FDIC State Profile

FALL 2003

New Hampshire

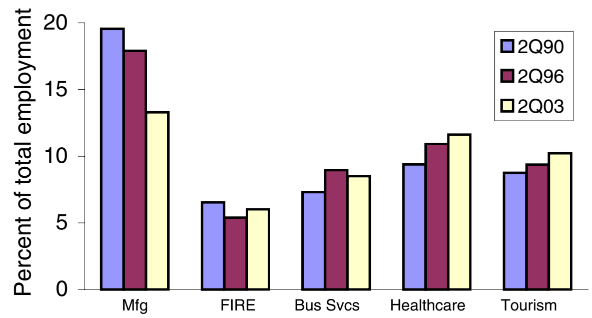
Despite a shift toward services, New Hampshire's economy continues to be negatively affected by weakness in manufacturing and technology.

- 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 half of 2003. In contrast, southern areas dependent on computer and electronic manufacturing employment continue to report losses.
- To replace lost manufacturing jobs, the state has shifted toward health care and tourism (see Chart 1). While production manufacturing employment is likely to decline further, computer-related jobs such as engineering, design, and support are projected to show the fastest growth through the current decade, in addition to health care employment.
- During the first half of 2003, leisure and hospitality employment rose 3.2 percent compared to the prior year, the strongest increase of all service sectors. As a share of total employment, the sector represents 10 percent of total employment in the state.
- The regional travel industry held up well following the September 11 attacks, however meals and room tax revenue in New Hampshire declined in the beginning of the year and remained weak through early summer (see Chart 2). A continued weak summer and fall season could lead to a decline in tourism employment levels.

New Hampshire's housing market remains balanced.

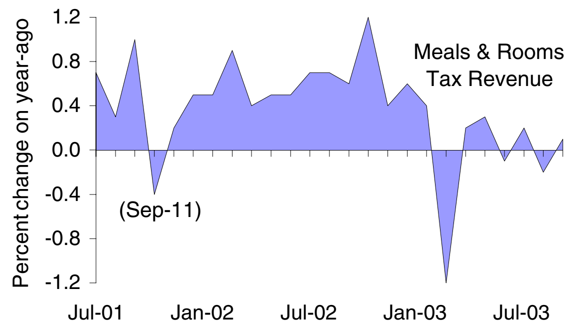
- New Hampshire's housing market posted the strongest sales gains in New England during the latter half of the 1990s, benefiting from the proximity to ***Boston***, strong IT-related job growth and steady demand for second/vacation homes.
- The current economic downturn has led to a somewhat slower rate of home price appreciation, but appreciation continues at a double-digit rate (see Chart 3), particularly in the ***Portsmouth*** area. Single family permit issuance also leveled off during the first half of the year.
- Significant deceleration in prices appears unlikely unless the IT slump and/or national economic weakness are protracted, or mortgage rates increase significantly.

Chart 1: As Manufacturing Jobs Plummeted, New Hampshire Added Jobs in Tourism and Health Care



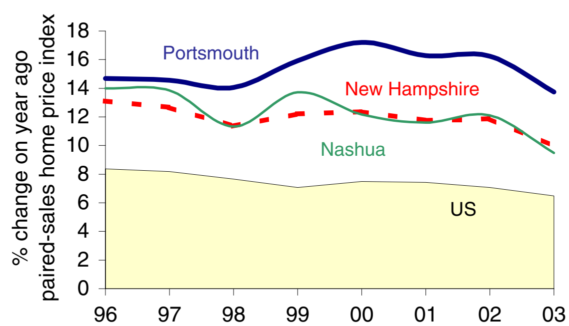
Source: Bureau of Labor Statistics

Chart 2: New Hampshire Tourism-Based Tax Revenue Collections Weakened in 2003



Source: New Hampshire Department of Administrative Services

Chart 3: Metro Areas in New Hampshire Are Seeing More Modest Price Appreciation



Source: OFHEO, data through first quarter

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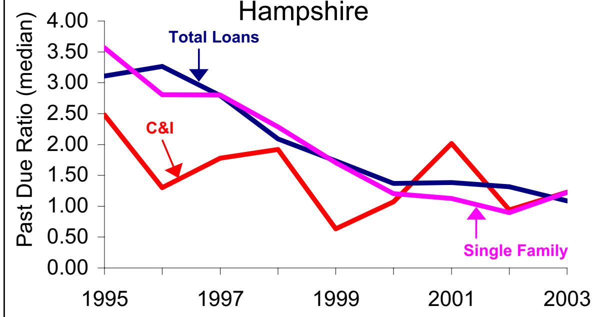
New Hampshire's banks and thrifts still showing low levels of past due loans despite some increases recently.

