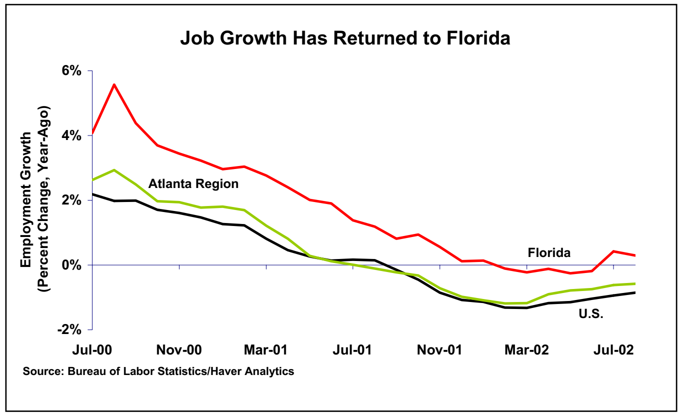
FDIC State Profile

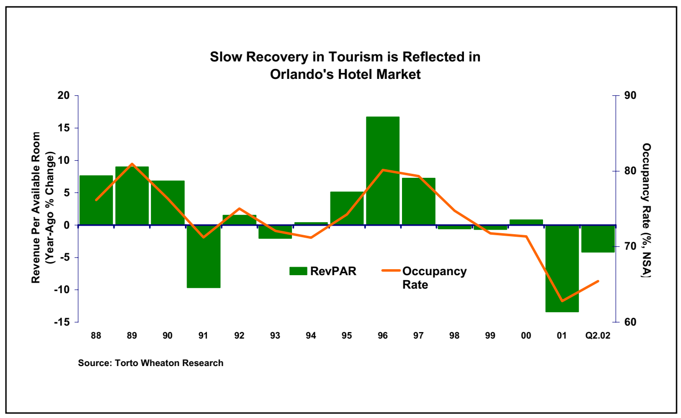
WINTER 2002

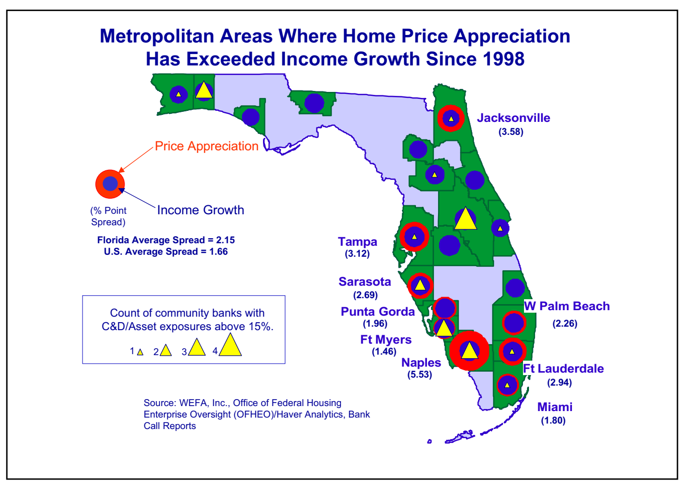
Florida

Growth in Florida remains weak but well above the national average.

- Job growth in Florida moved into positive territory in late summer 2002 (see Chart 1). Payrolls, however, continue to contract in the *Gainesville*, *Ft. Lauderdale*, *Tampa*, *Orlando*, *Sarasota*, *Daytona Beach*, and *Melbourne* metropolitan areas. Although state growth remains modest, it was well ahead of both the national and Atlanta Region averages where payrolls continued to shrink, albeit at a declining pace.
- Florida may be facing an unprecedented budget crisis, according to a recent *Tampa Tribune* article, as future promises, past commitments, and slow growth in the economy have the potential to create a $4 billion shortfall for the FY2003-2004. Weak tax revenue collections reflect the state's slow economic growth.
- Office markets in major Florida metropolitan areas continued to see vacancy rates above year-ago levels as a robust recovery remained elusive. However, absorption rates, with the exception of Orlando, re-entered positive territory by second quarter 2002. Tampa saw the least increase in its vacancy rates as completions moderated and absorption reached a three-year high.
- Tourism remains a critical component of the Florida economy. In the aftermath of the events of September 11, this industry and others, such as transportation, have struggled to grow. Revenue per available hotel room (REVpar) in Orlando, for example, remained 4.2 percent below year-ago levels in second quarter 2002 at $53.07 (see Chart 2). Lower than expected levels of visitorship also have exacerbated Orlando's already declining occupancy rates. However, the recovery may be slowest in South Florida where tourism is heavily dependent on visitors from Latin American, which continued to face economic troubles.
- Despite the recent national economic downturn, many metropolitan areas in Florida continue to see rapid home price appreciation. In fact, *Miami*, Orlando, Ft. Lauderdale, and *Ft. Myers* all saw their median existing home price rise by over 10 percent from one year earlier in second quarter 2002. If home price appreciation exceeds income growth over the long term, there may be a poten-



