

# **New England Banking Conditions**

Regional and Community Bankers Conference

*October 11, 2006*

# Agenda

- I. Overview of the First District
- II. Strategies for a strong net interest margins
- III. The competitive environment for deposits

# Agenda

- I. Overview of the First District**
- II. Strategies for a strong net interest margin
- III. The competitive environment for deposits

# Banks in New England

## Community Banks

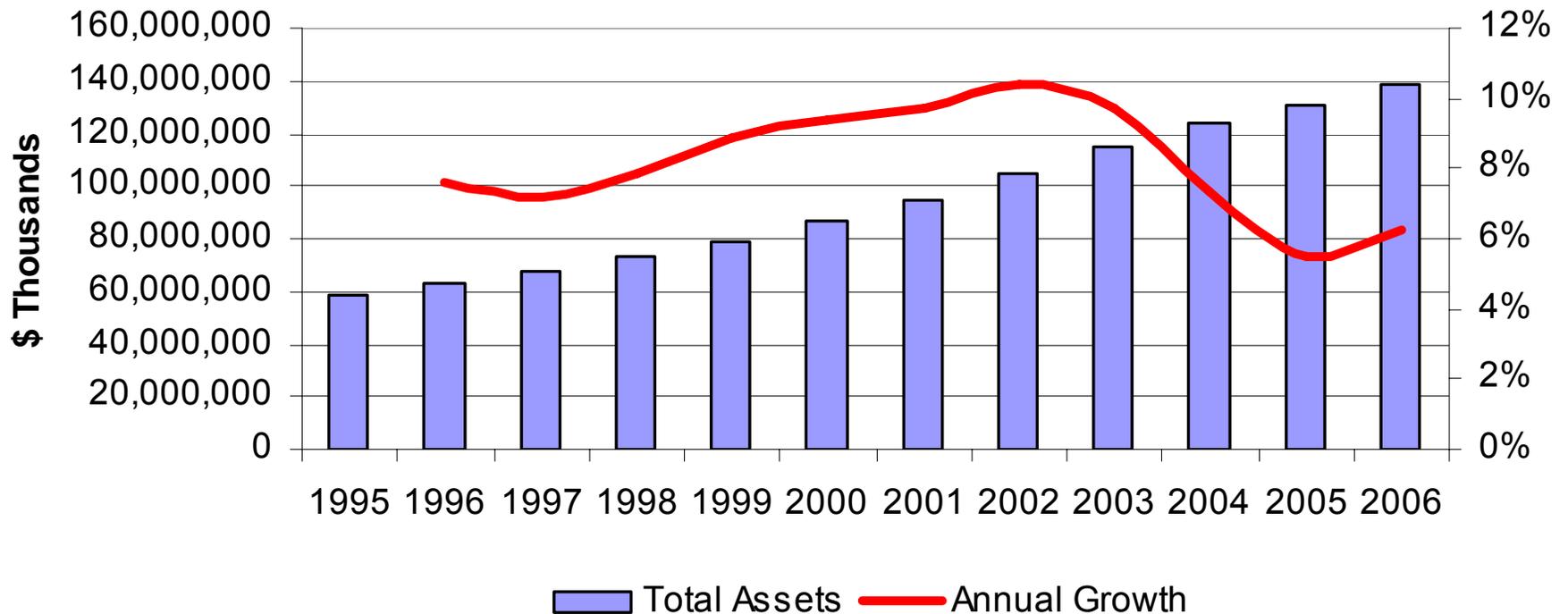
- Less than \$1 billion in assets
- 237 institutions
- \$78 billion combined assets

## Regional Banks

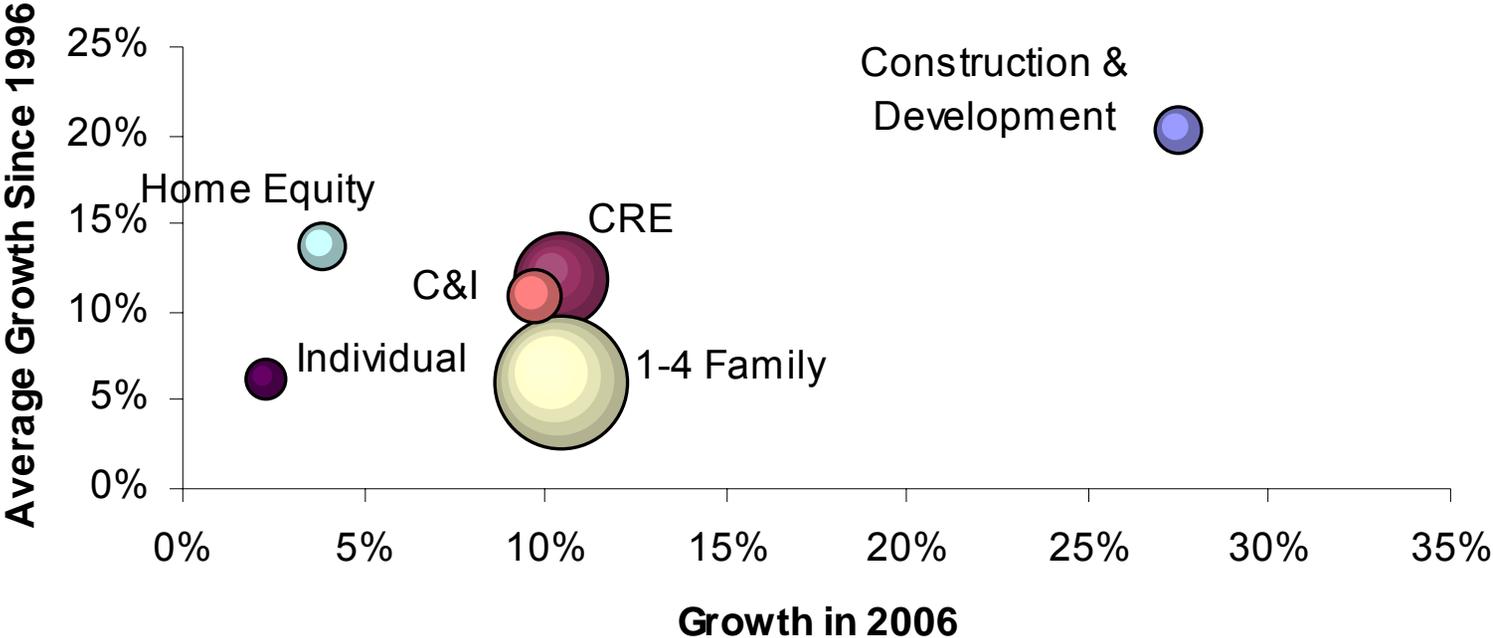
- \$1 to \$10 billion in assets
- 31 institutions
- \$60 billion combined assets

Note: All bank financial data are merger adjusted. S&Ls are excluded. Bank financial information is derived from FDIC call reports unless otherwise noted.

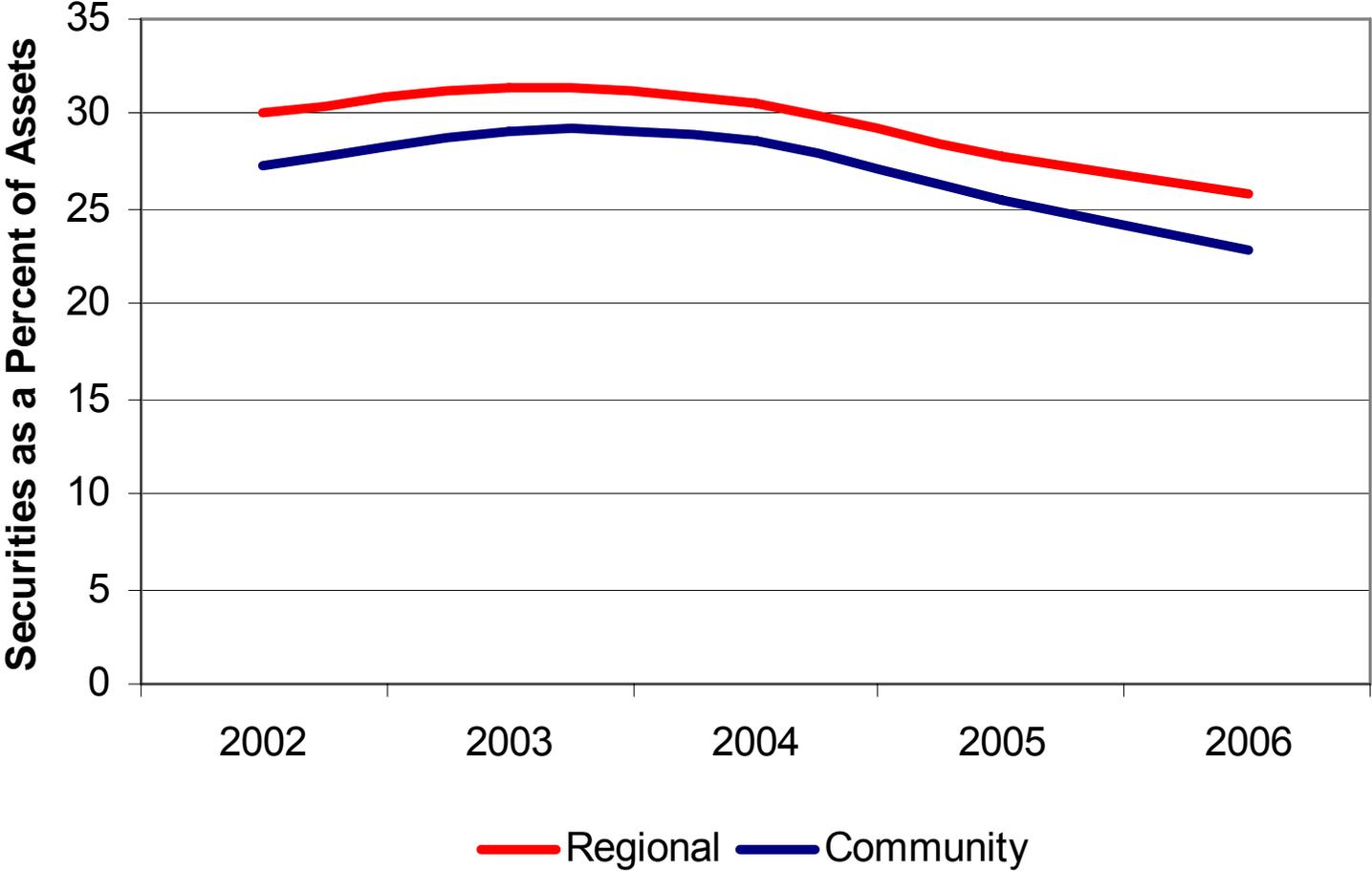
# Asset growth continued at a moderate pace in 2006 due to loan demand



