FDIC State Profile

FALL 2003

Connecticut

Connecticut's economy continues to deteriorate, reporting the weakest economic performance in New England through the first half of 2003.

- Connecticut is the only state in New England to have employment losses increasing during the year-ending second quarter 2003. Through the most recent month (June 2003), the state has lost 42,800 jobs since the beginning of the recession (January 2001), roughly 2.5 percent of employment.
- Throughout the past decade, the state has diversified its employment mix (see Chart 1). Despite a slight decrease from the early 1990s, Connecticut continues to report the highest percentage of insurance employment of all New England states.
- The potential for further job losses exists in manufacturing, and may also occur in local government, as economic recovery eludes the state.

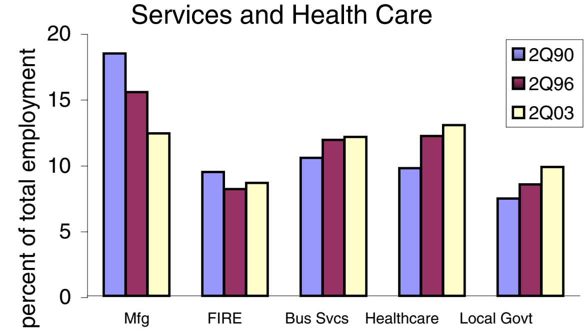
Fiscal Year 2004 state budget gap still exists despite significant cost cutting.

- After taking action to reduce the projected $1 billion deficit, the state still faces a $600 million shortfall for fiscal year 2004. Following layoffs of 2,800 state government employees, further state job cuts may be necessary and municipalities may begin to reduce staffing.
- Tax revenue rose slightly in late 2002, a partial reflection of an increase in cigarette and corporate taxes (see Chart 2). However, declining personal income tax revenue continues to weigh on total collections and the unsettled fiscal situation.

Slowing home price appreciation continues throughout the state.

- The rate of price appreciation is slowing throughout Connecticut to a more sustainable pace, weighed down by southwestern areas (see Chart 3). Despite the statewide slowing, the ***New London*** MSA continues to report double digit price increases, the strongest year over year growth in the state.
- Areas close to ***New York City*** should experience a gradual improvement in economic activity as the stock market and financial services sectors rebound, but growth is likely to be tempered through the end of the year.

Chart 1: As Manufacturing Losses Continue, Connecticut Shifts toward Business Services and Health Care

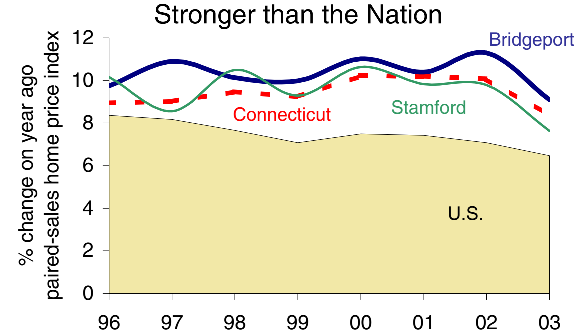


Source: Bureau of Labor Statistics

Chart 2: State Tax Revenue Plummeted during the Downturn, Followed by Weak Growth in 2002

Source: Nelson A. Rockefeller Institute of Government

Chart 3: The Rate of Home Price Appreciation Has Slowed in Connecticut, but Remains Stronger than the Nation



Source: OFHEO, data through first quarter

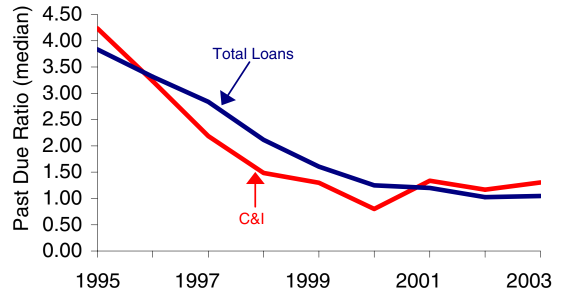
Connecticut's banks and thrifts still showing low levels of past due loans.

- On an aggregate basis, Connecticut's insured institutions, dominated by thrift institutions, continue to report declining total past-due loan levels from highs reached in the early 1990s. As of March 31, 2003, the median past-due loan ratio was just over 1 percent, which is historically low (see Chart 4).
- Within their relatively small commercial loan portfolios, the state's thrifts experienced a 24 basis point increase in median past-due ratios. This increase follows several years of strong commercial loan growth as thrift institutions increased commercial loans in an effort to increase yields.
- Deterioration has been noted in the state's commercial institutions, which represent 10 percent of the state's insured institution assets, as the median ratio of past-due loans increased 42 basis points to 1.39 percent in the last 12 months. This was attributable to increased past dues in commercial and commercial real estate loan portfolios.