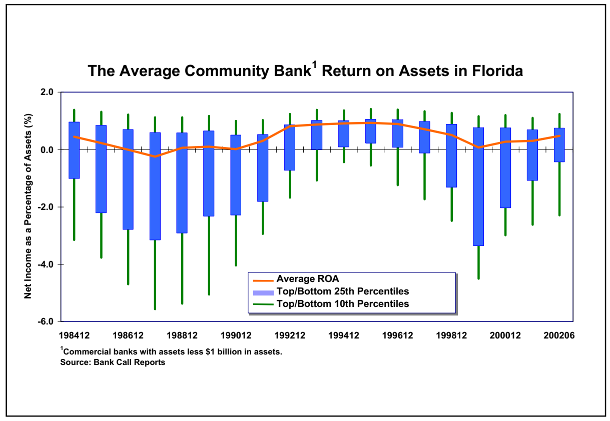




tial increase in the risk of home price bubbles. In Florida, imbalances between income and home price growth over the past few years have occurred in several metropolitan markets, most notably Naples (see Map 1, page 1).

- 2002 marked the ten-year anniversary of Hurricane Andrew's, the costliest natural disaster in U.S. history, landfall in South Florida. Although building codes have been improved, the impact of a Category 5 hurricane on Florida would still cause substantial damage to the economy, especially given the tremendous boom in coastal development during the 1990s, and disruption in the insurance markets.

Banking conditions are stable but some concerns are on the horizon



- Overall, Florida's community banking[1] conditions have remained stable during the economic downturn. Most banks continue to have positive earnings as 14.8 percent are unprofitable during the first half of 2002, which compares favorably with 20.6 percent last year. Average return on assets (ROA) for the first six months of 2002 is 0.48 percent, up from 0.31 percent at year-end 2001. The median ROA for the comparative periods is higher at 0.75 percent and 0.69 percent, respectively. Earnings peaked in 1995 when the median ROA hit 1.06 percent. The median ROA fell in each of the subsequent six years as de novo entrants and a slowing economy reduced profitability. The trends in ROA performance of community banks may be seen in Chart 3.
- Net interest margins (NIMs) at many community banks were under downward pressure in 2001. Last year the average NIM fell to 4.33 percent from 4.60 percent in 2000. Unprecedented rate cuts by the Federal Reserve last year led to a substantial change in the yield curve, which contributed to a significant amount of refinancing activity. Hence, many community banks experienced earlier repricing of earning assets than anticipated. Conversely, liability costs generally repriced at a slower rate because of lags in maturity deposits repricing. The combination of the factors consequently translated into lower net interest margins. Last year, 46 or 32.6 percent of community banks actually had a decline in net interest income although their earning assets continued to grow. NIMs started to show some improvement as deposits repriced downward.
- On a merger-adjusted basis, total loan growth at Florida's community banks has averaged roughly 22 percent over the last year, which may be inconsistent with the pace of economic expansion. Growth has been concentrated in construction and development (C&D) and commercial real estate (CRE), lending, which increased 46 percent and 27 percent, respectively. C&D loans now comprise 7 percent of community bank assets with CRE loans claiming another 25 percent. This compares to just 6 percent and 21 percent of total assets at the start of the recent downturn in March of 2001. Several MSAs were identified as having either a C&D or CRE exposure higher than the Region average of 8 percent and 20 percent, respectively. In Naples the average C&D exposure of 16 percent was twice the Region average and Sarasota banks reported an average CRE exposure of 32 percent.
- With such strong loan growth and the lag in the credit quality cycle, the true level of asset quality may be uncertain. Until now, C&D and CRE charge-offs have been almost nonexistent; however, many loans are unseasoned. Noncurrent C&D and CRE loans are rising, but reserve levels have not kept pace. Reserve coverage of noncurrent loans fell 1.53 times from 1.65 times a year ago.

