FDIC State Profile

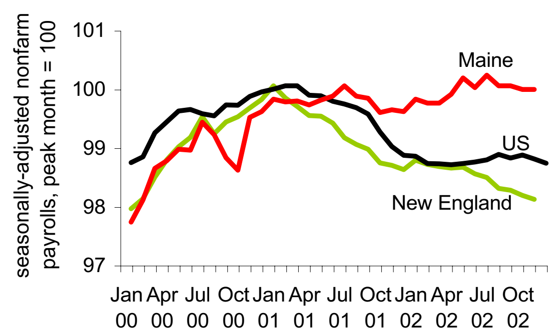
Spring 2003

Maine

The recent national recession largely bypassed Maine's economy, reflecting the state's more limited dependence on information technology (IT) and stock-market wealth effects.

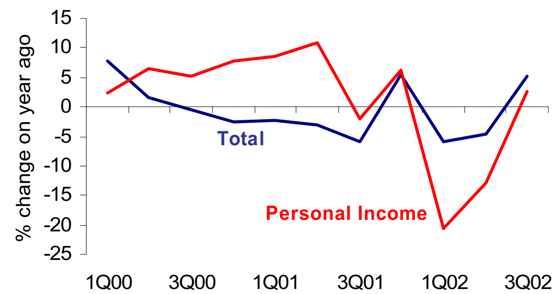
- The simultaneous national IT investment and equity market busts have not seriously impacted Maine, given the state's limited exposure. As a result, Maine employment was little changed during the past year, while its unemployment rate late last year was one of New England's lowest (see **Chart 1**).
- Similarly, Maine has been insulated from the wide swings in personal income associated with the recent boom/bust in IT and equity markets.
- As a result of reduced capital gains income, Maine's personal income tax revenues declined (see **Chart 2**). However, Maine's tax collections have held up better than most New England states.
- Cuts in state jobs, decreases in local aid, and increases in taxes will be used to close the growing $475 million budget gap (over 16 percent of the budget) for fiscal year 2004, but consequences for the state economy are unknown.
- After surging in the first quarter, Maine's single-family home sales eased, but remained above year-ago levels through September. Further, the state's rate of home price appreciation seems to have stabilized recently. Given only modest personal income growth, the sustainability of the pace of recent price gains is unclear (see **Chart 3**).
- Though mostly bypassed by the national recession to date, only housing seems likely to provide strong support for Maine's economic growth over the near term.

Chart 1: Maine Employment Remains Stable



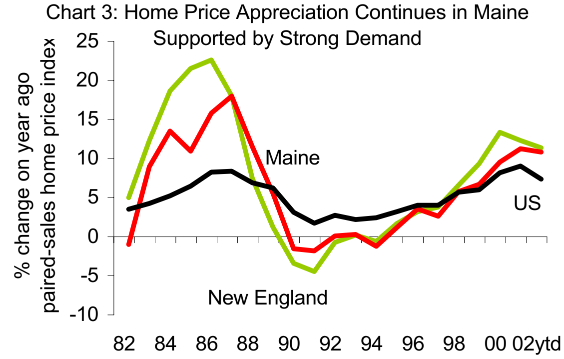
Source: BLS, SIC basis

Chart 2: State Tax Revenues Fell During the Downturn, Led By a Plunge in Personal Income Tax Revenue Collections



Source: Rockefeller Institute

Chart 3: Home Price Appreciation Continues in Maine Supported by Strong Demand

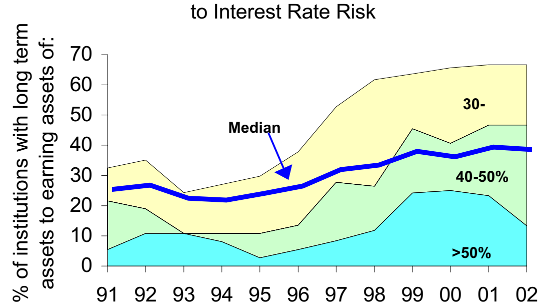


Source: OFHEO

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 7.0 percent for the past 12 months, refinancing activity has been strong as borrowers continue to lock in long-term, fixed-rate loans at lower rates.
- During the past year, asset maturities have lengthened at some institutions without matching extension of liabilities. Median long-term assets represented a high 37 percent of earning assets. Nearly half of Maine's insured institutions had long-term asset concentrations greater than 40 percent as of third quarter 2002 (see **Chart 4**).
- The extension of asset maturities is especially pronounced in the state, as well as New England, reflecting 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. If interest rates rise during an economic recovery, institutions with large concentrations in fixed-rate assets could face margin compression.

