# FDIC State Profile

**Winter 2005**

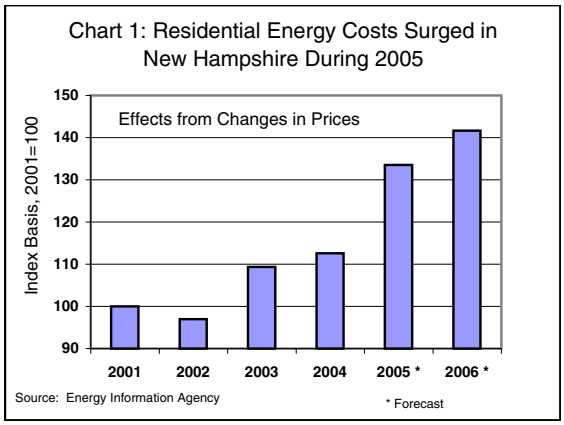
# New Hampshire

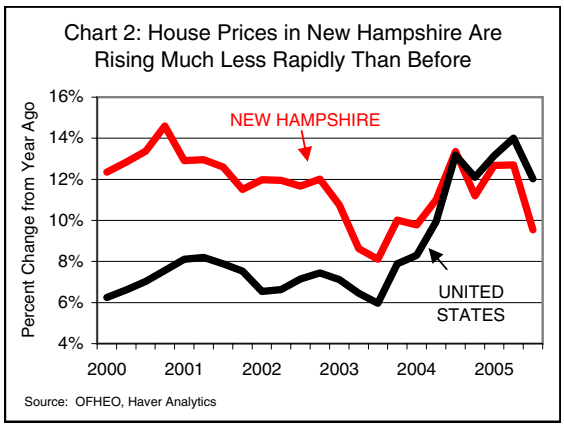
**Higher energy prices have affected New Hampshire households and prices are expected to remain elevated in 2006. Employment growth is impressive, well above the national rate.**

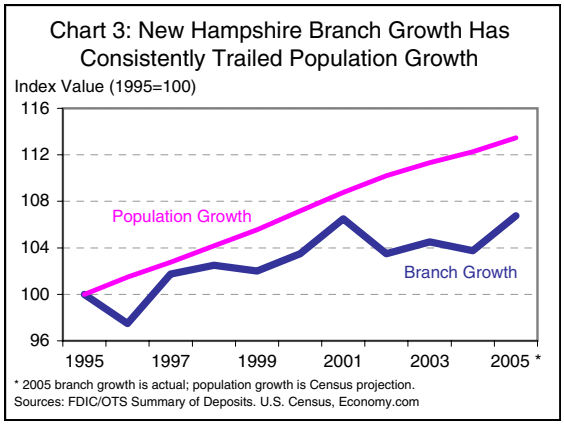
- Prices of energy products rose rapidly in 2005 as Gulf coast storms disrupted supplies of crude oil and natural gas across the United States. Nationally, retail prices of heating oil for calendar year 2005 are expected to average almost one-third more than a year earlier, and 2006 prices are expected to increase by an additional 10 percent.
- Costs of energy sources are generally more expensive in New Hampshire as the state has few indigenous energy resources to replace disrupted supplies. Energy costs are expected to average about one-fifth higher in 2005 than in 2004 and to rise further in 2006 (see Chart 1).
- As a result, spending on residential energy in New Hampshire may be 5 percent of disposable income in 2005, with lower income households impacted most by the higher prices.[1]
- However, these increased energy costs are affecting a growing economy. Over the four quarters ending in the third quarter 2005, payroll employment in New Hampshire grew by 2.2 percent, a rate twice the New England average of 1.1 percent and above the 1.7 percent gain nationally.

**Housing markets continue to be strong, but changes may be underway.**

- Sales of existing New Hampshire homes, both single-family and condominiums have been mostly strong over recent years.
- New Hampshire's yearly percentage increase in existing home prices as of third quarter 2005 was 9.5 percent, down from the 12.7 percent increase reported in the second quarter and below the nation's rate of 12.0 percent (see Chart 2).
- Rising mortgage rates may reduce demand for new housing and refinancing activity. As of November, the 1-year adjustable rate averaged an almost four year high of 5.43




[1] FDIC estimates based on data supplied by the Bureau of Labor Statistics, Census Bureau, Bureau of Economic Analysis, and Moody's Economy.com.

percent, and the 30-year fixed rate averaged a three-year high of 6.28 percent.

**Population growth has far exceeded branch growth.**

- Over the past decade, New Hampshire's 13.5 percent population growth has exceeded the national rate and is more than double the rate of the rest of New England. Much of this population growth was in the already populous southern part of the state. During this same time period, New Hampshire branches increased at half the rate of population growth (see Chart 3). More recently, as can be seen on the chart, the gap between population growth and branch growth has widened.

