

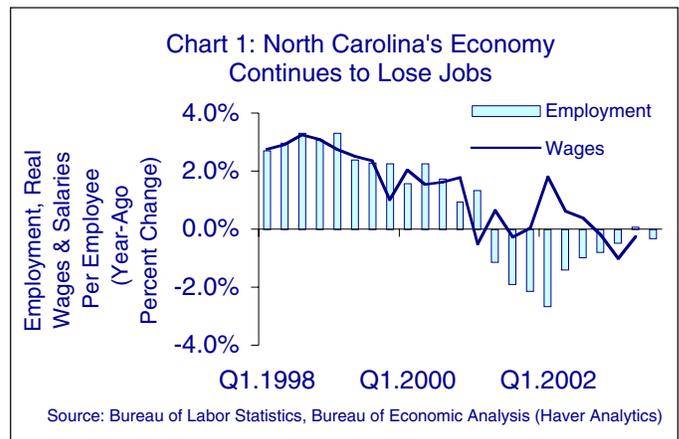
FDIC State Profile

WINTER 2003

North Carolina

Layoffs in the textiles and apparel industry continue to slow the North Carolina recovery.

- The North Carolina economy continued to struggle during the first three quarters of 2003. Job growth has remained elusive, while wages and salaries have failed to keep pace with inflation (see Chart 1). Unemployment rates have remained stubbornly high and above levels seen during the 1990-1991 recession. In fact, weak growth in the size of the labor force may understate the state's jobless rates.
- The performance of the North Carolina economy during the recent recession has been shaped by the industrial mix. Manufacturing remains a greater component of the state's economy than the nation's, representing nearly 20 percent of the workforce, compared to 13 percent nationally. Traditional industries, such as furniture, textiles, and apparel production, continue to play an important role in many local economies.
- The state's high-tech sector also expanded during the 1990s, while banking remains an important component of the economies in the **Charlotte** and **Greensboro** MSAs. Typically, a relatively high level of industrial diversity may insulate local economies during downturns. However, because of the specific mix of industries, this has not been the case for the North Carolina economy. Job losses continued in the state's traditional industries, while employment in the high-tech and financial services sectors also declined during 2002. The **Hickory** MSA is a good example of this trend as employment shifted from the traditional industrial base. For example, furniture manufacturing has shifted into fiber-optic cable manufacturing during the 1990s. However, the telecommunications industry collapse diluted what may have been positive effects of industrial diversification.



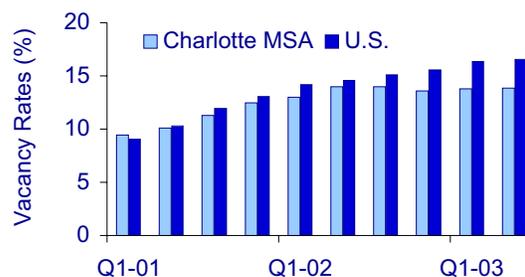
- In late July 2003, the state's economic near-term prospects dimmed with the Pillowtex bankruptcy announcement. Plant closures were expected to result in 5,000 job losses in North Carolina — the largest single layoff in the state's history. VF Jeanswear also announced plans to lay off nearly 900 employees.
- Housing markets may remain weak in the Charlotte, Hickory, Greensboro, and **Raleigh** MSAs, where home price appreciation struggled to keep pace with inflation during second quarter 2003. Current challenges facing the Raleigh metro area may stem from that fact that, early in 2002, builders increased inventories in expectation of a late year recovery. Continued weak economic growth has cooled demand, however, with builders cutting prices to reduce inventories. If mortgage rates continue to rise, affordability may further constrain price growth as demand could be curtailed.

State Profile

Earnings growth among community banks headquartered in North Carolina was solid, but deterioration in asset quality has become apparent.

- Earnings growth continued to be strong among community banks¹ based in North Carolina. Net income grew 13 percent during the 12-month period ending June 30, 2003 to \$91 million, up from \$81 million a year ago. Nevertheless, profitability measures trended lower as both net margins and the return-on-assets ratio fell over the 12-month period. After increasing close to 200 basis points during the previous year, the loan-to-asset ratio remained mostly stable at 72 percent by June 30, 2003. The construction and development and nonresidential real estate loan categories were the most active, but growth in these areas was offset by declines in 1-to-4 family mortgages, commercial loans, and loans to individuals.
- Despite economic weakness, the commercial real estate² (CRE) loan portfolio continued to expand. Construction and development and nonresidential mortgages drove the increase in total CRE loan levels. At period end, CRE comprised roughly 45 percent of total loans, up from roughly 41 percent in the previous year. The average total CRE exposure³ among community banks headquartered in the Raleigh, Charlotte, and Hickory MSAs⁴ was significant. Banks operating in each MSA reported that more than 30 percent of assets were held in CRE loans, increasing the vulnerability of these institutions to consequences resulting from rising or high vacancy rates. Total CRE exposure for the Atlanta Region was roughly 30 percent of assets.
- Banks headquartered in the Charlotte MSA reported higher CRE noncurrent loan levels of 1.60 per-

