FDIC State Profile

SUMMER 2003

New Hampshire

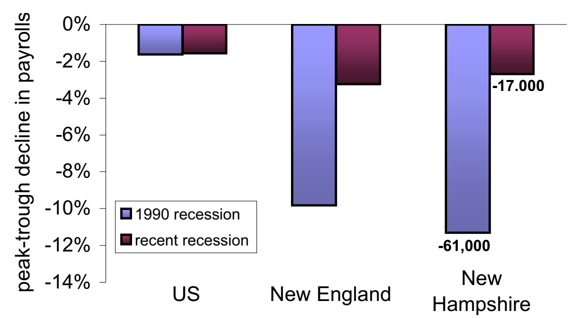
New Hampshire's economy has been undermined by weakness in manufacturing and technology (IT), and the future performance of these sectors will have a direct effect on the state's economic prospects through 2003.

- Employment levels continued declining into 2003 as manufacturing, business services and information technology payrolls fell. While the losses in employment have not been as pronounced as the early 1990s recession, the state shed 17,000 jobs since the recent peak in January 2001 (see Chart 1). Aggregate levels appeared to be stabilizing towards the end of the first quarter.
- At the beginning of the recession, non-IT manufacturing industries such as pulp and paper mills reported losses in the state's rural northern counties, but this sector showed slight growth during the first quarter of 2003. In contrast, southern areas dependent on computer and electronic manufacturing employment continue to report significant losses.
- Reflecting southern New Hampshire's reliance on IT-related jobs, the state saw one of New England's most pronounced deterioration in per capita income growth between 2000 and 2002, second only to the deceleration in Massachusetts.
- Following the recent recession, the state reported weak tax revenue collections during 2001. However, without the dependence on cyclical personal income tax revenue, the effect was the least pronounced of all New England states (see Chart 2). In fact, growth in collections increased during the second half of 2002.
- Spending cuts and hiring freezes were enacted to close the budget gap during the past fiscal year, and more policy actions are likely with a projected $120 million deficit in fiscal year 2004. Local government payrolls declined slightly towards the end of first quarter 2003 and could fall further, but effects should be muted compared to other New England states.

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

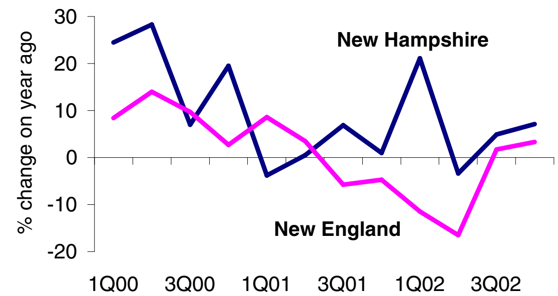
- New Hampshire's housing market posted the strongest sales gains in New England during the latter half of the 1990s, benefiting from the proximity to Boston, strong IT-related job growth and steady demand for second/vacation homes.
- The current economic downturn has led to a somewhat slower rate of home price appreciation, similar to what has

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



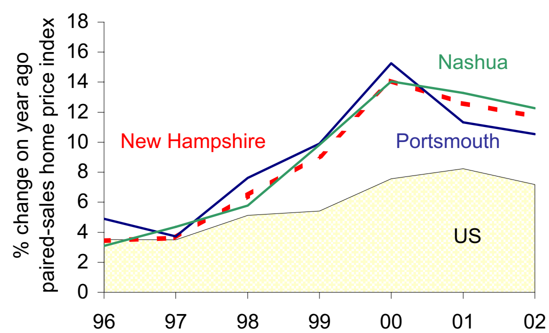
Source: BLS, Recent jobs lost from January 2001 through February 2003

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



Source: Rockefeller Institute, Data through 4th quarter 2002.

Chart 3: Like Boston, Housing Markets In New Hampshire Are Seeing More Modest Price Appreciation



Source: OFHEO

occurred in Boston, but appreciation continues at a double-digit rate (see Chart 3). Significant deceleration in prices appears unlikely unless the IT slump continues, the national economy experiences further weakness, or mortgage rates increase significantly.

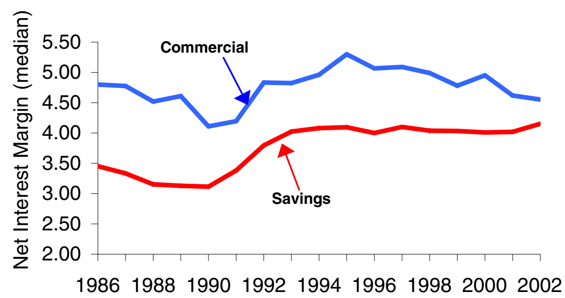
New Hampshire's insured institutions continued to be profitable despite some pressure on net interest margins.

