State Profile

Summer 2004

New Hampshire

Economic conditions in New Hampshire have shown some improvement as employment conditions begin to stabilize.

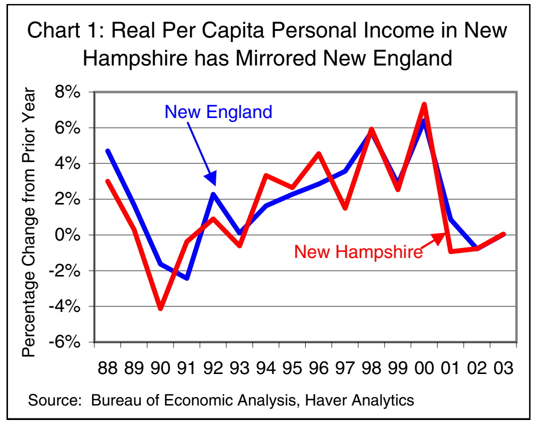
- According to official payroll estimates, while New Hampshire has yet to experience sustained employment growth, employment levels have recovered somewhat. Employment declined sharply in January, owing in large part to extraordinarily cold weather that affected employment in construction and transportation, but recovered subsequently.
- The state's unemployment rate has declined over time to 3.9 percent in April, its lowest level since October 2001.

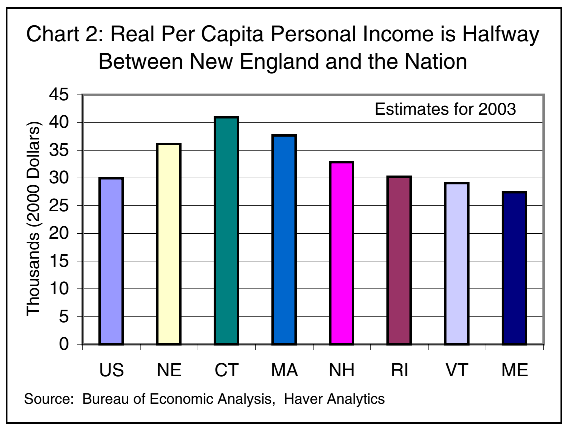
New Hampshire enjoys the sixth highest personal income per capita rate in the nation.

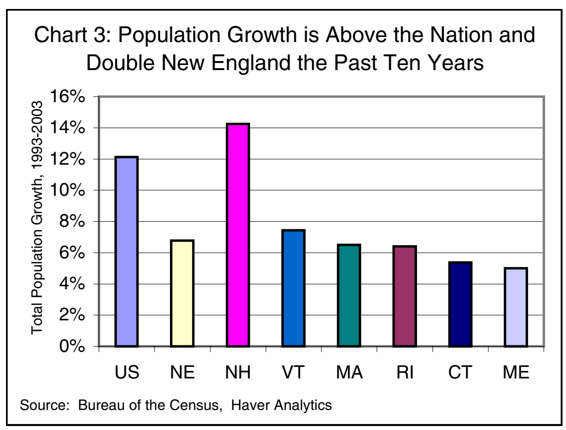
- New Hampshire shows a large difference in its national ranking for level of personal income compared to changes in those levels. In terms of the *level* of personal income per capita, New Hampshire ranks the sixth highest in the nation, although trailing both Connecticut and Massachusetts among New England states. In terms of the *rate of growth* in personal income over the past year, New Hampshire was moderately ahead of the average for New England and the nation.
- The 2001 recession, like the 1990-1991 recession, resulted in large changes in real (inflation-adjusted) personal income per capita in the state (See Chart 1). Following a moderate decline in annual real per capita income during 2001 and 2002, conditions stabilized in 2003.
- Income levels in New Hampshire are impressive. Per capita income during 2003 was about one-tenth higher than the national average, although below the New England average (See Chart 2).

Population growth at double the New England rate bodes well for increased economic activity.

- Population growth in New Hampshire has been and remains remarkable. Over the ten years ending in 2003, population growth has exceeded the national average and doubled the rate in New England (See Chart 3). According to the New England Economic Partnership,







population growth is expected to remain the fastest in New England.

Net interest margin compression continues to affect earnings.

- New Hampshire's community institutions[1] continue to be profitable, but experienced a 12-basis point decline in earnings on a year-over-year basis as of the first quarter of 2004 (See Table 1). The low interest rate environment has contributed to the decline in net interest margins 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 offset some of the decline in net interest income by improving operating efficiencies, utilizing gains on the sales of securities, and reducing loan-loss provision expense.

The number of branches remained relatively stable in New Hampshire, but out-of-state ownership increased significantly.

- In 1994, there were 392 branches of insured financial institutions in New Hampshire with three operated by insured institutions headquartered out of the state. In 2003, the total number of branches increased to 418 with 180 owned by institutions based elsewhere (See Chart 4).
- Deposits in branches in the state increased from $14 billion in 1994 to $30 billion in 2003. Total deposits of New Hampshire headquartered institutions increased from $14 billion in 1994 to $23 billion in 2003.

