FDIC State Profile

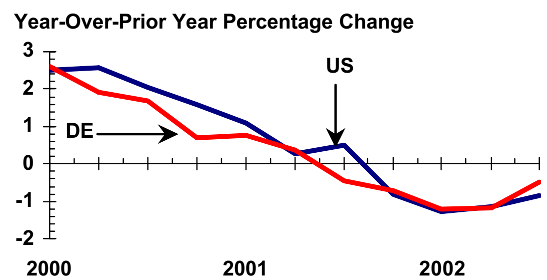
WINTER 2002

Delaware

Delaware's economy has slightly underperformed the U.S. economy since 2000. However, it now may be poised to resume stronger growth as the nation's economic recovery progresses.

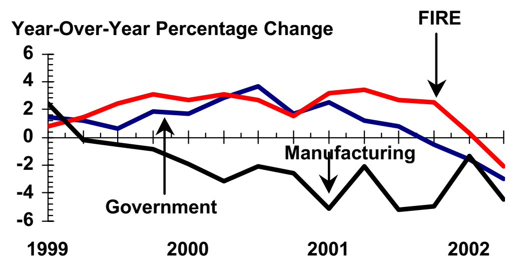
- After lagging the nation between 2000 and 2001, 2002 employment data suggest that Delaware's economy may be recovering more quickly than the nation (see top chart).
- Delaware's economy is heavily dependent on the financial, insurance, and real estate sector (FIRE), (including the credit card industry), which represents approximately 36 percent of the gross state product. The state's FIRE employment has declined significantly since 2001 (see middle chart). Growing household debt burdens and higher bankruptcy rates, which rose nationwide at double-digit rates to record levels during 2001, could pressure the credit card industry, especially if the economy falters.
- Manufacturing represents about one-sixth of Delaware's gross state product. Manufacturing employment in the state has declined almost 20 percent since third quarter 1992, compared with an 8 percent drop in the nation. Most of the state's job losses have occurred in the chemical and automobile manufacturing industries.
- Employment in Delaware's government sector has declined as the state contends with tight budgets and worsening fiscal conditions.
- Declining demand for office space has pushed up office vacancy rates in the state. Nonetheless, *Wilmington's* 14.3 percent office vacancy rate in third quarter 2002, although the highest since the mid-1990s, remains below the national average of 16.1 percent. Annual estimates of Wilmington's office vacancy rate show that the rate may have peaked in 2001 (see bottom chart).
- Single-family home prices in Delaware have not increased significantly as have prices in markets in and around New York City and Washington D.C. Housing price increases in Delaware have tracked closely with the nation and are below peaks reached in the 1980s. More affordable home prices gives Delaware a competitive advantage compared with many other Mid-Atlantic and Northeastern states.
- Unlike many Northeastern states, Delaware's healthy demographic trends position the state for long-term expansion. Between 1991 and 2001, Delaware's population increased 17 percent, exceeding the nation's gain of 13 percent as well as gains in the Mid-Atlantic Region. The state has attracted businesses desiring to relocate to a lower cost business environment.

Since 2000, Delaware Employment Growth Has Slightly Underperformed the Nation



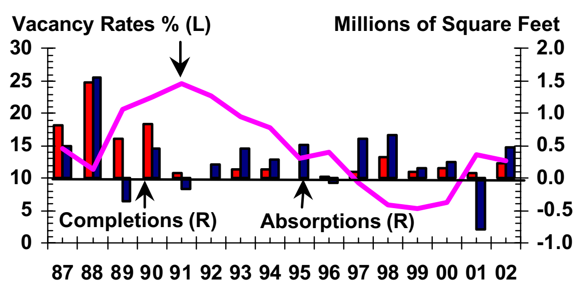
Source: Bureau of Labor Statistics

Empoyment Continues to Decline in Delaware's Important Industry Sectors



Source: Bureau of Labor Statistics. FIRE refers to finance, insurance, and real estate.

Wilmington's Office Vacancy Rate Has Risen Sharply Since 2000, But May Have Peaked

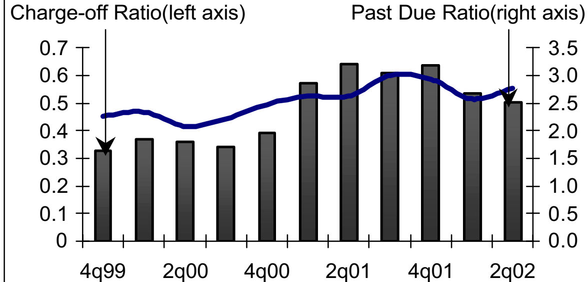


Source: Torto Wheaton Research. 2002 is an estimate.

Credit quality has weakened moderately among Delaware's established non-credit card banks during this economic downturn.[1]

- The state's established non-credit card banks[2] have reported higher past-due and charge-off ratios during this economic downturn, although ratios recently have shown signs of improvement (see top chart).
- Although office vacancy rates have increased throughout the state, the median percentage of past-due commercial real estate (CRE) loans remains low. Additionally, CRE loan concentrations among the state's insured institutions remain modest. The median ratio of CRE loans to capital of 108 percent is below the national level of 181 percent.
- Nevertheless, as credit quality generally lags the business cycle, loan performance likely will remain an issue in coming quarters even if the economic recovery strengthens.