- New Hampshire's insured institutions continue to report low past due loan levels when compared to highs reached in the early 1990s. As of March 31, 2003, the median past due loan ratio was 1.09 percent (see Chart 4).
- As of March 31, 2003, New Hampshire's insured institutions experienced an increase in the median past due commercial loan ratio to 1.23 percent from 0.94 percent in March 2002. During the same timeframe, the median past due ratio for single family residential loans increased 33 basis points to 1.22 percent.

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

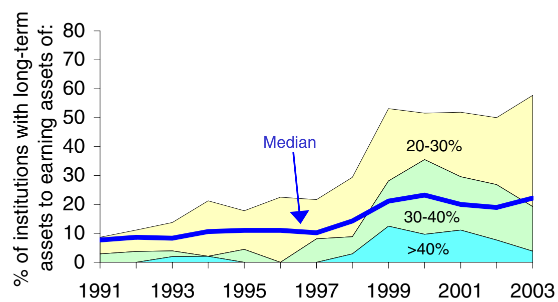
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002 until recently. Refinancing activity remained strong during the first half of 2003 but started to slow in July and August as mortgage interest rates began 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 continued to rise in the last year with 58 percent of New Hampshire's insured institutions having long-term asset concentrations greater than 20 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.

Chart 4: Past Due Commercial and Single Family Real Estate Loans Increasing in New Hampshire



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

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



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

- 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 53 percent of insured institutions in New Hampshire, and residential real estate loans comprised almost 48 percent of the average thrift loan portfolio as of March 31, 2003.

New Hampshire at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	32	32	34	38	39
Total Assets (in thousands)	29,514,299	29,236,966	33,289,049	32,693,189	25,447,237
New Institutions (# < 3 years)	0	1	2	4	3
New Institutions (# < 9 years)	3	3	4	5	5

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.64	9.02	8.63	8.42	9.54

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.09%	1.31%	1.38%	1.37%	1.73%
Past-Due and Nonaccrual >= 5%	1	1	2	2	2
ALLL/Total Loans (median %)	1.14%	1.16%	1.20%	1.29%	1.37%
ALLL/Noncurrent Loans (median multiple)	3.28	2.95	2.28	3.45	2.43
Net Loan Losses/Loans (aggregate)	6.96%	29.15%	5.69%	4.04%	2.37%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	1	0	1	3	1
Percent Unprofitable	3.13%	0.00%	2.94%	7.89%	2.56%
Return on Assets (median %)	0.81	0.97	0.84	0.99	1.05
25th Percentile	0.60	0.72	0.63	0.64	0.80
Net Interest Margin (median %)	4.23%	4.32%	4.09%	4.36%	4.16%
Yield on Earning Assets (median)	5.94%	6.77%	7.92%	7.72%	7.62%
Cost of Funding Earning Assets (median)	1.76%	2.47%	3.85%	3.52%	3.48%
Provisions to Avg. Assets (median)	0.09%	0.10%	0.07%	0.08%	0.10%
Noninterest Income to Avg. Assets (median)	0.50%	0.60%	0.48%	0.48%	0.51%
Overhead to Avg. Assets (median)	2.98%	3.05%	3.05%	3.12%	2.98%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	74.41%	77.83%	81.55%	80.98%	79.55%
Loans to Assets (median %)	62.90%	65.30%	67.97%	66.66%	66.25%
Brokered Deposits (# of institutions)	2	1	2	4	6
Bro. Deps./Assets (median for above inst.)	26.01%	49.36%	22.03%	1.51%	1.41%
Noncore Funding to Assets (median)	15.69%	14.98%	15.07%	13.89%	12.44%
Core Funding to Assets (median)	70.87%	71.00%	71.07%	73.83%	77.40%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	9	9	9	12	12
National	5	5	6	6	6
State Member	1	0	0	1	1
S&L	1	1	1	1	1
Savings Bank	5	5	6	6	6
Mutually Insured	11	12	12	12	13

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	22	21,100,985	68.75%	71.49%
Portsmouth-Rochester NH-ME PMSA	4	606,853	12.50%	2.06%
Manchester NH PMSA	2	7,027,002	6.25%	23.81%
Lawrence MA-NH PMSA	2	512,878	6.25%	1.74%
Nashua NH PMSA	1	11,314	3.13%	0.04%
Boston MA-NH PMSA	1	255,267	3.13%	0.86%