Chart 2: Office Vacancy Rates in the Charlotte MSA Remain Mostly Stable



Source: Torto Weaton Research

cent at the end of second quarter 2003, up from 0.53 percent a year earlier. CRE charge-offs experienced a slight increase, but remained close to zero. Office vacancy rates in this MSA have remained mostly stable over the past few quarters, but are still high by historical standards (see Chart 2).⁵

- Deterioration in asset quality has been fairly widespread among banks headquartered in North Carolina. Among loan classes comprising at least 5 percent of the total portfolio, increases in noncurrent loan levels were greatest within the real estate oriented loan categories of construction and development, nonresidential mortgages, and 1-to-4 family loans. Overall, charge-offs were modest, but noticeable increases did occur within these same loan types. Nevertheless, capital and reserve levels at these institutions remained solid at 9.14 percent and 1.44 percent, respectively.

¹ Community banks have assets less than \$1 billion and exclude de novos, specialty institutions and thrifts.

² Commercial real estate consists of construction and development, nonresidential, and multifamily loans.

³ Total CRE consist of construction and development, nonresidential real estate, and multifamily loans.

⁴ Only MSAs with 3 or more banks were used.

⁵ Office vacancy data for the Raleigh and Hickory MSAs was unavailable.

State Profile

North Carolina at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	108	110	119	115	119
Total Assets (in thousands)	1,117,819,064	974,964,124	970,258,973	995,097,378	675,986,694
New Institutions (# < 3 years)	9	14	21	26	25
New Institutions (# < 9 years)	39	40	39	38	33
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.22	9.60	9.99	11.36	12.21
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.55%	1.43%	1.53%	1.03%	1.17%
Past-Due and Nonaccrual > = 5%	9	6	8	3	6
ALLL/Total Loans (median %)	1.30%	1.32%	1.31%	1.34%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.97	1.96	1.84	2.46	2.12
Net Loan Losses/Loans (aggregate)	0.51%	0.75%	0.62%	0.42%	0.46%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	12	13	23	20	21
Percent Unprofitable	11.11%	11.82%	19.33%	17.39%	17.65%
Return on Assets (median %)	0.83	0.84	0.61	0.77	0.83
25th Percentile	0.57	0.54	0.14	0.34	0.42
Net Interest Margin (median %)	3.68%	3.82%	3.65%	4.13%	3.98%
Yield on Earning Assets (median)	5.79%	6.61%	8.05%	8.13%	7.67%
Cost of Funding Earning Assets (median)	2.09%	2.78%	4.39%	4.08%	3.74%
Provisions to Avg. Assets (median)	0.21%	0.23%	0.18%	0.17%	0.11%
Noninterest Income to Avg. Assets (median)	0.92%	0.72%	0.63%	0.56%	0.56%
Overhead to Avg. Assets (median)	2.91%	2.86%	3.03%	3.08%	3.15%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	89.34%	89.08%	87.13%	89.11%	84.61%
Loans to Assets (median %)	72.30%	72.51%	70.49%	70.95%	67.65%
Brokered Deposits (# of institutions)	38	30	23	16	13
Bro. Deps./Assets (median for above inst.)	4.59%	6.31%	2.36%	2.78%	0.96%
Noncore Funding to Assets (median)	22.36%	23.65%	21.78%	19.84%	16.27%
Core Funding to Assets (median)	62.75%	62.87%	63.61%	64.87%	66.95%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	58	57	62	60	56
National	6	7	8	9	10
State Member	8	8	7	2	4
S&L	7	8	8	10	12
Savings Bank	9	9	9	9	7
Mutually Insured	20	21	25	25	30
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	37	10,828,594	34.26%	0.97%	
Greensboro—Winston-Salem—High Point NC	19	73,373,517	17.59%	6.56%	
Charlotte-Gastonia-Rock Hill NC-SC	17	994,315,485	15.74%	88.95%	
Raleigh-Durham-Chapel Hill NC	13	15,006,378	12.04%	1.34%	
Hickory-Morganton NC	6	2,023,808	5.56%	0.18%	
Wilmington NC	4	1,003,588	3.70%	0.09%	
Rocky Mount NC	4	19,204,646	3.70%	1.72%	
Asheville NC	4	798,812	3.70%	0.07%	
Norfolk-Virginia Bch-Newport News VA-NC	1	132,867	0.93%	0.01%	
Greenville NC	1	23,190	0.93%	0.00%	
Goldsboro NC	1	925,760	0.93%	0.08%	
Fayetteville NC	1	182,419	0.93%	0.02%	