FDIC State Profile

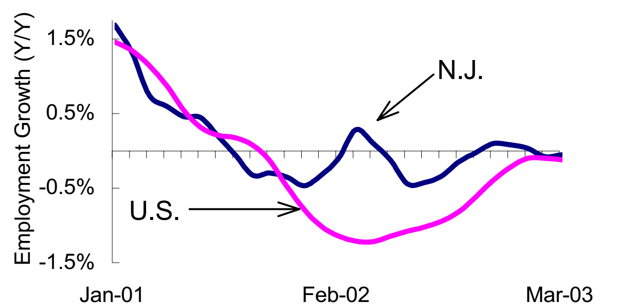
Summer 2003

New Jersey

The New Jersey economy is recovering but, like the Nation, it is struggling to gain momentum. The information industries are the weakest major sector of the state economy, and improvement in the manufacturing sector has only been gradual.

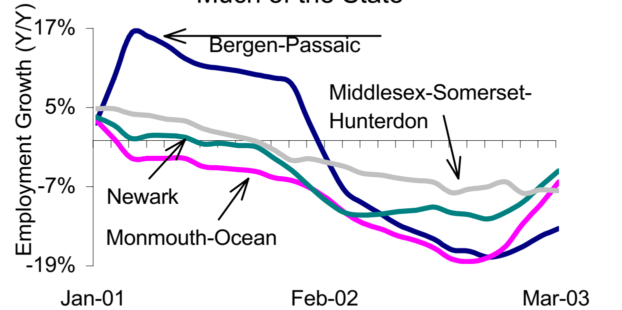
- New Jersey's employment losses have not been as severe as the nation's, but job creation varies across the state's metro areas (chart 1). The **Jersey City** and **Trenton** MSAs have exhibited the highest rate of job loss through March 2003. Employment growth also weakened in the **Bergen-Passaic**, **Middlesex-Somerset-Hunterdon** and **Newark** MSAs in early 2003, but the job losses in these areas were much more contained.
- Statewide, job losses in the information and manufacturing sectors have approximately offset gains in the retail trade and education and health services sectors. Manufacturing continues its slow rate of improvement, but the information sector is only beginning to show a bottom.
- The four MSAs in Chart 2 all have among the highest employment concentrations in the information industries in the Northeast. Telecommunication firms continue to face overcapacity and soft demand, pressuring earnings of service providers and equipment makers. Lucent, Verizon, Nextel, AT&T Sprint and Agere, are among the state's largest employers, and all have announced layoffs within the last year.
- As most economists expected, the rate of home price appreciation across New Jersey has slowed (chart 3). While currently there is no "bursting bubble", the rate of appreciation in seven of the state's nine Metro areas (including Philadelphia) has declined from their peak. Even with this easing in home price appreciation, home prices in every metro area in the state, except Vineland, are still growing at a double-digit rate through fourth quarter 2002. Some of this appreciation is being caused by structural rigidities in the market, namely zoning restrictions and lack of space for new building.
- The Northern and Central New Jersey office market stabilized somewhat in early 2003. **Grubb and Ellis** reports that increased leasing activity and positive net absorption in the northern part of the state more than offset continued sluggishness in the office market in the central part of the state.
- New Jersey's state budget deficit in 2003 is expected to reach 4.7 percent of the state budget, and in 2004 that number is

Chart 1: Like the Nation, New Jersey Recovers, But Struggles to Create New Jobs



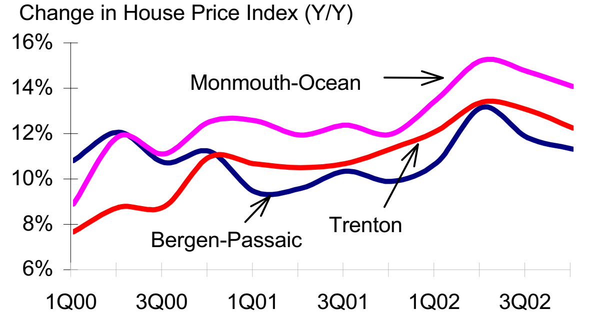
Source: Bureau of Labor Statistics. Data are three-month moving averages .

