

FDIC State Profile

Spring 2004

Massachusetts

New payroll data show that the recession was even deeper in Massachusetts than originally reported.

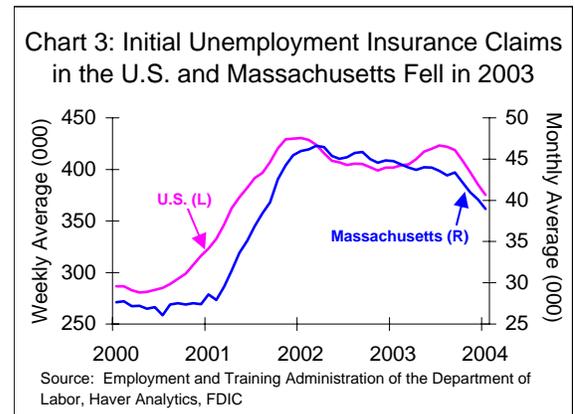
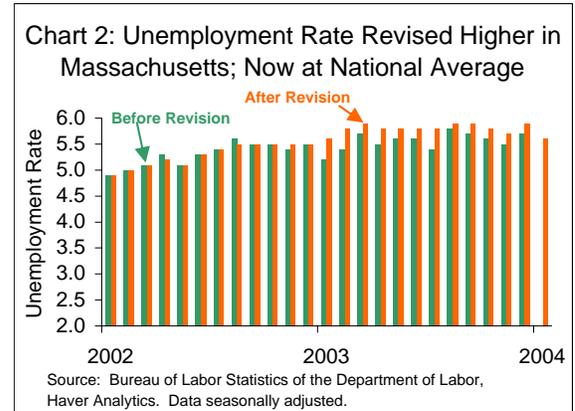
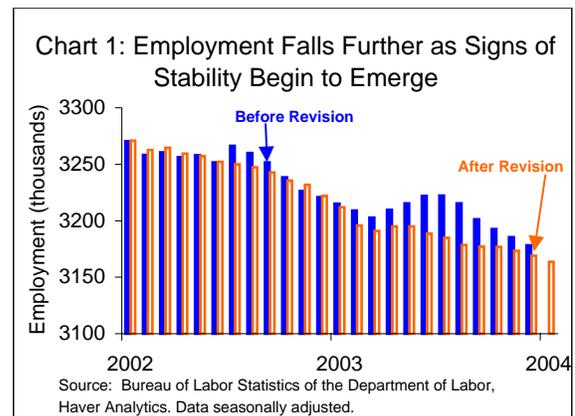
- Restated payroll employment data cover the period July 2002 through year-end 2003. These new seasonally adjusted data now show that 83,000 jobs were lost over this period rather than the 73,400 initially reported. Job losses, since the peak in January 2001 through December 2003, now total 201,800, or 6.0 percent of the state's workforce—the highest in the nation (See Chart 1).
- The new estimates, which essentially cover only 2003, show that the unemployment rate averaged 5.8 percent during the year, superseding the initially reported 5.6 percent. Overall, the unemployment rate varied little during 2003, ending the year at 5.9 percent (See Chart 2).

The new payroll data also indicate that job losses slowed during the second half of the past year.

- These new data, which include new monthly estimates of jobs held *and* new seasonal adjustment procedures, show far fewer job losses occurred over the second half of 2003. Originally, those losses were estimated to be 43,800. They are now estimated to be slightly less than half the original estimate.
- Underlying data *before seasonal adjustments* show a downward revision in payroll employment levels as of year-end 2003 totaling 19,300, or about 10,000 *more* than the comparable seasonally adjusted figures. These downward adjustments were concentrated in some of Massachusetts' core industries, including large percentage downward revisions in both communications and medical equipment within manufacturing and, to a lesser extent, in each of banking, securities, and insurance within finance. Local government employment—particularly the number of teachers—also declined sharply.

Unemployment insurance claims also reflect a turning point.

- Initial unemployment insurance claims in Massachusetts provide another measure of labor market performance. For much of 2003, initial unemployment claims in Massachusetts remained elevated, averaging on a



State Profile

six-month basis well over 40,000 per month when seasonally adjusted (See Chart 3). As the year approached its end and at the beginning of 2004, however, new claims for unemployment compensation dipped, giving an unambiguous sign of improvement. This coincided with a similar performance at the national level.

Housing markets continue to perform well.

- Housing activity in Massachusetts also improved during the second half of 2003, especially for new housing construction. Construction permits over the second half of the year exceeded 20,000 units at an annual rate—the highest level reached since early 1990.

Massachusetts' insured institutions saw earnings decline in 2003, under pressure from declining net interest margins.

- The median net interest margin (NIM) in the state's commercial institutions declined to 3.76 percent as of December 31, 2003, down from 4.17 percent at year-end 2002. The savings institutions also continued to experience NIM pressure with a 16 basis point drop to 3.49 percent as of December 31, 2003 from the same period in 2002. Funding costs continued to decline as noncore funding growth slowed and core deposits grew. These improvements were offset by declining yields on earning assets, which continued to negatively impact NIMs. (See Chart 4).
- Massachusetts' commercial institutions reported a median return on assets (ROA) of 0.91 percent as of December 31, 2003, down seven basis points since the end of 2002. The commercial institutions experienced increases in noninterest income as well as low loan-loss provision expenses but other noninterest expenses increased more rapidly, impacting earnings. The state's savings institutions posted a median ROA of 0.73 percent at the end of 2003, a ten basis point decrease since year-end 2002. Profitability has been hit by declining levels of net interest income and the inability to sufficiently increase noninterest income. Low loan-loss provision expenses and gains on the sale of securities, which represented 19 percent of net income, helped profitability. Unrealized gains are decreasing in the savings institutions, with unrealized gains representing just 0.53 percent of the available for sale portfolio.

