FDIC State Profile

SUMMER 2003

Connecticut

Connecticut's economy continues to trend downward in 2003.

- The number of workers in Connecticut declined during the second half 2002 and continued into 2003. Through March, the state had lost 37,100 jobs since January 2001, roughly 2.2 percent of employment (see Chart 1).
- The state's labor force has also contracted during this period, possibly masking the number of unemployed who have become "discouraged" and are no longer seeking employment.
- The financial services and the manufacturing sectors continue to shed jobs. The state government sector also reported a year-over-year decline through first quarter 2003.

Fiscal Year 2004 State budget gap still exists despite significant cost cutting.

- After reducing $1 billion from the projected deficit, the state still faces a $700 million shortfall for fiscal year 2004. State employee layoffs are expected to continue and income taxes may be increased to balance the budget, further undermining the economic recovery.
- Tax collections rose slightly in late 2002, a partial reflection of an increase in cigarette taxes. However, the decline in tax revenue from wages and capital gains requires further expenditure reductions or increased taxes (see Chart 2).

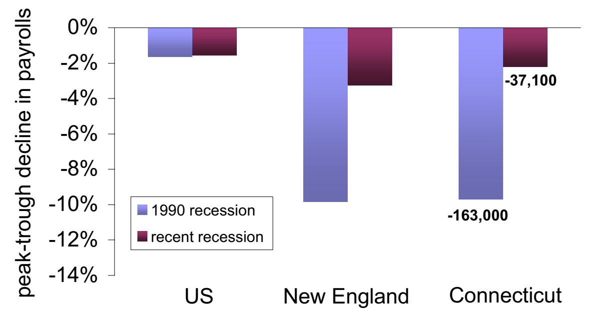
Housing market remains a bright spot.

- The southern coastal communities have led the state in home price appreciation, registering a strong 10 percent gain for 2002 (see Chart 3). Future home price appreciation is expected to moderate in the low- to mid-priced markets, while the higher-end homes may exhibit declines in selling prices.
- The battered equity markets, which have only recently shown signs of recovery, will continue to cloud the outlook for financial services employment and related income in the state, especially in areas proximate to New York City.

Connecticut's banks and thrifts (excluding de-novos less than 3 years old) continued to be profitable despite some pressure on net interest margins.

- Connecticut's commercial banks reported a median return on assets (ROA) of 0.72 percent as of year-end 2002, down from 0.75 percent at year-end 2001. Profitability has been hit by declining levels of net interest income and non

Chart 1: Decline in Employment Levels Less Than Previous Recession, but CT Continues to Shed Jobs

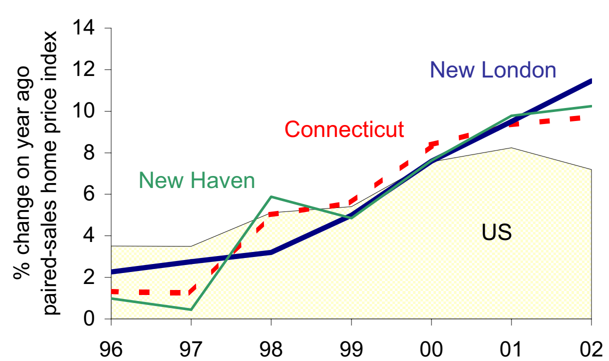


Source: BLS, Recent jobs lost from January 2001 through March 2003

Chart 2: State Tax Revenue Plummeted During the Downturn, Followed By Weak Growth In 2002

Source: Rockefeller Institute, Data through fourth quarter 2002.

Chart 3: Home Price Appreciation Has Held Up Well in Connecticut, Led by Southern Metro Areas



interest income. The state's thrifts posted a median ROA at year-end 2002 of 0.87 percent, a four basis point increase since year-end 2001.

- The median net interest margin in the state's commercial institutions fell 31 basis points to 3.77 percent as of December 31, 2002. The thrifts experienced an 11 basis point increase in their net interest margins to 3.81 percent (see Chart 4).
- Loan-loss provisions remain extremely low. Should the economy suffer another downturn with a deterioration in credit quality, profitability may be affected.

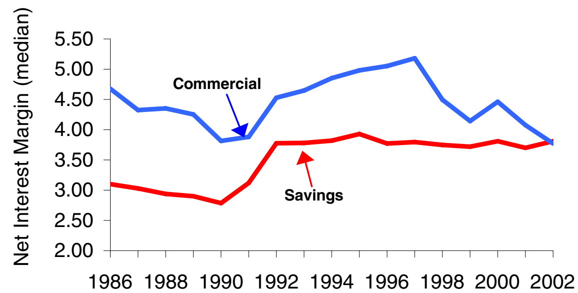
Interest-Rate Risk remains a concern for Connecticut institutions with increased concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.

- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002. Refinancing activity has remained strong through the end of 2002 and will likely continue to be strong as borrowers lock in long-term, fixed-rate loans at lower rates. According to the Mortgage Bankers Association, 85 percent of the refinancing activity completed in 2002 was into fixed-rate products.
- During the late 1990s, asset maturities began to lengthen at many institutions. The ratio of long-term assets to earning assets began to moderate in the last year, yet still 60 percent of Connecticut's insured institutions have long-term asset concentrations greater than 30 percent. (see Chart 5).
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 60 percent of insured institutions in Connecticut, and residential real estate loans comprised 57 percent of the average thrift loan portfolio at year-end 2002. Net interest margin compression may occur at these institutions, when short-term interest rates increase as liabilities reprice at a faster rate than assets.