Chart 2: The Information Industries Are A Drag in Much of the State



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

Chart 3: New Jersey's Areas of Fastest Home Price Growth Have Begun to Moderate



Source: OFHEO

expected to increase to 18.5 percent. Corporate taxes have already been increased, and a personal income tax increase has been proposed. Increased taxes typically place a drag on overall economic activity.

The median NIM among New Jersey's insured institutions leveled off in the second half 2002 as the yield curve slightly flattened.[1]

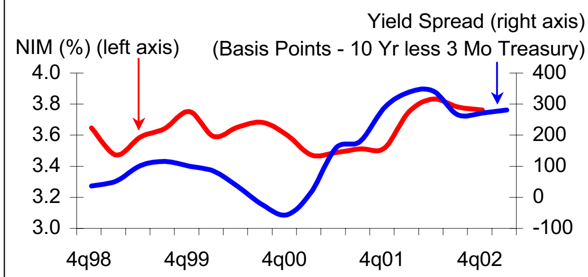
- The median NIM among the state's insured institutions increased steadily from first quarter 2001 through mid-2002, following the steepening yield curve. Improvement in NIM, however, abated in the second half 2002 as steepness in the yield curve receded from its peak. Asset yields declined slightly more than funding costs as loans repriced at lower rates, while deposit costs neared floors (chart 4).
- NIMs could be under pressure in a low interest rate, weak economic environment. While assets reprice at lower interest rates, record low short-term rates limit the degree of downward movement on deposit costs.
- Low long-term interest rates have contributed to record refinancing levels nationally. Additionally, a relatively high concentration of residential lenders in New Jersey and more widespread use of long-term mortgage products in the large metropolitan areas of the Northeast resulted in higher concentrations of long-term assets. The median long-term asset concentration level reported by insured institutions headquartered in New Jersey is twice that reported by institutions elsewhere in the nation (chart 5). Liability maturities are comparatively shorter, as most liabilities mature or reprice within three years.
- Insured institutions with high concentrations of long-term assets may face margin compression should interest rates rise, thereby heightening the importance of interest rate risk management.

Despite the economic downturn, insured institutions headquartered in New Jersey continue to report favorable asset quality. However, exposure to typically higher-risk loans has increased in recent years.

- The median past-due loan ratio reported by insured institutions headquartered in New Jersey declined over the past year, reaching 0.95 percent compared with 1.01 percent at year end 2001.
- The percentage of insured institutions headquartered in New Jersey holding concentrations of traditionally higher-risk loans (HRL) has increased in recent years (chart 6). As of December 31, 2002, 41 percent of the state's insured institutions reported HRL concentrations above 300 percent of capital, up from 24 percent four years ago. Almost one-half of these institutions were chartered during the 1990s expansion (the majority in central and northern New Jersey) and until recently, had not experienced an economic slowdown.
- The median loan-loss reserve coverage level relative to past-due loans among insured institutions headquartered in New Jersey has increased during the past year, as loan delinquency rates have declined.

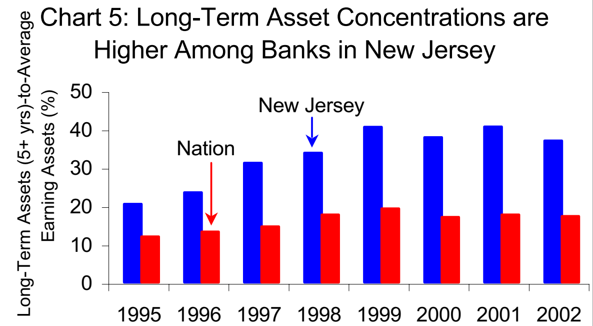
[1] Data are as of December 31, 2002, unless otherwise noted.