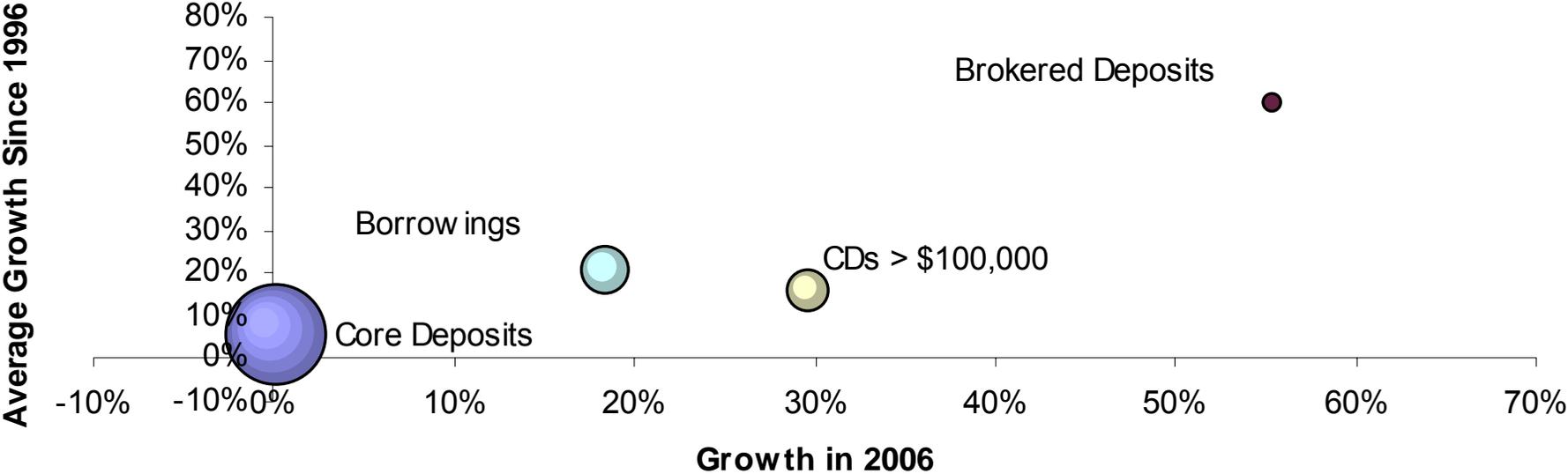
# 1-4 family residential and construction loans lead demand



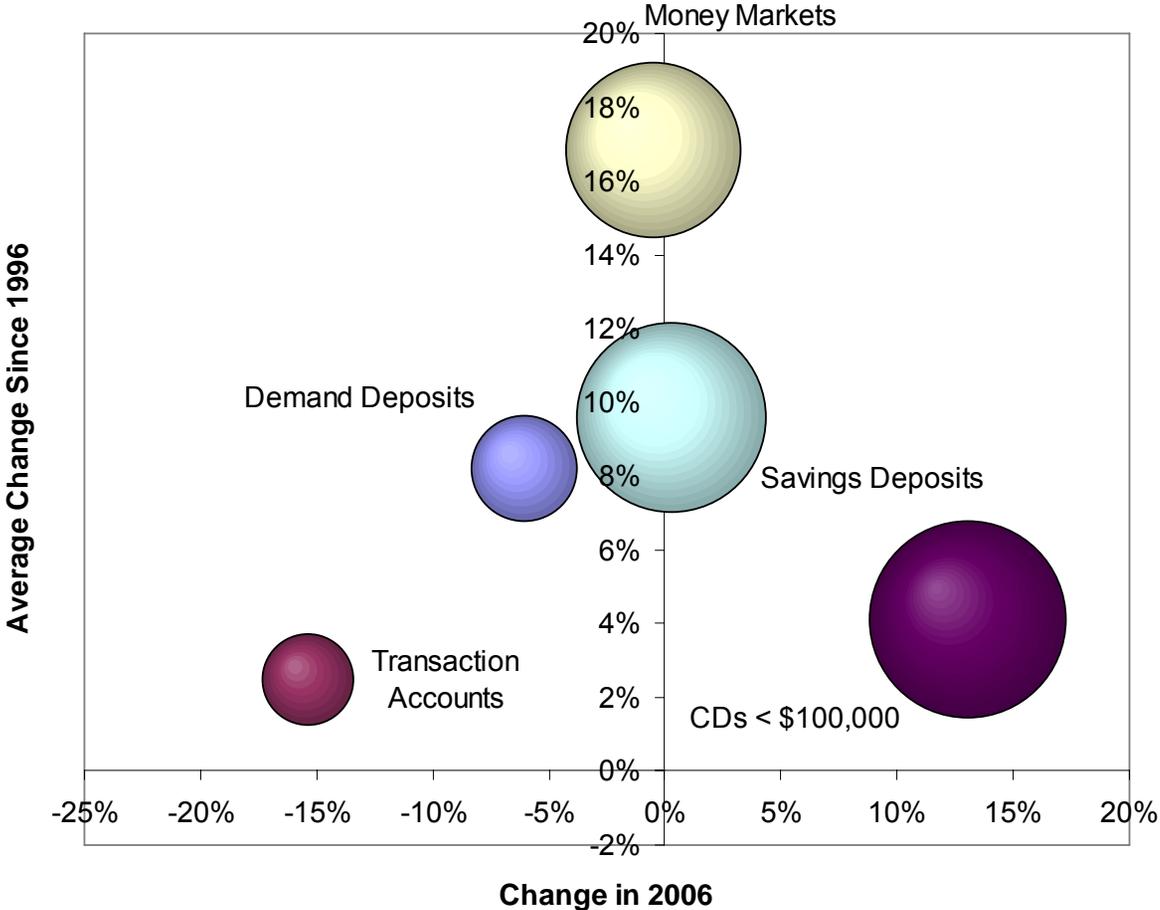
# Funding for loan growth was provided in part by reallocating securities into loans



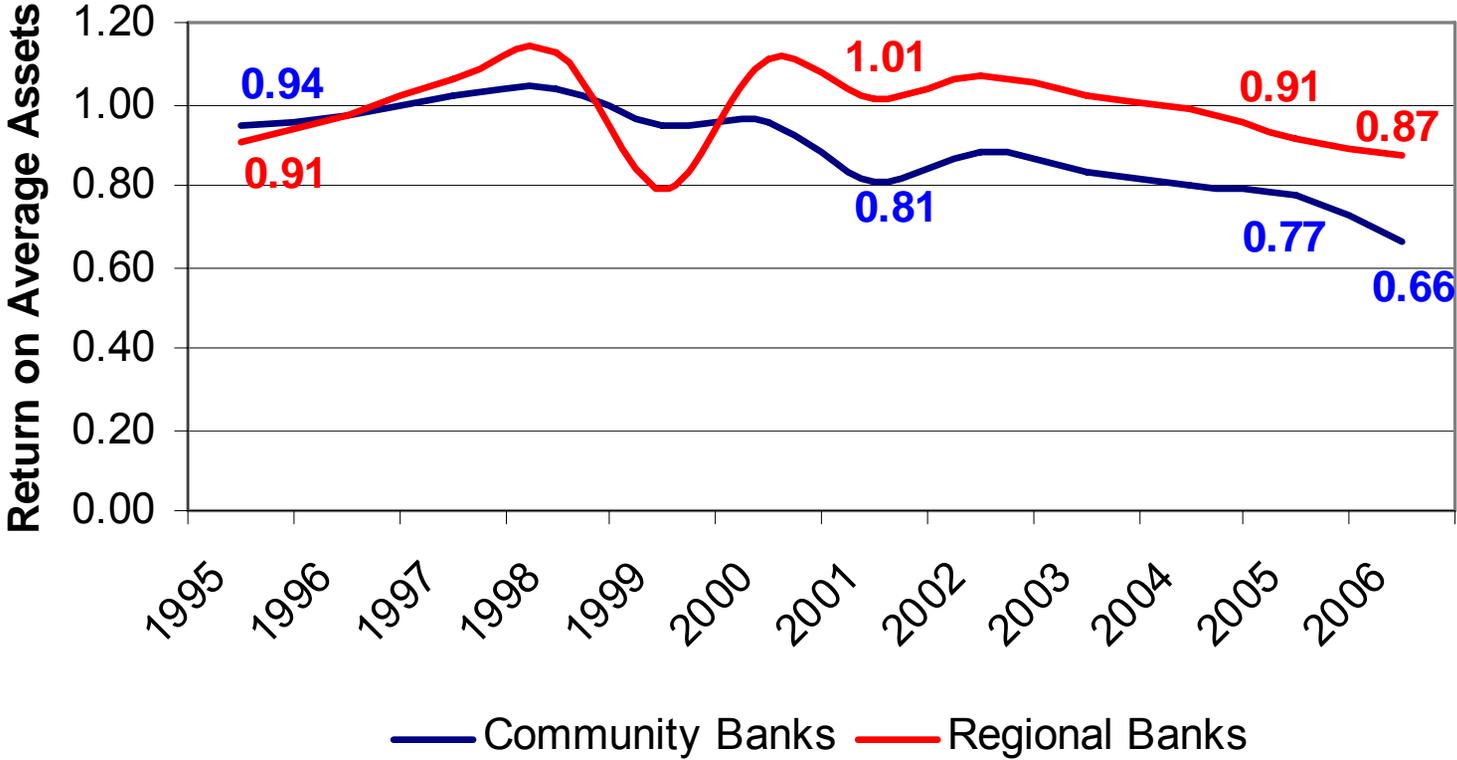
# Liability funding came primarily from non-core sources, while core deposit growth remained flat



