FDIC State Profile

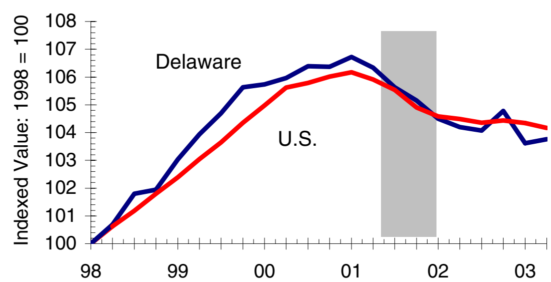
FALL 2003

Delaware

The Delaware economy has been clouded by continued layoffs in the state's manufacturing and financial sectors. Delaware's economic outlook largely depends on growth in financial services, which accounts for over 40 percent of the state's economic output.

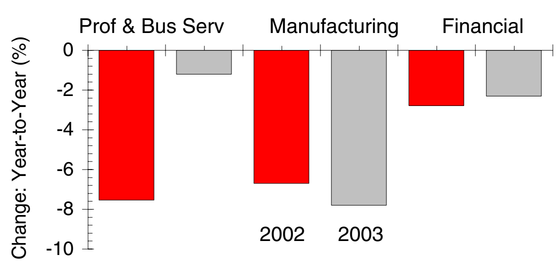
- Prior to the onset of the 2001 recession, employment growth in Delaware exceeded the nation; however, since 2001 the state's employment trends have slightly lagged the nation (see Chart 1). Continued job losses in the state's financial services, manufacturing, and business services industries have contributed to recent job weakness (see Chart 2).
- Delaware's financial sector (including credit card, insurance, and mortgage companies) represents approximately 40 percent of the state's gross product and 9 percent of its jobs. Employment in Delaware's financial sector has declined steadily during the past two years, primarily reflecting job cuts in credit-related businesses.
- Employment in the state's manufacturing sector, primarily in chemicals, has declined at a greater rate than the nation over the past four years. In the first half of 2003, manufacturing employment in Delaware contracted by 7.8 percent year-over-year, almost double the 3.9 percent decline for the nation. Manufacturing now represents approximately 14 percent of the state's gross product compared with 16 percent for the nation.
- Employment trends in Delaware's professional and business services, which include computer, accounting, and advertising services, significantly improved over the past year. Job losses in the business services sector, the second largest sector in the state economy in terms of employment, are related to weak corporate profit conditions during this economic downturn.
- Reduced demand for office space has kept vacancy rates high in the state. In ***Wilmington***, the state's largest office market, vacancy rates climbed to 16.6 percent in second quarter 2003, up slightly from the previous quarter, and slightly below the nation. Unlike some other large office markets, Wilmington's office rental rates have been stable (see Chart 3). Forecasts suggest that the office market in Wilmington should gradually improve over the next two years as new construction has been minimal. 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.

Chart 1: Recently, Delaware's Employment Trends Have Slightly Lagged the Nation's



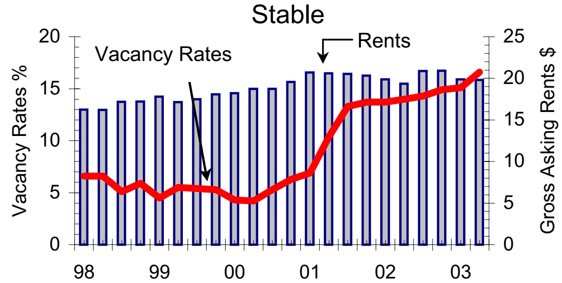
Source: Bureau of Labor Statistics. Shaded area denotes recession.

Chart 2: Employment Growth, although Improved, Remains Weak in Key Industries



Source: Bureau of Labor Statistics. 2003 represents the first six month average over the comparable prior year period.

Chart 3: Wilmington's Office Vacancy Rates Have Been Rising, but Rents Have Been Stable

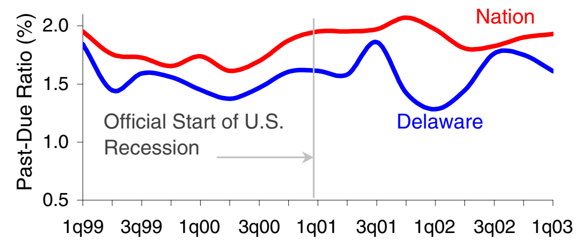


Source: Torto Wheaton Research.

Credit quality weakened among Delaware's insured institutions in the second half of 2002, but showed signs of improvement in first quarter 2003.

- The median past-due loan rate increased sharply in 2002, but moderated in first quarter 2003 (see Chart 4). The median past-due commercial and industrial (C&I) loan ratio declined, while residential and consumer loan past-due ratios increased modestly in first quarter 2003, reflecting weak job growth in the state.
- Commercial real estate (CRE) loan quality has softened only modestly following the recent economic downturn. The state's median past-due CRE loan rate is well below the national level. Also, CRE loan concentration levels among the state's insured institutions are modest. The median ratio of CRE loans-to-capital is 137 percent, well below the 204 percent national statistic.
- Nevertheless, credit quality generally lags the business cycle, and may weaken even if the economic recovery strengthens.

