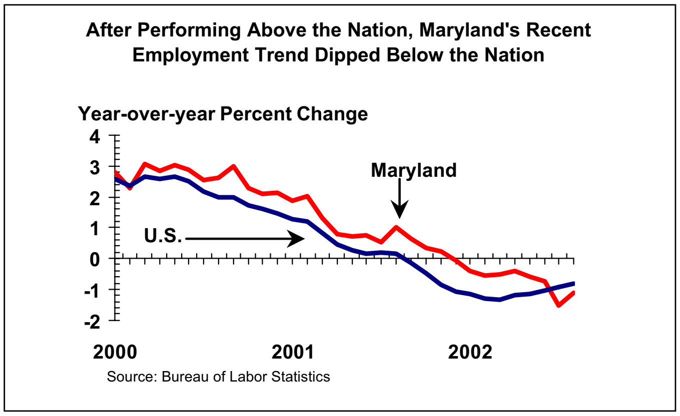
# FDIC State Profile

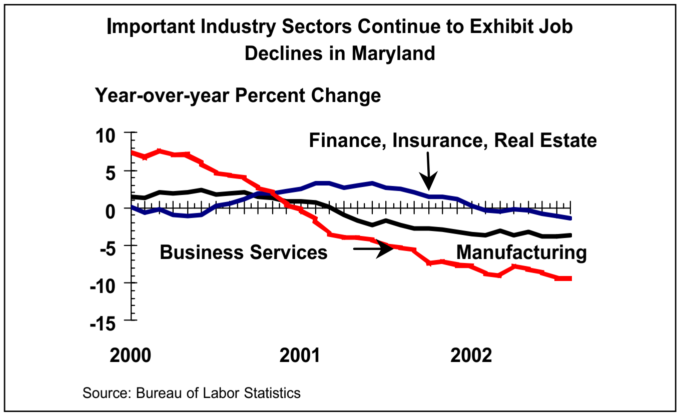
WINTER 2002

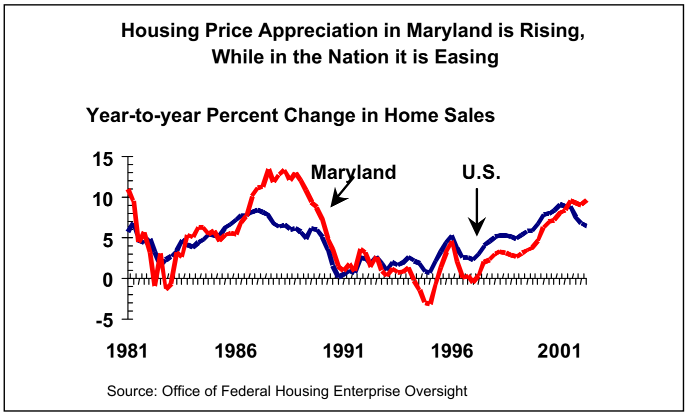
# Maryland

Maryland's economy is poised for improvement because of increased federal government spending, which will help the Washington, D.C. - Baltimore Corridor.

- Consistent with declines in the national economy, Maryland's job growth has trended downward (see top chart). After performing better than the nation since 2000, Maryland's rate of job growth recently dipped slightly below the nation.
- Increased federal government spending, particularly in defense-related industries, should help the state's economic recovery. Many Maryland firms have received new defense contracts as the nation gears up in its military and security readiness. Government jobs represent about 18 percent of Maryland's total employment, compared with 16 percent for the nation.
- Maryland's business services sector, which includes legal, engineering, and computer-related jobs, has experienced the most significant rate of job decline (see middle chart) compared with other sectors. Through September 2002, business services jobs declined by 8.6 percent in the state compared with 3.7 percent for the nation. Losses in computer related jobs were concentrated around the high technology corridor around *Baltimore* and *Washington, D.C.*
- Losses in Maryland's manufacturing sector although significant were less severe than the nation. Western Maryland bore the brunt of manufacturing losses because it has a higher proportion of manufacturing jobs compared with the rest of the state.
- The ongoing bear stock market clouds the outlook for the state's financial services sector. Although Maryland's reliance on this sector is less than New York, it has a significant number of securities industry personnel, which should be adversely affected if stock market conditions remain weak.
- The pace of home price appreciation in Maryland, which slightly lagged the nation during most of the 1990s, continues to increase in contrast to national trends (see bottom chart). Commuting areas around Baltimore and Washington, D.C., have experienced the greatest appreciation in home values and reflect low mortgage rates and limited single-family housing supply. Current rates of home price appreciation may not be sustainable.
- Office vacancy rates have increased throughout the state. Baltimore's 15.1 percent office vacancy rate in third quarter 2002 although the highest since the mid-1990s, remains below the national average of 16.1 percent and well below its peak of 20 percent reached a decade ago.