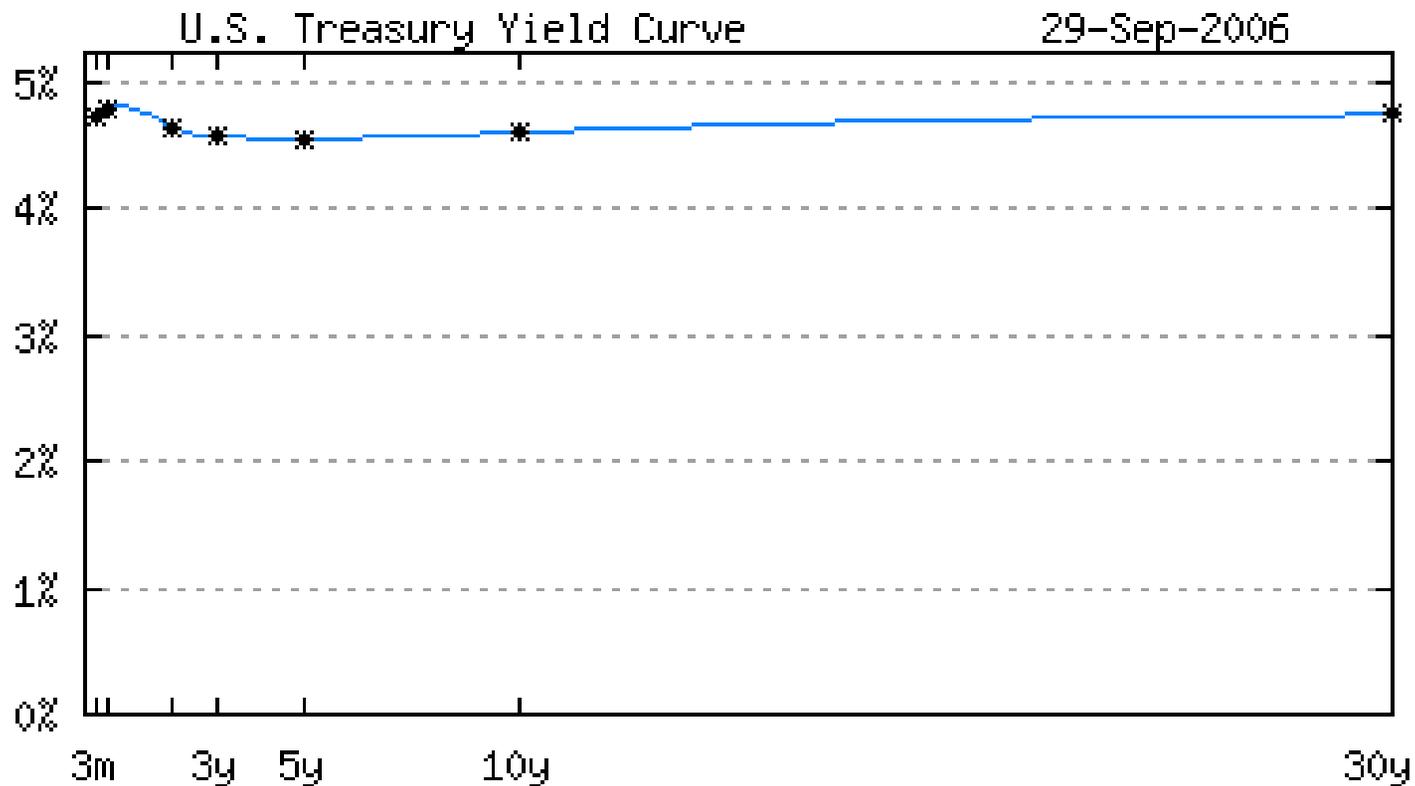
Core funding shifted towards CDs less than \$100,000; growth in all other core deposits categories was below historical averages



