FDIC State Profile

FALL 2003

Massachusetts

The Massachusetts economy appears to have reached its nadir.

- Massachusetts has shed jobs each month since January 2001, experiencing 29 consecutive months of declining year-over-year employment. The state lost over 168,000 jobs through June 2003, representing 5 percent of the work force, the largest percentage loss among all states in the nation.
- However, through the first half of the year, the rate of job losses abated, signaling that the state is emerging from recession. In fact, the tourism, education, and financial services sectors experienced positive job growth during the year ending second quarter 2003.
- Certain metro areas are likely to recover more slowly than others, particularly those concentrated in high-tech or manufacturing that experienced strong growth in the late 1990s followed by an abrupt decline in economic activity during the recession (see Chart 1).

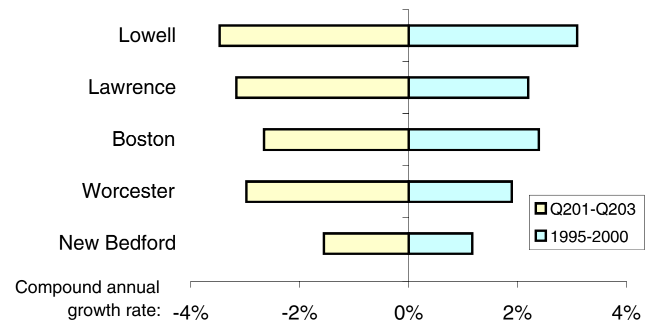
However, the state's fiscal situation has not improved and could threaten the recovery.

- Declining employment and capital gains tax revenues contributed to three years of growing budget deficits. Following gaps in the previous two fiscal years, the state has already rolled back the personal income tax cut, imposed layoffs, and drained reserves.
- Continuing into the current year, tax revenue collections remain weak (see Chart 2). With a projected budget deficit of over $3 billion for fiscal year 2004, reductions in local aid, further government layoffs, and increases in fees and taxes may impede the recovery.

Housing remains stable, though home price growth is moderating.

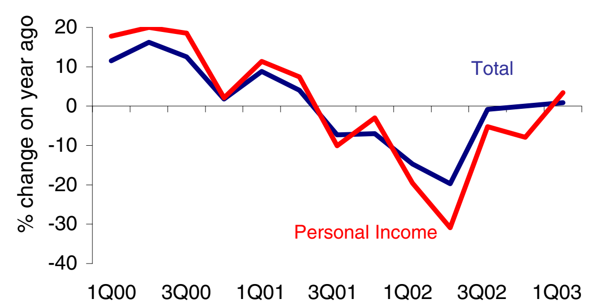
- As expected with a prolonged weak economy, Massachusetts' housing markets are beginning to slow. Following modest growth during 2002, existing home sales declined through the first quarter of 2003, and single family permit growth is off 14 percent through the first half of the year.
- The state's rate of home price appreciation remains strong, but continues to decline to a more sustainable level (see Chart 3). While price increases in the ***Boston*** market began to moderate during 2002, most Massachusetts metro areas now report decelerating home price growth through the first quarter of 2003.

Chart 1: Economic Conditions Will Be Slowest to Recover in Metro Areas with Sharp Declines in Employment Growth



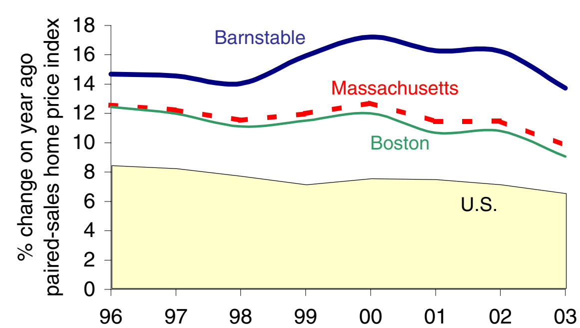
Source: Bureau of Labor Statistics

Chart 2: State Tax Revenues Plummeted during the Downturn, and Remained Sluggish into 2003



Source: Nelson A. Rockefeller Institute of Government

Chart 3: Home Price Appreciation Is Decelerating in Massachusetts, but Remains Stronger than the Nation



Source: OFHEO, data through first quarter

Massachusetts banks and thrifts still showing low levels of past due loans.

- Massachusetts insured 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 0.91 percent, which is among historical lows (see Chart 4). Thrift institutions account for 82 percent of insured institutions in Massachusetts and their traditionally conservative lending practices are reflected in low delinquencies.
- As of March 31, 2003, the state's commercial institutions posted increases in single family loans past due from 0.90 percent to 1.13 percent but losses in the single family loan portfolio remain low.

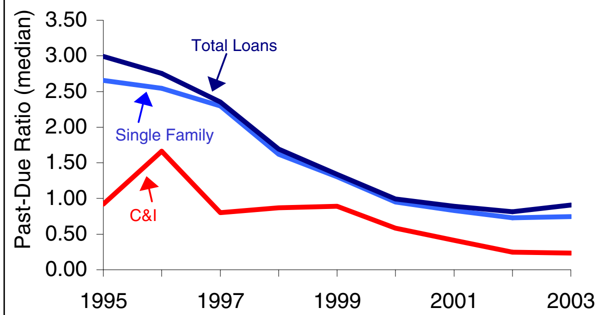
Interest-Rate Risk remains a concern for Massachusetts institutions with increased concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.

- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002 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 62 percent of Massachusetts'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 82 percent of insured institutions in Massachusetts, and residential real estate loans comprised almost 65 percent of the average thrift loan portfolio as of March 31, 2003.

