

FDIC State Profile

Summer 2004

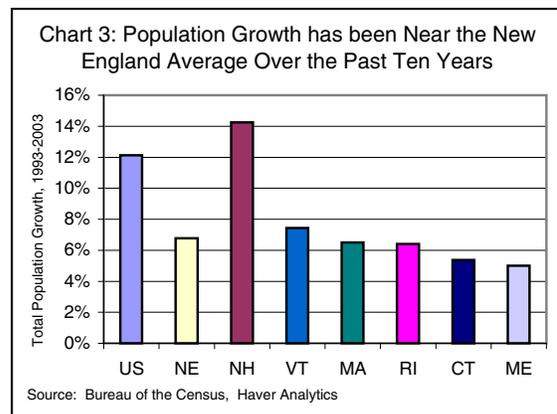
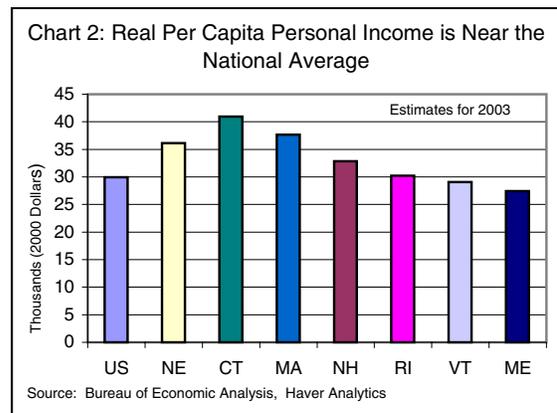
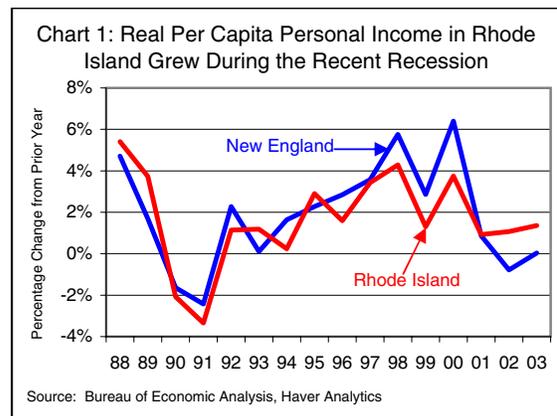
Rhode Island

The 2001 national recession had a negligible impact upon Rhode Island, with subsequent employment rebounding to record levels.

- Rhode Island is unique in New England in having an economic expansion that has generated employment levels well above the pre-2001 recession peak. As of the first quarter of 2003, payroll employment had recovered all of the job losses occasioned by the recession. Since then, preliminary data indicates 1.3 percent job growth through the year ended first quarter of 2004. During this period, the officially measured unemployment rate has shown relatively little change, hovering mostly at or slightly above 5.0 percent—although it did increase to 5.7 percent in April.
- During this period of generalized improvement in the economy, initial unemployment insurance claims have fallen, retracing virtually all of the increase in claims occasioned by the recession. Prior to the recession, seasonally adjusted initial unemployment claims were running as low as 6,800 per month, when averaged over six months. At their peak, levels reached 8,200.

Personal income grew very fast over the past year, though the level remains below the New England average.

- Rhode Island has experienced the fastest rate of growth of personal income of New England states over the past year. Moreover, Rhode Island outperformed the national growth in personal income in 2003, as it had over the prior two years.
- Rhode Island has not experienced the wide swings in real (inflation-adjusted) personal income per capita as seen by the rest of New England (See Chart 1). Specifically, real income growth per capita was maintained at just over 1.0 percent annually during 2001-03, or about two-thirds of the long-term average for the state.
- While personal income growth in Rhode Island exceeded New England's growth over recent years, the *level* of real personal income per capita remains well below that for the region (See Chart 2). Rhode Island's income level, however, matches that of the nation.



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Slow population growth will restrain future economic growth.

- Population growth in Rhode Island has been slow, about the same as in New England and only slightly more than one-half that for the United States as a whole (See Chart 3). According to New England Economic Partnership estimates, population growth is expected to be very modest over the years ahead while growth in real personal income per capita returns to approximately its long-term (fifteen year) average.

Increased overhead expenses affect earnings.

- Rhode Island's community institutions¹ continued to be profitable, but experienced a sharp decline in earnings during the first quarter of 2004, compared to the same period in 2003 (See Table 1). The falloff in earnings was prompted by growth in overhead expenses, which increased by 51 basis points (annualized) as a percentage of average assets in March 2004, compared to March 2003. Salaries and benefits and marketing expenses saw the largest increases. Additionally, community institutions reported reduced gains on the sale of securities.
- Community institutions reported a steady net interest margin during comparative periods of declining interest rates and significant mortgage refinancing activities. Good loan quality, evidenced by past-due loan levels at historic lows, allowed community institutions to continue to provide very low loan-loss provisions.