# Profits reflect continued pressures on the margin

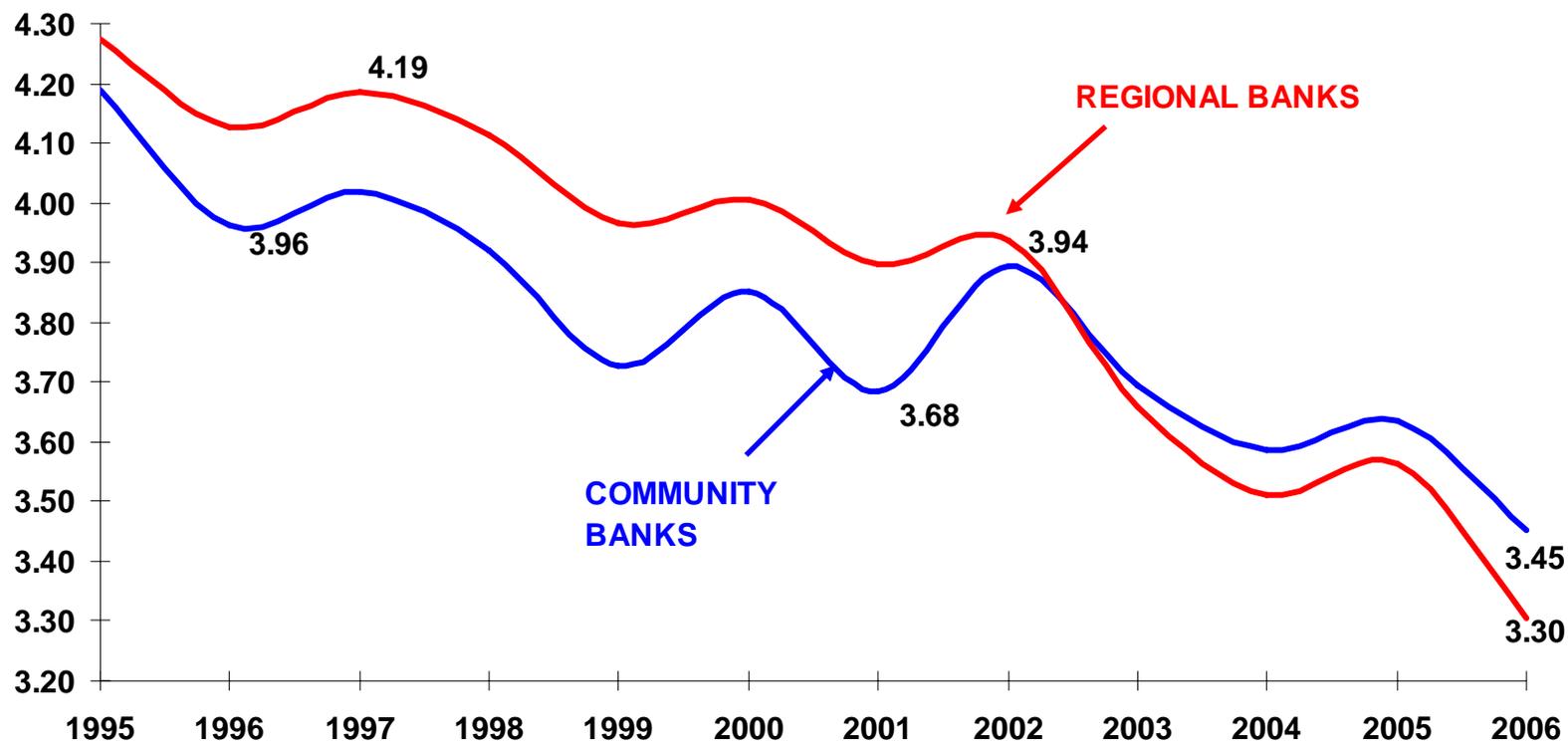


# The primary culprit causing management challenges for the banking industry

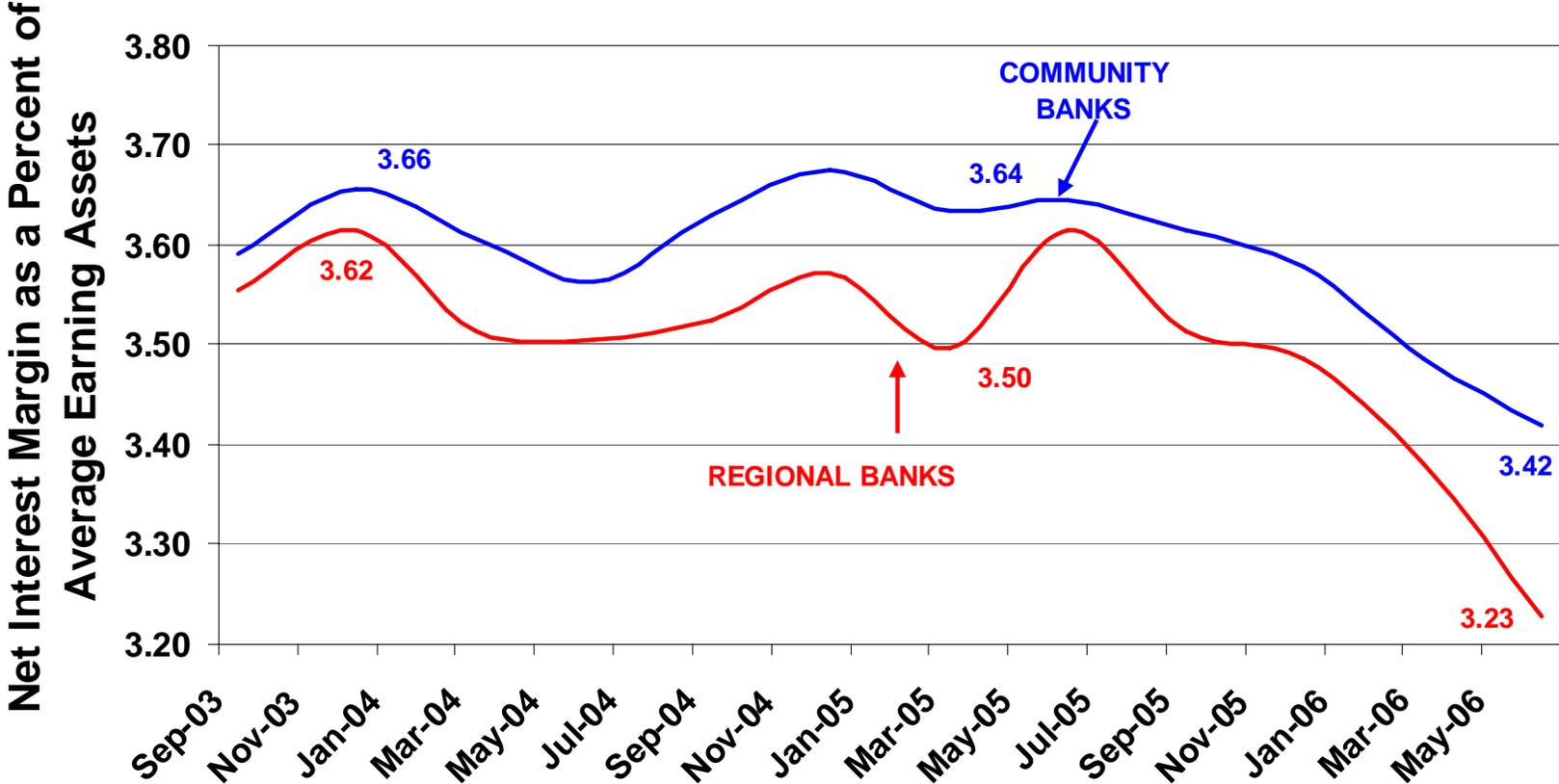


Copyright 2006 Yahoo! Inc. <http://finance.yahoo.com/>

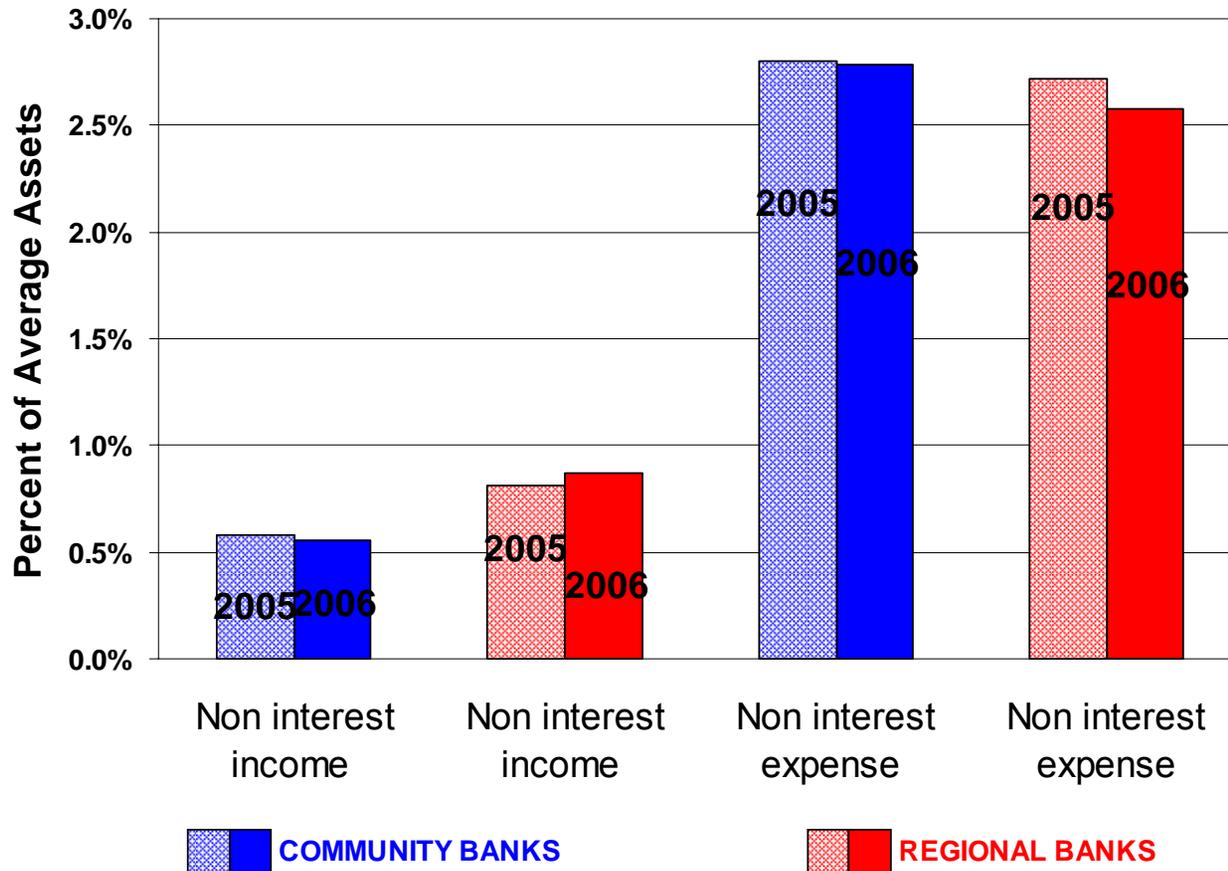
# The margin on a Y-T-D basis for Regionals fell at a greater rate than Community Banks



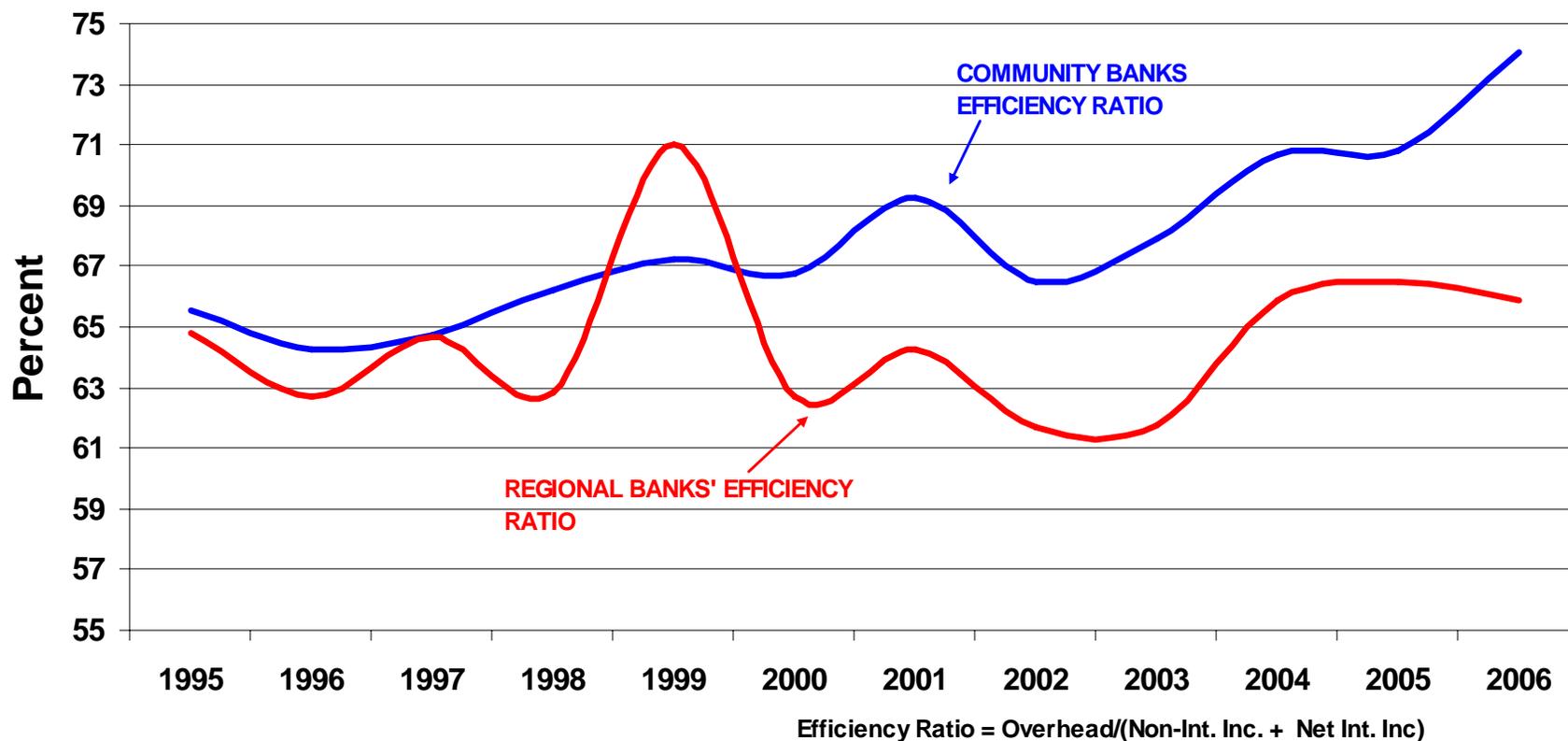
# On a quarterly basis the margin is particularly hard hit for the Regionals