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

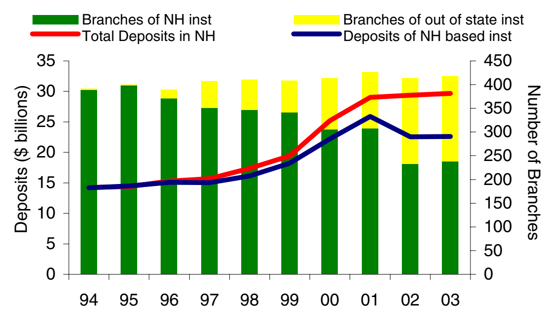
- The conventional 30-year mortgage rate has declined significantly over the past several years and is still historically low. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13.5 percent of originations in December 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 slightly in 2001 and 2002, and increased during 2003 and the first quarter of 2004. As of March 31, 2004, the median ratio of long-term assets to total assets was historically high at 24 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. As a result, net interest margin compression may occur at some institutions when short-term interest rates increase, as liabilities reprice at a faster rate than assets (See Chart 5).
- The pronounced extension of asset maturities in the state, reflects the large percentage of thrifts and residential lenders. Savings institutions represent 55 percent of insured institutions in New Hampshire, and residential real estate loans comprised almost 52 percent of their average loan portfolio as of March 31, 2004.

Table 1: Earnings Hampered by Net Interest Margin Compression

Percentage of Average Assets	First Quarter 2003	First Quarter 2004	Basis Point Change
Net Interest Income	3.89	3.58	-0.31
Total Noninterest Income	0.59	0.52	-0.07
Noninterest Expense	2.95	2.90	-0.05
Provision Expense	0.14	0.07	-0.07
Security Gains & Losses	0.12	0.14	0.02
Income Taxes	0.52	0.40	-0.12
Net Income (ROA)	0.98	0.86	-0.12
Net Interest Margin (NIM)	4.22	3.86	-0.36

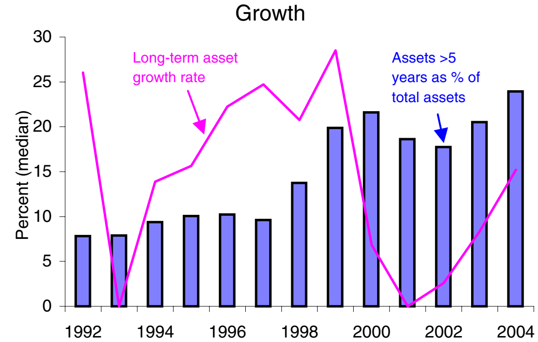
Source: Bank and Thrift Call Reports. Aggregate data for institutions with assets <$1 billion. Excludes specialty institutions and de novos.

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 Assets Still Exhibiting Strong Growth



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

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

New Hampshire at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	31	32	32	34	38
Total Assets (in thousands)	28,936,408	29,514,299	29,236,966	33,289,049	32,693,189
New Institutions (# < 3 years)	0	0	1	2	4
New Institutions (# < 9 years)	3	3	3	4	5

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	8.54	8.64	9.02	8.63	8.42

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	0.97%	1.09%	1.31%	1.38%	1.37%
Past-Due and Nonaccrual >= 5%	1	1	1	2	2
ALLL/Total Loans (median %)	1.05%	1.14%	1.16%	1.20%	1.29%
ALLL/Noncurrent Loans (median multiple)	3.85	3.28	2.95	2.28	3.45
Net Loan Losses/Loans (aggregate)	3.65%	6.96%	29.15%	5.69%	4.04%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	1	1	0	1	3
Percent Unprofitable	3.23%	3.13%	0.00%	2.94%	7.89%
Return on Assets (median %)	0.80	0.81	0.97	0.84	0.99
25th Percentile	0.61	0.60	0.72	0.63	0.64
Net Interest Margin (median %)	3.96%	4.23%	4.32%	4.09%	4.36%
Yield on Earning Assets (median)	5.26%	5.94%	6.77%	7.92%	7.72%
Cost of Funding Earning Assets (median)	1.27%	1.76%	2.47%	3.85%	3.52%
Provisions to Avg. Assets (median)	0.02%	0.09%	0.10%	0.07%	0.08%
Noninterest Income to Avg. Assets (median)	0.55%	0.50%	0.60%	0.48%	0.48%
Overhead to Avg. Assets (median)	3.05%	2.98%	3.05%	3.05%	3.12%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	80.33%	74.41%	77.83%	81.55%	80.98%
Loans to Assets (median %)	66.21%	62.90%	65.30%	67.97%	66.66%
Brokered Deposits (# of Institutions)	5	2	1	2	4
Bro. Deps./Assets (median for above inst.)	3.49%	26.01%	49.36%	22.03%	1.51%
Noncore Funding to Assets (median)	17.70%	15.69%	14.98%	15.07%	13.89%
Core Funding to Assets (median)	69.21%	70.87%	71.00%	71.07%	73.83%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	9	9	9	9	12
National	4	5	5	6	6
State Member	1	1	0	0	1
S&L	1	1	1	1	1
Savings Bank	5	5	5	6	6
Stock and Mutual SB	11	11	12	12	12

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	22	19,399,900	70.97%	67.04%
Portsmouth-Rochester NH-ME PMSA	4	983,575	12.90%	3.40%
Manchester NH PMSA	2	7,976,374	6.45%	27.57%
Lawrence MA-NH PMSA	2	565,187	6.45%	1.95%
Nashua NH PMSA	1	11,372	3.23%	0.04%