FDIC State Profile

Summer 2004

Puerto Rico and the U.S. Virgin Islands

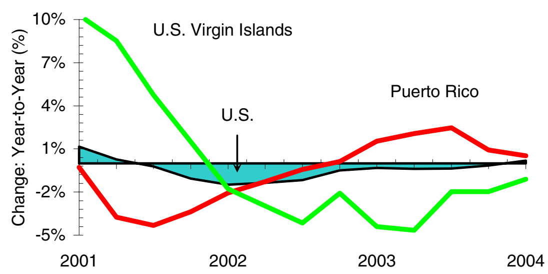
Although easing, Puerto Rico achieved positive employment growth through first quarter 2004. Job growth in the U.S. Virgin Islands (USVI) improved but remained slightly negative.

- Puerto Rico's employment growth rate has eased for two quarters. Job trends in the USVI improved in the first quarter of 2004 (See Chart 1).
- Puerto Rico's employment trends have benefited from increasing demand for health-related and educational services, similar to the mainland and reflecting demographic changes in the population (See Chart 2).
- Demand for leisure-time activities, including tourism, continued to rebound from the 2001 recession. Increased tourism has positive ripple effects across Puerto Rico's economy, helping restaurants, trade, retailing, and construction. In the first quarter of 2004, hotel occupancy rates, at 86.4 percent, compared favorably to the 80 percent occupancy rate in first quarter 2003. An estimated 17 new hotel projects, representing 2,460 new rooms, are expected to add almost 6,000 new construction and hotel jobs.
- After three years of steep decline, manufacturing job losses in Puerto Rico eased in first quarter 2004, reflecting an end to the U.S. recession. Manufacturing accounts for 40 percent of Puerto Rico's gross product, more than double the share for the U.S.

Economic conditions continue to be fragile in the USVI.

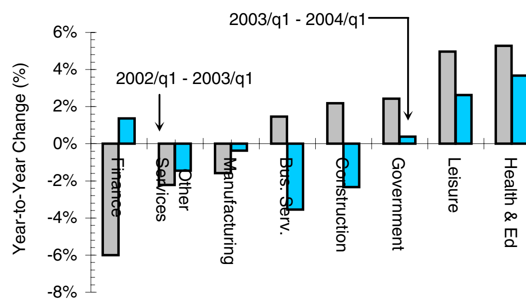
- In first quarter 2004, USVI's rate of job losses improved. The USVI's total employment base is relatively small, just over 40,000, and tends to be volatile. Its primary employment drivers are government, tourism, and trade, which includes retail sales (See Chart 3). Both the government and leisure sectors added jobs in first quarter 2004, while job growth in trade and transportation was negative.
- The USVI has had a history of budgetary problems. A preliminary forecast of the government's finances projected a $92 million shortfall by the end of fiscal year 2005. Net revenues, however, were up 5 percent during 2003, greater than USVI's 2.2 percent rate of inflation.

Chart 1: Employment Growth Trends Remained Positive in Puerto Rico And Improved in USVI



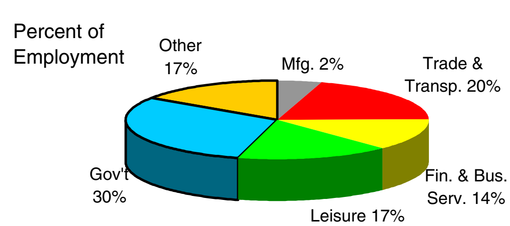
Source: Bureau of Labor Statistics.

Chart 2: Some of Puerto Rico's Industry Sectors Reported Modest Gains in First Quarter 2004



Source: Bureau of Labor Statistics.

Chart 3: Key Drivers of the USVI's Economy Include Government, Leisure and Trade



Source: Bureau of Labor Statistics. Other includes mining and construction, information services, education and health and not-for profit services.

Credit quality among FDIC-insured institutions headquartered in Puerto Rico/U.S. Virgin Islands (PRVI) improved in the past year, after weakening following the U.S. recession.[1]

- Average loan delinquency rates for FDIC-insured institutions headquartered in PRVI declined in first quarter 2004, falling to levels below one year ago (See Chart 4).
- Improved credit quality reflected positive employment trends during the past year and an improved outlook for the islands' economies.

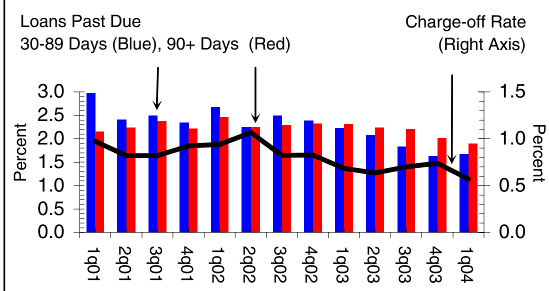
Reliance on non-core funding remained well above the national average.