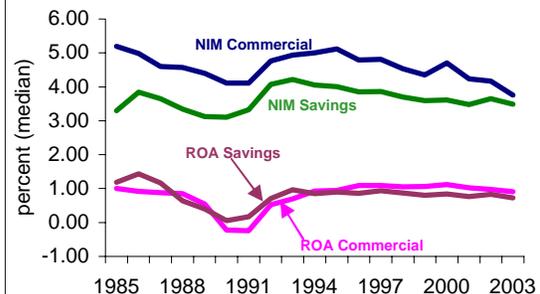
Interest rate risk remains a concern for Massachusetts' institutions as concentrations of fixed-rate, long-term assets continue to increase.

- 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 27 percent as of December 2003. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates on the books.

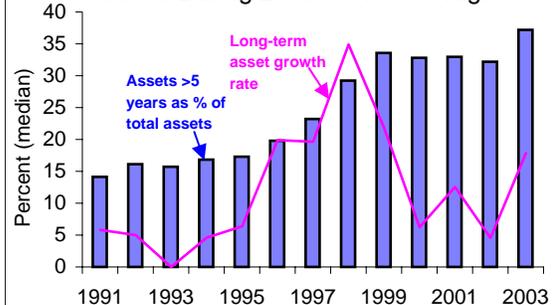
- Since the late 1990s, asset maturities lengthened at many institutions, began to moderate late in 2002, and increased again in 2003. As of December 31, 2003, the median ratio of long-term assets to total assets was historically high at just over 37 percent. With the large volume of long-term assets 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, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 82 percent of insured institutions in Massachusetts, and residential real estate loans comprised almost 58 percent of their average loan portfolio as of December 31, 2003.

Chart 4: Earnings Favorable But NIMs Still Show Pressure



Source: Bank and Thrift Call Reports, Data as of 4th quarter.

Chart 5: Long-Term Asset Concentrations Increased During 2003 to Historic Highs



Source: Bank Call Reports, Data as of 4th quarter.

Massachusetts at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	209	214	225	229	230
Total Assets (in thousands)	214,163,046	201,963,452	185,234,776	173,654,651	230,122,772
New Institutions (# < 3 years)	2	3	2	3	2
New Institutions (# < 9 years)	4	4	6	7	6
Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.21	9.15	9.25	9.66	9.51
Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	0.70%	0.81%	0.95%	1.07%	1.07%
Past-Due and Nonaccrual >= 5%	4	3	6	5	6
ALLL/Total Loans (median %)	1.02%	1.01%	1.00%	0.97%	1.00%
ALLL/Noncurrent Loans (median multiple)	4.27	4.71	3.99	4.29	3.29
Net Loan Losses/Loans (aggregate)	0.13%	0.15%	0.12%	0.09%	0.29%
Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	4	4	6	7	3
Percent Unprofitable	1.91%	1.87%	2.67%	3.06%	1.30%
Return on Assets (median %)	0.76	0.83	0.80	0.89	0.84
25th Percentile	0.52	0.64	0.58	0.64	0.63
Net Interest Margin (median %)	3.54%	3.73%	3.60%	3.72%	3.65%
Yield on Earning Assets (median)	5.30%	6.20%	7.08%	7.43%	7.20%
Cost of Funding Earning Assets (median)	1.82%	2.51%	3.53%	3.75%	3.50%
Provisions to Avg. Assets (median)	0.03%	0.04%	0.03%	0.03%	0.04%
Noninterest Income to Avg. Assets (median)	0.49%	0.44%	0.41%	0.39%	0.37%
Overhead to Avg. Assets (median)	2.64%	2.64%	2.64%	2.65%	2.68%
Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	74.95%	73.57%	77.54%	82.07%	80.78%
Loans to Assets (median %)	60.88%	60.61%	63.17%	65.60%	65.58%
Brokered Deposits (# of Institutions)	22	18	14	15	17
Bro. Deps./Assets (median for above inst.)	2.72%	2.87%	0.60%	1.54%	0.57%
Noncore Funding to Assets (median)	18.62%	17.12%	16.45%	15.39%	15.44%
Core Funding to Assets (median)	70.01%	71.88%	72.06%	72.29%	72.84%
Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	24	24	28	28	29
National	12	13	13	13	14
State Member	2	2	2	2	2
S&L	6	6	6	7	7
Savings Bank	14	15	15	15	15
Stock and Mutual SB	151	154	161	164	163
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Boston MA-NH PMSA	119	176,350,282	56.94%	82.34%	
No MSA	18	6,254,357	8.61%	2.92%	
Worcester MA-CT PMSA	15	4,489,613	7.18%	2.10%	
Springfield MA	13	7,122,330	6.22%	3.33%	
Lawrence MA-NH PMSA	9	3,240,205	4.31%	1.51%	
Brockton MA PMSA	9	1,748,790	4.31%	0.82%	
Pittsfield MA	7	2,712,529	3.35%	1.27%	
Providence-Fall River-Warwick RI-MA	6	4,196,692	2.87%	1.96%	
Lowell MA-NH PMSA	5	1,746,826	2.39%	0.82%	
Fitchburg-Leominster MA PMSA	4	729,725	1.91%	0.34%	
New Bedford MA PMSA	2	3,958,648	0.96%	1.85%	
Barnstable-Yarmouth MA	2	1,613,049	0.96%	0.75%	