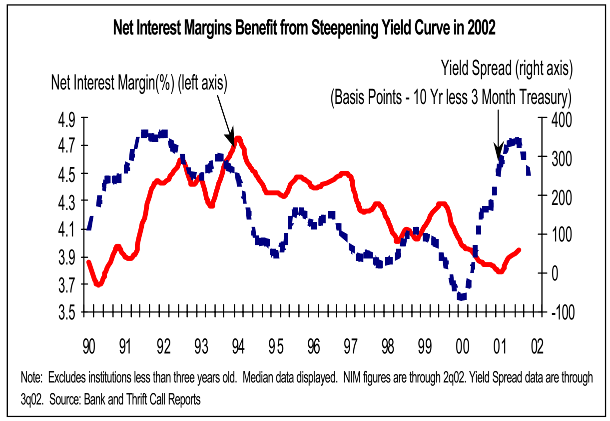


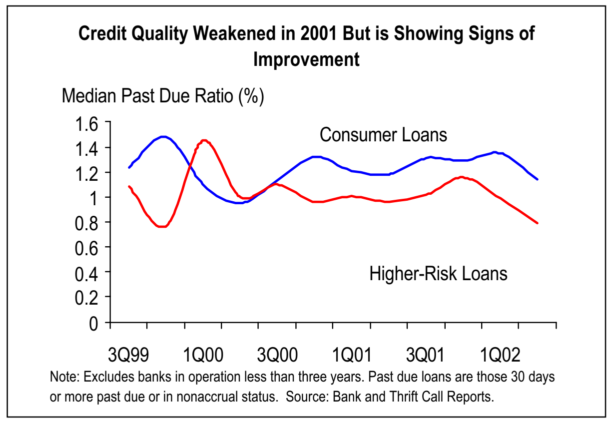



### Widening net interest margins helped boost profitability for Maryland's insured institutions in the first half of 2002, but margin compression may resume.

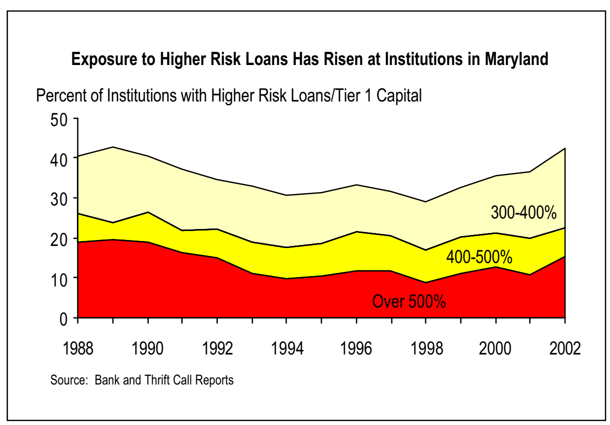
- The state's 130 insured institutions benefited from widening net interest margins (NIMs) in the first half of 2002. NIMs widened following steepening in the Treasury yield curve that occurred in 2001 and the first half of 2002 (see top chart). A significant reduction in short-term interest rates helped lower banks' funding costs and more than offset the decline in asset yields that reflected the decline in long-term interest rates.
- During third quarter 2002, however, the yield curve flattened as long-term interest rates neared historic lows and short-term rates stabilized, which could constrain NIMs in coming quarters.
- Historically low long-term interest rates have contributed to record refinancing levels nationally, as consumers lock in long-term, fixed-rate residential mortgage loans. During this time, asset maturities significantly lengthened at some of the state's institutions, although Maryland's median ratio of long-term assets-to-total assets remains below the regional average. Asset extension may become particularly evident at Maryland's 56 thrift institutions.




### Credit quality weakened moderately in 2001, but may be stabilizing. Maryland's median higher-risk loan concentration remains below the national level, but concentrations among individual institutions continue to rise.

- Credit quality weakened throughout 2001, consistent with the decline in economic conditions, but has shown recent signs of improvement (see middle chart). As the credit cycle generally lags the business cycle, credit quality could remain an issue in coming quarters.
- The percent of Maryland's insured institutions that report higher-risk loan concentrations has increased in recent years and approaches levels reached a decade ago (see bottom chart). As of June 30, 2002 over 40 percent of the state's institutions reported higher-risk loan concentrations above 300 percent of capital. While concentrations have increased, levels remain below the national average.
- Increased concentration of higher risk loans reflects, in part, greater exposure to construction and development (C&D) loans consistent with national trends.