Interest rate risk remains a concern for Rhode Island'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 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 33 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

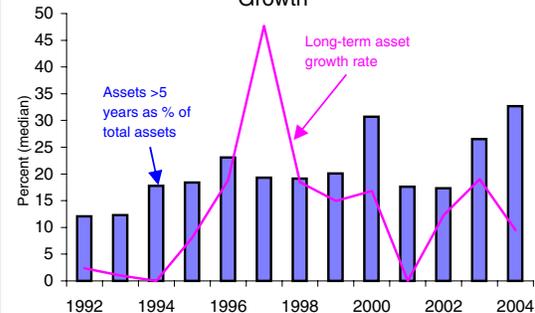
occur, when short-term interest rates increase, as liabilities reprice at a faster rate than assets (See Chart 4).

Table 1: Earnings Hampered by Increased Operating Expenses

Percentage of Average Assets	First Quarter		Basis Point Change
	2003	2004	
Net Interest Income	3.51	3.59	0.08
Total Noninterest Income	1.08	1.25	0.17
Noninterest Expense	4.19	4.70	0.51
Provision Expense	0.03	0.03	0.00
Security Gains & Losses	0.79	0.69	-0.10
Income Taxes	0.36	0.35	-0.01
Net Income (ROA)	0.81	0.44	-0.37
Net Interest Margin (NIM)	3.86	3.89	0.03

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

Chart 4: Long-Term Assets Still Exhibiting Strong Growth



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

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

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Rhode Island at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-02	Mar-01
Institutions (#)	15	15	15	13	12
Total Assets (in thousands)	219,967,494	212,947,817	197,868,127	218,095,155	166,371,952
New Institutions (# < 3 years)	3	4	3	1	1
New Institutions (# < 9 years)	6	6	5	3	2
Capital	Mar-04	Mar-03	Mar-02	Mar-02	Mar-01
Tier 1 Leverage (median)	13.24	11.51	8.48	8.20	7.90
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-02	Mar-01
Past-Due and Nonaccrual (median %)	1.06%	0.86%	0.98%	1.27%	1.41%
Past-Due and Nonaccrual >= 5%	1	1	0	2	2
ALLL/Total Loans (median %)	1.21%	1.21%	1.21%	1.35%	1.38%
ALLL/Noncurrent Loans (median multiple)	3.00	1.99	3.67	2.25	2.64
Net Loan Losses/Loans (aggregate)	0.95%	2.18%	1.32%	0.92%	1.19%
Earnings	Mar-04	Mar-03	Mar-02	Mar-02	Mar-01
Unprofitable Institutions (#)	4	3	5	0	0
Percent Unprofitable	26.67%	20.00%	33.33%	0.00%	0.00%
Return on Assets (median %)	0.82	0.81	0.80	0.71	1.17
25th Percentile	0.22	0.58	-0.14	0.51	0.81
Net Interest Margin (median %)	3.53%	3.51%	3.70%	3.97%	4.19%
Yield on Earning Assets (median)	5.32%	5.76%	6.37%	7.93%	7.69%
Cost of Funding Earning Assets (median)	1.74%	2.10%	2.70%	4.29%	4.07%
Provisions to Avg. Assets (median)	0.06%	0.16%	0.06%	0.06%	0.15%
Noninterest Income to Avg. Assets (median)	1.22%	1.24%	1.33%	1.27%	1.17%
Overhead to Avg. Assets (median)	3.78%	3.56%	3.50%	3.69%	3.31%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-02	Mar-01
Loans to Deposits (median %)	84.62%	84.58%	84.53%	86.06%	89.51%
Loans to Assets (median %)	63.80%	63.26%	63.13%	65.76%	67.20%
Brokered Deposits (# of Institutions)	3	2	3	3	3
Bro. Deps./Assets (median for above inst.)	0.38%	2.05%	0.23%	0.74%	0.86%
Noncore Funding to Assets (median)	20.18%	20.46%	23.18%	27.00%	27.20%
Core Funding to Assets (median)	62.95%	59.13%	62.96%	61.90%	63.30%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-02	Mar-01
State Nonmember	4	4	4	4	4
National	4	4	4	3	2
State Member	0	0	0	0	0
S&L	2	2	2	1	1
Savings Bank	3	3	3	3	3
Stock and Mutual SB	2	2	2	2	2
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
Providence-Fall River-Warwick RI-MA		10	216,732,341	66.67%	98.53%
No MSA		3	1,110,630	20.00%	0.50%
New London-Norwich CT-RI		2	2,124,523	13.33%	0.97%