- Consequently, more people are being served by relatively fewer branches, making it easier for banks to gain operating efficiencies. These trends have pushed New Hampshire's population per branch to 3,068, which is below the national average of 3,243. New Hampshire's sparsely populated northern counties, like much of northern New England, have very low population per branch ratios, while the southern counties, especially around densely populated areas of **Portsmouth** and along the Massachusetts border, have much higher ratios.

**New Hampshire's insured institutions are feeling pressure on earnings from net interest margin (NIM) declines.**

- New Hampshire's insured institutions have experienced a generally declining trend in NIMs since peaking in the mid 1990s (see Chart 4). While recovering somewhat in 2004, NIMs declined in 2005, as funding costs increased slightly faster than asset yields.

- As of September 30, 2005, the median return on assets in the state's insured institutions was 0.77 percent, down 9 basis points from the year-earlier period. Noninterest income and noninterest expense were relatively stable in 2005 and did not play a major role in offsetting the declining net interest income.

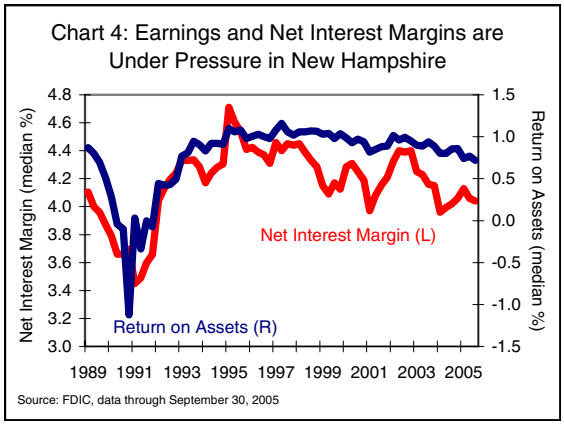
**Credit quality remains favorable in New Hampshire's insured institutions.**

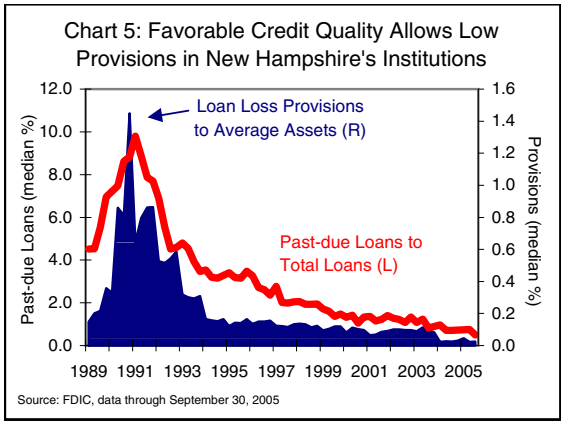
- Loan quality remained strong through third quarter 2005 in New Hampshire's insured institutions. The median delinquent loan rate remained below 1 percent as of September 30, 2005 (see Chart 5). The state's high concentration of residential real estate loans, which historically have performed well, helps keep overall delinquency rates low.

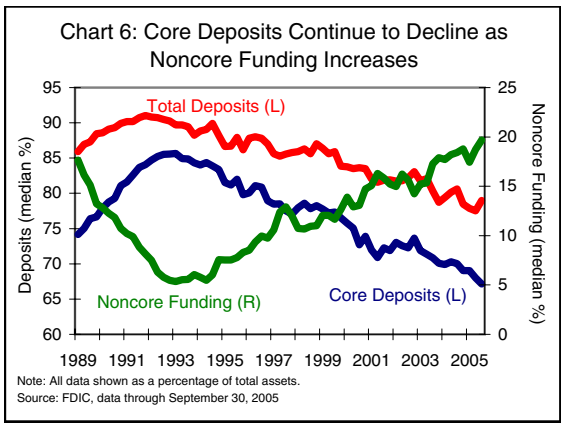
**As core deposit growth has slowed, New Hampshire institutions continue to add noncore funding.**

- Despite a small gain in third quarter 2005, deposits in New Hampshire's insured institutions funded a near-record low percentage of assets in 2005. In 1992 the median ratio of total deposits to assets was about 90 percent; this ratio dropped to 79 percent at the end of third quarter 2005. The drop in core-deposit funding was even more pronounced. During this time, the median ratio of noncore funding rose from about 5 percent of assets to 20 percent (see Chart 6).

- The use of noncore funding is often more expensive than core deposit funding and tends to put downward pressure on net interest margins.



