

# FDIC State Profile

FALL 2003

## Rhode Island

Amid weak regional and national conditions, the Rhode Island economy continues to outperform all other New England states.

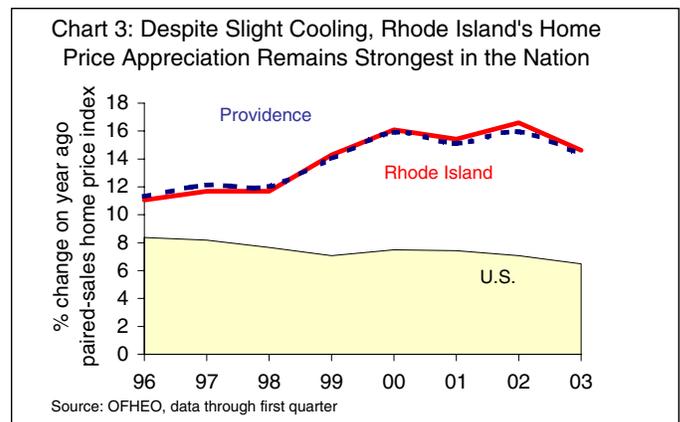
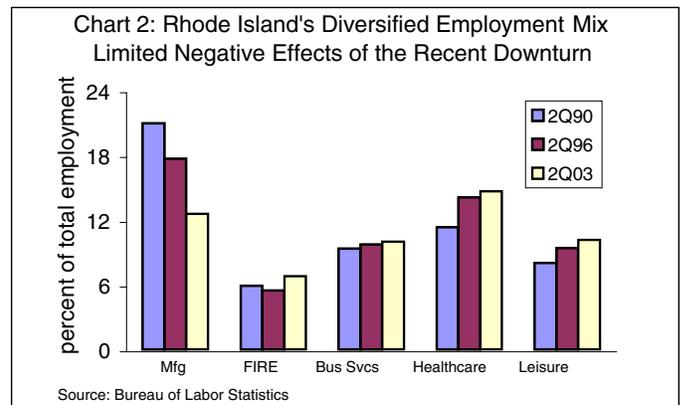
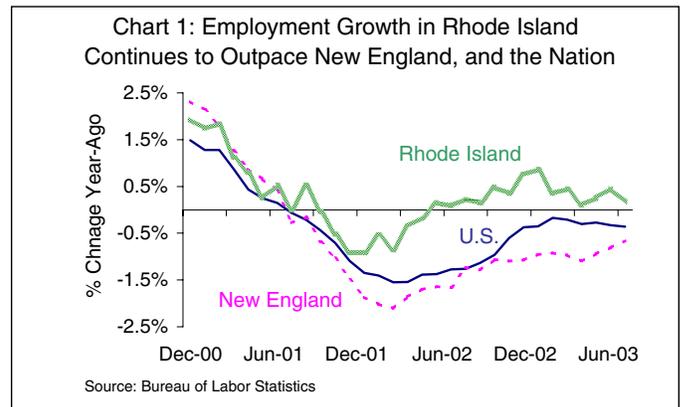
- Rhode Island employment levels have nearly recovered to pre-recession levels. While other New England states continued to lose jobs through mid-year, the state had registered 14 consecutive months of year-over-year job growth as of June 2003 (see Chart 1).
- Overall job growth through second quarter 2003 was due to gains in the construction, transportation, tourism, and healthcare industries. Local and state government employment levels declined compared to last year, most likely due to policy actions to address the state's fiscal problems.

**Rhode Island continues to shift from manufacturing toward more stable service employment.**

- 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.
- As seen in Chart 2, manufacturing employment has plummeted over the past decade due to declines in the jewelry, metal, and textiles sectors. These industries are expected to shed additional jobs during the next few years.

**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 the **Providence** market (see Chart 3).
- Such continued rapid rates of appreciation are unsustainable in the long run, and home price growth is likely to moderate as mortgage rates have increased. In addition, home prices in adjacent Southeastern Massachusetts have risen more slowly than in Rhode Island over the past two years, and may not seem as expensive to first-time home buyers.



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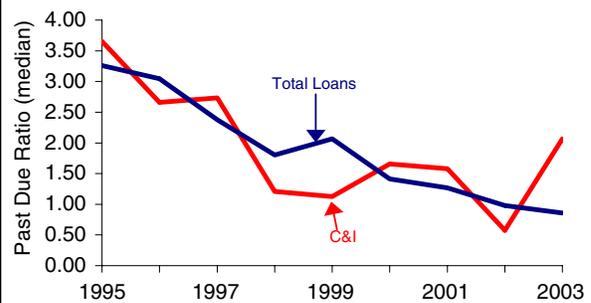
### Rhode Island's banks and thrifts still showing low levels of past due loans despite some increases recently.

