FDIC State Profile

FALL 2003

North Carolina

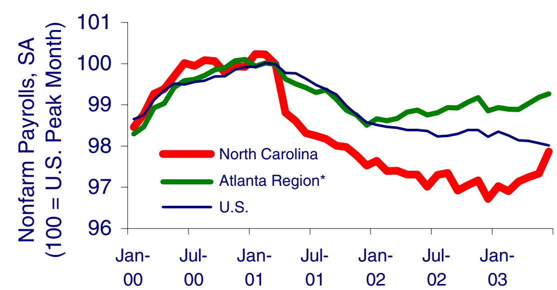
North Carolina has struggled to emerge from the recent recession; however, layoffs in the textiles and apparel industry may slow the recovery.

- The North Carolina economy improved modestly during the first half of 2003. After nearly two years of declines, payroll employment began edging upward. Unemployment rates, however, have remained stubbornly high and above levels during the 1990–1991 recession. In fact, recent declines 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, and employment in the high-tech and financial services sectors also declined during 2002 (see Chart 1). The ***Hickory*** MSA is a good example of this trend as employment shifted from the traditional industrial base, for example, furniture manufacturing, 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 may have dimmed with the Pillowtex bankruptcy announcement. Plant closures are 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. Although eroding for decades, the textiles and apparel industry remains a critical component of many local economies. The impending job losses could derail any recovery as the effects spill into other segments of the economy.

Chart 1: Employment Conditions in North Carolina Remain Weak



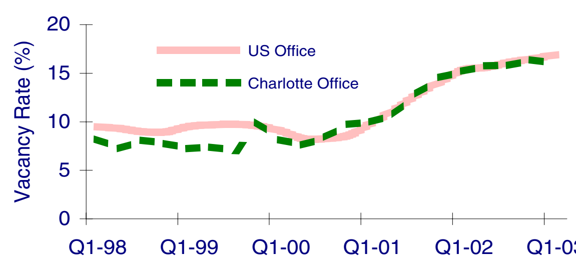
*Atlanta Region includes AL, GA, FL, NC, SC, VA, WV.
Source: Bureau of Labor Statistics/Haver Analytics

- Housing markets may be weakening in the Charlotte, Hickory, ***Goldsboro,*** Greensboro, and ***Raleigh*** MSAs, where home price appreciation failed to keep pace with inflation during first 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.

Earnings growth among community banks headquartered in North Carolina was solid, but asset quality concerns are mounting.

- Earnings growth continued to be strong among community banks[1] based in North Carolina. Net income grew 19 percent during the 12-month period ending March 31, 2003, to $45 million, up from $38 million a year ago. Lower net interest income was offset by growth in noninterest revenue, which contributed to the increase. Nevertheless, profitability measures were mixed as margins continued to compress while the return-on-assets ratio trended higher, a development that occurred regionwide. After slowing in March of 2002, loan growth accelerated during the year ending March 31, 2003. Loans grew 15.3 percent year-over-year on a merger-adjusted basis. Subsequently, the loan-to-asset ratio increased 64 basis points to 72 percent, despite sluggish economic conditions. The majority of the increase occurred in the nonresidential real estate loan segment. Among community banks headquartered in North Carolina at March 31, 2003, nonresidential loans comprised 21 percent of assets, up from 19 percent one year earlier.
- Loan portfolio earnings were augmented by a shift into higher-yielding commercial real estate (CRE) loans. While the increased exposure has bolstered profitability, community banks headquartered in the state also may have heightened the level of balance sheet risk. The average total CRE exposure[2] among community banks headquartered in the Raleigh, Charlotte, and Hickory MSAs[3] 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 rising or high vacancy rates. Total CRE exposure for the Region was just under 30 percent of assets. Banks headquartered in the Charlotte MSA have started to report asset quality problems. Charge-offs and noncurrent loan levels surged by the end of first quarter 2003 as office vacancy rates in this MSA have risen (see Chart 2). Exposure to CRE loans in the Charlotte MSA was 33 percent of assets as of year-end March 31, 2003, up from 28 percent a year earlier. Banks based in the Raleigh MSA reported a CRE-to-total assets ratio of 44 percent and have not reported any deterioration in the CRE loan portfolio. In this case, substantial loan growth may be masking the potential for asset quality weakening. CRE loan exposure among banks based in the Raleigh MSA increased 600 basis points during the year ended March 31, 2003.
- 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 construction and development, commercial and industrial (C&I), and loans to individuals segments. Overall, charge-offs were modest, but noticeable increases did occur within these same loan types.

