

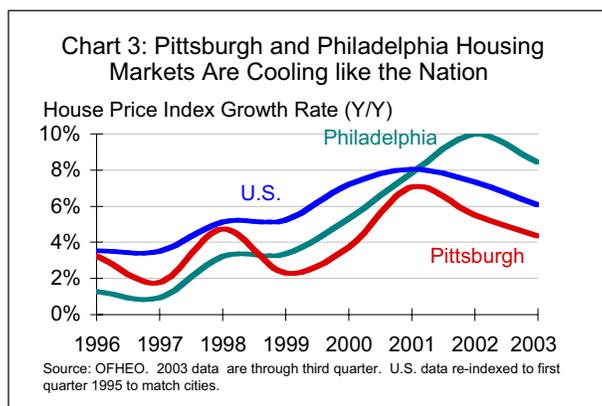
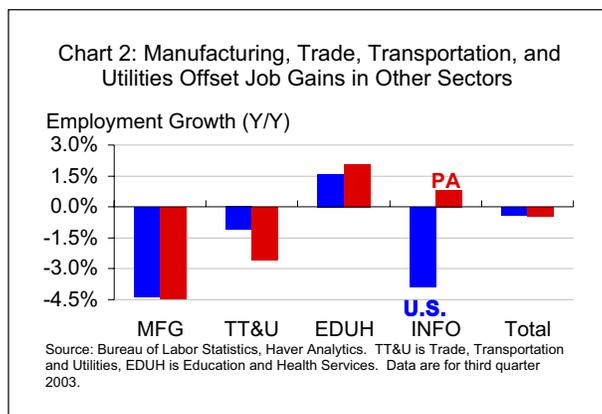
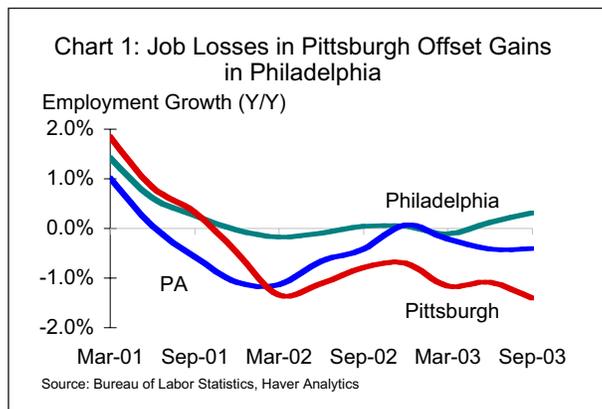
FDIC State Profile

WINTER 2003

Pennsylvania

Job growth rates in Pennsylvania's two biggest cities are diverging, and the net effect is a state growth rate that is slightly negative. The slow recovery in manufacturing, especially in the western part of the state, is driving the state's net job losses.

- Pennsylvania's aggregate rate of job growth was slightly negative through third quarter 2003, but that belies job growth in the **Philadelphia, Harrisburg, Lancaster, and Altoona** metropolitan areas (MSAs). Offsetting the gains in those places are continuing losses in **Pittsburgh** and elsewhere in the western part of the state (see Chart 1). In fact, four of the state's five weakest cities in terms of job growth are in the western half of the state, including **Johnstown, Erie, and Sharon**, areas that have a higher concentration of manufacturing jobs.
- Pennsylvania's manufacturing sector continues its slow recovery from deep recession (see Chart 2). In third quarter 2003, the sector shed 34,000 jobs, primarily in the western cities. The state's trade, transportation, and utilities sectors, industries closely linked to manufacturing, shed another 28,000 jobs. Other sectors are beginning to show strength, however, including the state's education and health services, information, and government sectors.
- With the exception of the Philadelphia and Pittsburgh MSAs, which straddle the national rate, rates of home price appreciation among most of the state's other metropolitan areas have trailed the nation since the beginning of the recession in first quarter 2001 (see Chart 3). As a result, the amount of equity available to homeowners in those areas has not grown as rapidly as other parts of the nation and may, in part, limit the role of the consumer in the state's economic recovery.
- Like many other cities, Pittsburgh is suffering from a budget crisis. The 2004 budget has a \$42 million shortfall, and discussions are under way in the state legislature about establishing a financial oversight board. The city's municipal bonds were recently lowered to "junk" status by both Standard and Poor's and Fitch. Expectations are that a new taxing authority and possibly some assistance from the state legislature will be approved, which should alleviate some budget pressure.



