FDIC State Profile

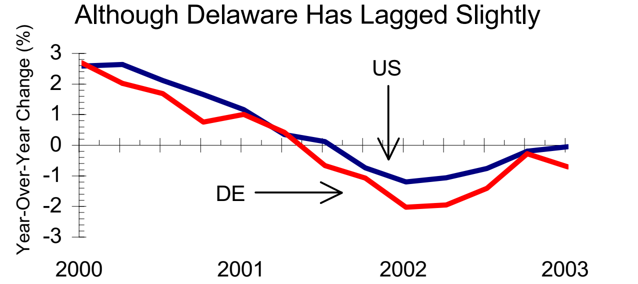
SUMMER 2003

Delaware

The Delaware economy has been clouded by continued layoffs in the manufacturing and financial sectors. Because a large part of Delaware's economy is tied to financial services, the state's economic outlook largely depends on growth in that sector.

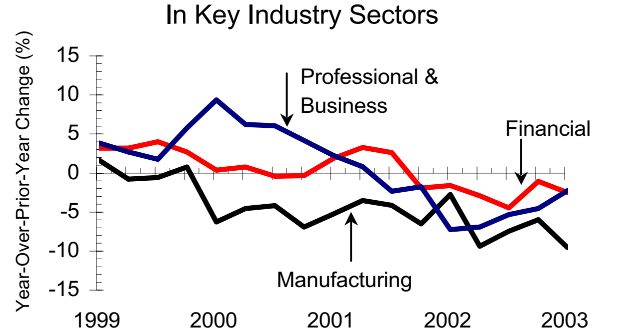
- Although the rate of job loss improved during 2002, Delaware's employment growth rate dipped below the nation in the first quarter 2003, primarily because of continued job cuts in financial and manufacturing sectors (chart 1).
- Delaware's economy is heavily dependent on the financial sector (primarily credit card lenders), which represents approximately 9 percent of jobs and 42 percent of the gross state product. The state's financial employment has declined steadily since fourth quarter 2001, reflecting employment losses in credit card-related businesses. Employment declines also have occurred in the professional and business service sector. This sector includes computer, management, and advertising services and often follows trends in the financial sector (chart 2).
- Employment in the state's manufacturing sector has contracted at a greater rate than the nation over the past four years. In first quarter 2003, manufacturing employment contracted 9.9 percent year-over-year compared with a 3.8 percent decline in manufacturing jobs in the nation. Much of the state's manufacturing losses have been in the chemical and automobile industries. Manufacturing represents about one-sixth of Delaware's gross state product.
- Reduced demand for office space has kept vacancy rates relatively high in the state. Wilmington, the state's largest office market, experienced negative absorption in 2001, reflecting reduced demand for office space related to the economic downturn rather than increased supply (chart 3). New construction in Wilmington has been minimal over the past decade and planned construction of new office space is limited. In contrast to national trends, office vacancy rates were higher in Wilmington's downtown area than its suburbs. Greater business and service job losses in downtown Wilmington than the neighboring suburbs explain the divergence from national trends.
- Consistent with national trends, Delaware's consumer sector shows signs of slight weakening. While personal bankruptcy filings on a per household basis remain lower than the nation, the relative difference between the state and the national rate has narrowed modestly over the past several years.

Chart 1: Negative Employment Growth Has Eased in Both the Nation and Delaware, Although Delaware Has Lagged Slightly



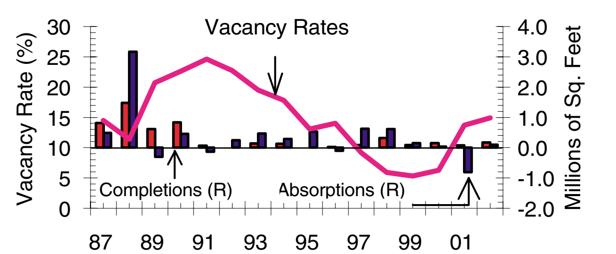
Source: Bureau of Labor Statistics.

Chart 2: Employment Growth Remains Weak In Key Industry Sectors



Source: Bureau of Labor Statistics.

Chart 3: Wilmington's Office Vacancy Rate Has Risen Sharply Since 2000, Although It Has Not Reached the Level of the Early 1990s



Source: Torto Wheaton Research.

Credit quality weakened among Delaware's insured institutions in the second half 2002, but showed signs of stabilizing by year-end.[1]

- The median past-due loan rate increased sharply in 2002 but may have leveled off in the fourth quarter (chart 4). The increase was driven largely by higher delinquency ratios in commercial and industrial (C&I) loan categories.
- 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 139 percent, substantially below the 186 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.

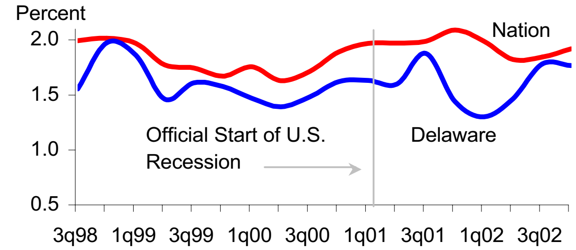
The median net interest margin (NIM) declined slightly in the second half 2002 and may face pressure in current low interest rate environment.

- The median NIM declined slightly in the second half of 2002 as asset yields declined more than funding costs (chart 5). The yield curve modestly 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 decrease in banks' funding costs.
- NIMs could be under pressure in a low interest rate, weak economic environment. While assets reprice at lower interest rates, near record low short-term rates limit the degree of downward movement on deposit costs.

