



## Exposure to traditionally higher-risk loans remains high among insured institutions headquartered in PRVI.

- The percentage of insured institutions with concentrations of traditionally higher-risk loans of at least 300 percent of capital increased in the late 1990s. While the percentage has moderated in recent years, at 64 percent it remains above the national level of 48 percent (**chart 6**).
- As credit quality typically lags the business cycle, given these concentrations, loan performance likely will remain weak in coming quarters even if the economic recovery strengthens.



<sup>1</sup> Analysis includes 14 insured institutions headquartered in Puerto Rico and the U.S. Virgin Islands as of September 30, 2002.

## State Profile

### Puerto Rico/U.S. Virgin Islands at a Glance

<b>General Information</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Institutions (#)	14	14	14	15	15
Total Assets (in thousands)	64,749,453	55,568,783	50,690,344	44,308,912	37,358,657
New Institutions (# < 3 years)	0	1	1	1	0
New Institutions (# < 9 years)	3	3	3	3	2
<b>Capital</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Tier 1 Leverage (median)	6.69	6.78	6.55	6.85	7.27
<b>Asset Quality</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Past-Due and Nonaccrual (median %)	5.40%	5.56%	5.32%	5.73%	7.77%
Past-Due and Nonaccrual ≥ 5%	9	10	9	9	10
ALLL/Total Loans (median %)	1.18%	1.32%	1.33%	1.32%	1.39%
ALLL/Noncurrent Loans (median multiple)	0.35	0.47	0.49	0.59	0.34
Net Loan Losses/Loans (aggregate)	0.91%	0.97%	0.91%	0.87%	1.13%
<b>Earnings</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Unprofitable Institutions (#)	3	1	0	1	0
Percent Unprofitable	21.43%	7.14%	0.00%	6.67%	0.00%
Return on Assets (median %)	0.99	1.01	0.98	1.04	1.26
25th Percentile	0.42	0.76	0.64	0.65	0.67
Net Interest Margin (median %)	3.36%	3.77%	3.89%	4.43%	4.77%
Yield on Earning Assets (median)	6.52%	7.85%	8.67%	8.04%	8.66%
Cost of Funding Earning Assets (median)	3.31%	4.53%	5.13%	4.09%	4.37%
Provisions to Avg. Assets (median)	0.40%	0.37%	0.46%	0.39%	0.41%
Noninterest Income to Avg. Assets (median)	0.57%	0.52%	0.65%	0.71%	0.71%
Overhead to Avg. Assets (median)	2.44%	2.34%	2.42%	2.79%	3.29%
<b>Liquidity/Sensitivity</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Loans to Deposits (median %)	90.79%	91.26%	96.17%	86.43%	87.13%
Loans to Assets (median %)	56.60%	58.43%	61.49%	56.57%	59.53%
Brokered Deposits (# of Institutions)	11	11	11	10	10
Bro. Deps./Assets (median for above inst.)	15.76%	10.08%	6.03%	8.28%	7.62%
Noncore Funding to Assets (median)	60.34%	62.05%	62.59%	56.94%	46.84%
Core Funding to Assets (median)	28.11%	28.06%	30.18%	33.04%	45.02%
<b>Bank Class</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
State Nonmember	13	13	13	13	13
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	0	1	1
Mutually Insured	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
San Juan-Bayamon PR PMSA	10	56,642,388	71.43%	87.48%	
No MSA	2	117,465	14.29%	0.18%	
Ponce PR	1	87,110	7.14%	0.13%	
Mayaguez PR	1	7,902,490	7.14%	12.20%	