# FDIC State Profile

**SUMMER 2003**

# Massachusetts

**The Massachusetts economy, hardest hit by the recent recession among the New England states, continues to struggle.**

- Massachusetts began shedding jobs in January 2001, and has experienced 21 consecutive months of declining year-over-year employment. The state has lost 168,000 jobs through March 2003 from the peak reached in January 2001, representing 5 percent of the work force (see Chart 1), the largest percentage loss among all states in the nation.
- The state's personal income growth stagnated during 2002 as a result of the weak labor market and falling stock market values.

**In addition, the state faces one of the worst budget deficits in the nation.**

- Similar to New York, Connecticut, and states on the West coast, the information technology and financial services sectors are now the principal drags on the Massachusetts' economy.
- Declining employment and capital gains income also magnified the state's budget deficit. Following a large gap in fiscal year 2003, the state was forced to roll back the personal income tax cut to balance the budget. With a projected budget deficit of over $3 billion for fiscal year 2004, further cuts in state jobs and programs, declines in local aid, and increases in taxes may further impede the recovery (see Chart 2).

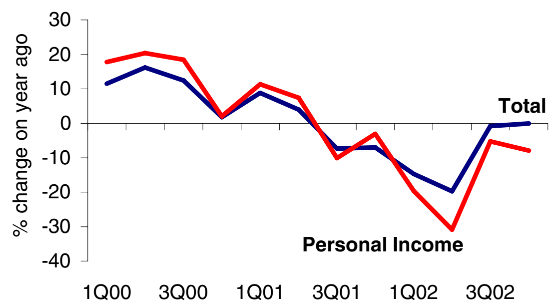
**Housing remains a bright spot in the economy, though home price growth is moderating.**

- Despite negative economic conditions, Massachusetts' housing markets remain strong. For typical households, steady home price appreciation has provided a strong offset to wealth lost in the stock market.
- Some deceleration in the state's rate of home price appreciation was evident during the past few years, driven by the Boston market, which has experienced modest growth following the high-tech and financial services slowdown. Other areas such as Barnstable, Worcester, and New Bedford continue to see rising rates of appreciation (see Chart 3). The current rate of appreciation may prove unsustainable with weak income and employment growth, or if mortgage rates increase.

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

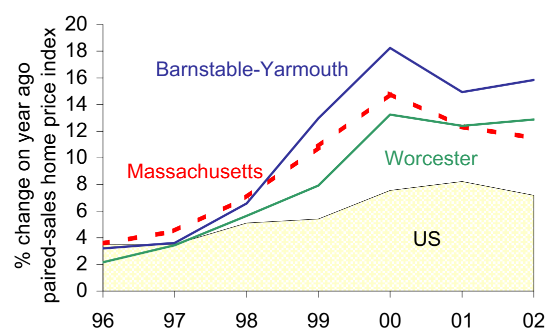

Source: BLS, Recent jobs lost from January 2001 through March 2003

Chart 2: State Tax Revenues Plummeted During the Downturn, And Remained Sluggish Through 2002




Source: Rockefeller Institute, Data through fourth quarter 2002.

Chart 3: Home Price Appreciation is Decelerating Statewide, But Continues to Increase in Some Metro Areas




Source: OFHEO

**Massachusetts's insured institutions continued to be profitable despite some pressure on net interest margins.**

- The state's commercial banks reported a slight four basis point decline in the median return on assets (ROA) to 0.98 percent as of year-end 2002. Profitability has been reduced by declining levels of net interest income and noninterest income. The state's savings institutions posted a median 0.83 percent ROA at year-end 2002, a six-basis point increase from year-end 2001.
- The median net interest margin in the state's commercial institutions fell slightly in 2002 to 4.16 percent after a much larger drop from 4.71 percent to 4.24 percent between 2000 and 2001. The savings institutions experienced a healthy increase in the median net interest margin of 17 basis points to 3.65 percent (see Chart 4).

