FDIC State Profile

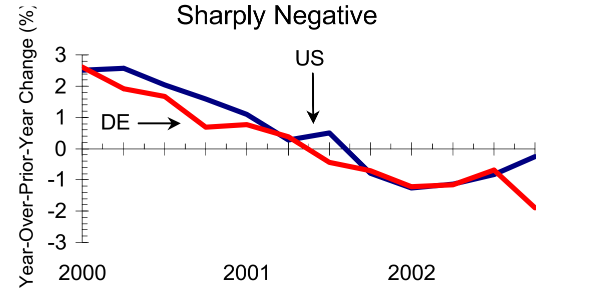
SPRING 2003

Delaware

The Delaware economy has been clouded by layoffs in the manufacturing and Finance Insurance and Real Estate (FIRE) sectors. However, it now may be poised to resume stronger growth as the nation's economic recovery progresses.

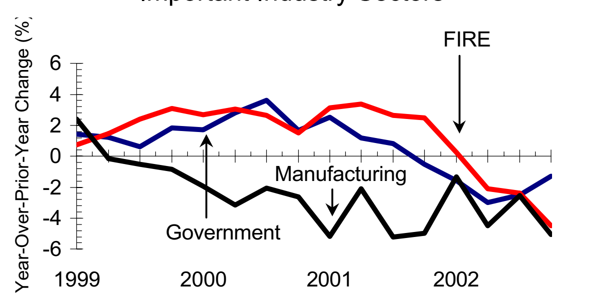
- After closely tracking the nation in the first half of 2002, employment data suggest that Delaware's economy dipped at the end of the year as employment levels decreased in the manufacturing and financial sectors (**chart 1**).
- Delaware's economy is heavily dependent on the FIRE sector, which represents approximately 12 percent of jobs and 36 percent of the gross state product. The state's FIRE employment has declined steadily since 2001 (**chart 2**).
- Employment in the state's manufacturing sector has contracted at a slightly higher rate than the nation over the past four years. Most of the state's job losses have occurred in the chemical and automobile manufacturing industries, which represents 6 percent of Delaware's total employment. Manufacturing represents about one-sixth of Delaware's gross state product.
- Employment in Delaware's government sector has declined as the state contends with tight budgets and worsening fiscal conditions. Total government employment represents 13.5 percent of Delaware's total workforce, modestly below the 16.3 percent national statistic.
- Reduced demand for office space has pushed up office vacancy rates in the state. Nonetheless, ***Wilmington's*** 15 percent office vacancy rate in fourth quarter 2002, although the highest since the mid-1990s, remains below the national average of 16.5 percent. Industry estimates suggest that Wilmington's office vacancy rate may be nearing a peak (**chart 3**).
- In contrast to New York City and Washington, D.C., where single-family housing prices have appreciated considerably, Delaware home prices 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.

Chart 1: Even As the Nation Has Improved, Delaware Employment Growth Has Turned Sharply Negative



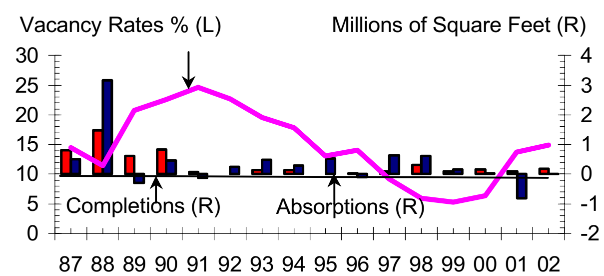
Source: Bureau of Labor Statistics.

Chart 2: Empoyment Continues to Decline in Important Industry Sectors



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

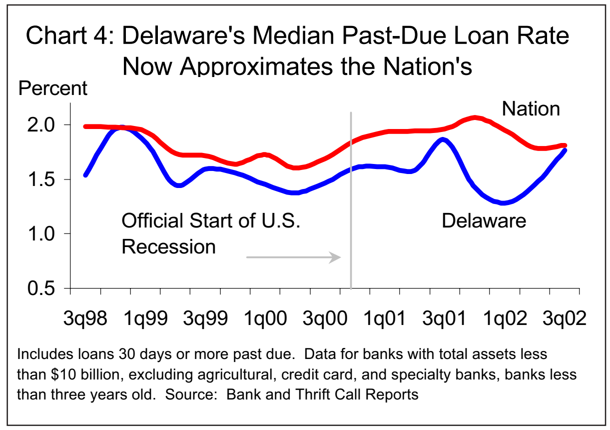
Chart 3: Wilmington's Office Vacancy Rate Has Risen Sharply Since 2000, But May Be Peaking



Source: Torto Wheaton Research.