De novo activity remains strong, as Connecticut has the largest share of new banks in the New England.

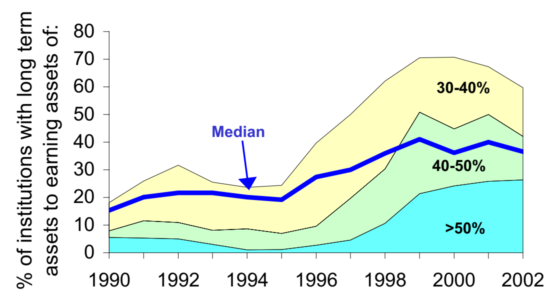
- As of year-end 2002, Connecticut had eight institutions less than three years old, representing 12 percent of institutions.
- Loan growth in new commercial banks has been concentrated in traditionally high-risk[1] loan types, with 62 percent of total loans in commercial, commercial real estate, multi-family and construction loans, just about double their established commercial bank competitors (see Chart 6).

Chart 4: Commercial Institutions in Connecticut Experiencing Declining Margins



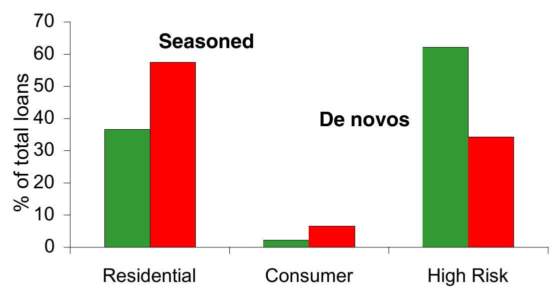
Source: Bank and Thrift Call Reports, Data Through 4th Quarter
Excludes denovo institutions

Chart 5: Long Term Asset Concentrations Are Still High In Many Institutions in Connecticut, Suggesting Increased Exposure to Interest Rate Risk



Source: Bank Call Reports, Data Through 4th Quarter

Chart 6: De Novo Banks Have Higher Concentrations Of High-Risk Loans



* High-risk is defined as Commercial, Construction, Commercial Real Estate and Multi-family Loans
Source: Bank and Thrift Call Reports, Data as of 4th Quarter 2002

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

Connecticut at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	67	69	69	71	77
Total Assets (in thousands)	54,435,528	51,055,150	49,599,044	46,615,016	47,065,258
New Institutions (# < 3 years)	8	9	8	6	4
New Institutions (# < 9 years)	16	16	11	9	10

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.11	9.83	9.68	9.05	8.77

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.06%	1.06%	1.08%	1.13%	1.71%
Past-Due and Nonaccrual >= 5%	2	2	1	2	4
ALLL/Total Loans (median %)	1.18%	1.14%	1.18%	1.25%	1.33%
ALLL/Noncurrent Loans (median multiple)	2.90	2.47	2.54	2.27	1.61
Net Loan Losses/Loans (aggregate)	0.38%	0.38%	0.26%	0.28%	0.32%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	9	9	7	7	4
Percent Unprofitable	13.43%	13.04%	10.14%	9.86%	5.19%
Return on Assets (median %)	0.85	0.79	0.95	0.90	0.85
25th Percentile	0.47	0.48	0.66	0.63	0.67
Net Interest Margin (median %)	3.77%	3.76%	3.87%	3.89%	3.91%
Yield on Earning Assets (median)	6.18%	7.16%	7.54%	7.21%	7.50%
Cost of Funding Earning Assets (median)	2.27%	3.37%	3.76%	3.47%	3.65%
Provisions to Avg. Assets (median)	0.09%	0.07%	0.07%	0.08%	0.09%
Noninterest Income to Avg. Assets (median)	0.57%	0.54%	0.46%	0.45%	0.44%
Overhead to Avg. Assets (median)	2.95%	2.84%	2.86%	2.87%	3.02%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	75.66%	77.27%	79.19%	78.25%	76.69%
Loans to Assets (median %)	60.48%	60.74%	62.59%	62.46%	61.91%
Brokered Deposits (# of Institutions)	5	5	5	4	6
Bro. Deps./Assets (median for above inst.)	0.10%	0.05%	3.34%	1.23%	1.44%
Noncore Funding to Assets (median)	15.68%	15.37%	13.85%	12.89%	11.69%
Core Funding to Assets (median)	72.35%	72.32%	74.17%	73.55%	76.91%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	16	15	13	15	18
National	8	8	8	7	8
State Member	2	2	2	2	2
S&L	4	6	7	8	8
Savings Bank	6	5	4	2	3
Mutually Insured	31	33	35	37	38

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Hartford CT	20	10,328,740	29.85%	18.97%
No MSA	14	15,638,570	20.90%	28.73%
Stamford-Norwalk CT PMSA	10	2,529,443	14.93%	4.65%
New Haven-Meriden CT PMSA	7	3,300,979	10.45%	6.06%
Waterbury CT PMSA	5	14,738,653	7.46%	27.08%
Danbury CT PMSA	5	3,440,275	7.46%	6.32%
New London-Norwich CT-RI	4	4,118,019	5.97%	7.56%
Bridgeport CT PMSA	2	340,849	2.99%	0.63%