Credit Quality Has Weakened Among Insured Institutions Headquartered in Delaware

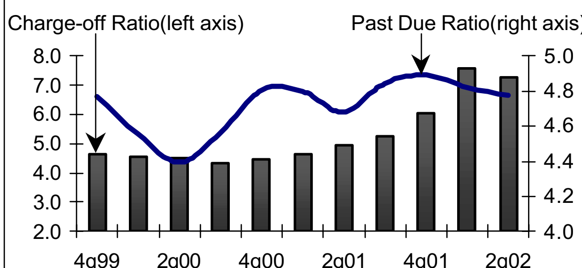


Excludes credit card lenders and banks in operation less than three years. Includes loans at least 30 days past due. Data are two period moving averages. Source: Bank and Thrift Call Reports

The credit card industry sustained moderate deterioration in credit quality during the recession.

- Six of the nation's forty-seven insured credit card banks are headquartered in Delaware. These credit card banks hold or manage one-third of total credit card loans held or managed by insured institutions nationally. Delinquency and charge-off rates on credit card loans have increased nationwide, concurrent with the recent economic downturn (see middle chart). Credit card delinquency and charge-off performance among Delaware's credit card banks is similar to national trends.
- Continued weakness in national employment trends, increasing consumer debt burdens, and rising personal bankruptcy rates could place additional pressure on credit card loan quality.

Credit Card Charge-offs and Delinquencies Increase During Economic Downturn

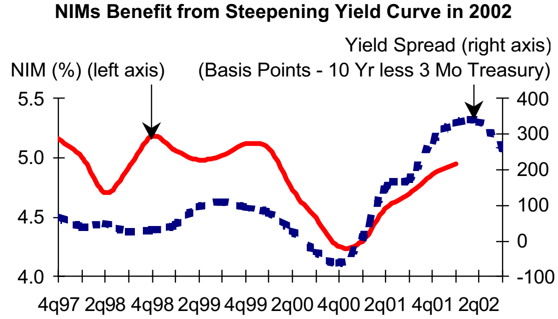


Credit card lenders are insured institutions with credit card loans and managed receivables of at least 50 percent of total assets. Includes loans at least 30 days past due. Data are two period moving averages. Source: Bank Call Reports

Widening net interest margins (NIMs) helped boost profitability for most of Delaware's insured institutions during the past year, but margin compression may resume.

- The median NIM widened, following steepening in the Treasury yield curve in 2001 and the first half of 2002 (see bottom chart). Significant reduction in short-term interest rates helped lower banks' funding costs and more than offset the decline in asset yields that reflected the decline in long-term rates.
- Margin improvement was reported by insured institutions across business lines, including credit card, commercial, and residential mortgage lenders. During third quarter 2002, however, the yield curve flattened as long-term interest rates neared historic lows and short-term interest rates stabilized, trends that could limit margin improvement in coming quarters.

NIMs Benefit from Steepening Yield Curve in 2002



Excludes institutions less than three years old and specialty banks. Two-period moving average of quarterly median NIM displayed. NIM figures are through 2q02. Yield Spread data are through 3q02. Source: Bank and Thrift Call Reports

[1] Data are as of June 30, 2002, unless otherwise noted.

[2] Excludes banks with at least 50 percent of assets in credit card loans and managed receivables and institutions in operation less than three years.

Delaware at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	38	39	37	38	39
Total Assets (in thousands)	173,591,991	170,460,291	140,869,136	127,562,266	125,390,482
New Institutions (# <3 years)	7	7	6	5	4
New Institutions (# <9 years)	14	13	11	11	12
Capital					
Tier 1 Leverage (median)	13.34	11.51	12.04	11.53	10.85
Asset Quality					
Past-Due and Nonaccrual (median %)	1.53%	2.26%	1.53%	2.04%	2.85%
Past-Due and Nonaccrual ≥ 5%	5	6	2	5	5
ALLL/Total Loans (median %)	1.56%	1.28%	1.22%	1.53%	1.71%
ALLL/Noncurrent Loans (median multiple)	2.34	1.66	2.41	1.90	2.49
Net Loan Losses/Loans (aggregate)	3.87%	2.84%	2.63%	2.86%	3.84%
Earnings					
Unprofitable Institutions (#)	3	7	8	4	6
Percent Unprofitable	7.89%	17.95%	21.62%	10.53%	15.38%
Return on Assets (median %)	1.68	1.28	1.38	1.66	1.79
25th Percentile	0.42	0.52	0.11	0.81	0.93
Net Interest Margin (median %)	3.88%	4.09%	4.48%	4.57%	4.92%
Yield on Earning Assets (median)	6.16%	7.69%	8.14%	7.90%	8.51%
Cost of Funding Earning Assets (median)	2.37%	4.00%	3.89%	3.74%	4.51%
Provisions to Avg. Assets (median)	0.14%	0.31%	0.24%	0.15%	0.32%
Noninterest Income to Avg. Assets (median)	1.67%	1.44%	1.42%	1.77%	5.04%
Overhead to Avg. Assets (median)	3.76%	3.98%	4.05%	4.11%	5.35%
Liquidity/Sensitivity					
Loans to Deposits (median %)	81.92%	82.89%	87.16%	82.73%	98.89%
Loans to Assets (median %)	55.32%	61.31%	64.51%	60.80%	68.33%
Brokered Deposits (# of Institutions)	19	17	18	18	16
Bro. Deps./Assets (median for above inst.)	8.32%	7.32%	7.54%	3.24%	3.96%
Noncore Funding to Assets (median)	36.05%	23.58%	27.22%	24.30%	34.54%
Core Funding to Assets (median)	37.75%	47.44%	38.84%	44.95%	31.19%
Bank Class					
State Nonmember	16	16	15	17	18
National	14	16	16	15	16
State Member	1	1	1	1	0
S&L	0	0	0	0	0
Savings Bank	6	5	4	4	4
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Wilmington-Newark DE-MD PMSA	29	152,315,643	76.32%	87.74%
No MSA	7	21,055,464	18.42%	12.13%
Dover DE	2	220,884	5.26%	0.13%