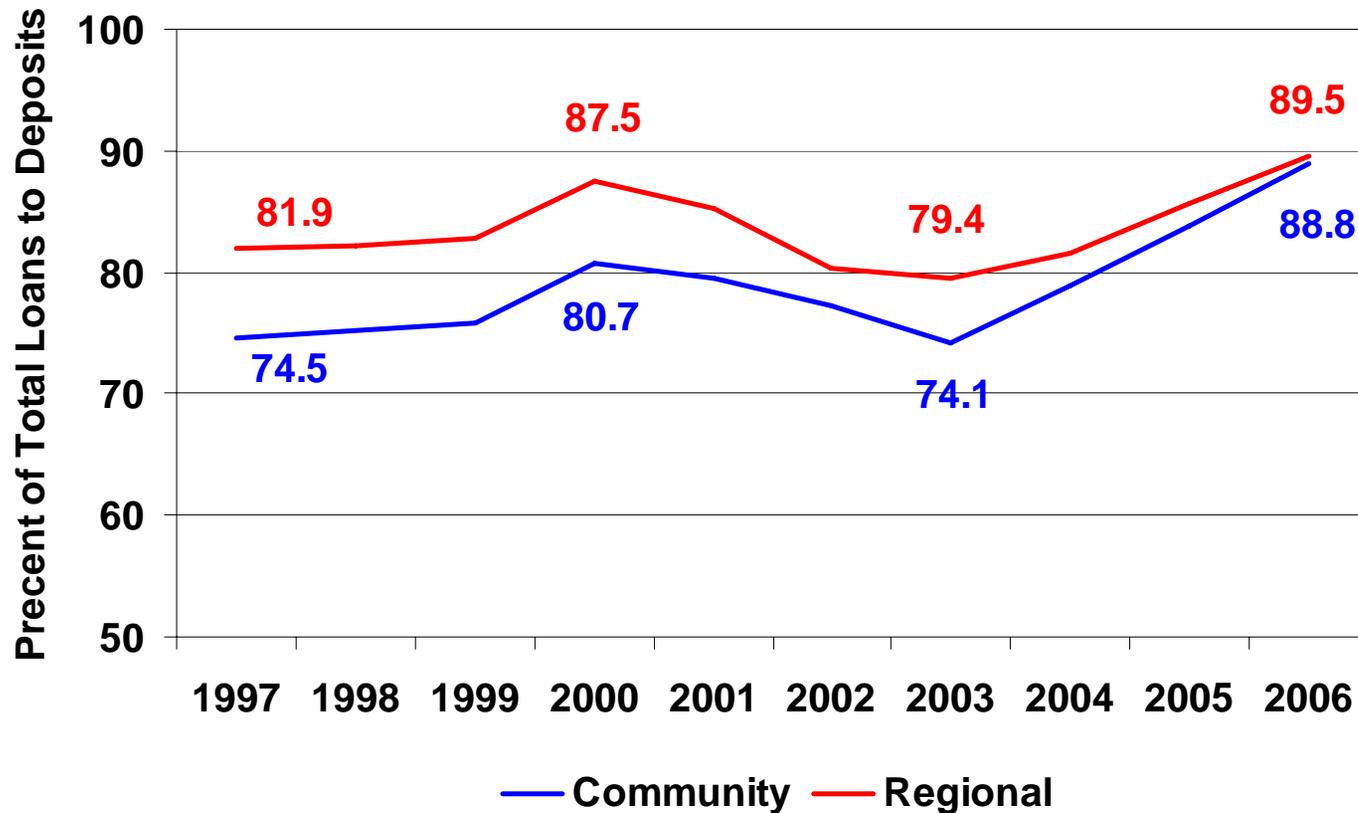
Why are regional banks profit margins higher? Regional banks have responded to the earnings environment by reducing overhead



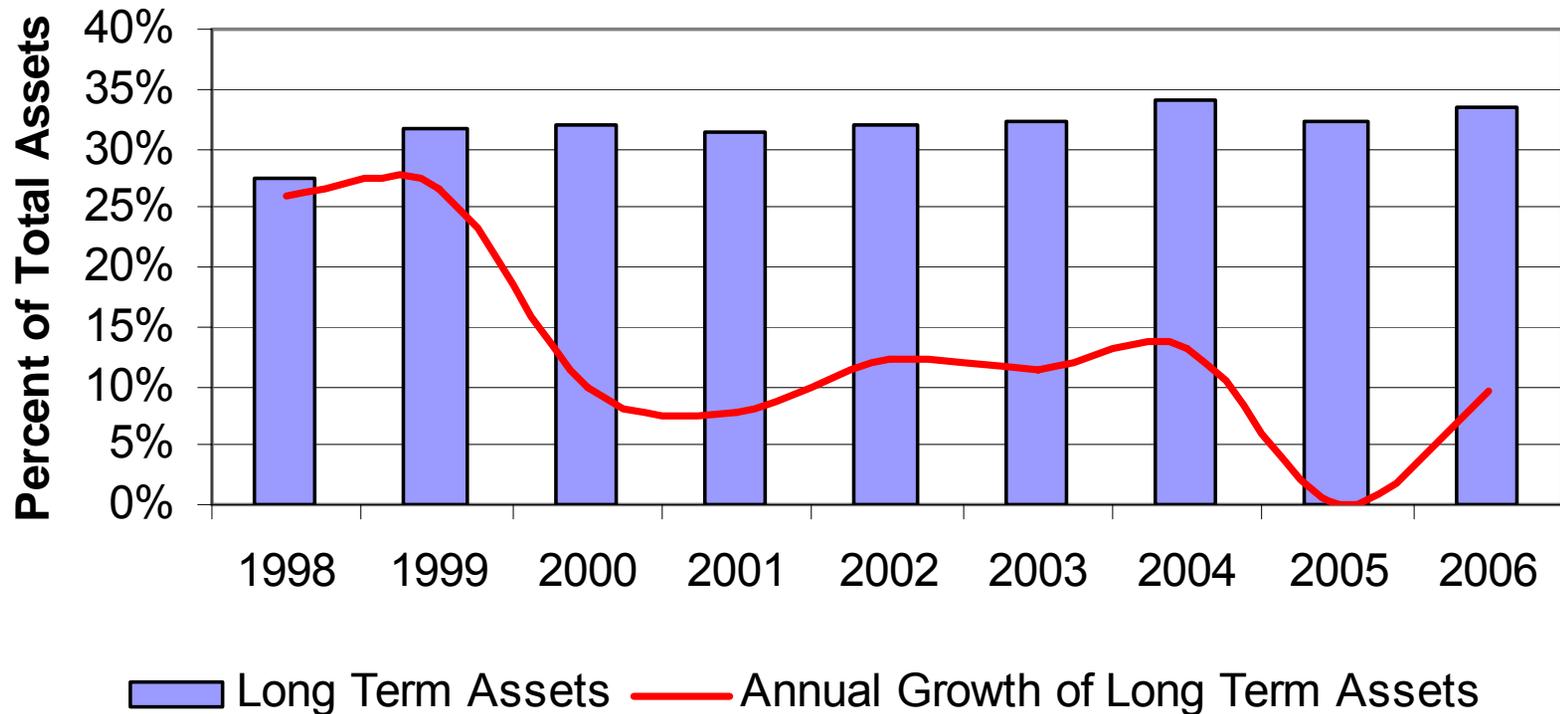
# Strategic issue: What can community bankers do to become more flexible?



Strategic issue: How do bankers respond to reduced deposit growth coupled with continued loan demand?



# Future outlook: better positioning for declining rates



# Agenda

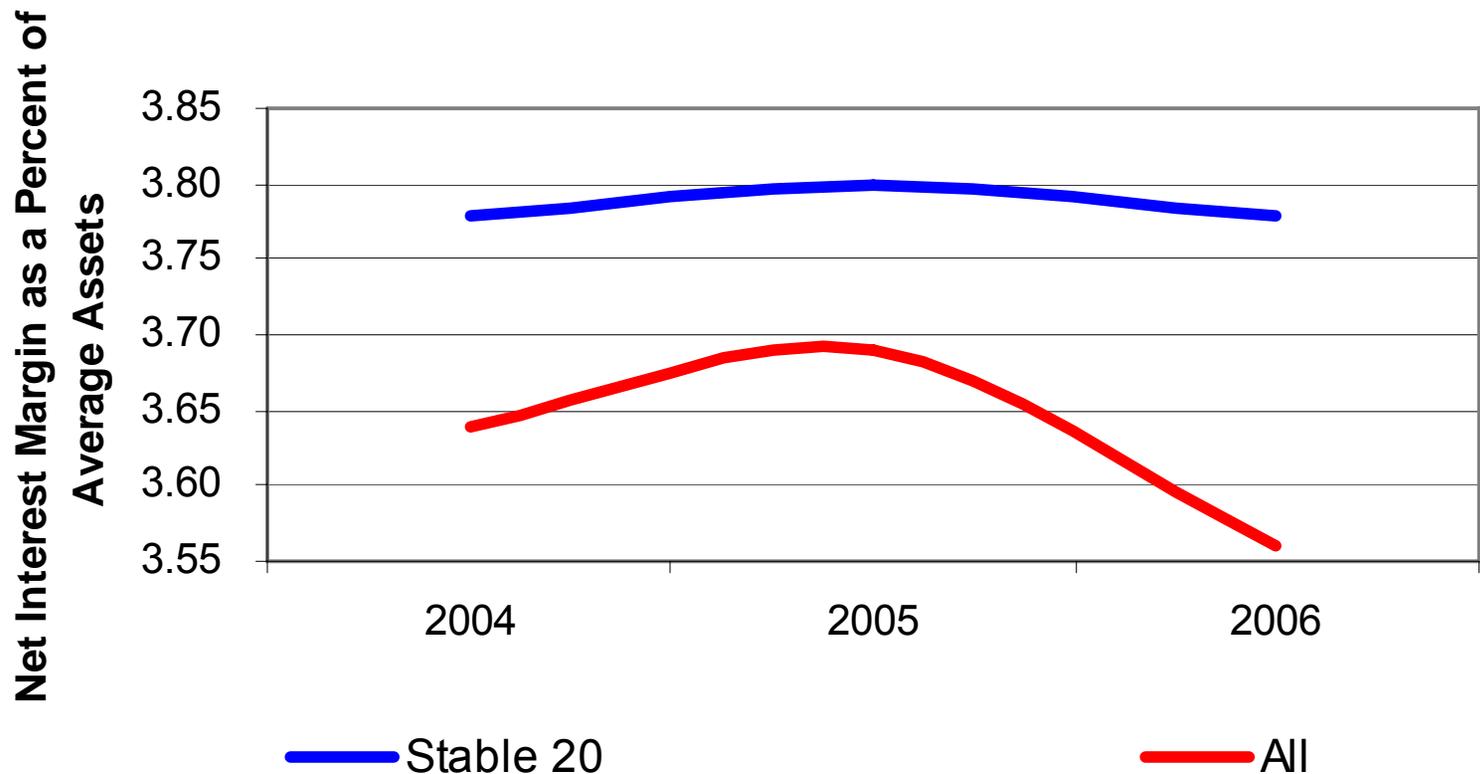
- I. Overview of the First District
- II. Strategies for a strong net interest margin**
- III. The competitive environment for deposits

