FDIC State Profile

Summer 2004

Connecticut

Economic conditions in Connecticut show improvement as employment conditions stabilize.

- According to official payroll estimates, while Connecticut has yet to experience employment growth, employment levels in the second half of 2003 and first quarter of 2004 have stabilized compared to previous weakness.
- The state's unemployment rate improved substantially during 2004, averaging 4.8 percent in the first quarter and 4.5 percent in April, down from the 5.5 percent average for both the fourth quarter of 2003 and all of 2003.

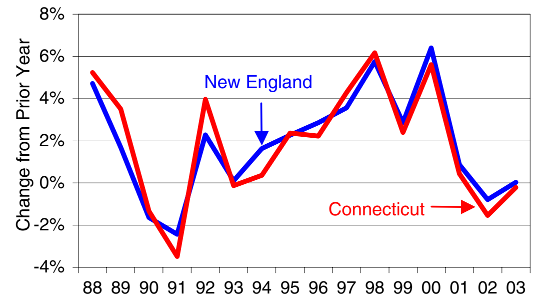
Personal income per capita remains highest in the nation.

- Newly released data on Connecticut's personal income performance in 2003 reveals a disparity between income levels and changes in those levels. In terms of the *level* of personal income per capita, Connecticut has been and remains the highest in the country. In terms of the *rate of growth* in personal income over the past year, Connecticut was next to last in the country.
- The 2001 recession, like the 1990-1991 recession, resulted in large changes in real (inflation-adjusted) per capita personal income in the state (See Chart 1). Following a moderate decline in annual real per capita income during 2002, conditions stabilized in 2003.
- Income levels in Connecticut remain very impressive. Per capita income during 2003 was over one-third higher than the national average (See Chart 2). Perhaps even more striking, *all* of the top six states in terms of levels of per capita income were located in FDIC's New York Region, which encompasses the Northeast as well as Maryland and the District of Columbia.

Population growth remains low in Connecticut.

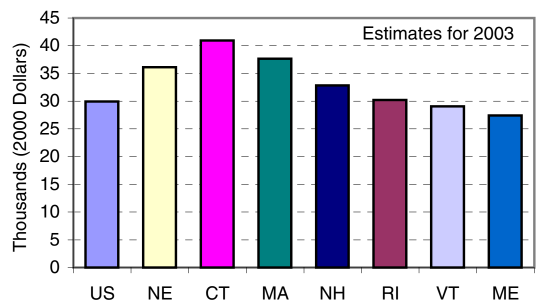
- Population growth in Connecticut has been slow, well below that of New England and less than one-half of that of the United States as a whole (See Chart 3). According to New England Economic Partnership estimates, population growth is expected to remain modest while growth in real personal income per capita returns to approximately its long-term (fifteen year) average.

Chart 1: Real Per Capita Personal Income Patterns Mirror New England Trends



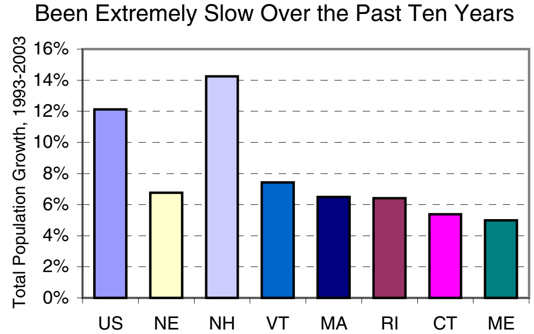
Source: Bureau of Economic Analysis, Haver Analytics

Chart 2: Connecticut's Real Per Capita Personal Income Is the Highest in New England



Source: Bureau of Economic Analysis, Haver Analytics

Chart 3: Population Growth in Connecticut Has Been Extremely Slow Over the Past Ten Years



Source: Bureau of the Census, Haver Analytics

Earnings continue to show pressure from low interest rates.

- Connecticut's community institutions[1] continue to be profitable, but experienced an 18-basis point decline in net earnings year-over-year as of the first quarter of 2004. (See Table 1). Earnings are affected by the decline in net interest margins associated with a low interest rate environment as yields on earning assets have declined faster than funding costs. Funding costs are historically low and may have reached effective floors.

- Community institutions have been unable to offset drops in margins with higher levels of noninterest income or improved operating efficiencies. Noninterest income declined slightly in the first quarter of 2004, while noninterest expenses increased as a result of higher salary and benefit expenses. Modest loan-loss provisions as well as gains on the sale of securities supported profitability at community institutions.

The number of branches remained relatively stable in Connecticut, while out-of-state ownership increased.

- In 1994, there were 1,234 branches of insured financial institutions in Connecticut with only 30 branches operated by insured institutions headquartered out-of-state. In 2003, the total number of branches declined to 1,175 but the number owned by institutions based elsewhere, increased to 455 (See Chart 4).

- Branch deposits increased to $70 billion in 2003, up from $55 billion in 1994. However, total deposits held by Connecticut based institutions declined from $57 billion in 1994 to $39 billion in 2003 as a result of local institutions being acquired by out-of-state entities.

Interest rate risk remains a concern for Connecticut institutions as concentrations of fixed-rate, long-term assets continue to increase.

- The conventional 30-year mortgage rate declined significantly over the past several years and is still historically low. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages increased from only about 13.5 percent of originations in December 2002 to almost 28 percent as of March 2004. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates.

- Since the late 1990s, asset maturities lengthened at many institutions, moderated late in 2002 and early 2003, and increased again during the first quarter of 2004. As of March 31, 2004, the median ratio of long-term assets to total assets was 36 percent. With the large volume of long-term assets on the books, insured institutions may be faced with a mismatch of asset and liability repricing. Net interest margin compression may occur, when short-term interest rates increase, as liabilities reprice at a faster rate than assets (See Chart 5).