State Profile

The net interest margin (NIM) reported by Pennsylvania's insured institutions contracted in the first half 2003.

- NIMs among the state's insured institutions continued to contract in the first half 2003 (see Chart 4). Historically low long-term interest rates have motivated borrowers to refinance debt in record numbers, while bank deposit costs have approached floors.
- Long-term interest rates increased during the second half 2003, which contributed to steepening of the yield curve. While a steeper yield curve is traditionally positive for bank NIMs, the benefits tend to lag yield curve changes.
- The state's median ratio of long-term assets-to-average earning assets traditionally is above the nation's (see Chart 5). A large proportion of residential mortgage lenders (34 percent of the state's insured institutions specialize in mortgage lending) and the popularity of long-term mortgage products in metropolitan areas of the Northeast contributed to the higher ratio.¹ Insured institutions with high concentrations of long-term assets could face some margin compression, asset depreciation, and extension in asset duration should interest rates rise, thereby heightening the importance of proper interest rate risk management practices.

Credit quality among insured institutions headquartered in Pennsylvania has remained favorable during this economic downturn.

- After slightly increasing, the past-due loan ratio among Pennsylvania's insured institutions held steady in the first half 2003 compared with the prior year. Loan delinquency rates remain lower than the nation's across loan categories, except for CRE loans (see Chart 6).
- CRE concentration levels among the state's insured institutions have moderately increased. Between the second quarter 1998 and 2003, the percentage of the state's insured institutions with CRE loans to Tier 1 capital greater than 300 percent increased from 7.4 percent to 16 percent.
- CRE conditions worsened slightly in the state's two largest office markets in third quarter 2003. The office vacancy rate in the Philadelphia MSA jumped one percent to 16.9, equivalent to the national average. Philadelphia was characterized by increasing completions as well as negative net absorption. The vacancy rate in the Pittsburgh

Chart 4: NIM Sharply Declined in First Half 2003, Prior to Steepening of the Yield Curve

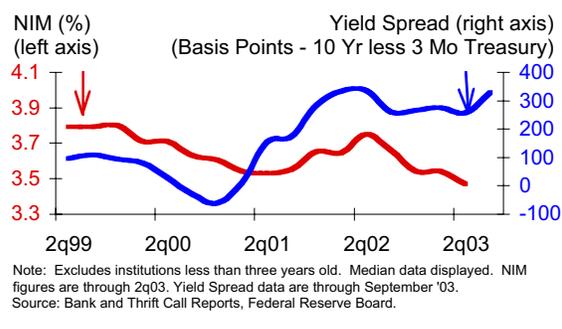


Chart 5: Long-Term Asset Concentrations Traditionally Are Higher in Pennsylvania

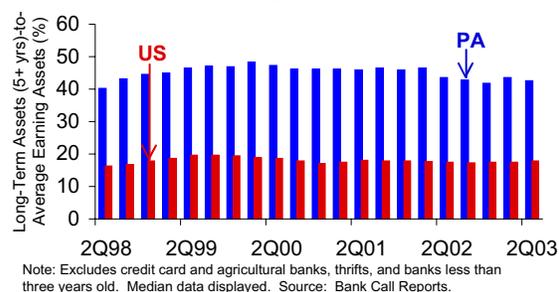
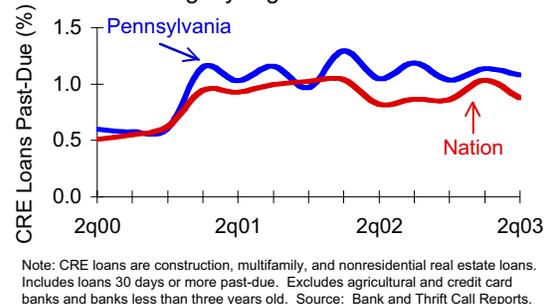


Chart 6: Pennsylvania's CRE Loan Delinquency Rate is Slightly Higher than the Nation's



MSA increased slightly to 18.3 percent. Nevertheless, the state's CRE loan delinquency rate remains well below levels of a decade ago. Lower interest rates have enabled CRE borrowers to refinance at advantageous interest rates; however, financing costs may increase as rates rise. In addition, as office leases booked during the height of the economic expansion expire, new leases may be at lower rents.