# Methodology

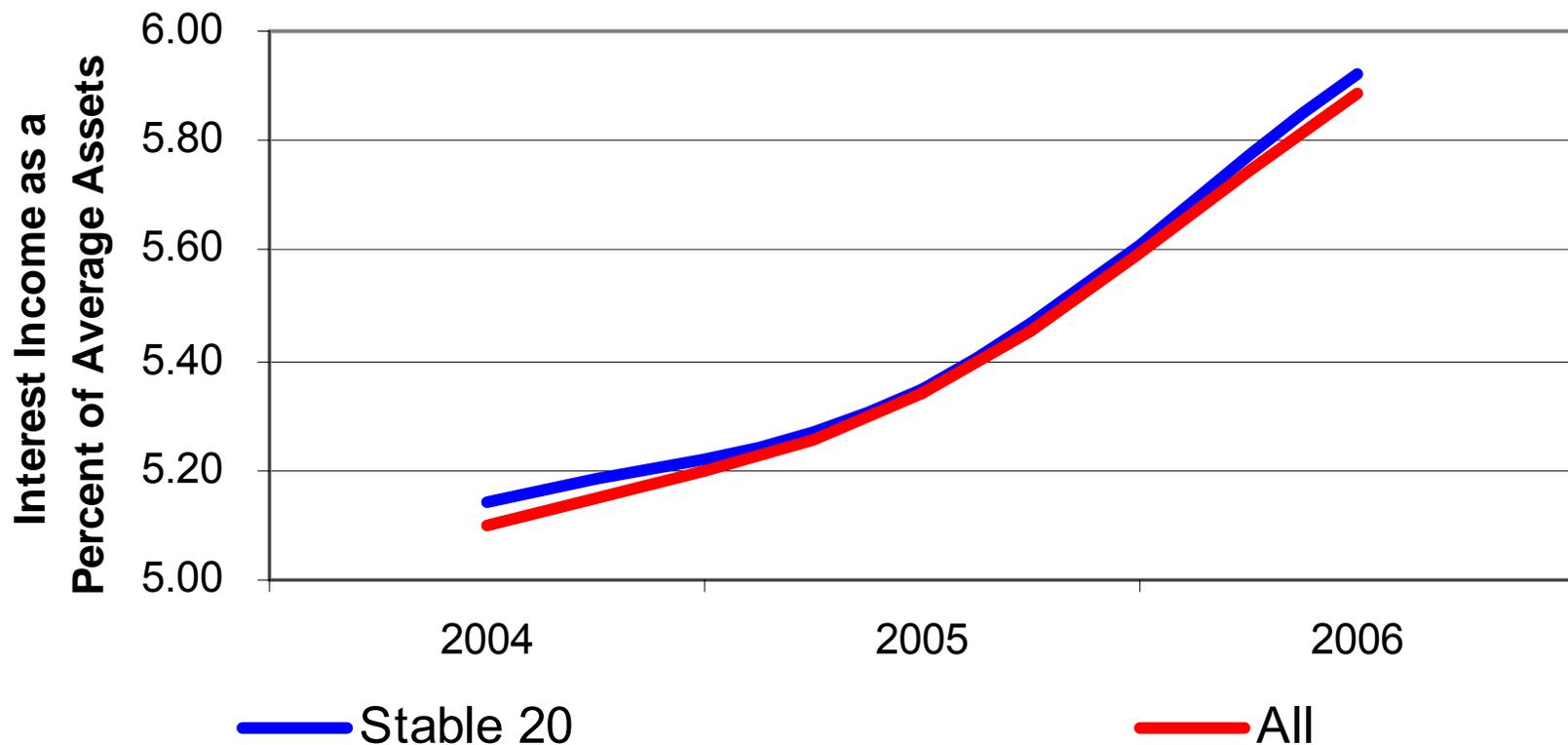
- Stable Margins: selected the 20 banks with the lowest volatility in their net interest margins between 2004 and 2006
- Highest Margins: selected the 20 banks with the highest average net interest margins between 2004 and 2006
- Excluded banks that did not fit the typical regional or community bank profile:
  - Bank of America Rhode Island
  - Investors Bank and Trust Company
  - Mellon Trust of New England
  - State Street Bank and Trust Company

# Banks with the Most Stable Margins

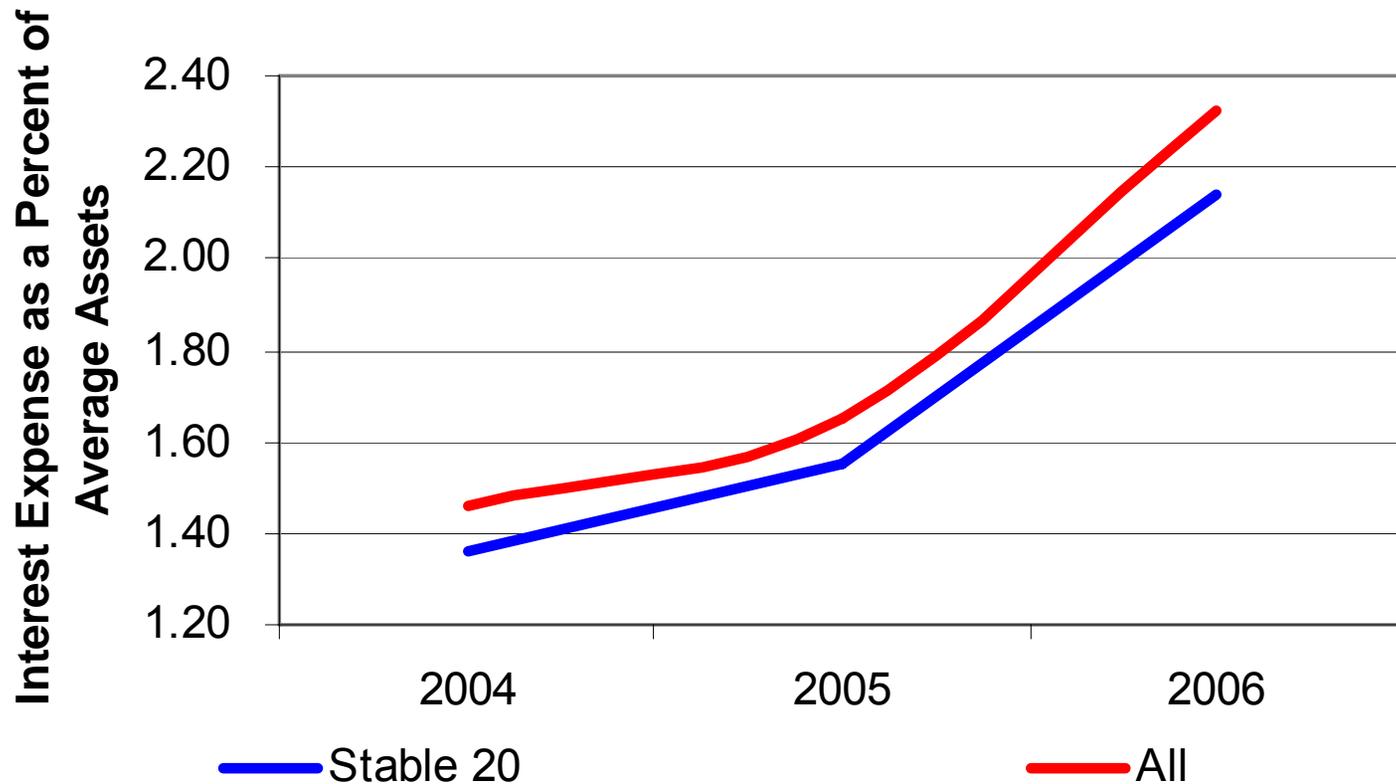
The “Stable 20” maintained a constant net interest margin—contrary to most New England banks



The Stable 20 had interest income comparable to their New England peers with a slightly asset sensitive bias