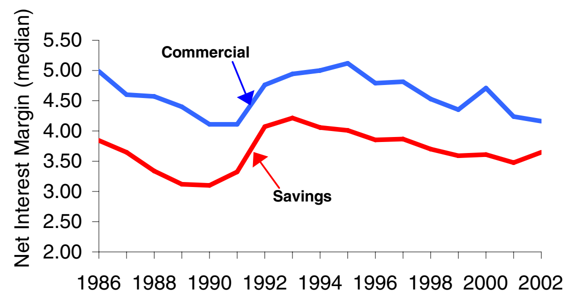
**Interest-Rate Risk remains a concern for Massachusetts institutions with increased concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.**

- 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.
- During the past year, asset maturities have lengthened at many institutions. The median ratio of long-term assets to earning assets is among its highest point in a decade (35 percent). Over one-third of insured institutions in Massachusetts had long-term asset concentrations greater than 40 percent at the end of 2002 (see Chart 5).
- The extension of asset maturities is especially pronounced in the state, as well as New England, a reflection of the large number of thrifts and residential lenders. Savings institutions represent 82 percent of insured institutions in Massachusetts, while residential real estate loans comprise almost 65 percent of the average loan portfolio in those institutions. If interest rates rise causing margins to compress, institutions with large concentrations of fixed-rate assets could face earnings pressure.

**Overall credit quality weakened modestly during the fourth quarter; some deterioration was observed with commercial real estate credits and could become more pronounced with the sluggish economy.**

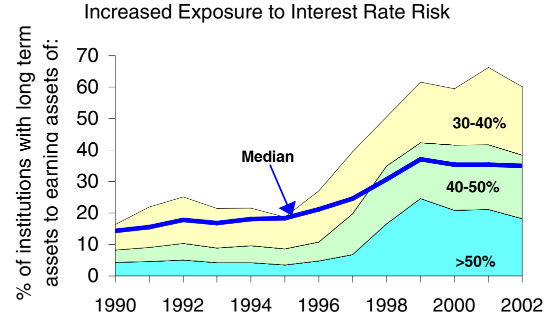
- Residential and commercial real estate (CRE) delinquencies increased at some institutions over the past year. Recent increases of consumer and business bankruptcies may signal a further deterioration in asset quality in subsequent quarters.

Chart 4: Commercial Institutions in Massachusetts Experiencing Declining Margins



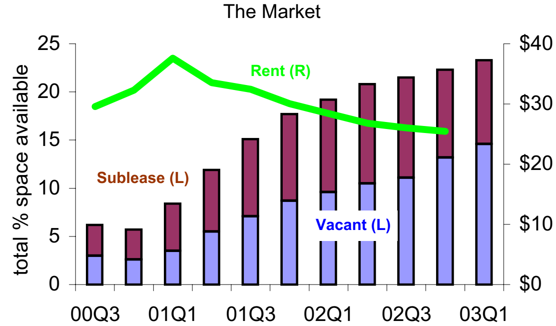

Source: Bank and Thrift Call Reports, Data Through 4th Quarter

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




Source: Bank Call Reports, Data Through 4th Quarter

Chart 6: Office Market Conditions In Greater Boston May Worsen Further As Excess Sublease Space Is Returned To The Market




Source: Spaulding & Slye Colliers, Torto Wheaton

- In the Boston MSA, median CRE annual growth exceeded 10 percent during the past four years. While median concentrations remain lower than levels reached in the early 90s, exposure levels have risen. Institutions with high and increasing CRE concentrations may be more vulnerable to rising vacancy rates and declining rents (see Chart 6).
- Commercial real estate market conditions in Greater Boston remain weak and are not expected to recover until the end of 2003 at the earliest.