- Insured institutions headquartered in PRVI remained more reliant on market-rate sensitive, noncore funding than U.S. mainland institutions. In fact, most of PRVI's insured institutions use brokered deposits for funding needs, well in excess of the figure for banks in the U.S. (See Chart 5).
- The higher reliance on non-core funding than the nation contributes to a higher average cost of funds for PRVI headquartered institutions.
- Raising low-cost, core deposits locally is challenging in Puerto Rico because of the highly competitive banking market, relatively large unbanked population (estimates indicate that as much as 50 percent of Puerto Rican citizens are unbanked), and tax-advantaged alternatives to bank deposits.

Widening net interest margins may accompany a steeper yield curve, but a rise in short-term interest rates will likely increase funding costs for insured institutions headquartered in PRVI.

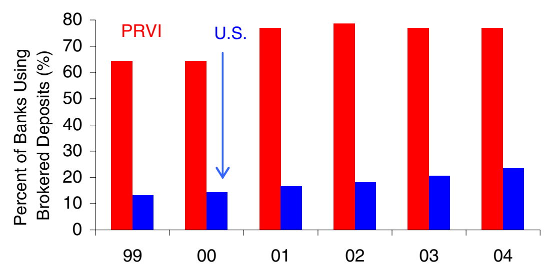
- Insured institutions headquartered in PRVI reported a lower net interest margin in first quarter 2004 compared with one year ago, as the decline in asset yields outpaced reduction in funding costs.
- Margins may be poised to widen following significant steepening in the yield curve in mid-2004, owing to an increase in long-term interest rates.
- However, as funding costs generally track short-term interest rates, an increase in short-term rates likely would contribute to a bounce in funding costs off of record lows, thereby limiting the full benefit of a steep yield curve.
- In addition, more extensive reliance on market-rate sensitive, noncore funding by insured institutions headquartered in PRVI may contribute to more significant increases in cost of funds for PRVI institutions compared to those in the mainland U.S.

Chart 4: Loan Quality Among Insured Institutions Headquartered in PRVI Improved in the Past Year



Source: Bank and Thrift Call Reports.
Note: Excludes banks less than three years old.

Chart 5: Most Insured Institutions Headquartered in PRVI Use Brokered Deposits for Funding Needs



Note: Excludes credit card banks and institutions in operation less than three years. Data as of March 31st of each year.
Source: Bank and Thrift Call Reports.

[1] Analysis includes 13 insured institutions headquartered in Puerto Rico and the U.S. Virgin Islands that have been in operation for at least three years as of March 31, 2004, unless otherwise noted.

Puerto Rico at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Institutions (#)	13	13	14	14	15
Total Assets (in thousands)	82,078,235	68,379,076	60,853,879	51,995,980	46,930,542
New Institutions (# < 3 years)	0	0	0	1	1
New Institutions (# < 9 years)	1	3	3	3	3

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Tier 1 Leverage (median)	7.10	6.66	6.39	6.80	6.87

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Past-Due and Nonaccrual (median %)	4.40%	5.61%	5.77%	5.58%	5.16%
Past-Due and Nonaccrual >= 5%	6	7	10	9	9
ALLL/Total Loans (median %)	1.33%	1.44%	1.26%	1.22%	1.20%
ALLL/Noncurrent Loans (median multiple)	0.49	0.42	0.43	0.48	0.41
Net Loan Losses/Loans (aggregate)	0.57%	0.68%	0.94%	1.01%	0.98%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Unprofitable Institutions (#)	1	1	4	1	0
Percent Unprofitable	7.69%	7.69%	28.57%	7.14%	0.00%
Return on Assets (median %)	1.28	1.19	0.98	0.98	0.97
25th Percentile	0.72	0.70	0.00	0.62	0.70
Net Interest Margin (median %)	3.27%	3.34%	3.50%	3.64%	4.14%
Yield on Earning Assets (median)	5.17%	5.88%	6.64%	8.41%	8.20%
Cost of Funding Earning Assets (median)	2.01%	2.63%	3.41%	5.20%	4.61%
Provisions to Avg. Assets (median)	0.41%	0.30%	0.49%	0.34%	0.35%
Noninterest Income to Avg. Assets (median)	0.59%	0.54%	0.53%	0.57%	0.58%
Overhead to Avg. Assets (median)	2.06%	2.28%	2.36%	2.27%	2.53%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
Loans to Deposits (median %)	90.98%	94.40%	92.86%	90.45%	90.76%
Loans to Assets (median %)	53.40%	53.92%	54.52%	59.53%	62.55%
Brokered Deposits (# of Institutions)	10	10	11	11	10
Bro. Deps./Assets (median for above inst.)	12.80%	15.13%	11.99%	4.56%	8.55%
Noncore Funding to Assets (median)	58.50%	59.36%	61.66%	59.94%	60.76%
Core Funding to Assets (median)	28.73%	26.50%	28.10%	30.80%	30.33%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-01
State Nonmember	12	12	13	13	13
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	1
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
San Juan-Bayamon PR PMSA	10	69,776,283	76.92%	85.01%
No MSA	2	160,294	15.38%	0.20%
Mayaguez PR	1	12,141,658	7.69%	14.79%