- New Hampshire's commercial banks reported a median return on assets (ROA) of 0.87 percent as of year-end 2002, down from 1.03 percent one-year earlier. Profitability has been undermined by declining levels of net interest income and increased expenses. The state's savings institutions posted a median 1.07 percent ROA at year-end 2002, a jump from 0.88 percent return one-year earlier. Increased levels of net interest income and noninterest income coupled with declining expenses, boosted earnings in the savings institutions.
- The median net interest margin in the state's commercial institutions fell 7 basis points to 4.55 percent as of December 31, 2002. The savings institutions experienced a 13 basis point increase in their net interest margins to 4.15 percent. (See Chart 4). While the costs of funding earning assets fell drastically across the board, yields on earning assets fell at a faster rate thereby pressuring net interest margins.
- Overhead expenses, mostly higher salaries and other expenses, continued to affect profitability at the state's commercial institutions as the median ratio of noninterest expenses to average assets increased 7 basis points to 3.18 percent as of year-end 2002. The median ratio of overhead expenses to average assets in the state's savings institutions has held fairly steady over the last three years at about 3 percent.
- With loan-loss provisions near historic lows, should the economy suffer another downturn with a deterioration in credit quality, profitability may be affected.

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

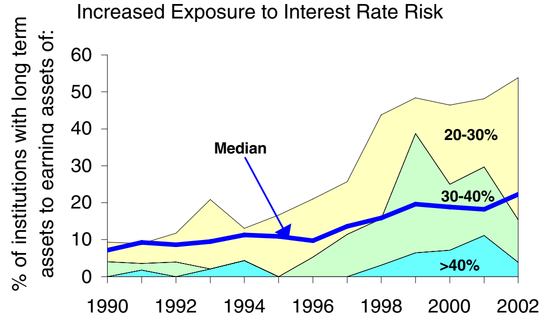
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002. Refinancing activity has remained strong through the end of 2002 and will likely continue to be strong as borrowers lock in long-term, fixed-rate loans at lower rates. According to the Mortgage Bankers Association, 85 percent of the refinancing activity completed in 2002 was into fixed-rate products.

Chart 4: Commercial Institutions in New Hampshire Experiencing Declining Margins



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

Chart 5: 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 4th Quarter

- During the late 1990s, asset maturities began to lengthen at many institutions. The ratio of long-term assets to earning assets began to moderate elsewhere in New England during 2002 but continued to increase among New Hampshire's insured institutions to an all-time peak at the end of 2002 (see Chart 5).
- The extension of asset maturities is especially pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent almost 60 percent of insured institutions in New Hampshire, while residential real estate loans comprise about 45 percent of the average thrift loan portfolio in the state. Net interest margin compression may occur at these institutions when short-term interest rates increase as liabilities reprice at a faster rate than assets.

New Hampshire at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	32	34	35	38	39
Total Assets (in thousands)	29,392,762	35,449,707	31,645,878	30,623,684	24,260,764
New Institutions (# < 3 years)	0	2	2	4	3
New Institutions (# < 9 years)	3	4	5	5	5

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.62	8.89	8.51	8.32	9.00

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.34%	1.40%	1.37%	1.36%	2.00%
Past-Due and Nonaccrual >= 5%	1	2	1	2	4
ALLL/Total Loans (median %)	1.07%	1.16%	1.25%	1.29%	1.33%
ALLL/Noncurrent Loans (median multiple)	3.06	2.88	4.09	3.52	2.54
Net Loan Losses/Loans (aggregate)	12.60%	6.29%	4.78%	2.82%	2.62

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	1	1	2	3	2
Percent Unprofitable	3.13%	2.94%	5.71%	7.89%	5.13%
Return on Assets (median %)	0.95	0.90	0.95	1.02	1.06
25th Percentile	0.70	0.67	0.65	0.74	0.89
Net Interest Margin (median %)	4.38%	4.21%	4.22%	4.11%	4.30%
Yield on Earning Assets (median)	6.52%	7.59%	7.95%	7.65%	8.05%
Cost of Funding Earning Assets (median)	2.21%	3.45%	3.80%	3.43%	3.79%
Provisions to Avg. Assets (median)	0.10%	0.08%	0.10%	0.12%	0.13%
Noninterest Income to Avg. Assets (median)	0.61%	0.55%	0.44%	0.51%	0.53%
Overhead to Avg. Assets (median)	3.11%	3.12%	3.17%	3.10%	2.99%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	74.89%	79.74%	82.25%	79.61%	78.47%
Loans to Assets (median %)	63.68%	67.93%	68.89%	66.22%	67.69%
Brokered Deposits (# of Institutions)	2	1	3	4	6
Bro. Deps./Assets (median for above inst.)	25.77%	50.93%	1.12%	1.45%	1.36%
Noncore Funding to Assets (median)	15.24%	15.54%	14.74%	12.64%	12.13%
Core Funding to Assets (median)	71.77%	70.59%	72.59%	75.70%	77.54%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	9	9	10	12	12
National	5	6	6	6	6
State Member	1	0	0	1	1
S&L	1	1	1	1	1
Savings Bank	5	6	6	6	6
Mutually Insured	11	12	12	12	13

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	22	21,063,178	68.75%	71.66%
Portsmouth-Rochester NH-ME PMSA	4	585,012	12.50%	1.99%
Manchester NH PMSA	2	7,012,823	6.25%	23.86%
Lawrence MA-NH PMSA	2	470,356	6.25%	1.60%
Nashua NH PMSA	1	11,294	3.13%	0.04%
Boston MA-NH PMSA	1	250,099	3.13%	0.85%