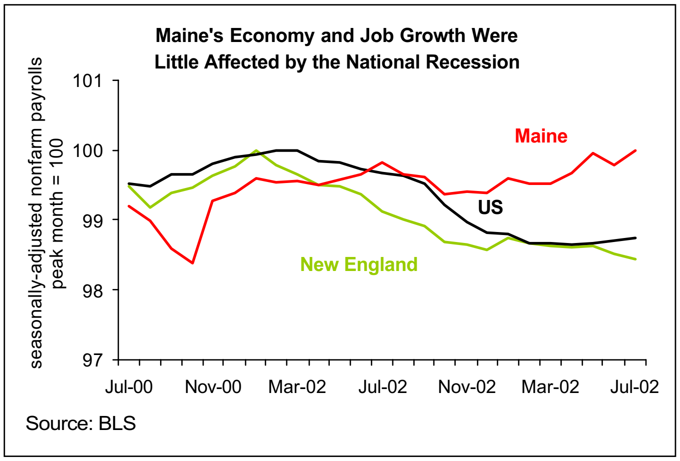
FDIC State Profile

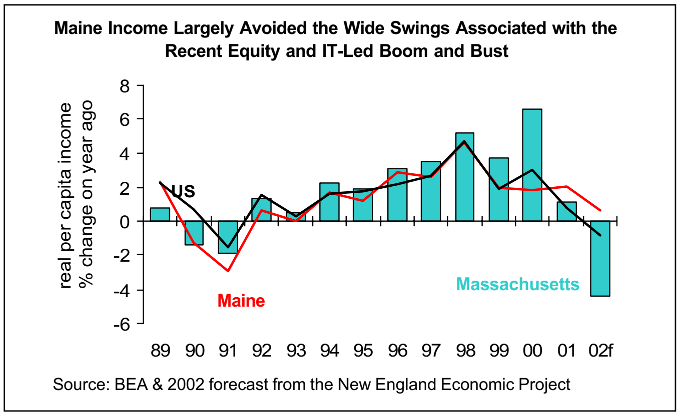
WINTER 2002

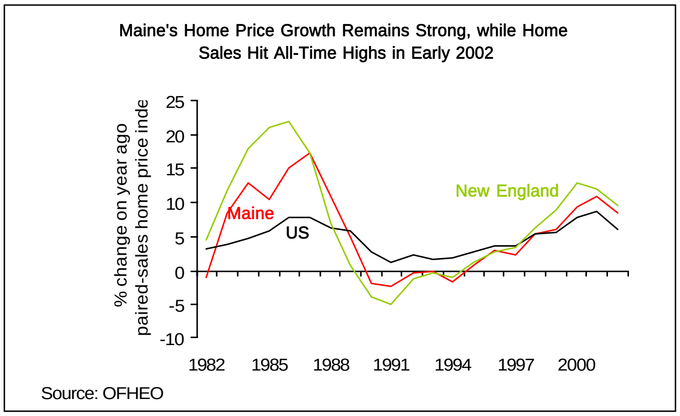
Maine

The recent national recession largely bypassed Maine's economy, due to its limited dependence on technology, business investment demand, and stock-market wealth effects.

- The national recession's cyclical impact was limited in Maine. As a result, the state's employment was little changed during the past year (see top chart).
- Prior to the recession, the state's more-cyclically sensitive factory sector was already in a prolonged period of contracting employment—with net payrolls down in twelve of the last thirteen years.
- Further, in contrast to states such as Massachusetts, Maine's lack of employment concentrations in information technology (IT) and high-worth households insulated the state from a wide swing in income growth due to the recent boom/bust in IT and equity markets (see middle chart).
- Given the absence of heated economic conditions and already highly rationalized manufacturing employment, the national recession's cyclical impact was muted in Maine.
- Housing has been one area of the Maine economy that has been "hot" in recent years—especially in the state's southern and coastal regions.
- Single-family home sales in Maine surged in first quarter 2002 to an all-time high. Anecdotal reports also suggest that new home construction has been quite active, while permit issuance surged in the first half of 2002 after being little changed in 2001.
- The rate of home price appreciation in Maine seems to have stabilized recently, after accelerating since the mid 1990s. Given the state's modest personal income growth, the sustainability of the pace of recent gains is unclear.
- Though mostly bypassed by the national recession to date, only housing and public construction projects seem likely to provide strong support for Maine's economic growth over the near term. An upturn in the national economy is likely necessary to sustain meaningful economic growth into next year.