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

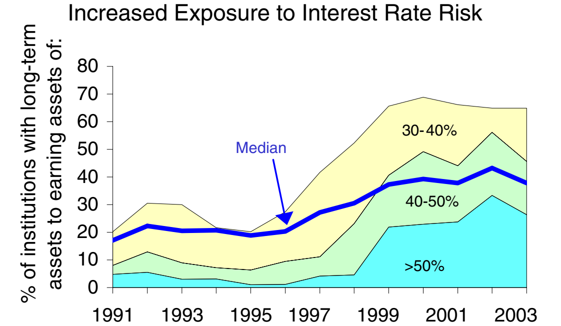
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002 until recently. Refinancing activity remained strong during the first half of 2003 but started to slow in July and August as mortgage interest rates began to rise. According to the Mortgage Bankers Association, 86 percent of the refinancing activity completed in the first seven months of 2003 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 65 percent of Connecticut's insured institutions have long-term asset concentrations greater than 30 percent (see Chart 5). If the recent rise in mortgage rates is sustained, the average life of mortgage portfolios will extend and may result in a mismatch of asset and liability repricing for some institutions. Net interest margin compression may occur when short-term interest rates increase as liabilities reprice at a faster rate than assets.
- 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 61 percent of insured institutions in Connecticut, and residential real estate loans comprised almost 60 percent of the average thrift loan portfolio as of March 31, 2003.

Chart 4: Past Due Loans in Connecticut Remain under Control



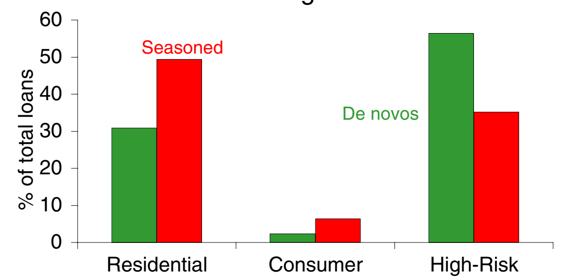
Source: Bank and Thrift Call Reports, Data Through 1st quarter 2003

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 1st quarter 2003

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 1st Quarter 2003

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

- As of March 31, 2003, Connecticut had eight institutions less than three years old, representing 12 percent of institutions.
- Loan volume in new institutions has been concentrated in traditionally high-risk loan types, with 56 percent of total loans in commercial, commercial real estate, multi-family and construction loans (see Chart 6).

Connecticut at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	66	68	70	73	74
Total Assets (in thousands)	52,832,084	51,574,443	49,188,721	47,520,107	44,582,494
New Institutions (# < 3 years)	7	9	9	8	4
New Institutions (# < 9 years)	16	16	13	11	8

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.27	9.41	9.88	9.67	8.95

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.05%	1.02%	1.20%	1.25%	1.61%
Past-Due and Nonaccrual >= 5%	2	1	3	5	5
ALLL/Total Loans (median %)	1.22%	1.16%	1.21%	1.25%	1.31%
ALLL/Noncurrent Loans (median multiple)	2.93	2.77	2.43	2.42	1.58
Net Loan Losses/Loans (aggregate)	0.27%	0.41%	0.38%	0.22%	0.32%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	8	7	9	6	4
Percent Unprofitable	12.12%	10.29%	12.86%	8.22%	5.41%
Return on Assets (median %)	0.81	0.85	0.80	0.98	0.92
25th Percentile	0.60	0.48	0.45	0.49	0.60
Net Interest Margin (median %)	3.68%	3.86%	3.83%	3.89%	3.79%
Yield on Earning Assets (median)	5.68%	6.47%	7.47%	7.32%	7.18%
Cost of Funding Earning Assets (median)	1.85%	2.49%	3.73%	3.54%	3.37%
Provisions to Avg. Assets (median)	0.08%	0.08%	0.07%	0.06%	0.06%
Noninterest Income to Avg. Assets (median)	0.54%	0.54%	0.50%	0.41%	0.43%
Overhead to Avg. Assets (median)	2.87%	2.89%	2.89%	2.85%	2.79%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	72.37%	79.14%	77.89%	77.81%	76.72%
Loans to Assets (median %)	58.40%	60.24%	62.33%	61.59%	62.62%
Brokered Deposits (# of institutions)	6	6	5	5	5
Bro. Deps./Assets (median for above inst.)	0.17%	0.08%	2.63%	2.59%	1.27%
Noncore Funding to Assets (median)	14.13%	17.09%	14.60%	14.06%	12.31%
Core Funding to Assets (median)	73.05%	71.18%	73.59%	73.13%	75.64%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	16	15	15	15	16
National	8	8	8	7	8
State Member	2	2	2	2	2
S&L	3	5	7	8	8
Savings Bank	6	6	4	4	2
Mutually Insured	31	32	34	37	38

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Hartford CT	19	7,676,723	28.79%	14.53%
No MSA	14	15,310,418	21.21%	28.98%
Stamford-Norwalk CT PMSA	10	2,602,769	15.15%	4.93%
New Haven-Meriden CT PMSA	7	3,389,720	10.61%	6.42%
Waterbury CT PMSA	5	15,610,715	7.58%	29.55%
Danbury CT PMSA	5	3,631,390	7.58%	6.87%
New London-Norwich CT-RI	4	4,269,718	6.06%	8.08%
Bridgeport CT PMSA	2	340,631	3.03%	0.64%