# Massachusetts at a Glance

| General Information | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Institutions (#) | 214 | 225 | 229 | 230 | 234 |
| Total Assets (in thousands) | 201,669,974 | 185,234,776 | 173,654,651 | 230,122,772 | 198,964,344 |
| New Institutions (# < 3 years) | 3 | 2 | 3 | 2 | 3 |
| New Institutions (# < 9 years) | 4 | 6 | 7 | 6 | 6 |

| Capital | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median) | 9.17 | 9.25 | 9.66 | 9.51 | 9.39 |

| Asset Quality | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual (median %) | 0.81% | 0.95% | 1.07% | 1.07% | 1.55% |
| Past-Due and Nonaccrual >= 5% | 3 | 6 | 5 | 6 | 16 |
| ALLL/Total Loans (median %) | 1.01% | 1.00% | 0.97% | 1.00% | 1.01% |
| ALLL/Noncurrent Loans (median multiple) | 4.71 | 3.99 | 4.29 | 3.29 | 2.31 |
| Net Loan Losses/Loans (aggregate) | 0.15% | 0.12% | 0.09% | 0.29% | 0.36% |

| Earnings | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Unprofitable Institutions (#) | 4 | 6 | 7 | 3 | 4 |
| Percent Unprofitable | 1.87% | 2.67% | 3.06% | 1.30% | 1.71% |
| Return on Assets (median %) | 0.83 | 0.80 | 0.89 | 0.84 | 0.91 |
| 25th Percentile | 0.63 | 0.58 | 0.64 | 0.63 | 0.70 |
| Net Interest Margin (median %) | 3.73% | 3.60% | 3.72% | 3.65% | 3.76% |
| Yield on Earning Assets (median) | 6.20% | 7.08% | 7.43% | 7.20% | 7.49% |
| Cost of Funding Earning Assets (median) | 2.51% | 3.53% | 3.75% | 3.50% | 3.73% |
| Provisions to Avg. Assets (median) | 0.04% | 0.03% | 0.03% | 0.04% | 0.04% |
| Noninterest Income to Avg. Assets (median) | 0.44% | 0.41% | 0.39% | 0.37% | 0.36% |
| Overhead to Avg. Assets (median) | 2.64% | 2.64% | 2.65% | 2.68% | 2.71% |

| Liquidity/Sensitivity | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Loans to Deposits (median %) | 73.57% | 77.54% | 82.07% | 80.78% | 75.80% |
| Loans to Assets (median %) | 60.61% | 63.17% | 65.60% | 65.58% | 63.00% |
| Brokered Deposits (# of Institutions) | 18 | 14 | 15 | 17 | 18 |
| Bro. Deps./Assets (median for above inst.) | 2.88% | 0.60% | 1.54% | 0.57% | 0.16% |
| Noncore Funding to Assets (median) | 17.12% | 16.45% | 15.39% | 15.44% | 12.28% |
| Core Funding to Assets (median) | 71.88% | 72.06% | 72.29% | 72.84% | 75.88% |

| Bank Class | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| State Nonmember | 24 | 28 | 28 | 29 | 30 |
| National | 13 | 13 | 13 | 14 | 12 |
| State Member | 2 | 2 | 2 | 2 | 2 |
| S&L | 6 | 6 | 7 | 7 | 7 |
| Savings Bank | 15 | 15 | 15 | 15 | 15 |
| Mutually Insured | 154 | 161 | 164 | 163 | 168 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| Boston MA-NH PMSA | 124 | 166,297,502 | 57.94% | 82.46% |
| No MSA | 16 | 5,212,845 | 7.48% | 2.58% |
| Worcester MA-CT PMSA | 15 | 4,040,669 | 7.01% | 2.00% |
| Springfield MA | 14 | 7,282,599 | 6.54% | 3.61% |
| Brockton MA PMSA | 10 | 2,017,246 | 4.67% | 1.00% |
| Lawrence MA-NH PMSA | 9 | 3,162,934 | 4.21% | 1.57% |
| Pittsfield MA | 7 | 2,441,729 | 3.27% | 1.21% |
| Providence-Fall River-Warwick RI-MA | 6 | 4,081,344 | 2.80% | 2.02% |
| Lowell MA-NH PMSA | 5 | 1,650,244 | 2.34% | 0.82% |
| Fitchburg-Leominster MA PMSA | 4 | 693,002 | 1.87% | 0.34% |
| New Bedford MA PMSA | 2 | 3,278,477 | 0.93% | 1.63% |
| Barnstable-Yarmouth MA | 2 | 1,511,383 | 0.93% | 0.75% |