FDIC State Profile

SUMMER 2003

Rhode Island

The Rhode Island economy has shown the strongest performance in New England, but absent significant internal catalysts, the state's near-term economic growth will be driven by national trends.

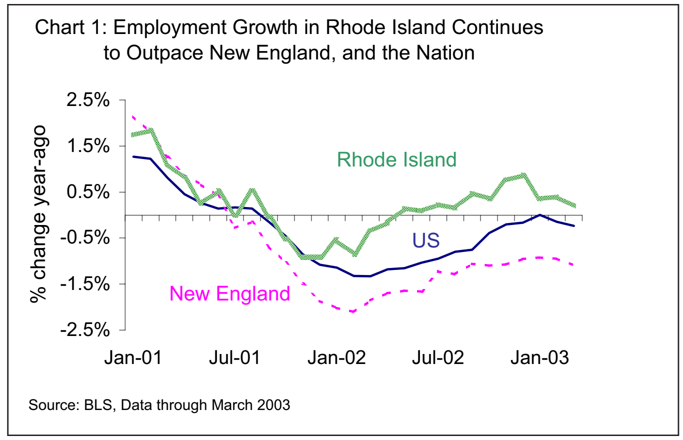
- Rhode Island emerged from the recession relatively unscathed. The state has registered ten consecutive months of year-over-year job growth as of March 2003 (see Chart 1), and boasted the second highest per capita income growth in New England through 2002.
- Given the state's diversified economy, the effects of the national recession were muted. Like Maine, the state's greater dependence on health care and education tempered the overall decline in employment from mid-year 2001 through 2002 and contributed to moderate income growth.
- Computer equipment and business service payrolls continue to contract, but given Rhode Island's modest exposure, the recent slump in the IT and financial sectors should not weigh as heavily on the state's income and spending as it will in nearby Massachusetts and Connecticut.

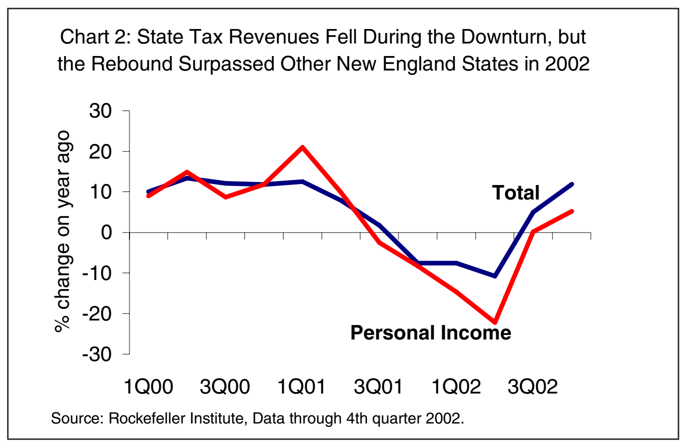
Weakness in employment and financial markets has led to a potential state budget deficit for fiscal year 2004.

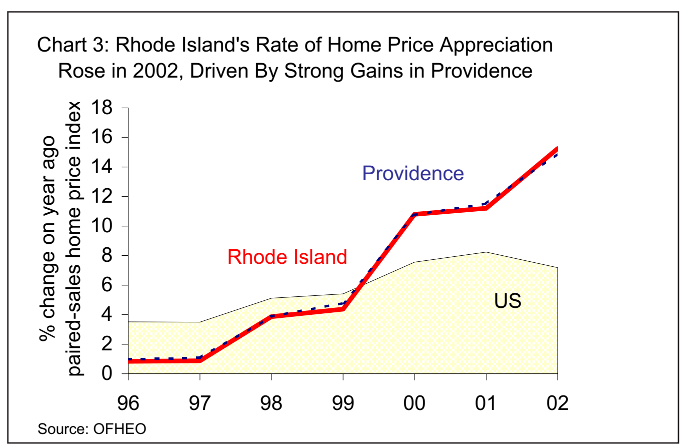
- The weak stock market and related reductions in capital gains income led to unexpected declines in income tax revenue collections following the recession, negatively affecting the state's fiscal situation (see Chart 2). However, collections grew moderately towards year-end 2002.
- As of first quarter 2003, the state's current fiscal year budget is balanced, but a projected $175 million deficit remains to be addressed for fiscal year 2004. State payrolls have already been cut, and declines in state program funding and local aid may be required to balance the budget.

Home prices in the state, particularly the Providence metro area, showed the strongest gains in New England.

- Demand for the state's housing continues to benefit from its relative affordability and close proximity to Boston. Despite the weakened economy, home prices in Rhode Island continue to soar at double-digit rates, driven by Providence (see Chart 3). During 2002, the Providence MSA reported one of the strongest rates of home price growth in the nation.







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- Recent residential real estate studies list the Providence metro area as a potential housing bubble. Continued rapid rates of appreciation appear unsustainable in the long run, and home price growth is likely to moderate if the national economy remains lackluster, local population growth slows, or mortgage rates begin to rise.
- Though Rhode Island performed well through the recession, there appear few internal catalysts likely to boost the state's economy going forward.