Should conditions in the state's commercial or residential real estate markets deteriorate, C&D loan performance at some Maryland banks may weaken.

# Maryland at a Glance

| General Information | Jun-02 | Jun-01 | Jun-00 | Jun-99 | Jun-98 |
|---|---|---|---|---|---|
| Institutions (#) | 130 | 132 | 141 | 144 | 149 |
| Total Assets (in thousands) | 56,992,386 | 54,215,640 | 54,472,934 | 52,856,853 | 45,924,432 |
| New Institutions (# <3 years) | 6 | 6 | 8 | 4 | 3 |
| New Institutions (# <9 years) | 13 | 13 | 13 | 7 | 10 |
| **Capital** | | | | | |
| Tier 1 Leverage (median %) | 10.11 | 10.23 | 10.33 | 10.08 | 10.21 |
| **Asset Quality** | | | | | |
| Past-Due and Nonaccrual (median) | 1.52% | 1.58% | 1.45% | 1.90% | 2.13% |
| Past-Due and Nonaccrual ≥ 5% | 15 | 14 | 12 | 16 | 20 |
| ALLL/Total Loans (median) | 1.11% | 1.11% | 1.04% | 1.09% | 1.14% |
| ALLL/Noncurrent Loans (median multiple) | 1.71 | 1.87 | 2.14 | 1.25 | 1.11 |
| Net Loan Losses/Loans (aggregate) | 0.23% | 0.24% | 0.23% | 0.25% | 0.21% |
| **Earnings** | | | | | |
| Unprofitable Institutions (#) | 20 | 17 | 15 | 11 | 11 |
| Percent Unprofitable | 15.38% | 12.88% | 10.64% | 7.64% | 7.38% |
| Return on Assets (median %) | 0.75 | 0.73 | 0.82 | 0.89 | 1.01 |
| 25th Percentile | 0.45 | 0.34 | 0.49 | 0.46 | 0.61 |
| Net Interest Margin (median) | 3.82% | 3.92% | 4.23% | 4.05% | 4.26% |
| Yield on Earning Assets (median) | 6.53% | 7.65% | 7.77% | 7.50% | 7.98% |
| Cost of Funding Earning Assets (median) | 2.74% | 3.89% | 3.76% | 3.67% | 3.89% |
| Provisions to Avg. Assets (median) | 0.07% | 0.06% | 0.07% | 0.06% | 0.08% |
| Noninterest Income to Avg. Assets (median) | 0.51% | 0.47% | 0.50% | 0.52% | 0.52% |
| Overhead to Avg. Assets (median) | 2.68% | 2.77% | 2.78% | 2.65% | 2.76% |
| **Liquidity/Sensitivity** | | | | | |
| Loans to Deposits (median) | 80.31% | 83.56% | 87.65% | 81.75% | 81.10% |
| Loans to Assets (median) | 66.85% | 69.04% | 70.86% | 66.05% | 65.29% |
| Brokered Deposits (# of Institutions) | 24 | 21 | 22 | 17 | 16 |
| Bro. Deps./Assets (median for above inst.) | 3.11% | 3.17% | 2.52% | 2.45% | 3.16% |
| Noncore Funding to Assets (median) | 17.64% | 14.53% | 14.33% | 12.26% | 11.64% |
| Core Funding to Assets (median) | 71.73% | 72.98% | 72.53% | 75.04% | 75.60% |
| **Bank Class** | | | | | |
| State Nonmember | 43 | 42 | 45 | 47 | 47 |
| National | 11 | 15 | 17 | 17 | 21 |
| State Member | 18 | 15 | 14 | 14 | 14 |
| S&L | 17 | 19 | 19 | 20 | 24 |
| Savings Bank | 39 | 39 | 44 | 44 | 41 |
| Mutually Insured | 2 | 2 | 2 | 2 | 2 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| Baltimore MD PMSA | 74 | 39,813,942 | 56.92% | 69.86% |
| Washington DC-MD-VA-WV PMSA | 27 | 9,952,244 | 20.77% | 17.46% |
| No MSA | 21 | 5,192,275 | 16.15% | 9.11% |
| Wilmington-Newark DE-MD PMSA | 5 | 779,280 | 3.85% | 1.37% |
| Hagerstown MD PMSA | 2 | 1,206,475 | 1.54% | 2.12% |
| Cumberland MD-WV | 1 | 48,170 | 0.77% | 0.08% |