Chart 4: Long Term Asset Concentrations Have Risen In Many Institutions in Maine, Suggesting Increased Exposure to Interest Rate Risk

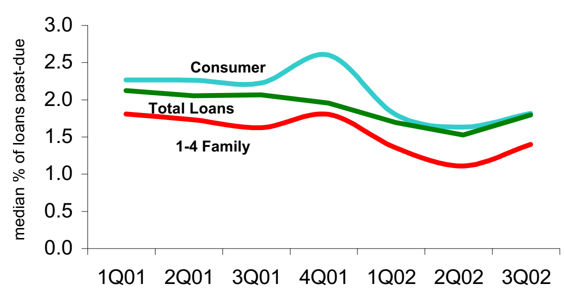


Source: Bank Call Reports, Data Through 3rd Quarter

Overall credit quality deteriorated slightly during the third quarter; some deterioration was observed with consumer and 1–4 family residential real estate credits and could become more pronounced with the struggling economy.

- Following a period of improvement during the first half of 2002, the median past-due ratio increased slightly during the third quarter, led by an increase in noncurrent total loans; 1–4 family residential real estate and consumer delinquencies increased during the quarter but remain lower than year-ago levels (see **Chart 5**).
- Nearly 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, 425 and 335 percent, respectively, and exposure levels continue to increase. Rising exposure levels could contribute to further deterioration in asset quality.
- Residential concentrations also continue to rise at the state's insured institutions. The median residential loan concentration rose to 376 percent of capital in the third quarter of 2002. Any weakening in household financial conditions such as additional layoffs, may have more pronounced effects at these institutions.

Chart 5: Credit Quality Has Deteriorated in Certain Loan Categories in Maine Insured Institutions



Source: Bank and Thrift Call Reports

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

Maine at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	39	39	42	44	45
Total Assets (in thousands)	35,224,554	15,918,282	16,544,519	16,218,148	14,808,384
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	1	2	3	3	4

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	8.61	9.14	9.05	9.32	9.67

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.74%	2.01%	1.68%	1.86%	2.23%
Past-Due and Nonaccrual ≥ 5%	1	1	2	1	4
ALLL/Total Loans (median %)	1.14%	1.17%	1.14%	1.20%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.66	1.24	1.58	1.49	1.43
Net Loan Losses/Loans (aggregate)	0.24%	0.20%	0.20%	0.17%	0.21%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	1	0	0	0	0
Percent Unprofitable	2.56%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	0.90	0.74	0.91	1.00	1.04
25th Percentile	0.63	0.47	0.67	0.66	0.73
Net Interest Margin (median %)	4.13%	3.87%	4.09%	4.03%	4.18%
Yield on Earning Assets (median)	6.73%	7.80%	8.03%	7.76%	8.17%
Cost of Funding Earning Assets (median)	2.68%	3.99%	4.11%	3.73%	4.00%
Provisions to Avg. Assets (median)	0.14%	0.16%	0.11%	0.12%	0.13%
Noninterest Income to Avg. Assets (median)	0.65%	0.60%	0.54%	0.59%	0.54%
Overhead to Avg. Assets (median)	2.98%	3.05%	3.01%	3.07%	3.07%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	89.87%	94.14%	94.63%	89.27%	86.79%
Loans to Assets (median %)	69.17%	71.57%	72.11%	69.90%	71.86%
Brokered Deposits (# of institutions)	11	10	9	9	9
Bro. Deps./Assets (median for above inst.)	3.23%	2.98%	3.08%	2.01%	3.16%
Noncore Funding to Assets (median)	22.21%	21.20%	20.75%	17.36%	14.10%
Core Funding to Assets (median)	67.49%	68.12%	68.22%	71.32%	73.63%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
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	3	4	4
Mutually Insured	15	15	16	17	17

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	29	9,040,153	74.36%	25.66%
Portland ME	4	23,315,617	10.26%	66.19%
Lewiston-Auburn ME	4	1,170,400	10.26%	3.32%
Bangor ME	2	1,698,384	5.13%	4.82%