¹ "Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage backed securities.

State Profile

Pennsylvania at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	276	288	298	310	310
Total Assets (in thousands)	297,425,519	274,395,831	258,358,177	274,295,338	261,685,265
New Institutions (# < 3 years)	10	14	19	16	13
New Institutions (# < 9 years)	28	30	27	26	22
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.94	8.97	9.21	9.41	9.40
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.51%	1.53%	1.61%	1.41%	1.61%
Past-Due and Nonaccrual > = 5%	25	21	21	21	20
ALLL/Total Loans (median %)	1.14%	1.10%	1.05%	1.05%	1.06%
ALLL/Noncurrent Loans (median multiple)	1.43	1.38	1.43	1.75	1.71
Net Loan Losses/Loans (aggregate)	0.32%	0.41%	0.40%	0.22%	0.24%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	16	25	26	21	19
Percent Unprofitable	5.80%	8.68%	8.72%	6.77%	6.13%
Return on Assets (median %)	0.93	0.97	0.85	0.91	0.98
25th Percentile	0.64	0.59	0.56	0.63	0.70
Net Interest Margin (median %)	3.41%	3.63%	3.51%	3.71%	3.74%
Yield on Earning Assets (median)	5.71%	6.58%	7.50%	7.59%	7.37%
Cost of Funding Earning Assets (median)	2.32%	2.97%	4.03%	3.92%	3.64%
Provisions to Avg. Assets (median)	0.08%	0.10%	0.08%	0.09%	0.09%
Noninterest Income to Avg. Assets (median)	0.48%	0.46%	0.46%	0.43%	0.41%
Overhead to Avg. Assets (median)	2.48%	2.53%	2.56%	2.55%	2.56%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	75.07%	78.41%	80.47%	83.45%	77.32%
Loans to Assets (median %)	58.22%	62.62%	63.27%	65.60%	64.09%
Brokered Deposits (# of institutions)	41	34	28	31	21
Bro. Deps./Assets (median for above inst.)	1.22%	2.09%	1.64%	2.57%	1.13%
Noncore Funding to Assets (median)	18.00%	17.33%	16.68%	17.00%	13.65%
Core Funding to Assets (median)	70.35%	70.74%	70.70%	71.31%	73.98%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	63	67	64	66	64
National	80	80	87	94	97
State Member	29	29	31	32	33
S&L	31	34	35	36	38
Savings Bank	23	27	31	32	30
Mutually Insured	50	51	50	50	48
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Philadelphia PA-NJ PMSA	76	57,561,400	27.54%	19.35%	
No MSA	65	30,021,856	23.55%	10.09%	
Pittsburgh PA	44	121,282,176	15.94%	40.78%	
Harrisburg-Lebanon-Carlisle PA	19	11,625,794	6.88%	3.91%	
Scranton—Wilkes-Barre—Hazleton PA	15	5,423,947	5.43%	1.82%	
Allentown-Bethlehem-Easton PA-NJ	15	6,094,665	5.43%	2.05%	
Lancaster PA	9	9,230,814	3.26%	3.10%	
Johnstown PA	8	2,293,511	2.90%	0.77%	
Reading City PA	6	45,407,257	2.17%	15.27%	
York PA	4	1,115,459	1.45%	0.38%	
Williamsport PA	4	1,107,752	1.45%	0.37%	
Altoona PA	4	604,059	1.45%	0.20%	
Sharon PA	3	4,809,125	1.09%	1.62%	
Erie PA	3	627,915	1.09%	0.21%	
State College PA	1	219,789	0.36%	0.07%	