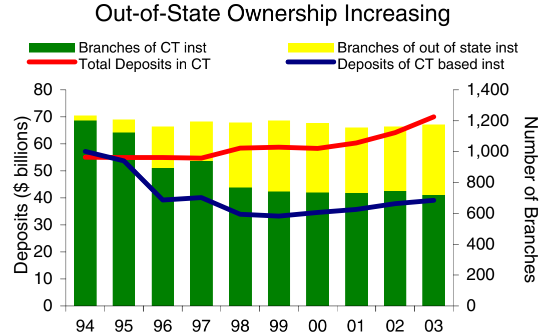
- The extension of asset maturities is pronounced in the state, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 60 percent of insured institutions in Connecticut, and residential real estate loans comprised almost 59 percent of their average loan portfolio as of March 31, 2004.

Table 1: Earnings Hampered by Net Interest Margin Compression and Increasing Overhead

Percentage of Average Assets	First Quarter 2003	First Quarter 2004	Basis Point Change
Net Interest Income	3.52	3.37	-0.15
Total Noninterest Income	0.70	0.67	-0.03
Noninterest Expense	2.74	2.97	0.23
Provision Expense	0.09	0.06	-0.03
Security Gains & Losses	0.03	0.12	0.09
Income Taxes	0.46	0.36	-0.10
Net Income (ROA)	0.95	0.77	-0.18
Net Interest Margin (NIM)	3.79	3.62	-0.17

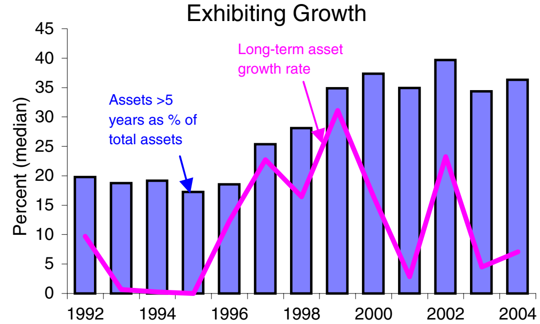
Source: Bank and Thrift Call Reports. Aggregate data for institutions with assets <$1 billion. Excludes specialty institutions and de novos.

Chart 4: Number of Branches Stable but Out-of-State Ownership Increasing



Source: Summary of Deposits. Data as of 2nd quarter.

Chart 5: Long-Term Asset Concentrations Still Exhibiting Growth



Source: Bank Call Reports, Data as of 1st quarter.

[1] Insured institutions with assets of less than $1 billion, excluding institutions less than three years old and specialty institutions.

Connecticut at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	63	66	68	70	73
Total Assets (in thousands)	58,316,426	52,831,792	51,574,443	49,188,721	47,520,107
New Institutions (# < 3 years)	6	7	9	9	8
New Institutions (# < 9 years)	14	16	16	13	11

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.46	9.28	9.41	9.88	9.67

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	0.84%	1.05%	1.02%	1.20%	1.25%
Past-Due and Nonaccrual >= 5%	0	2	1	3	5
ALLL/Total Loans (median %)	1.15%	1.22%	1.16%	1.21%	1.25%
ALLL/Noncurrent Loans (median multiple)	2.57	2.93	2.77	2.43	2.42
Net Loan Losses/Loans (aggregate)	0.09%	0.27%	0.41%	0.38%	0.22%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	9	8	7	9	6
Percent Unprofitable	14.29%	12.12%	10.29%	12.86%	8.22%
Return on Assets (median %)	0.77	0.81	0.85	0.80	0.98
25th Percentile	0.45	0.60	0.48	0.45	0.49
Net Interest Margin (median %)	3.70%	3.68%	3.86%	3.83%	3.89%
Yield on Earning Assets (median)	5.15%	5.68%	6.47%	7.47%	7.32%
Cost of Funding Earning Assets (median)	1.42%	1.85%	2.49%	3.73%	3.54%
Provisions to Avg. Assets (median)	0.04%	0.08%	0.08%	0.07%	0.06%
Noninterest Income to Avg. Assets (median)	0.51%	0.54%	0.54%	0.50%	0.41%
Overhead to Avg. Assets (median)	2.98%	2.87%	2.89%	2.89%	2.85%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	74.94%	72.37%	79.14%	77.89%	77.81%
Loans to Assets (median %)	59.60%	58.40%	60.24%	62.33%	61.59%
Brokered Deposits (# of Institutions)	12	6	6	5	5
Bro. Deps./Assets (median for above inst.)	0.59%	0.17%	0.08%	2.63%	2.59%
Noncore Funding to Assets (median)	16.84%	14.13%	17.09%	14.60%	14.06%
Core Funding to Assets (median)	70.88%	73.05%	71.18%	73.59%	73.13%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	14	16	15	15	15
National	9	8	8	8	7
State Member	2	2	2	2	2
S&L	2	3	5	7	8
Savings Bank	6	6	6	4	4
Stock and Mutual SB	30	31	32	34	37

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Hartford CT	18	5,988,393	28.57%	10.27%
No MSA	14	5,771,170	22.22%	9.90%
Stamford-Norwalk CT PMSA	8	4,893,229	12.70%	8.39%
New Haven-Meriden CT PMSA	7	5,292,563	11.11%	9.08%
Danbury CT PMSA	5	4,199,993	7.94%	7.20%
Waterbury CT PMSA	4	16,237,736	6.35%	27.84%
New London-Norwich CT-RI	4	4,880,731	6.35%	8.37%
Bridgeport CT PMSA	3	11,052,611	4.76%	18.95%