# The Stable 20 had lower interest expenses than their peers

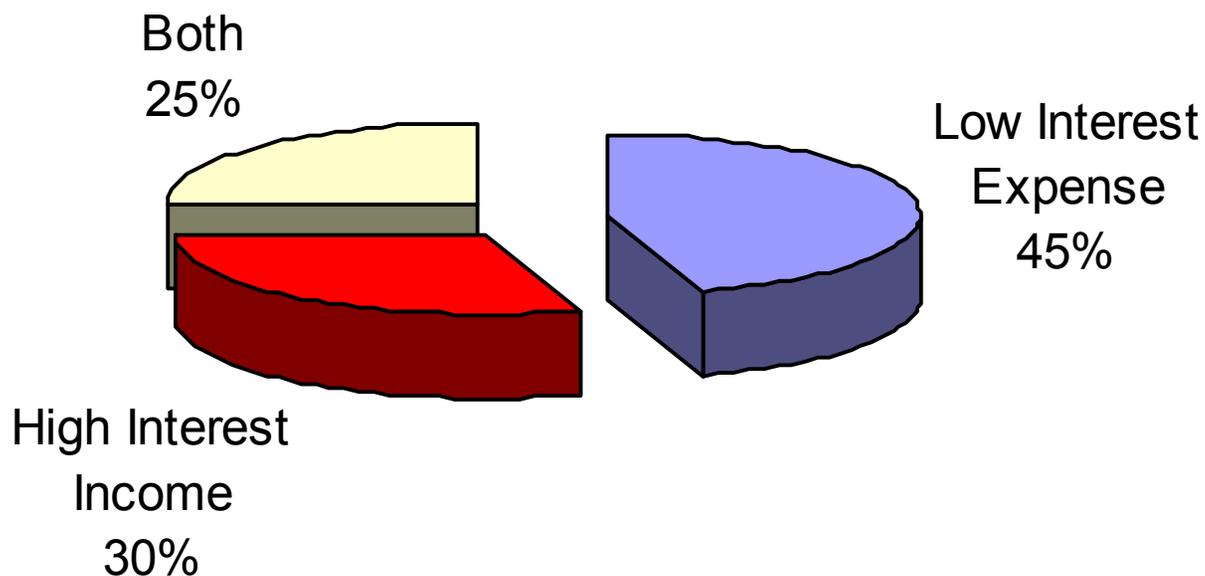


# How did the Stable 20 maintain their position?

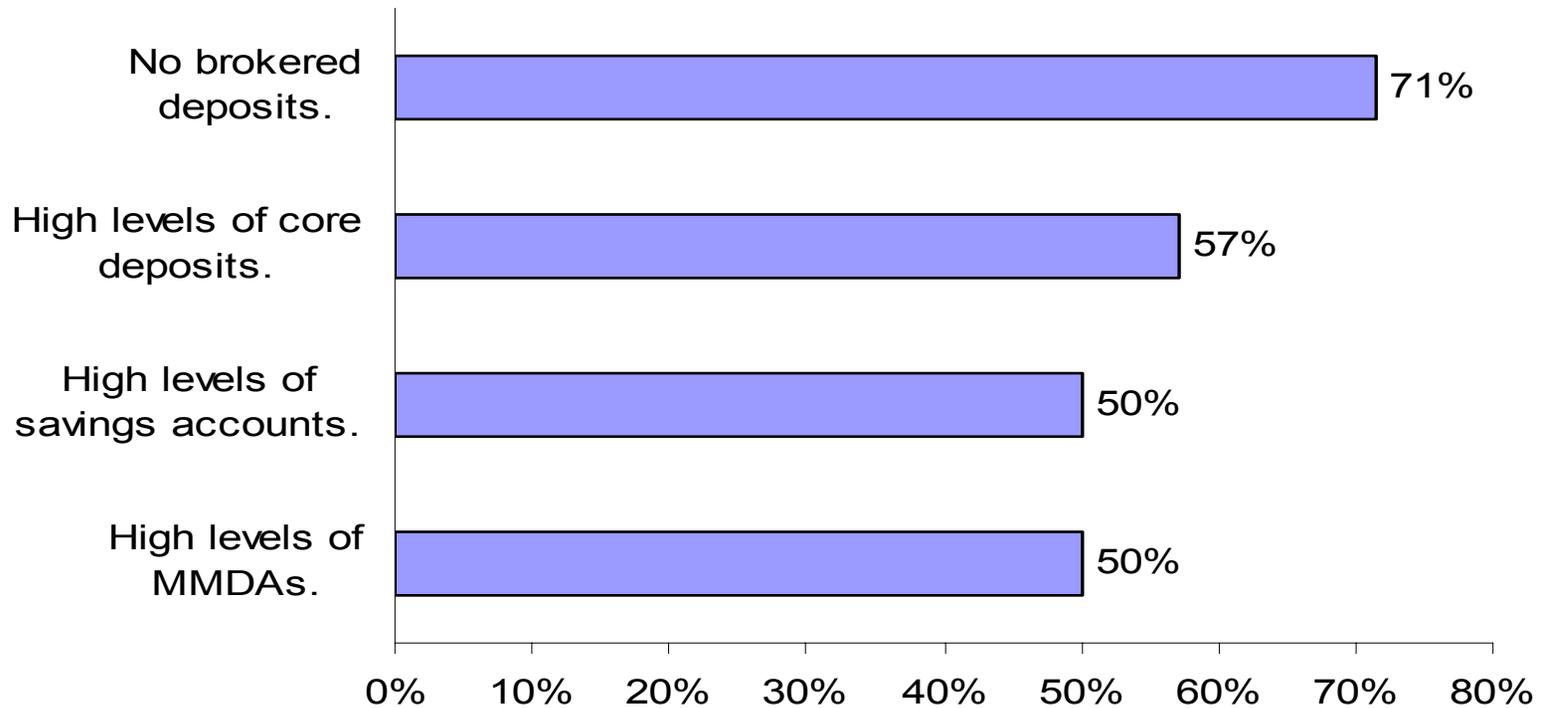
- Slightly higher levels of core deposits, and within core deposits, lower levels of CDs
  - Free everything and no foreign ATM fees
  - Products such as Dow Jones and repricing CDs
- Cost of borrowed funds rose less quickly than district average
- Effective ALM management with slight asset sensitivity positions

# Banks with the Highest Margins

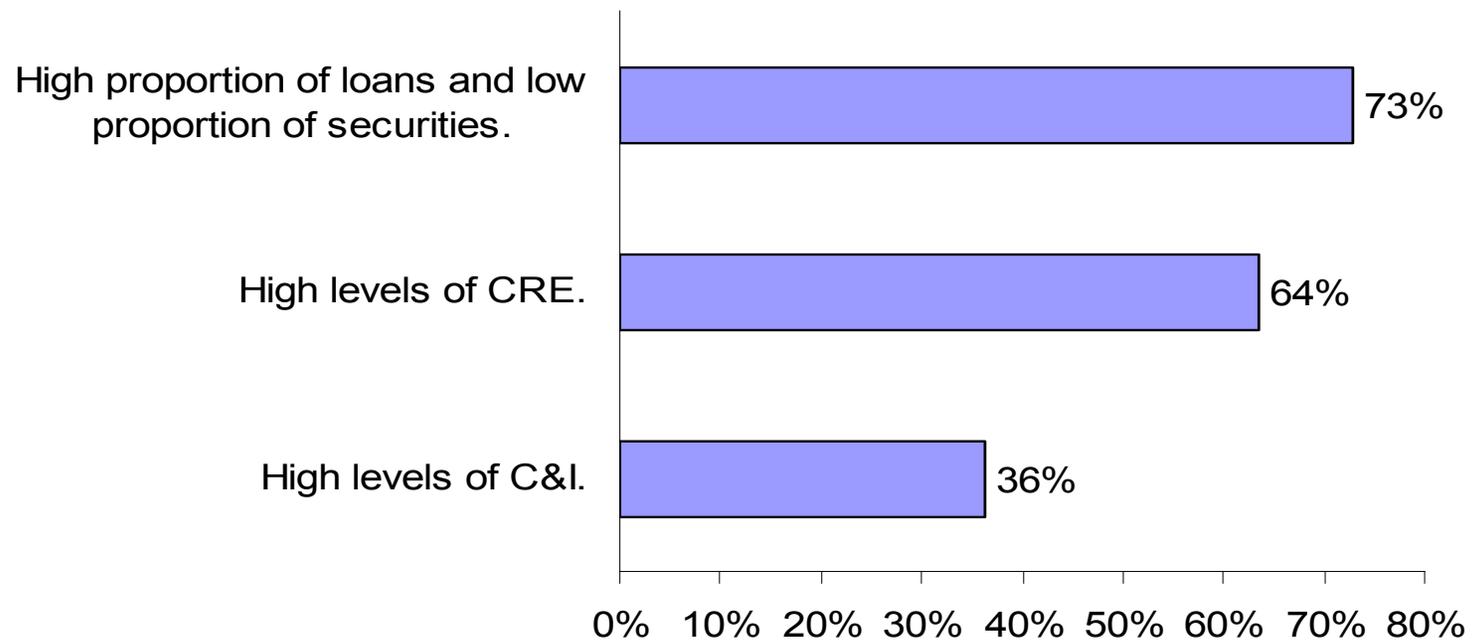
# Low interest expense most commonly drove the high net interest margins



