FDIC State Profile

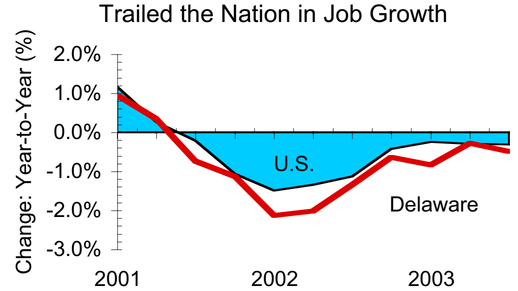
WINTER 2003

Delaware

Delaware's employment picture continues to lag the nation. Job cuts in manufacturing, financial, and business service industries have not been fully offset by gains in education and health care.

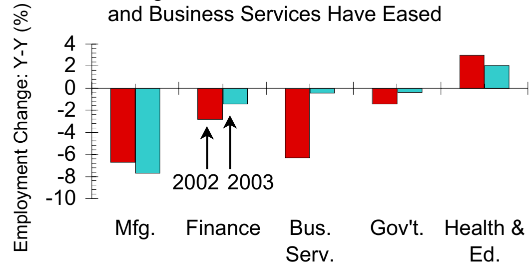
- Since the start of the recession, Delaware's employment conditions, although improved since 2002, have failed to match the nation (see Chart 1).
- Except for manufacturing, the rate of job losses has significantly eased across most of the state's major industry sectors (see Chart 2).
- The rate of job losses in Delaware's financial sector (primarily credit card lenders), which represents approximately 9 percent of jobs and 42 percent of the gross state product, eased through the third quarter 2003. Job losses occurred in the credit card industry over the past two years as low mortgage rates stimulated a surge in refinancing and home equity loans, leading consumers to substitute mortgage credit for credit card debt. Rising mortgage rates could lead to an easing of that trend.
- The state's manufacturing sector has contracted at a greater rate than the nation over the past four years. Much of the state's manufacturing job losses have been in the auto manufacturers. Manufacturing represents less than one-sixth of Delaware's gross state product.
- Employment cuts in the state's professional and business service sectors also eased in the first three quarters of 2003. This sector includes computer, management, accounting, and advertising services, industries that are reliant on financial sector activity.
- Employment gains in Delaware's health and education sectors reflect broad demographic trends of an aging population and an increase in school-age children, similar to national trends.
- Since 2001, ***Wilmington,*** the state's largest office market, has experienced negative absorption in its downtown and suburban markets, reflecting softer demand for office space because of decreased office employment. Office vacancy rates increased to 17.5 percent in third quarter 2003 (see Chart 3), the highest since the mid 1990s, and about one-half point higher than the nation's average of 16.9 percent. Office rents have been relatively stable over the last three quarters, although third quarter 2003 rents were about 5 percent down from one year ago.

Chart 1: Since the Recession, Delaware Has Trailed the Nation in Job Growth



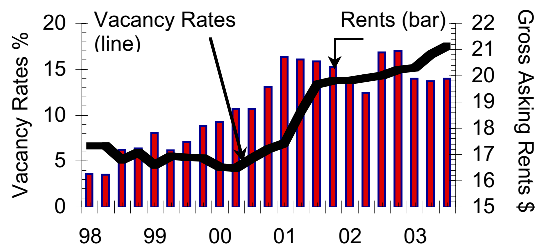
Source: Bureau of Labor Statistics

Chart 2: Employment Losses Remain Greatest in Manufacturing. Losses in Government and Financial and Business Services Have Eased



Source: Bureau of Labor Statistics. 2003 represents the first nine months of 2003 compared with the first nine months of 2002.

Chart 3: Wilmington's Vacancy Rates Continue to Rise, While Rents Have Been Stable



Source: Torto Wheaton Research

Despite the national recession, credit quality among Delaware's insured institutions did not significantly weaken during this economic downturn.[1]

- The past-due loan rate increased in 2002, but moderated in first half 2003 (see Chart 4). Past-due rates on consumer, residential, and commercial and industrial (C&I) loans declined, while the past-due rate on commercial real estate (CRE) loans increased slightly from a year ago.
- Despite rising office vacancy rates, commercial real estate loan quality has only slightly weakened and CRE loan concentration levels remained lower than the nation. Lower interest rates have enabled borrowers to refinance at advantageous interest rates; however, some CRE borrowers could face stress should interest rates rise. In addition, cash flow from office properties could decline as contracts for sublet space expire and new leases reflect lower rents.

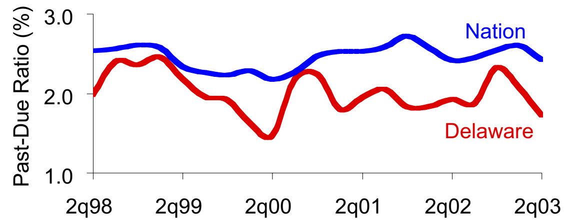
Net interest margins (NIM) declined slightly in first half 2003 as a flatter yield curve pressured asset yields. Steepening in the yield curve in the third quarter 2003 could aid bank margins; however, some institutions may have exposure to rising interest rates.

