FDIC State Profile

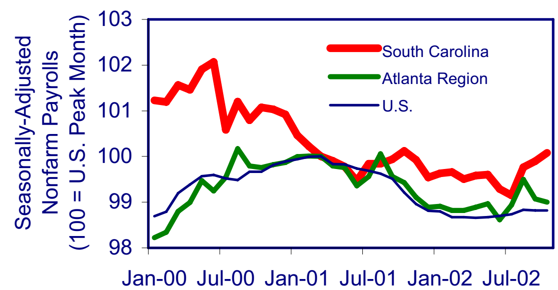
SPRING 2003

South Carolina

The rate of job loss in South Carolina abated during the second and third quarters of 2002, but employment levels remain well below the cyclical peak.

- Employment began to grow again in the service producing sectors, and losses in manufacturing moderated, evidence of declining rates of job losses across the state (see **Chart 1**). Initial unemployment insurance claims in the state have declined since early 2002. Despite the apparent stabilization in economic conditions, employment in October 2002 remained even with year-ago levels and nearly 2 percent below the cyclical peak in June 2000.
- Economic conditions remain strongest in the metropolitan areas along the coast, as well as in the ***Columbia*** MSA (see **Map 1**). However, rates of unemployment also have declined in several rural counties during the year ending third quarter 2002.
- Despite some improvement in the state economy during 2002, the recent downturn continues to adversely affect state budget revenues. During second quarter 2002, personal and corporate income taxes fell 8.5 percent and 19.2 percent from year earlier levels. Revenue shortfalls have resulted in government layoffs across the state.
- The price of residential real estate continued to appreciate during the recent recession, rising more than 7 percent during 2001. During 2002, the rate of appreciation has moderated. Disparities between home price and income growth over the longer term may further dampen home price appreciation. This disparity has been particularly evident in the ***Charleston*** MSA during the past few years (see **Chart 2**); home price appreciation has exceeded income growth by more than 600 basis points.

Chart 1: Job Losses in South Carolina Have Moderated



Map 1:
Labor Market Conditions in South Carolina May Be Improving

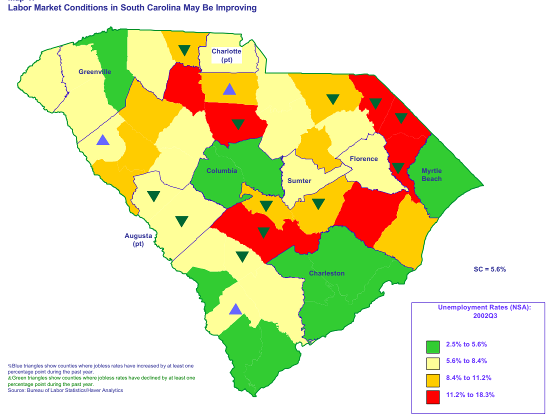
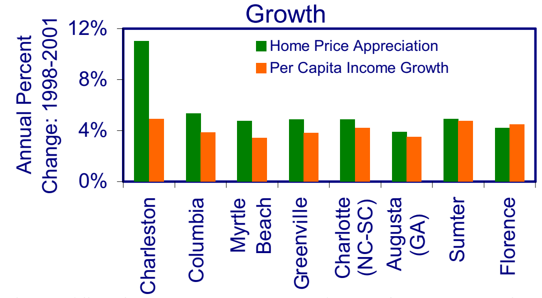


Chart 2: Home Prices in the Charleston MSA Have Far Exceeded Rates of Personal Income Growth



Source: Office of Federal Housing Enterprise Oversight/Haver Analytics, Global Insights, Inc.

Community banks headquartered in South Carolina recently have reported weakened performance as asset quality has deteriorated.

