

FDIC State Profile

Spring 2004

Rhode Island

After a mild downturn in employment, Rhode Island has regained pre-recession employment levels.

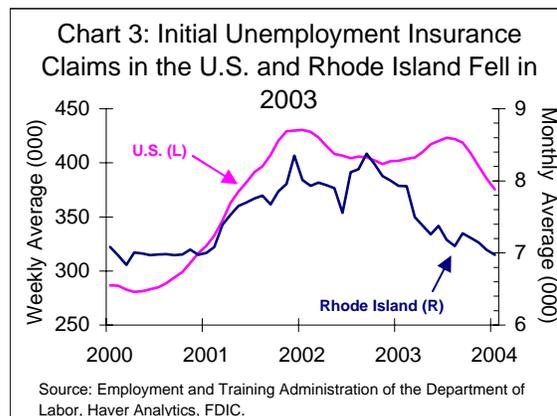
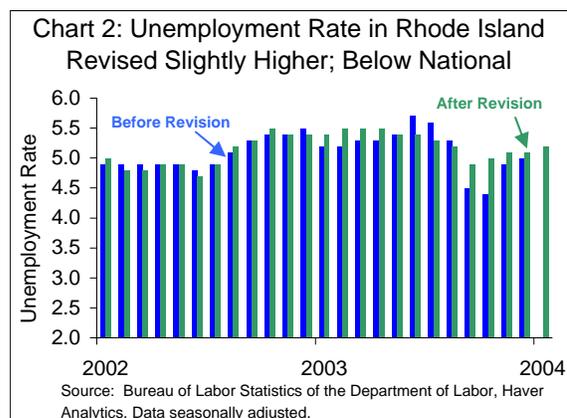
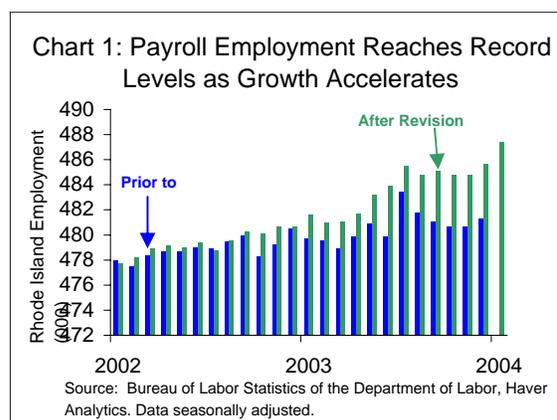
- Rhode Island experienced a very mild downturn in employment during the recession of 2001, and the revised data indicate that a full recovery in employment levels has now been achieved. While the unemployment rate remains elevated when compared to pre-recession levels, it is no longer rising and remains below the national average.
- The December 2003 level of payroll employment after seasonal adjustment is estimated to be slightly higher than the pre-recession peak reached in February 2001 (See Chart 1). The trough occurred in November 2001. Owing to slow growth in 2002 and early 2003, the pre-recession peak was not exceeded until May 2003.
- The upward revisions in payroll employment were widely distributed across business sectors. Within manufacturing, employment in key sectors including computers, transportation equipment and chemicals were revised upward. (Employment in the transportation sector includes contract work for the Navy undertaken at Quonset Point for upgrades of submarines, while chemicals include pharmaceuticals.) Other sectors within manufacturing were revised lower. The financial sector experienced significant upward revisions in banking and insurance employment.

The unemployment rate for Rhode Island was revised modestly higher by 0.1 percent to 5.3 percent.

- The 2003 pattern showed more stability after revision. The rate was estimated at 5.1 percent in December and 5.2 percent in January; both modestly below the 5.5 percent peak reached late in 2002 and in early 2003 (See Chart 2).

Initial unemployment insurance claims reflect improvement.

- According to these data, the period of most acute distress occurred during the recession and for all of 2002. During 2003, conditions improved steadily, bringing new claims down to pre-recession levels (See Chart 3).



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Housing activity in Rhode Island has been largely unresponsive to favorable conditions, which have supported gains elsewhere.

- Late in 2002 and during the early months of 2003, housing activity actually diminished noticeably before recovering later in 2003. Even with the recovery, construction remained below levels reached early in 2000.

Rhode Island's insured institutions (excluding Fleet) saw earnings decline in 2003, under pressure from declining net interest margins.