- The NIM reported by the state's insured institutions contracted through the first half 2003 (see Chart 5). A 45-year low in long-term interest rates reached in June 2003 contributed to a decline in asset yields, while deposit costs neared floors.
- During the third quarter 2003, the yield curve steepened. While a steeper yield curve is traditionally positive for bank NIMs, insured institutions with high levels of long-term assets may not immediately benefit from higher long-term interest rates, thereby heightening the importance of proper interest rate risk management.

The credit card industry has experienced moderate loan quality weakening in the economic downturn.

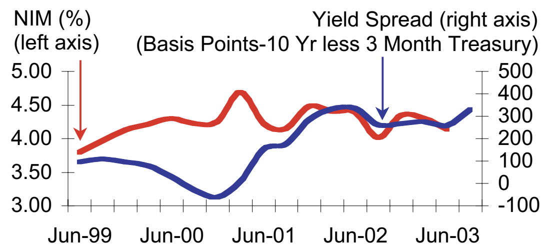
- Five of the nation's 36 insured credit card banks, including three of the nation's six largest, are headquartered in Delaware.[2] These banks represent about one-third of total credit card loans held or managed by insured institutions nationally.
- Card delinquency and charge-off rates among credit card banks in Delaware and nationwide increased through the first half 2003 (see Chart 6). Higher

Chart 4: Past-Due Loan Rates at Delaware's Insured Institutions Improved during First Half 2003



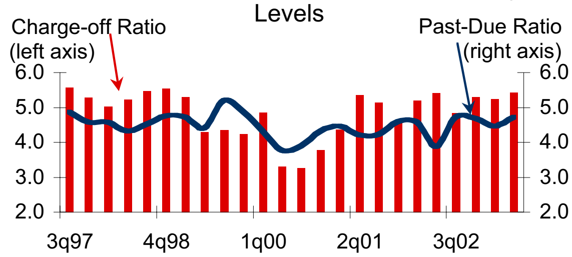
Includes loans 30 days or more past-due. Data for banks with total assets less than $10 billion, excluding agricultural, credit card, and specialty banks, and banks less than three years old. Source: Bank and Thrift Call Reports.

Chart 5: NIMs Contracted through Second Quarter 2003, Prior to Steepening Yield Curve



Note: Data for institutions with total assets less than $10 billion excluding banks less than three years old. NIM figures through 2q03, Yield Spread data through September 03. Source: Bank and Thrift Call Reports, Federal Reserve Board.

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 all loans at least 30 days past-due. Median data. Source: Bank Call Reports.

personal bankruptcy filings, increased household debt burdens, and softening cash-out refinancings may challenge credit card quality in the near term, until sustainable job growth is achieved. Nationally, subprime card credit quality continued to deteriorate. According to a December 2003 Fitch Ratings Report, the charge-off rate on an index of subprime credit cards climbed to 16.80 percent.

[1] Unless stated, banking discussion excludes banks with assets over $10 billion, less than three years old and specialty lenders.

[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	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	35	39	40	38	39
Total Assets (in thousands)	204,389,088	173,668,149	170,533,164	140,937,065	127,773,454
New Institutions (# < 3 years)	5	7	7	6	5
New Institutions (# < 9 years)	11	14	13	12	12

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	11.27	13.82	11.60	12.06	11.73

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.52%	1.48%	2.22%	1.55%	2.08%
Past-Due and Nonaccrual > = 5%	5	5	6	3	6
ALLL/Total Loans (median %)	1.45%	1.58%	1.25%	1.24%	1.59%
ALLL/Noncurrent Loans (median multiple)	2.21	2.34	1.66	2.25	1.87
Net Loan Losses/Loans (aggregate)	3.39%	3.87%	2.85%	2.63%	2.87%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	1	3	7	8	4
Percent Unprofitable	2.86%	7.69%	17.50%	21.05%	10.26%
Return on Assets (median %)	1.93	1.73	1.44	1.30	1.79
25th Percentile	0.69	0.44	0.52	0.11	0.83
Net Interest Margin (median %)	3.98%	3.92%	4.18%	4.59%	4.48%
Yield on Earning Assets (median)	5.79%	6.03%	7.72%	8.24%	7.91%
Cost of Funding Earning Assets (median)	1.69%	2.35%	3.94%	3.89%	3.87%
Provisions to Avg. Assets (median)	0.16%	0.14%	0.31%	0.25%	0.15%
Noninterest Income to Avg. Assets (median)	1.76%	1.44%	1.42%	1.44%	1.86%
Overhead to Avg. Assets (median)	3.47%	3.65%	3.92%	4.08%	4.06%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	84.52%	82.08%	83.34%	87.69%	83.26%
Loans to Assets (median %)	62.51%	52.09%	59.81%	64.67%	60.59%
Brokered Deposits (# of institutions)	18	19	17	18	18
Bro. Deps./Assets (median for above inst.)	7.39%	8.32%	7.32%	7.54%	3.24%
Noncore Funding to Assets (median)	35.71%	35.45%	22.87%	25.31%	25.35%
Core Funding to Assets (median)	35.65%	37.64%	45.61%	35.10%	38.64%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	16	16	16	15	17
National	11	15	17	17	16
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	6	6	5	4	4
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Wilmington-Newark DE-MD PMSA	27	183,598,643	77.14%	89.83%
No MSA	6	20,548,285	17.14%	10.05%
Dover DE	2	242,160	5.71%	0.12%