FDIC State Profile

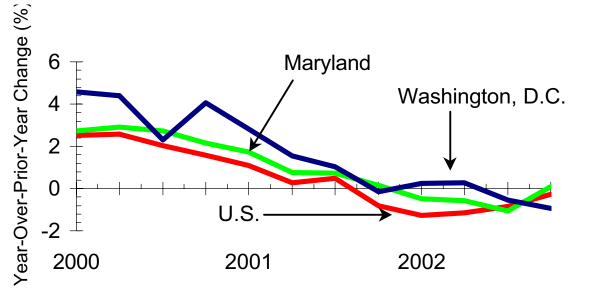
SPRING 2003

Maryland

The Maryland and Washington, D.C. economies are poised for improvement because of expected increases in federal government spending.

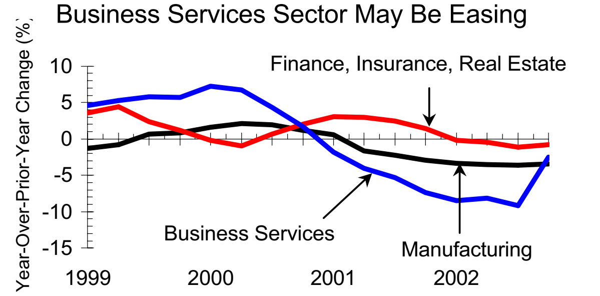
- Consistent with declines in the national economy, job growth in Maryland and the ***Washington D.C.*** metropolitan area[1] trended down between 2000 and 2002 (**chart 1**). However, job losses eased during fourth quarter 2002 as employment growth in Maryland matched the nation. Technology-related job losses continued to occur in Northern Virginia. However, employment trends in the District of Columbia were positive overall.
- Increased federal government spending, particularly in defense-related industries, should bolster the economic recovery in Maryland and Washington, D.C. Many Maryland firms have received new defense contracts in response to heightened military and security readiness. Government jobs represent about 19 percent of Maryland's total employment, compared with 16 percent for the nation.
- The federal government represents a key economic driver in the Washington, D.C. metropolitan area, representing about 22 percent of the total workforce.
- Employment in Maryland's business services sector, which includes high-paying legal, engineering, and computer-related jobs, declined significantly in 2000 and 2001 compared with other sectors (**chart 2**). However, through November 2002, the rate of job loss in this sector has eased. Job losses in computer-related jobs have been concentrated in the ***Baltimore*** and Washington D.C. areas.
- Home price appreciation in Maryland and Washington D.C., which slightly lagged the nation in the 1990s, now exceeds the nation (**chart 3**). Areas around Baltimore and Washington, D.C., have reported the greatest increase in home values, a reflection of low mortgage interest rates and a limited supply of single-family housing. Current rates of home price appreciation may not be sustainable because personal income growth has not kept pace.
- Office vacancy rates have increased in Maryland and Washington, D.C. during 2002. Vacancy rates during fourth quarter 2002 were 15.5 percent in the Baltimore MSA and 13.2 percent in the Washington, D.C. area, somewhat lower than the national average of 16.5 percent. However, office vacancy rates were significantly lower in the downtown districts in both Baltimore and Washington, D.C., reflecting less reliance in these sub-markets on the stressed high-tech and dot.com industries.

Chart 1: After Outperforming the Nation, Employment Trends in Maryland and the Washington, D.C. MSA Now Track the Nation



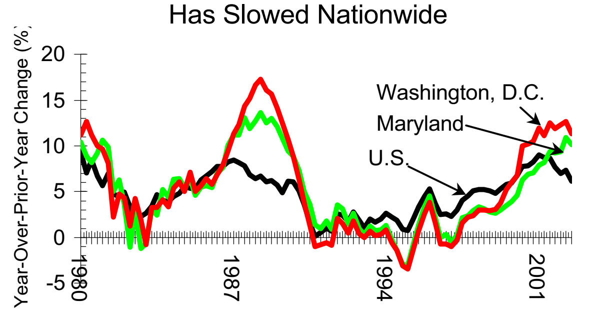
Source: Bureau of Labor Statistics.

Chart 2: Employment Continues to Decline in Key Industry Sectors, Althought Losses in the Business Services Sector May Be Easing



Source: Bureau of Labor Statistics. TCPU is to transportation, communications and public utilities.