# What did the banks with low interest expense have in common?



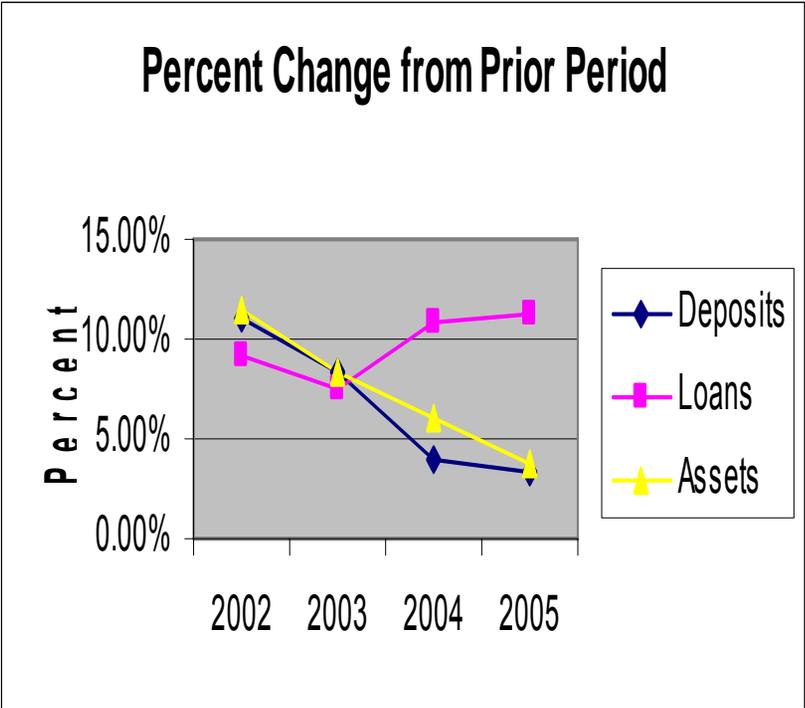
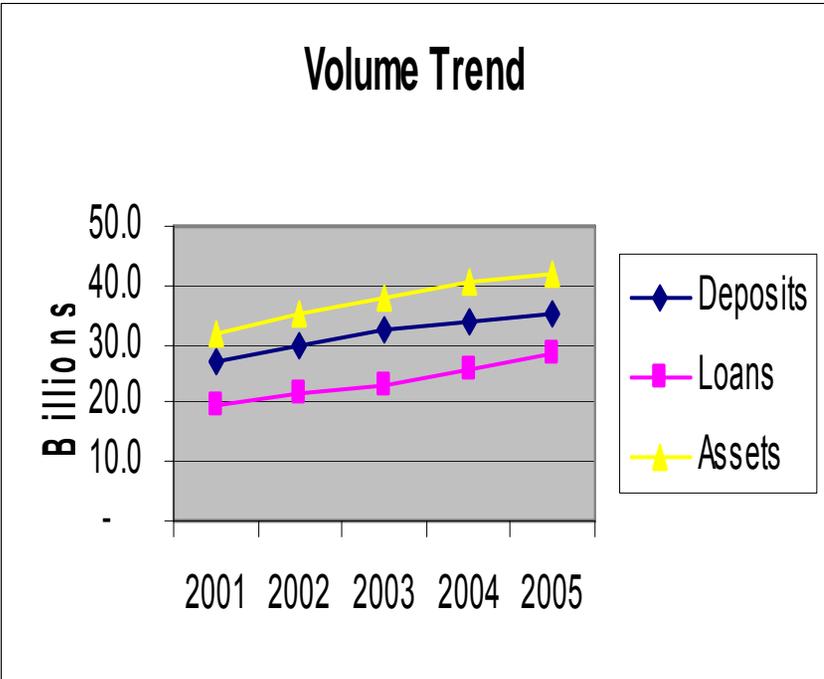
# What did the banks with high interest income have in common?



# Agenda

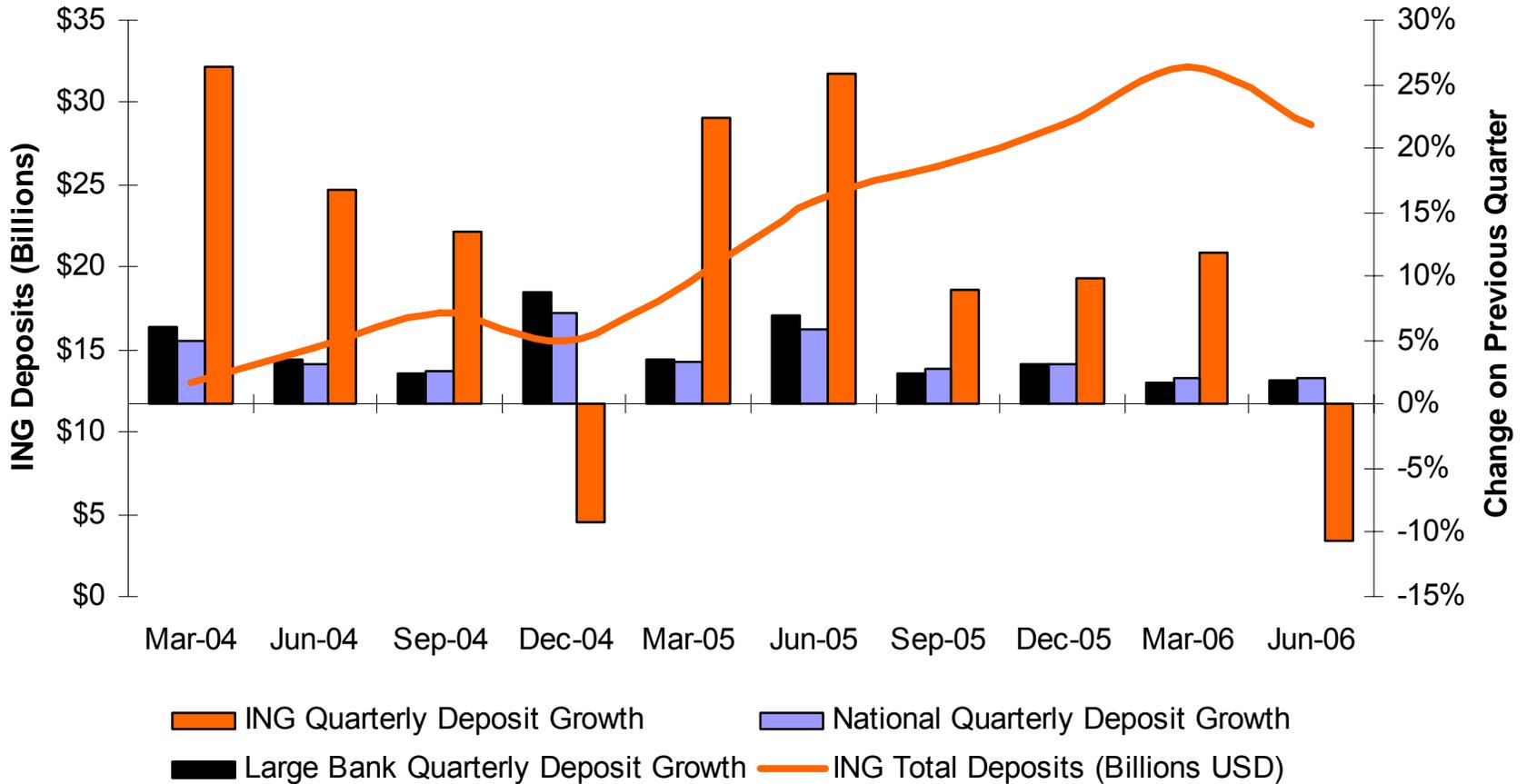
- I. Overview of the First District
- II. Strategies for a strong net interest margin
- III. The competitive environment for deposits**

# Credit Unions remain a significant competitor in most banking markets in New England

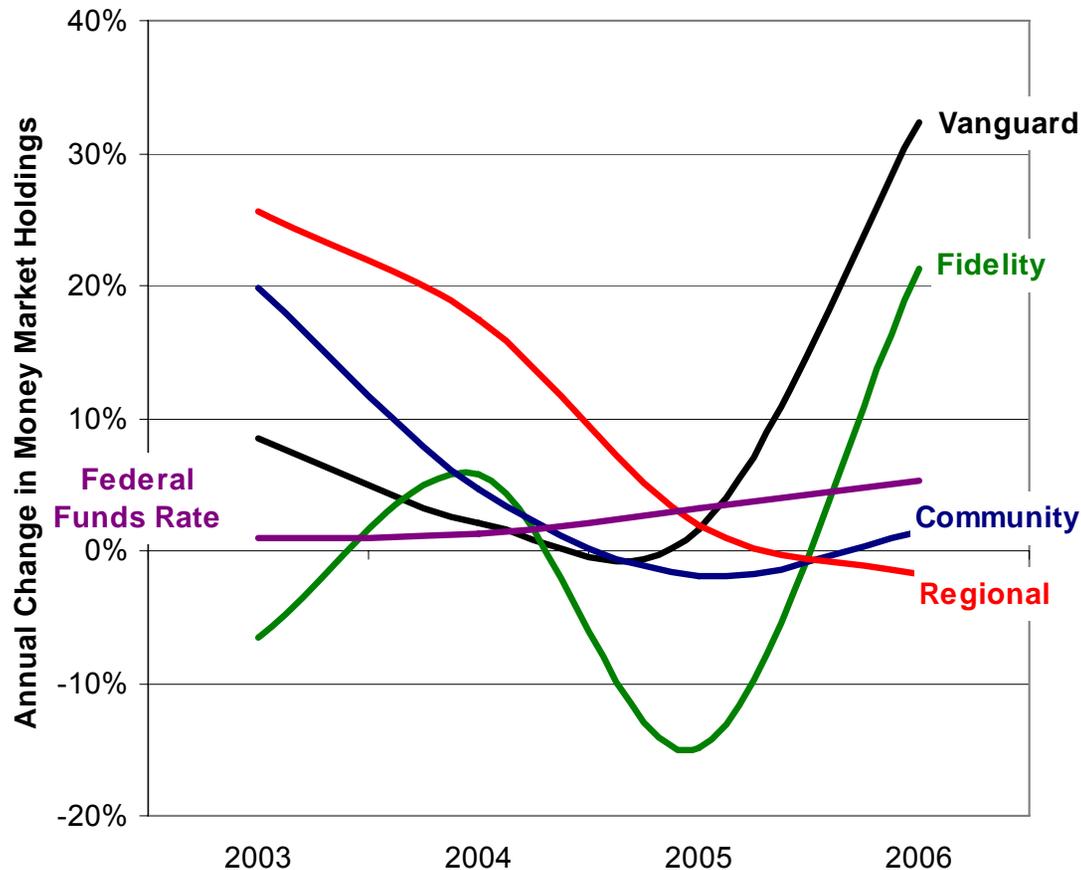


\*Source: CUNA Credit Union Statistics: State and Federal Combined

# ING Direct has built a large deposit base while focusing on gaining deposit market share using ebanking channels



Asset management companies have significantly increased money market holdings while Regional and Community banks have experienced much slower growth



# Some bankers have adopted successful deposit strategies to improve their deposit base despite the competition

- Established loan officer incentives
- Found opportunities to bring the bank to the client
- Established money markets accounts with reasonable price tiering
- Rebranded an image

# Questions