Chart 4: NIM Improvement Abated by Year-end 2002 Following Slight Yield Curve Flattening



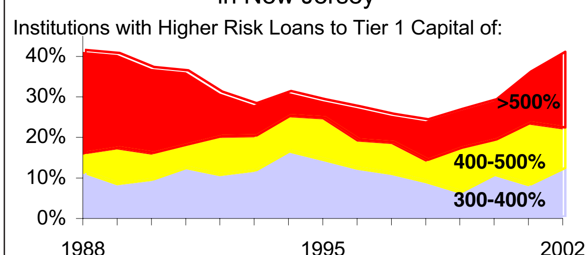
Note: Excludes institutions less than three years old. Median data displayed. NIM figures are through 4q02. Yield Spread data are through 1q03. Source: Bank and Thrift Call Reports, Federal Reserve Board.

Chart 5: Long-Term Asset Concentrations are Higher Among Banks in New Jersey



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

Chart 6: Exposure to Higher Risk Loans has Risen Among Insured 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.

New Jersey at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	150	151	152	147	150
Total Assets (in thousands)	137,564,771	121,325,367	143,130,812	149,820,895	139,898,813
New Institutions (# < 3 years)	17	25	27	23	13
New Institutions (# < 9 years)	44	42	39	30	24

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.99	9.98	9.98	9.47	9.23

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	0.84%	0.96%	0.91%	1.01%	1.64%
Past-Due and Nonaccrual >= 5%	5	6	6	11	15
ALLL/Total Loans (median %)	1.02%	0.99%	0.95%	0.92%	0.98%
ALLL/Noncurrent Loans (median multiple)	2.63	2.12	2.04	1.69	1.13
Net Loan Losses/Loans (aggregate)	0.22%	0.24%	0.23%	0.36%	0.28%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	19	23	26	22	15
Percent Unprofitable	12.67%	15.23%	17.11%	14.97%	10.00%
Return on Assets (median %)	0.80	0.67	0.74	0.77	0.88
25th Percentile	0.49	0.26	0.32	0.46	0.53
Net Interest Margin (median %)	3.72%	3.52%	3.64%	3.59%	3.63%
Yield on Earning Assets (median)	6.05%	6.91%	7.38%	7.04%	7.29%
Cost of Funding Earning Assets (median)	2.29%	3.41%	3.69%	3.38%	3.66%
Provisions to Avg. Assets (median)	0.10%	0.09%	0.07%	0.09%	0.08%
Noninterest Income to Avg. Assets (median)	0.36%	0.40%	0.37%	0.37%	0.39%
Overhead to Avg. Assets (median)	2.72%	2.83%	2.74%	2.74%	2.62%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	65.83%	70.07%	71.75%	68.69%	64.48%
Loans to Assets (median %)	55.50%	59.07%	58.87%	57.57%	55.10%
Brokered Deposits (# of Institutions)	18	15	9	12	11
Bro. Deps./Assets (median for above inst.)	4.87%	9.23%	14.56%	1.05%	0.83%
Noncore Funding to Assets (median)	14.65%	14.93%	13.82%	13.32%	10.36%
Core Funding to Assets (median)	73.84%	73.35%	71.97%	74.02%	77.46%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	53	52	50	46	42
National	23	23	26	24	25
State Member	6	5	5	5	5
S&L	11	11	11	15	17
Savings Bank	31	34	33	31	33
Mutually Insured	26	26	27	26	28

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Newark NJ PMSA	32	14,769,715	21.33%	10.74%
Bergen-Passaic NJ PMSA	28	45,451,386	18.67%	33.04%
Philadelphia PA-NJ PMSA	22	15,655,201	14.67%	11.38%
Middlesex-Somerset-Hunterdon NJ PMSA	22	29,139,700	14.67%	21.18%
Monmouth-Ocean NJ PMSA	11	5,770,547	7.33%	4.19%
Jersey City NJ PMSA	11	16,154,604	7.33%	11.74%
Trenton NJ PMSA	10	5,252,943	6.67%	3.82%
Atlantic-Cape May NJ PMSA	9	2,152,771	6.00%	1.56%
Vineland-Millville-Bridgeton NJ PMSA	5	3,217,904	3.33%	2.34%