# New Hampshire at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

| Employment Growth Rates | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 2.2% | 1.8% | 1.4% | 1.4% | -0.1% |
| Manufacturing (13%) | 1.5% | 0.9% | 1.1% | -0.1% | -5.4% |
| Other (non-manufacturing) Goods-Producing (5%) | 4.5% | 3.1% | 1.5% | 2.4% | 3.6% |
| Private Service-Producing (68%) | 2.1% | 2.1% | 1.9% | 2.1% | 0.3% |
| Government (14%) | 2.5% | 1.2% | -1.4% | -0.5% | 2.0% |
| Unemployment Rate (% of labor force) | 3.7 | 3.5 | 3.7 | 3.8 | 4.5 |

| Other Indicators | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Personal Income | N/A | 6.4% | 7.3% | 7.1% | 2.5% |
| Single-Family Home Permits | 5.4% | -0.4% | 2.5% | 7.9% | -5.3% |
| Multifamily Building Permits | -44.1% | -49.3% | 21.3% | 20.6% | 12.3% |
| Existing Home Sales | N/A | N/A | -11.1% | 7.1% | 6.7% |
| Home Price Index | 9.5% | 12.7% | 13.4% | 11.4% | 9.4% |
| Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level) | 4.33 | 3.80 | 3.37 | 3.57 | 3.63 |

**BANKING TRENDS**

| General Information | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Institutions (#) | 30 | 30 | 29 | 30 | 31 |
| Total Assets (in millions) | 32,069 | 31,668 | 29,008 | 31,162 | 29,662 |
| New Institutions (# < 3 years) | 0 | 0 | 0 | 0 | 0 |
| Subchapter S Institutions | 0 | 0 | 0 | 0 | 0 |

| Asset Quality | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 0.61 | 0.80 | 0.72 | 0.78 | 0.94 |
| ALLL/Total Loans (median %) | 0.98 | 0.98 | 0.99 | 0.97 | 1.06 |
| ALLL/Noncurrent Loans (median multiple) | 4.33 | 4.53 | 3.75 | 4.21 | 2.87 |
| Net Loan Losses / Total Loans (median %) | 0.01 | 0.00 | 0.00 | 0.01 | 0.05 |

| Capital / Earnings | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median %) | 8.38 | 8.74 | 8.79 | 8.60 | 8.73 |
| Return on Assets (median %) | 0.77 | 0.78 | 0.92 | 0.86 | 0.89 |
| Pretax Return on Assets (median %) | 1.12 | 1.12 | 1.32 | 1.19 | 1.42 |
| Net Interest Margin (median %) | 4.01 | 4.08 | 4.09 | 4.08 | 4.15 |
| Yield on Earning Assets (median %) | 5.66 | 5.55 | 5.31 | 5.29 | 5.65 |
| Cost of Funding Earning Assets (median %) | 1.85 | 1.61 | 1.43 | 1.37 | 1.55 |
| Provisions to Avg. Assets (median %) | 0.01 | 0.02 | 0.04 | 0.03 | 0.08 |
| Noninterest Income to Avg. Assets (median %) | 0.58 | 0.61 | 0.62 | 0.56 | 0.58 |
| Overhead to Avg. Assets (median %) | 3.10 | 3.14 | 3.08 | 3.03 | 2.98 |

| Liquidity / Sensitivity | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Loans to Assets (median %) | 68.0 | 70.4 | 69.1 | 69.6 | 66.3 |
| Noncore Funding to Assets (median %) | 19.7 | 18.9 | 19.6 | 19.3 | 17.9 |
| Long-term Assets to Assets (median %, call filers) | 13.8 | 17.2 | 12.9 | 15.5 | 15.6 |
| Brokered Deposits (number of institutions) | 9 | 7 | 6 | 6 | 5 |
| Brokered Deposits to Assets (median % for those above) | 2.3 | 3.0 | 1.7 | 2.0 | 3.8 |

| Loan Concentrations (median % of Tier 1 Capital) | Q3-05 | Q2-05 | Q3-04 | 2004 | 2003 |
|---|---|---|---|---|---|
| Commercial and Industrial | 39.7 | 40.5 | 39.1 | 39.1 | 45.0 |
| Commercial Real Estate | 234.6 | 220.0 | 204.0 | 237.0 | 198.7 |
| *Construction & Development* | 31.0 | 26.6 | 23.0 | 26.3 | 21.3 |
| *Multifamily Residential Real Estate* | 7.6 | 7.9 | 6.5 | 7.1 | 6.1 |
| *Nonresidential Real Estate* | 165.9 | 166.8 | 155.4 | 160.0 | 158.0 |
| Residential Real Estate | 371.4 | 365.1 | 362.9 | 366.5 | 357.8 |
| Consumer | 25.7 | 25.5 | 26.3 | 24.6 | 25.4 |
| Agriculture | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

**BANKING PROFILE**

| Largest Deposit Markets | Institutions in Market | Deposits ($ millions) |
|---|---|---|
| Manchester-Nashua, NH | 15 | 6,435 |

| Asset Distribution | Institutions |
|---|---|
| < $250 million | 13 (43.3% ) |
| $250 million to $1 billion | 14 (46.7% ) |
| $1 billion to $10 billion | 2 (6.7% ) |
| > $10 billion | 1 (3.3% ) |