The credit card industry has sustained moderate loan quality deterioration during the past several years.

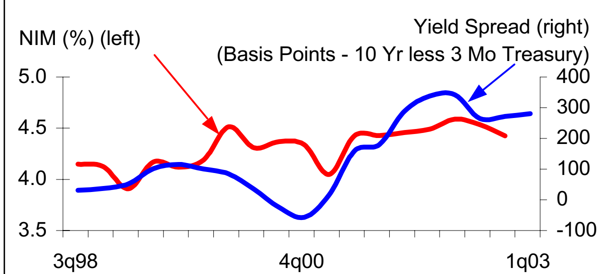
- Five of the nation's thirty-nine insured credit card banks, including two of the nation's five largest, are headquartered in Delaware.[2] These credit card banks hold or manage approximately one-third of total credit card loans held or managed by insured institutions nationally.
- Delinquency and charge-off rates on credit card loans have increased among credit card banks

Chart 4: After Increasing Sharply, Delaware's Past-Due Loan Rate Stabilized By Year-End 2002



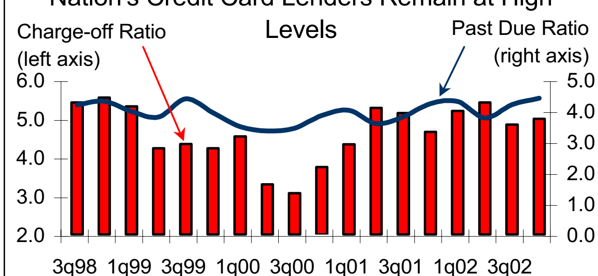
Includes loans 30 days or more past due. Data for banks with total assets less than $10 billion, excluding agricultural, credit card, and specialty banks, banks less than three years old. Source: Bank and Thrift Call Reports.

Chart 5: NIMs Slightly Declined At Year-end 2002 As the Yields Declined More Than Funding Costs



Excludes institutions less than three years old, credit card and specialty banks. Median data. NIM figures are through 4q02. Yield Spread data are through 1q03. Source: Bank and Thrift Call Reports.

Chart 6: Charge-off and Delinquency Ratios For Nation's Credit Card Lenders Remain at High Levels



Credit card lenders are insured institutions with credit card loans and managed receivables of at least 50 percent of total assets. Includes loans at least 30 days past due. Median data. Source: Bank Call Reports.

nationwide (chart 6). Despite strong levels of mortgage refinancings the sluggish national economy, weak employment trends, and potentially another record year of personal bankruptcy filings, suggest that credit card loan quality may continue to be pressured. Moreover, growth of credit card receivables has slowed, which can contribute to weaker loan quality ratios. Not surprisingly, according to Fitch Ratings, delinquency rates on subprime credit cards have also increased from 2001 levels.

[1] Data are as of December 31, 2002, unless otherwise noted.

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

Delaware at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	35	40	38	37	39
Total Assets (in thousands)	193,611,446	188,454,223	164,360,987	142,382,566	136,033,749
New Institutions (# < 3 years)	6	8	8	5	5
New Institutions (# < 9 years)	12	14	12	11	11

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	11.70	10.24	11.96	12.06	11.55

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.81%	1.76%	2.02%	1.86%	2.52%
Past-Due and Nonaccrual >= 5%	6	4	3	5	6
ALLL/Total Loans (median %)	1.51%	1.43%	1.20%	1.25%	1.68%
ALLL/Noncurrent Loans (median multiple)	2.58	2.42	1.34	1.95	2.20
Net Loan Losses/Loans (aggregate)	3.74%	3.10%	2.66%	2.84%	3.81%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	2	9	10	6	5
Percent Unprofitable	5.71%	22.50%	26.32%	16.22%	12.82%
Return on Assets (median %)	1.94	1.15	1.12	1.66	1.59
25th Percentile	0.49	0.21	-0.16	0.80	0.79
Net Interest Margin (median %)	4.19%	3.93%	4.32%	4.56%	5.02%
Yield on Earning Assets (median)	6.27%	7.38%	8.23%	7.83%	8.70%
Cost of Funding Earning Assets (median)	2.29%	3.63%	4.04%	3.49%	4.50%
Provisions to Avg. Assets (median)	0.27%	0.27%	0.26%	0.23%	0.59%
Noninterest Income to Avg. Assets (median)	1.64%	1.33%	1.58%	1.89%	5.66%
Overhead to Avg. Assets (median)	3.50%	3.84%	4.24%	4.00%	5.48%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	84.07%	81.14%	83.00%	89.60%	93.38%
Loans to Assets (median %)	66.66%	56.10%	63.78%	64.05%	71.10%
Brokered Deposits (# of Institutions)	19	20	17	18	18
Bro. Deps./Assets (median for above inst.)	7.82%	7.64%	8.44%	6.93%	4.13%
Noncore Funding to Assets (median)	34.51%	28.31%	23.16%	28.74%	26.90%
Core Funding to Assets (median)	36.05%	38.79%	45.79%	34.82%	39.11%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	15	17	15	17	17
National	12	15	16	15	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	27	168,141,902	77.14%	86.85%
No MSA	6	25,242,059	17.14%	13.04%
Dover DE	2	227,485	5.71%	0.12%