Chart 3: Home Prices Continue to Appreciate in Maryland and Washington, D.C.; Appreciation Has Slowed Nationwide



Source: Office of Federal Housing Enterprise Oversight.

[1] The Washington D.C. metropolitan area includes the District of Columbia, and parts of Northern Virginia, West Virginia, and suburban Maryland.

Net interest margins (NIMs) widened among insured institutions headquartered in Maryland and Washington, D.C. during the first half of 2002. However, NIMs leveled-off in the third quarter.

- The median NIM increased during the first half of 2002, following steepening in the Treasury yield curve (**chart 4**). Significant reduction in short-term interest rates helped lower banks' funding costs and more than offset the decline in asset yields that reflected declines 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 interest rates stabilized. Asset yields and funding costs declined in step, leaving the median NIM unchanged at 4.13 percent.
- Despite the decline in short-term rates during fourth quarter 2002, NIM improvement may be limited in coming quarters. A decline in short-term interest rates typically would be followed by reductions in banks' funding costs; however, funding costs already are near historic lows. As a result, deposit rates may not decline much more.

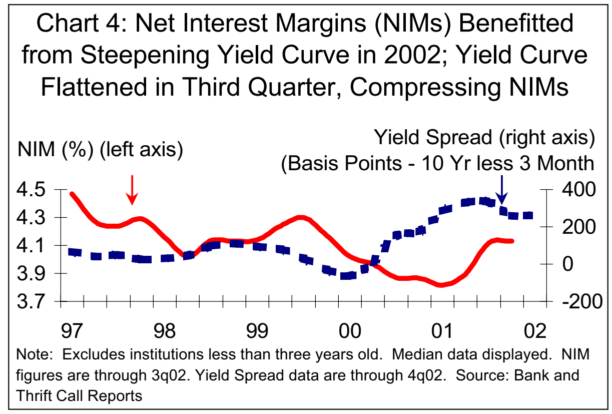


Chart 4: Net Interest Margins (NIMs) Benefitted from Steepening Yield Curve in 2002; Yield Curve Flattened in Third Quarter, Compressing NIMs

Note: Excludes institutions less than three years old. Median data displayed. NIM figures are through 3q02. Yield Spread data are through 4q02. Source: Bank and Thrift Call Reports

Credit quality weakened moderately among insured institutions headquartered in Maryland and Washington, D.C. following the start of the U.S. recession, but improved through third quarter 2002.

- The median past-due loan ratio for insured institutions headquartered in Maryland and the Washington, D.C. MSA increased in 2001, but declined through the first three quarters of 2002. The ratio is now well below the national average (**chart 5**).
- Nevertheless, as the credit cycle generally lags the business cycle, credit quality could remain an issue in coming quarters should the economic recovery stall or slow significantly.

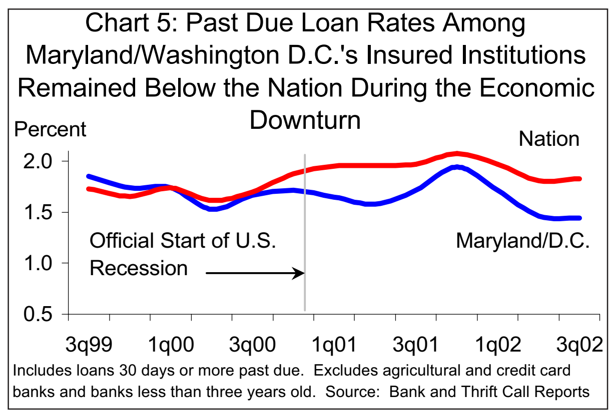


Chart 5: Past Due Loan Rates Among Maryland/Washington D.C.'s Insured Institutions Remained Below the Nation During the Economic Downturn

Includes loans 30 days or more past due. Excludes agricultural and credit card banks and banks less than three years old. Source: Bank and Thrift Call Reports

Although the median concentration of traditionally higher-risk loans among institutions in Maryland and Washington D.C. remains below the nation, concentrations among individual institutions have increased.