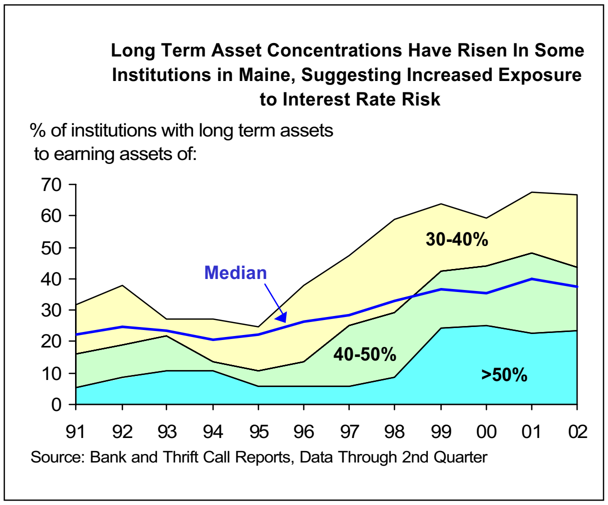




FDIC

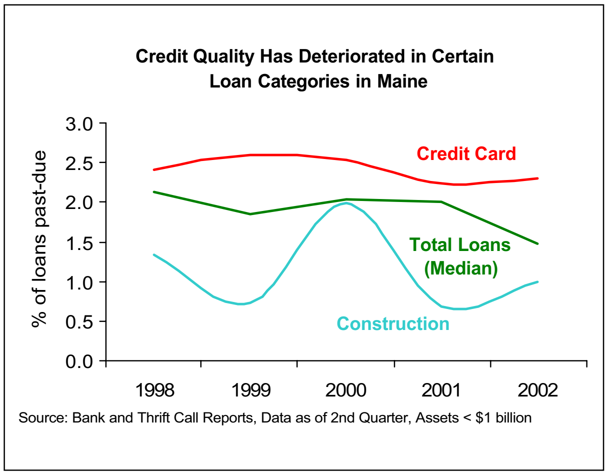
Interest Rate Risk remains a concern for Maine institutions that increased concentrations of fixed, long-term assets during the recent refinancing waves.

- With the conventional 30-year mortgage rate below 7.25 percent for the past 18 months, refinancing activity has been strong as borrowers seek to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions. Median long-term assets to earning assets remains high (37 percent), and nearly one fourth of Maine's insured institutions had long-term asset concentrations greater than 50 percent as of second quarter 2002.
- This trend is especially pronounced in the state, as is true for the rest of New England, due to the large percentage of thrifts and residential lenders. Savings institutions represent 62 percent of insured institutions in Maine, and residential real estate loans comprise roughly 54 percent of the average loan portfolio in the state.
- Earnings could be pressured at those institutions with large concentrations in fixed-rate assets as margin compression may occur when interest rates rise with the recovering economy.



Although overall credit quality improved during the second quarter, certain loan delinquencies deteriorated and could become more pronounced with the weak economy.

- The median past-due ratio improved during the second quarter of 2002; however, construction and credit card loan delinquencies increased in the state's smaller institutions (assets less than $1 billion) over the past year.
- Over 40 percent of Maine's banks and thrifts report high-risk[1] loan concentrations of at least 300 percent of capital, and the median high-risk loan concentration ratio for the state continues to rise. The *Bangor* and *Portland* MSAs had the second and fifth highest median high-risk loan concentration of all MSAs in New England, 435 and 315 percent, respectively, and exposure levels continue to increase.
- Portfolios in the state have been shifting towards traditionally higher-risk loans due to strong commercial real estate, multifamily and construction loan growth over past few years, which could contribute to further deterioration in asset quality should economic conditions weaken.



[1]High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

Maine at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	39	40	43	44	45
Total Assets (in thousands)	33,541,861	15,484,290	16,467,408	15,984,628	14,500,775
New Institutions (# <3 years)	0	0	0	0	0
New Institutions (# <9 years)	1	2	3	3	4
Capital					
Tier 1 Leverage (median)	8.66	9.14	9.20	9.43	9.61
Asset Quality					
Past-Due and Nonaccrual (median %)	1.47%	2.00%	2.04%	1.85%	2.13%
Past-Due and Nonaccrual ≥ 5%	1	2	2	4	4
ALLL/Total Loans (median %)	1.17%	1.16%	1.12%	1.23%	1.21%
ALLL/Noncurrent Loans (median multiple)	2.31	1.25	1.54	1.48	1.35
Net Loan Losses/Loans (aggregate)	0.25%	0.22%	0.20%	0.17%	0.23%
Earnings					
Unprofitable Institutions (#)1	0	0	0		
Percent Unprofitable	0.00%	2.50%	0.00%	0.00%	0.00%
Return on Assets (median %)	0.94	0.75	0.83	0.97	1.03
25th Percentile	0.59	0.48	0.59	0.66	0.74
Net Interest Margin (median %)	4.10%	3.94%	4.09%	4.00%	4.16%
Yield on Earning Assets (median)	6.82%	7.92%	7.98%	7.76%	8.21%
Cost of Funding Earning Assets (median)	2.71%	4.15%	4.04%	3.72%	3.96%
Provisions to Avg. Assets (median)	0.13%	0.16%	0.11%	0.12%	0.13%
Noninterest Income to Avg. Assets (median)	0.64%	0.58%	0.56%	0.58%	0.50%
Overhead to Avg. Assets (median)	3.04%	3.04%	2.96%	3.10%	3.06%
Liquidity/Sensitivity					
Loans to Deposits (median %)	94.88%	95.63%	97.34%	88.34%	89.70%
Loans to Assets (median %)	71.13%	71.74%	73.11%	69.59%	71.52%
Brokered Deposits (# of Institutions)	13	9	9	9	9
Bro. Deps./Assets (median for above inst.)	2.58%	2.75%	2.05%	2.70%	2.36%
Noncore Funding to Assets (median)	22.47%	22.73%	22.44%	16.00%	14.91%
Core Funding to Assets (median)	67.28%	67.09%	67.06%	71.89%	73.78%
Bank Class					
State Nonmember	7	7	7	8	9
National	6	6	6	5	5
State Member	2	2	3	3	3
S&L	7	7	7	7	7
Savings Bank	2	2	4	4	4
Mutually Insured	15	16	16	17	17

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	29	8,712,191	74.36%	25.97%
Portland ME	4	22,036,841	10.26%	65.70%
Lewiston-Auburn ME	4	1,133,757	10.26%	3.38%
Bangor ME	2	1,659,072	5.13%	4.95%