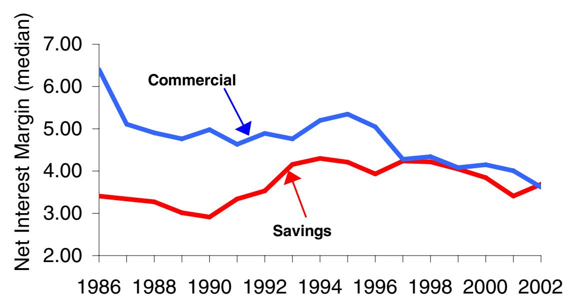
Rhode Island's insured institutions continued to be profitable despite some pressure on net interest margins.

- Rhode Island's insured institutions reported a median 1.07 return on assets (ROA) as of year-end 2002, up from 0.85 percent one-year earlier. Profitability has been helped by increased noninterest income, declining expenses, and gains on the sale of securities.
- The median net interest margin in the state's savings institutions jumped 28-basis points to 3.69 percent as of December 31, 2002. The commercial institutions experienced a 29-basis point drop to 3.62 percent (see Chart 4).
- The management of overhead expenses continued to improve in both groups of insured institutions during 2002 as the median ratio of noninterest expenses to average assets declined slightly during the year to 3.38 percent.
- Loan loss provisions remain extremely low, but the state's commercial institutions did increase provisions slightly during the year. Should the economy suffer another downturn and a deterioration in credit quality, profitability may be affected.

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

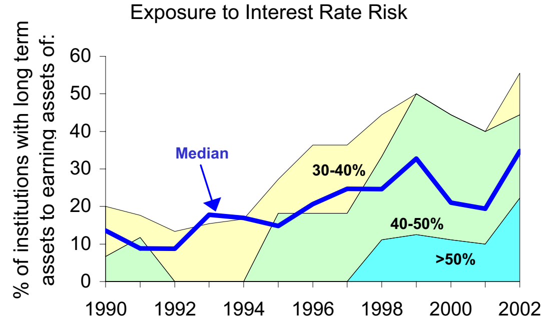
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002. Refinancing activity has remained strong through the end of 2002 and will likely continue to be strong as borrowers lock in long-term, fixed-rate loans at 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 Rhode Island 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 Rhode Island, Suggesting Increased Exposure to Interest Rate Risk



Source: Bank Call Reports, Data Through 4th Quarter

- During this time, asset maturities have lengthened at some institutions without matching liability extension. Median long-term assets to earning assets rose toward a 12-year high of almost 35 percent. Nearly half of Rhode Island's institutions have long-term asset concentrations greater than 40 percent (see Chart 5).
- Extension of asset maturities is especially pronounced in the state, as well as New England, reflecting the large number of thrifts and residential lenders. Savings institutions represent half of insured institutions in Rhode Island, and residential real estate loans comprise 70 percent of the average loan portfolio in those institutions. Net interest margin compression may occur at these institutions, when short-term interest rates increase as liabilities reprice at a faster rate than assets.

Rhode Island at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	14	15	13	12	13
Total Assets (in thousands)	200,776,280	207,626,895	184,034,453	104,792,626	92,217,327
New Institutions (# < 3 years)	3	3	1	1	2
New Institutions (# < 9 years)	5	5	3	2	2

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.68	8.62	7.98	7.84	8.04

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	0.97%	1.00%	1.41%	1.21%	1.84%
Past-Due and Nonaccrual >= 5%	1	0	1	1	3
ALLL/Total Loans (median %)	1.09%	1.21%	1.54%	1.49%	1.49%
ALLL/Noncurrent Loans (median multiple)	3.10	3.57	2.06	3.15	2.40
Net Loan Losses/Loans (aggregate)	1.86%	1.16%	1.11%	1.30%	1.17%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	1	2	0	0	0
Percent Unprofitable	7.14%	13.33%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.07	0.85	1.21	1.19	1.14
25th Percentile	0.73	0.35	0.84	0.81	0.89
Net Interest Margin (median %)	3.65%	3.73%	4.15%	4.06%	4.30%
Yield on Earning Assets (median)	6.27%	7.39%	7.89%	7.54%	8.13%
Cost of Funding Earning Assets (median)	2.50%	3.60%	4.23%	3.68%	3.93%
Provisions to Avg. Assets (median)	0.13%	0.04%	0.11%	0.16%	0.19%
Noninterest Income to Avg. Assets (median)	1.51%	1.05%	1.28%	1.11%	1.14%
Overhead to Avg. Assets (median)	3.38%	3.45%	3.21%	3.28%	3.33%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	80.47%	82.73%	82.14%	90.53%	86.26%
Loans to Assets (median %)	58.61%	61.47%	64.73%	66.54%	70.96%
Brokered Deposits (# of Institutions)	2	3	3	3	2
Bro. Deps./Assets (median for above inst.)	1.71%	0.23%	0.80%	0.89%	2.33%
Noncore Funding to Assets (median)	21.14%	23.11%	27.35%	25.07%	21.84%
Core Funding to Assets (median)	60.48%	62.38%	61.02%	63.70%	66.02%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	3	4	4	4	5
National	4	4	3	2	2
State Member	0	0	0	0	0
S&L	2	2	1	1	1
Savings Bank	3	3	3	3	3
Mutually Insured	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Providence-Fall River-Warwick RI-MA	9	197,934,609	64.29%	98.58%
No MSA	3	1,028,171	21.43%	0.51%
New London-Norwich CT-RI	2	1,813,500	14.29%	0.90%