- Among insured institutions in Rhode Island, the median net interest margin (NIM) declined to 3.32 percent as of December 31, 2003, down from 3.59 percent at year-end 2002. Funding costs declined slightly during 2003, but the state's insured institutions continued to rely on noncore funding sources, which kept costs high relative to other institutions nationwide. However in spite of a relatively steep yield curve, asset yields declined more rapidly than did funding, negatively impacted NIMs (See Chart 4).
- Rhode Island's insured institutions reported a median return on assets (ROA) of 0.76 percent for all of 2003, down 24 basis points from 2002. Earnings were affected by declines in net interest income and increases in expenses due to higher salaries and benefits. Increased noninterest income, low loan-loss provision expenses and gains on the sale of securities, representing 17 percent of net income, helped support profitability. Utilizing gains on the sale of securities may not be viable in the long term as unrealized gains on available for sale securities fell by almost half in the past year, to 0.71 percent of the total available for sale portfolio.

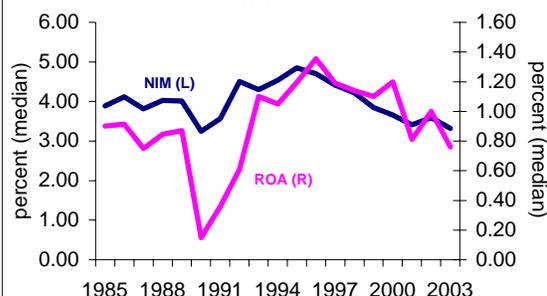
Interest rate risk remains a concern for Rhode Island's insured institutions as concentrations of fixed-rate, long-term assets continue to increase.

- 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.
- Asset maturities lengthened at many institutions in the late 1990s, 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 almost 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).

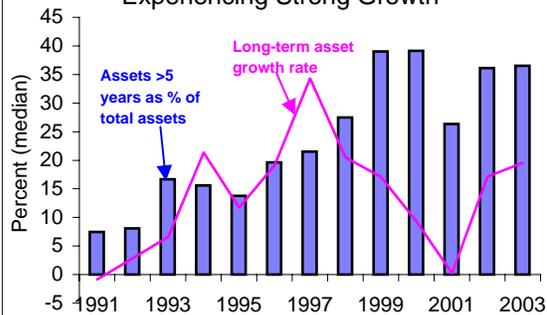
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of residential lenders. Residential real estate loans comprised almost 43 percent of their average loan portfolio as of December 31, 2003.

Chart 4: Earnings Declined in 2003 as NIMs Show Pressure



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

Chart 5: Long-Term Asset Concentrations Still Experiencing Strong Growth



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

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Rhode Island at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	15	14	15	13	12
Total Assets (in thousands)	216,481,748	200,776,280	207,626,895	184,034,453	104,792,626
New Institutions (# < 3 years)	3	3	3	1	1
New Institutions (# < 9 years)	6	5	5	3	2
Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	12.35	9.68	8.62	7.98	7.84
Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	0.62%	0.97%	1.00%	1.41%	1.21%
Past-Due and Nonaccrual >= 5%	2	1	0	1	1
ALLL/Total Loans (median %)	1.25%	1.09%	1.21%	1.54%	1.49%
ALLL/Noncurrent Loans (median multiple)	2.56	3.10	3.57	2.06	3.15
Net Loan Losses/Loans (aggregate)	1.50%	1.86%	1.16%	1.11%	1.30%
Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	3	1	2	0	0
Percent Unprofitable	20.00%	7.14%	13.33%	0.00%	0.00%
Return on Assets (median %)	1.02	1.07	0.85	1.21	1.19
25th Percentile	0.68	0.73	0.35	0.84	0.81
Net Interest Margin (median %)	3.41%	3.65%	3.73%	4.15%	4.06%
Yield on Earning Assets (median)	5.48%	6.27%	7.39%	7.89%	7.54%
Cost of Funding Earning Assets (median)	1.85%	2.50%	3.60%	4.23%	3.68%
Provisions to Avg. Assets (median)	0.11%	0.13%	0.04%	0.11%	0.16%
Noninterest Income to Avg. Assets (median)	1.41%	1.51%	1.05%	1.28%	1.11%
Overhead to Avg. Assets (median)	3.43%	3.38%	3.45%	3.21%	3.28%
Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	84.11%	80.47%	82.73%	82.14%	90.53%
Loans to Assets (median %)	65.56%	58.61%	61.47%	64.73%	66.54%
Brokered Deposits (# of Institutions)	3	2	3	3	3
Bro. Deps./Assets (median for above inst.)	0.39%	1.71%	0.23%	0.80%	0.89%
Noncore Funding to Assets (median)	22.50%	21.14%	23.11%	27.35%	25.07%
Core Funding to Assets (median)	61.75%	60.48%	62.38%	61.02%	63.70%
Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	4	3	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	213,333,584	66.67%	98.55%
No MSA		3	1,103,833	20.00%	0.51%
New London-Norwich CT-RI		2	2,044,331	13.33%	0.94%