- Overall performance among community banks headquartered in South Carolina weakened during the year ending September 30, 2002. On a merger adjusted basis, net income fell 53 percent from a year ago as higher provision expenses offset gains from increased margins. As a result, return on assets declined to its lowest point in the past twelve quarters, ending the third quarter 2002 at 0.46 percent.
- Although lowering funding costs, aggressive interest rate cuts by the Federal Reserve helped to compress margins in 2001 as core deposits were slow to reprice at most community banks. Continued use of noncore funding, combined with the repricing of some core deposits in 2002, however, was instrumental in driving NIMs higher at these institutions during the first nine months of the year.
- Despite weak economic conditions, loan growth was brisk during the twelve months ending September 30, 2002, at 16 percent. Growth in commercial real estate (CRE) loans represented 18 percent of assets among community banks headquartered in South Carolina at the end of third quarter 2002, up from 16 percent a year earlier. Although loan portfolio earnings were augmented by the shift toward higher-yielding CRE loans, the increased exposure may also have created a heightened level of balance sheet risk among these banks. Rising concentrations of CRE loans are particularly evident among community banks headquartered in the ***Greenville-Spartanburg*** MSA. At September 30, 2002, eight banks (50 percent of the total) held at least 20 percent of assets in CRE loans. This relatively high level of CRE loan volume could increase the vulnerability of these insured institutions to the effects of rising vacancy rates.[1] Although asset quality trends remained favorable at the end of third quarter 2002, rapid rates of loan growth could be masking some credit quality deterioration.
- Community banks headquartered in South Carolina reported significant deterioration in the commercial and industrial (C&I) loan portfolio during the year ending September 30, 2002. Charge-off levels were relatively high at 1.82 percent, up from 0.62 percent a year earlier, but down from just below 4 percent in the previous quarter. Despite this level of chargeoffs, C&I noncurrent loans surged 200 basis points during the same period to 3 percent, which may suggest additional erosion in C&I loan quality in the near term. Due to the lag in asset quality trends with the economic cycle, poor business conditions in the months prior to the end of the third quarter 2002 may have been responsible for the volatility in C&I loan chargeoffs.

[1] Office vacancy data were unavailable for the Greenville, SC MSA.

South Carolina at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	69	68	70	69	66
Total Assets (in thousands)	10,278,789	9,105,858	8,165,292	7,265,889	7,352,477
New Institutions (# < 3 years)	7	12	14	15	11
New Institutions (# < 9 years)	27	26	27	22	17

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	10.03	10.10	10.80	11.05	9.87

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.27%	1.57%	1.33%	1.29%	1.46%
Past-Due and Nonaccrual > = 5%	7	5	6	5	3
ALLL/Total Loans (median %)	1.25%	1.26%	1.22%	1.24%	1.32%
ALLL/Noncurrent Loans (median multiple)	2.50	1.97	3.35	4.18	2.89
Net Loan Losses/Loans (aggregate)	0.56%	0.24%	0.18%	0.17%	0.18%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	4	11	7	9	6
Percent Unprofitable	5.80%	16.18%	10.00%	13.04%	9.09%
Return on Assets (median %)	1.13	1.05	1.21	1.17	1.22
25th Percentile	0.74	0.51	0.59	0.59	0.77
Net Interest Margin (median %)	4.52%	4.35%	4.62%	4.51%	4.63%
Yield on Earning Assets (median)	6.64%	7.99%	8.54%	7.96%	8.40%
Cost of Funding Earning Assets (median)	2.18%	3.76%	3.77%	3.25%	3.83%
Provisions to Avg. Assets (median)	0.28%	0.23%	0.21%	0.21%	0.22%
Noninterest Income to Avg. Assets (median)	0.94%	0.87%	0.73%	0.77%	0.75%
Overhead to Avg. Assets (median)	3.16%	3.26%	3.32%	3.27%	3.23%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	81.57%	80.42%	79.14%	77.36%	72.86%
Loans to Assets (median %)	67.46%	66.44%	66.75%	62.51%	60.29%
Brokered Deposits (# of Institutions)	12	6	5	5	4
Bro. Deps./Assets (median for above inst.)	3.34%	1.15%	2.24%	0.77%	4.35%
Noncore Funding to Assets (median)	20.37%	20.07%	19.68%	17.83%	16.14%
Core Funding to Assets (median)	66.88%	67.16%	67.97%	69.15%	71.85%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	42	42	40	44	43
National	24	23	23	18	19
State Member	3	3	7	7	4
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	32	5,194,287	46.38%	50.53%
Greenville-Spartanburg-Anderson SC	16	2,231,263	23.19%	21.71%
Florence SC	6	439,576	8.70%	4.28%
Myrtle Beach SC	4	941,893	5.80%	9.16%
Charlotte-Gastonia-Rock Hill NC-SC	4	536,129	5.80%	5.22%
Charleston-North Charleston SC	3	516,045	4.35%	5.02%
Columbia SC	2	218,401	2.90%	2.12%
Sumter SC	1	102,146	1.45%	0.99%
Augusta-Aiken GA-SC	1	99,049	1.45%	0.96%