Commercial Real Estate Markets have yet to recover.

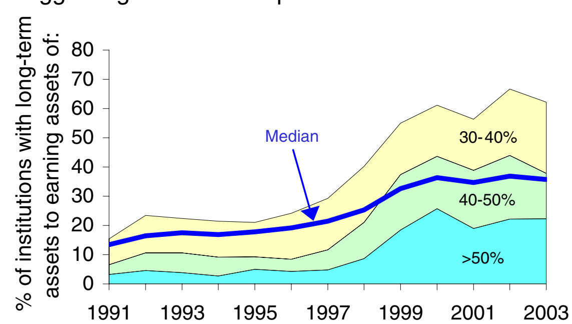
- In the Boston MSA, median CRE growth exceeded 10 percent during the past four years. While median concentrations remain lower than levels reached in the early 90s, exposure levels have also risen. Institutions with high and increasing CRE concentrations may be more vulnerable to rising vacancy rates and declining rents (see Chart 6).
- Both office and industrial CRE market conditions in Greater Boston remain weak and are not expected to recover until the beginning of 2004. To date, CRE losses have been minimal.

Chart 4: Past Due Loans in Massachusetts Remain under Control



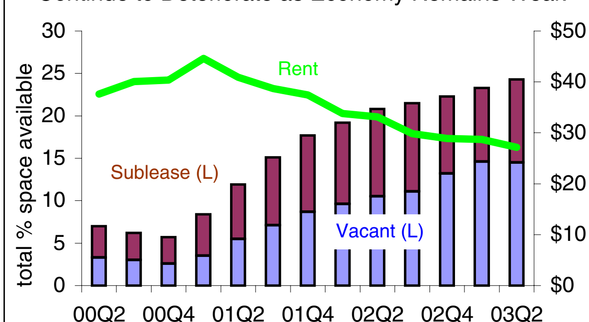
Source: Bank and Thrift Call Reports, data through 1st quarter 2003

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



Source: Bank Call Reports, Data Through 1st Quarter 2003

Chart 6: Office Market Conditions in Greater Boston Continue to Deteriorate as Economy Remains Weak



Source: Spaulding & Slye Colliers, Torto Wheaton Research

Massachusetts at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	214	219	227	228	233
Total Assets (in thousands)	197,474,976	180,404,506	173,374,938	153,764,229	203,845,091
New Institutions (# < 3 years)	3	2	3	2	2
New Institutions (# < 9 years)	4	5	7	6	6

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.08	9.20	9.46	9.75	9.52

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	0.91%	0.81%	0.89%	0.99%	1.34%
Past-Due and Nonaccrual >= 5%	3	6	5	5	15
ALLL/Total Loans (median %)	1.01%	1.00%	0.98%	0.98%	1.04%
ALLL/Noncurrent Loans (median multiple)	4.79	4.50	4.33	3.30	2.52
Net Loan Losses/Loans (aggregate)	0.14%	0.14%	0.08%	0.04%	0.27%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	18	4	7	3	3
Percent Unprofitable	8.41%	1.83%	3.08%	1.32%	1.29%
Return on Assets (median %)	0.69	0.81	0.78	0.90	0.86
25th Percentile	0.35	0.64	0.54	0.62	0.58
Net Interest Margin (median %)	3.59%	3.71%	3.60%	3.70%	3.64%
Yield on Earning Assets (median)	5.60%	6.42%	7.43%	7.28%	7.15%
Cost of Funding Earning Assets (median)	2.00%	2.74%	3.86%	3.55%	3.50%
Provisions to Avg. Assets (median)	0.03%	0.04%	0.04%	0.03%	0.04%
Noninterest Income to Avg. Assets (median)	0.48%	0.40%	0.39%	0.34%	0.32%
Overhead to Avg. Assets (median)	2.70%	2.62%	2.66%	2.66%	2.62%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	72.94%	76.86%	80.59%	81.50%	76.10%
Loans to Assets (median %)	59.84%	62.43%	64.46%	65.96%	63.73%
Brokered Deposits (# of institutions)	19	12	15	15	18
Bro. Deps./Assets (median for above inst.)	1.42%	1.22%	1.01%	0.55%	0.21%
Noncore Funding to Assets (median)	16.91%	16.69%	16.02%	15.07%	12.52%
Core Funding to Assets (median)	71.63%	72.15%	72.43%	72.73%	75.43%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	24	26	28	28	30
National	13	12	12	13	12
State Member	2	2	2	2	2
S&L	6	6	7	7	7
Savings Bank	15	15	14	15	15
Mutually Insured	154	158	164	163	167

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Boston MA-NH PMSA	124	161,689,707	57.94%	81.88%
No MSA	16	5,113,643	7.48%	2.59%
Worcester MA-CT PMSA	15	4,163,436	7.01%	2.11%
Springfield MA	14	7,435,776	6.54%	3.77%
Brockton MA PMSA	10	2,139,375	4.67%	1.08%
Lawrence MA-NH PMSA	9	3,156,842	4.21%	1.60%
Pittsfield MA	7	2,479,841	3.27%	1.26%
Providence-Fall River-Warwick RI-MA	6	4,002,662	2.80%	2.03%
Lowell MA-NH PMSA	5	1,681,470	2.34%	0.85%
Fitchburg-Leominster MA PMSA	4	711,983	1.87%	0.36%
New Bedford MA PMSA	2	3,351,348	0.93%	1.70%
Barnstable-Yarmouth MA	2	1,548,893	0.93%	0.78%