Chart 2: Office Vacancies in Charlotte Have Tracked the National Increase



Source: Torto Wheaton Research

[1] Community banks have assets less than $1 billion and exclude denovos, specialty institutions and thrifts.

[2] Total CRE consist of construction and development, nonresidential real estate, and multifamily loans.

[3] Only MSAs with 3 or more banks were used.

North Carolina at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	108	113	118	117	120
Total Assets (in thousands)	1,022,307,227	946,864,828	961,761,966	964,120,251	662,616,853
New Institutions (# < 3 years)	12	15	22	24	24
New Institutions (# < 9 years)	38	41	38	35	32

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.40	9.45	10.21	11.69	11.90

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.71%	1.47%	1.36%	1.20%	1.23%
Past-Due and Nonaccrual >= 5%	5	8	7	5	9
ALLL/Total Loans (median %)	1.34%	1.31%	1.33%	1.29%	1.28%
ALLL/Noncurrent Loans (median multiple)	1.57	1.93	2.32	2.33	2.25
Net Loan Losses/Loans (aggregate)	0.57%	0.71%	0.60%	0.40%	0.48%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	13	12	21	18	19
Percent Unprofitable	12.04%	10.62%	17.80%	15.38%	15.83%
Return on Assets (median %)	0.86	0.80	0.71	0.83	0.80
25th Percentile	0.59	0.45	0.24	0.38	0.49
Net Interest Margin (median %)	3.75%	3.71%	3.71%	4.11%	3.96%
Yield on Earning Assets (median)	5.88%	6.62%	8.25%	8.10%	7.63%
Cost of Funding Earning Assets (median)	2.17%	2.90%	4.51%	4.00%	3.73%
Provisions to Avg. Assets (median)	0.20%	0.22%	0.15%	0.14%	0.09%
Noninterest Income to Avg. Assets (median)	0.86%	0.74%	0.58%	0.57%	0.55%
Overhead to Avg. Assets (median)	2.91%	2.90%	3.05%	3.02%	3.11%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	88.64%	87.86%	88.06%	88.69%	83.11%
Loans to Assets (median %)	71.70%	71.27%	71.16%	70.33%	66.47%
Brokered Deposits (# of institutions)	37	28	23	16	10
Bro. Deps./Assets (median for above inst.)	4.86%	4.29%	2.20%	2.03%	0.67%
Noncore Funding to Assets (median)	22.53%	23.10%	21.11%	18.98%	16.01%
Core Funding to Assets (median)	63.54%	62.78%	63.74%	65.82%	67.13%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	56	58	63	59	54
National	6	8	9	10	10
State Member	8	8	4	2	5
S&L	8	8	9	11	12
Savings Bank	9	9	8	8	8
Mutually Insured	21	22	25	27	31

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	37	10,494,649	34.26%	1.03%
Greensboro--Winston-Salem--High Point NC	20	69,756,211	18.52%	6.82%
Charlotte-Gastonia-Rock Hill NC-SC	16	904,573,764	14.81%	88.48%
Raleigh-Durham-Chapel Hill NC	13	14,730,097	12.04%	1.44%
Hickory-Morganton NC	6	1,979,408	5.56%	0.19%
Wilmington NC	4	950,322	3.70%	0.09%
Rocky Mount NC	4	17,819,125	3.70%	1.74%
Asheville NC	4	771,707	3.70%	0.08%
Norfolk-Virginia Bch-Newport News VA-NC	1	120,719	0.93%	0.01%
Greenville NC	1	20,955	0.93%	0.00%
Goldsboro NC	1	920,577	0.93%	0.09%
Fayetteville NC	1	169,693	0.93%	0.02%