- The percent of Maryland/D.C.'s insured institutions that report higher-risk loan concentrations has increased in recent years and approaches levels reached a decade ago. As of September 30, 2002, over 40 percent of the state's insured institutions reported concentrations of traditionally higher-risk loans above 300 percent of capital, compared with 31 percent four years ago (**chart 6**). Although a growing percentage of insured institutions report increased concentrations, the percentage remains below the national percentage of 48 percent.
- Insured institutions headquartered in Maryland and the Washington, D.C. MSA report increasing exposure to construction and development (C&D) loans, consistent with national trends. Should conditions in the area's commercial or residential real estate markets deteriorate, C&D loan performance at some institutions may weaken.

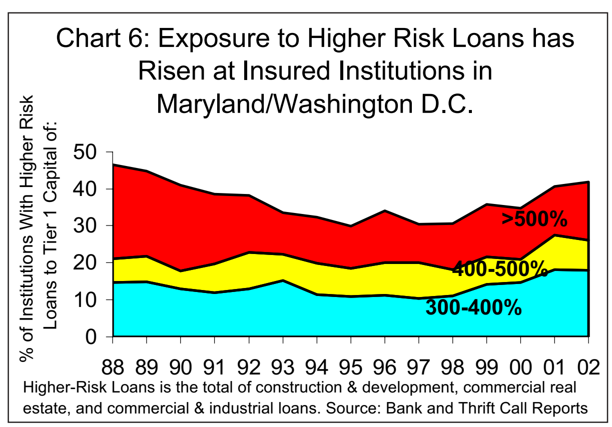


Chart 6: Exposure to Higher Risk Loans has Risen at Insured Institutions in Maryland/Washington D.C.

Higher-Risk Loans is the total of construction & development, commercial real estate, and commercial & industrial loans. Source: Bank and Thrift Call Reports

Maryland/Washington D.C. at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	134	138	146	149	157
Total Assets (in thousands)	60,110,665	55,667,011	55,954,527	54,483,075	49,027,561
New Institutions (# < 3 years)	6	6	9	5	4
New Institutions (# < 9 years)	13	14	14	9	10

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	10.09	10.25	10.24	10.06	10.08

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.41%	1.70%	1.61%	1.83%	2.16%
Past-Due and Nonaccrual $\geq$ 5%	12	13	11	13	17
ALLL/Total Loans (median %)	1.08%	1.13%	1.07%	1.08%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.88	1.91	1.81	1.47	1.05
Net Loan Losses/Loans (aggregate)	0.30%	0.24%	0.25%	0.23%	0.19%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	19	18	17	16	13
Percent Unprofitable	14.18%	13.04%	11.64%	10.74%	8.28%
Return on Assets (median %)	0.73	0.69	0.83	0.87	0.98
25th Percentile	0.47	0.35	0.45	0.44	0.57
Net Interest Margin (median %)	3.95%	3.97%	4.19%	4.11%	4.22%
Yield on Earning Assets (median)	6.45%	7.53%	7.89%	7.54%	7.95%
Cost of Funding Earning Assets (median)	2.63%	3.78%	3.82%	3.62%	3.88%
Provisions to Avg. Assets (median)	0.06%	0.07%	0.08%	0.06%	0.08%
Noninterest Income to Avg. Assets (median)	0.55%	0.51%	0.51%	0.53%	0.53%
Overhead to Avg. Assets (median)	2.74%	2.76%	2.87%	2.75%	2.81%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	80.49%	83.30%	85.65%	82.62%	80.52%
Loans to Assets (median %)	66.27%	69.78%	69.46%	67.02%	65.00%
Brokered Deposits (# of Institutions)	23	25	25	19	18
Bro. Deps./Assets (median for above inst.)	4.25%	2.72%	2.89%	1.93%	2.69%
Noncore Funding to Assets (median)	17.60%	15.88%	15.43%	13.64%	12.54%
Core Funding to Assets (median)	70.37%	71.74%	72.19%	73.66%	74.95%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	43	43	46	47	49
National	15	18	21	22	25
State Member	18	16	14	14	15
S&L	15	17	19	20	22
Savings Bank	41	42	44	44	44
Mutually Insured	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Baltimore MD PMSA	73	41,365,913	54.48%	68.82%
Washington DC-MD-VA-WV PMSA	32	11,111,712	23.88%	18.49%
No MSA	21	5,509,021	15.67%	9.16%
Wilmington-Newark DE-MD PMSA	5	813,326	3.73%	1.35%
Hagerstown MD PMSA	2	1,262,675	1.49%	2.10%
Cumberland MD-WV	1	48,018	0.75%	0.08%