[1] Community banks have less than $1 billion in assets and exclude specialty institutions.

Florida at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	230	228	222	208	214
Total Assets (in thousands)	38,946,462	33,357,366	30,814,187	28,949,320	29,224,930
New Institutions (# < 3 years)	43	57	49	25	16
New Institutions (# < 9 years)	88	80	65	40	38
Capital					
Tier 1 Leverage (median)	8.59	8.95	8.87	8.56	8.72
Asset Quality					
Past-Due and Nonaccrual (median %)	0.95%	1.07%	1.05%	1.23%	1.34%
Past-Due and Nonaccrual ≥ 5%	17	12	14	19	23
ALLL/Total Loans (median %)	1.22%	1.21%	1.21%	1.17%	1.19%
ALLL/Noncurrent Loans (median multiple)	2.48	2.06	2.14	2.14	2.32
Net Loan Losses/Loans (aggregate)	0.19%	0.18%	0.18%	0.23%	0.14%
Earnings					
Unprofitable Institutions (#)	34	47	46	37	17
Percent Unprofitable	14.78%	20.61%	20.72%	17.79%	7.94%
Return on Assets (median %)	0.77	0.76	0.80	0.85	0.98
25th Percentile	0.30	0.19	0.25	0.44	0.64
Net Interest Margin (median %)	4.37%	4.26%	4.71%	4.57%	4.73%
Yield on Earning Assets (median)	6.68%	8.18%	8.32%	7.84%	8.35%
Cost of Funding Earning Assets (median)	2.37%	3.99%	3.61%	3.27%	3.58%
Provisions to Avg. Assets (median)	0.25%	0.20%	0.21%	0.15%	0.15%
Noninterest Income to Avg. Assets (median)	0.73%	0.70%	0.76%	0.83%	0.85%
Overhead to Avg. Assets (median)	3.35%	3.49%	3.70%	3.71%	3.62%
Liquidity/Sensitivity					
Loans to Deposits (median %)	80.47%	78.83%	78.42%	73.84%	70.22%
Loans to Assets (median %)	68.91%	67.35%	66.37%	64.11%	60.81%
Brokered Deposits (# of Institutions)	43	30	22	18	16
Bro. Deps./Assets (median for above inst.)	4.89%	3.50%	2.41%	0.83%	2.29%
Noncore Funding to Assets (median)	19.77%	18.33%	16.48%	14.14%	13.91%
Core Funding to Assets (median)	69.62%	70.06%	71.78%	74.86%	75.03%
Bank Class					
State Nonmember	145	141	127	117	119
National	57	59	65	66	65
State Member	28	28	30	25	30
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	42	6,513,114	18.26%	16.72%
Tampa-St Pete-Clearwater FL	27	4,856,408	11.74%	12.47%
Miami FL PMSA	22	5,791,680	9.57%	14.87%
Orlando FL	19	3,858,991	8.26%	9.91%
Sarasota-Bradenton FL	15	2,082,627	6.52%	5.35%
Ft Lauderdale FL PMSA	14	1,742,465	6.09%	4.47%
W Palm Beach-Boca Raton FL	14	2,347,604	6.09%	6.03%
Jacksonville FL	10	1,255,591	4.35%	3.22%
Naples FL	10	2,435,060	4.35%	6.25%
Daytona Beach FL	9	676,295	3.91%	1.74%
Ft Walton Beach FL	7	1,565,845	3.04%	4.02%
Ft Myers-Cape Coral FL	7	676,652	3.04%	1.74%
Lakeland-Winter Haven FL	6	988,711	2.61%	2.54%
Ocala FL	5	520,453	2.17%	1.34%
Punta Gorda FL	4	571,857	1.74%	1.47%
Tallahassee FL	4	558,683	1.74%	1.43%
Melbourne-Titusville-Palm Bay FL	4	403,463	1.74%	1.04%
Pensacola FL	3	1,095,576	1.30%	2.81%
Gainesville FL	3	453,815	1.30%	1.17%
Ft Pierce-Port St Lucie FL	3	227,661	1.30%	0.58%
Panama City FL	2	323,911	0.87%	0.83%

Source: Bank and Thift Call Reports