- Rhode Island'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 0.86 percent (see Chart 4).
- As of March 31, 2003, Rhode Island's insured institutions experienced an increase in the median past due commercial loan ratio to 2.07 percent from 0.58 percent in March 2002. The elevated level remains within manageable parameters.

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

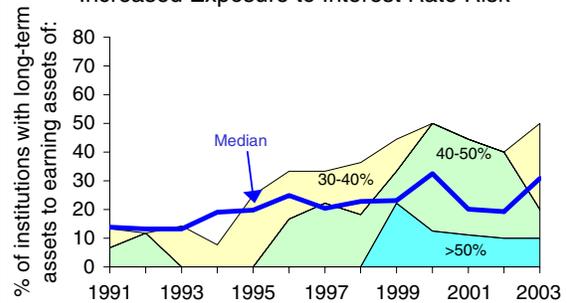
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002 until recently. Refinancing activity remained strong during the first half of 2003 but started to slow in July and August as mortgage interest rates began 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 50 percent of Rhode Island's insured institutions having 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

Chart 4: Past Due Commercial Loans Increasing in Rhode Island



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

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



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

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 half of the insured institutions in Rhode Island, and residential real estate loans comprised almost 73 percent of the average thrift loan portfolio as of March 31, 2003.

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### Rhode Island at a Glance

<b>General Information</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>	<b>Mar-99</b>
Institutions (#)	15	15	13	12	13
Total Assets (in thousands)	212,947,817	197,868,127	218,095,155	166,371,952	93,235,929
New Institutions (# < 3 years)	4	3	1	1	1
New Institutions (# < 9 years)	6	5	3	2	2
<b>Capital</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>	<b>Mar-99</b>
Tier 1 Leverage (median)	11.51	8.48	8.20	7.90	7.99
<b>Asset Quality</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>	<b>Mar-99</b>
Past-Due and Nonaccrual (median %)	0.86%	0.98%	1.27%	1.41%	2.07%
Past-Due and Nonaccrual >= 5%	1	0	2	2	2
ALLL/Total Loans (median %)	1.21%	1.21%	1.35%	1.38%	1.47%
ALLL/Noncurrent Loans (median multiple)	1.99	3.67	2.25	2.64	2.69
Net Loan Losses/Loans (aggregate)	2.18%	1.32%	0.92%	1.19%	1.22%
<b>Earnings</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>	<b>Mar-99</b>
Unprofitable Institutions (#)	3	5	0	0	1
Percent Unprofitable	20.00%	33.33%	0.00%	0.00%	7.69%
Return on Assets (median %)	0.81	0.80	0.71	1.17	0.88
25th Percentile	0.58	-0.14	0.51	0.81	0.62
Net Interest Margin (median %)	3.51%	3.70%	3.97%	4.19%	4.17%
Yield on Earning Assets (median)	5.76%	6.37%	7.93%	7.69%	7.57%
Cost of Funding Earning Assets (median)	2.10%	2.70%	4.29%	4.07%	3.60%
Provisions to Avg. Assets (median)	0.16%	0.06%	0.06%	0.15%	0.16%
Noninterest Income to Avg. Assets (median)	1.24%	1.33%	1.27%	1.17%	1.29%
Overhead to Avg. Assets (median)	3.56%	3.50%	3.69%	3.31%	3.29%
<b>Liquidity/Sensitivity</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>	<b>Mar-99</b>
Loans to Deposits (median %)	84.58%	84.53%	86.06%	89.51%	86.52%
Loans to Assets (median %)	63.26%	63.13%	65.76%	67.20%	70.26%
Brokered Deposits (# of institutions)	2	3	3	3	2
Bro. Deps./Assets (median for above inst.)	2.05%	0.23%	0.74%	0.86%	2.07%
Noncore Funding to Assets (median)	20.46%	23.18%	27.00%	27.20%	22.16%
Core Funding to Assets (median)	59.13%	62.96%	61.90%	63.30%	66.41%
<b>Bank Class</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>	<b>Mar-99</b>
State Nonmember	4	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
<b>MSA Distribution</b>		<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>
Providence-Fall River-Warwick RI-MA		10	210,025,689	66.67%	98.63%
No MSA		3	1,037,892	20.00%	0.49%
New London-Norwich CT-RI		2	1,884,236	13.33%	0.88%