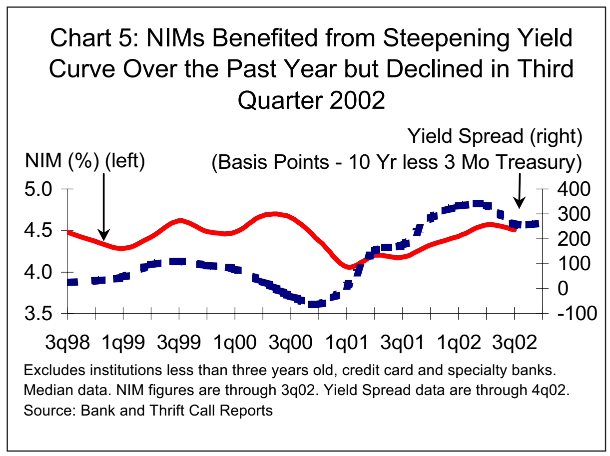
Credit quality weakened among Delaware's insured institutions in third quarter 2002.[1]

- The median past due loan rate increased in 2002 and now approximates the national level (**chart 4**). The increase was driven largely by an increase in multifamily and construction loan delinquency rates.
- While commercial real estate (CRE) credit quality has softened, the median CRE loan concentration level among the state's insured institutions remains modest compared with the nation. The median ratio of CRE loans-to-capital is 146 percent, substantially below the 194 percent national statistic.
- Nevertheless, as credit quality generally lags the business cycle, credit quality likely will remain an issue in coming quarters, even if office market conditions improve and the economic recovery strengthens.



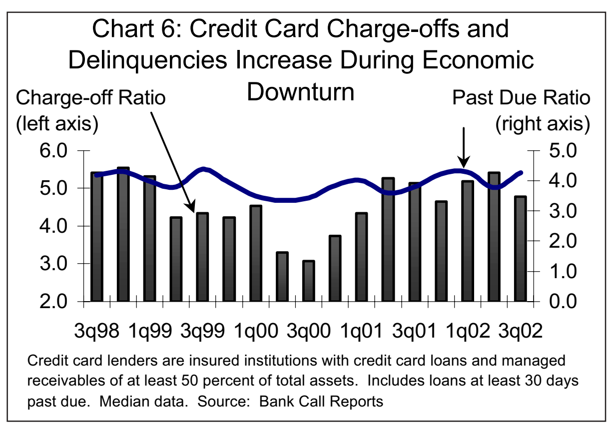
The median net interest margin (NIM) is above the level of a year ago but declined slightly in third quarter 2002.

- Following three consecutive quarters of improvement, the median NIM declined slightly in third quarter 2002 (**chart 5**). The yield curve flattened as long-term interest rates neared historic lows, contributing to a decline in asset yields. Short-term interest rates declined to a lesser extent, contributing to a more modest decline in banks' cost of funds.
- While short-term interest rates subsequently declined in the fourth quarter, funding costs are already near historic lows. Therefore, funding costs may not decline much further, thereby limiting the extent of margin improvement in coming quarters.



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

- Six of the nation's forty-one insured credit card banks, including three of the nation's five largest, are headquartered in Delaware.[2] 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 among credit card banks in Delaware and nationwide during the recent economic downturn, although the national median charge-off rate moderated in third quarter 2002 (**chart 6**). Continued weakness in national employment trends, increasing consumer debt burdens, and rising personal bankruptcy rates suggest further pressure on credit card loan quality.



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

[2] Credit card banks are defined as insured institutions that hold at lease 50 percent of assets in credit card loans and managed receivables.

Delaware at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	37	40	38	36	39
Total Assets (in thousands)	186,088,381	176,889,837	150,095,595	129,987,588	125,875,107
New Institutions (#<3 years)	7	8	8	4	4
New Institutions (#<9 years)	13	14	12	10	11

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	10.94	12.00	12.15	11.21	11.76

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.94%	1.92%	1.43%	2.16%	2.58%
Past-Due and Nonaccrual ≥5%	5	5	4	5	7
ALLL/Total Loans (median %)	1.43%	1.35%	1.18%	1.64%	1.71%
ALLL/Noncurrent Loans (median multiple)	2.08	1.92	2.29	1.89	2.15
Net Loan Losses/Loans (aggregate)	3.80%	2.96%	2.57%	2.92%	3.92%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	2	9	11	5	7
Percent Unprofitable	5.41%	22.50%	28.95%	13.89%	17.95%
Return on Assets (median %)	1.91	1.21	1.22	1.59	1.76
25th Percentile	0.42	0.24	–0.15	0.97	0.96
Net Interest Margin (median %)	4.13%	3.90%	4.44%	4.70%	5.11%
Yield on Earning Assets (median)	6.21%	7.37%	8.21%	7.94%	8.56%
Cost of Funding Earning Assets (median)	2.36%	3.74%	3.98%	3.79%	4.51%
Provisions to Avg. Assets (median)	0.16%	0.25%	0.23%	0.26%	0.41%
Noninterest Income to Avg. Assets (median)	1.75%	1.36%	0.98%	1.92%	5.41%
Overhead to Avg. Assets (median)	3.54%	3.94%	4.07%	4.04%	5.42%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	81.75%	77.61%	80.78%	87.42%	100.52%
Loans to Assets (median %)	59.97%	57.63%	60.36%	64.21%	71.61%
Brokered Deposits (# of Institutions)	19	19	19	18	17
Bro. Deps./Assets (median for above inst.)	8.38%	7.95%	4.91%	5.65%	4.08%
Noncore Funding to Assets (median)	31.50%	22.46%	24.13%	28.65%	34.20%
Core Funding to Assets (median)	36.42%	43.90%	39.08%	38.13%	31.55%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	15	16	16	17	17
National	14	16	15	14	17
State Member	1	1	1	1	0
S&L	0	0	0	0	0
Savings Bank	6	6	5	3	4
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Wilmington-Newark DE-MD PMSA	29	162,939,100	78.38%	87.56%
No MSA	6	22,920,265	16.22%	12.32%
Dover DE	2	229,016	5.41%	0.12%