Chart 4: After Increasing Sharply in Much of 2002, Delaware's Past-Due Loan Rate Declined in First Quarter 2003

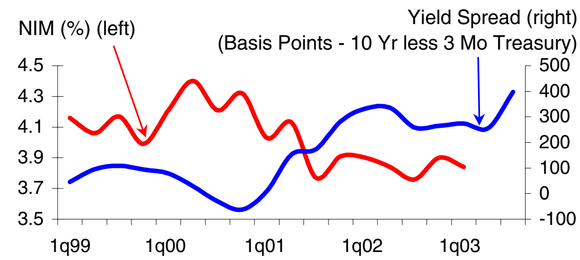


Includes loans 30 days or more past-due. Data for banks with total assets less than $10 billion, excluding agricultural, credit card, and specialty banks, and banks less than three years old. Source: Bank and Thrift Call Reports.

The median net interest margin (NIM) declined slightly in first quarter 2003 as the flattening yield curve pressured asset yields.

- The median NIM contracted slightly in first quarter 2003 as long-term interest rates neared historic lows and asset yields declined more than funding costs. Short-term interest rates declined to a lesser extent, contributing to a more modest decrease in banks' costs of funds. Subsequent to first quarter 2003, the yield curve steepened as long- and intermediate-term interest rates increased significantly (see Chart 5). As a result, NIMs may increase for banks with short-term asset maturities, while banks with high levels of long-term assets may experience NIM compression. Near record low short-term rates may provide for low funding costs, but will limit further downward movement on deposit rates.

Chart 5: NIMs Slightly Declined in First Quarter 2003 as Yields Declined More than Funding Costs

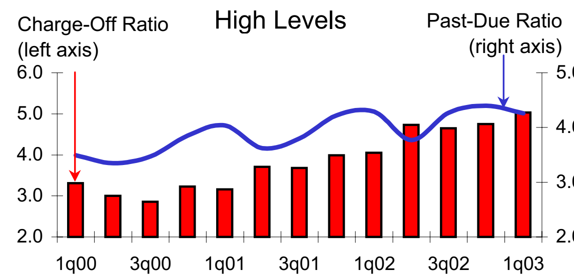


Includes banks with total assets less than $10 billion, excluding banks less than three years old, credit card and specialty banks. Median data. NIM data through 1q03. Yield spread data through July 03.
Source: Bank and Thrift Call Reports.

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

- Five of the nation's forty insured credit card banks, including three of the nation's five largest, are headquartered in Delaware.[1] These banks hold or manage about one-third of total credit card loans held or managed by insured institutions nationally.
- Delinquency and charge-off rates have increased among credit card banks in Delaware and nationwide (see Chart 6). The sluggish national economy, weak employment trends, and potentially another year of record personal bankruptcy filings suggest that credit card loan quality may continue to be pressured, despite strong levels of mortgage refinancings. Moreover, credit card receivable growth has slowed, which can contribute to weaker loan quality ratios. Not surprisingly, according to Fitch Ratings, delinquency rates on subprime credit cards have increased from 2001 levels.

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.

[1] 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	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	35	39	39	38	39
Total Assets (in thousands)	197,528,755	172,908,455	168,828,740	144,220,313	131,496,258
New Institutions (# < 3 years)	6	8	7	5	4
New Institutions (# < 9 years)	11	14	12	11	11

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	10.17	11.97	11.05	12.02	10.98

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.06%	1.39%	1.88%	1.63%	2.80%
Past-Due and Nonaccrual >= 5%	5	5	4	3	7
ALLL/Total Loans (median %)	1.46%	1.54%	1.22%	1.34%	1.67%
ALLL/Noncurrent Loans (median multiple)	2.23	2.29	1.39	1.93	1.75
Net Loan Losses/Loans (aggregate)	3.50%	3.58%	2.89%	2.75%	3.48%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	1	5	7	5	4
Percent Unprofitable	2.86%	12.82%	17.95%	13.16%	10.26%
Return on Assets (median %)	1.98	1.66	1.69	1.34	1.91
25th Percentile	0.54	0.37	0.54	0.39	0.80
Net Interest Margin (median %)	3.96%	3.91%	4.06%	4.46%	5.05%
Yield on Earning Assets (median)	5.83%	6.37%	8.00%	8.02%	8.62%
Cost of Funding Earning Assets (median)	1.76%	2.41%	4.24%	3.88%	4.12%
Provisions to Avg. Assets (median)	0.17%	0.15%	0.36%	0.17%	0.31%
Noninterest Income to Avg. Assets (median)	2.14%	1.06%	1.55%	2.04%	2.69%
Overhead to Avg. Assets (median)	3.39%	3.55%	4.02%	3.83%	4.16%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	85.33%	79.89%	84.10%	85.52%	85.73%
Loans to Assets (median %)	60.30%	54.61%	60.89%	63.76%	60.80%
Brokered Deposits (# of institutions)	18	20	17	18	18
Bro. Deps./Assets (median for above inst.)	10.93%	8.69%	6.74%	6.70%	4.16%
Noncore Funding to Assets (median)	37.81%	29.03%	23.46%	24.33%	27.28%
Core Funding to Assets (median)	36.59%	44.68%	42.38%	38.66%	38.64%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	15	16	15	17	17
National	12	15	17	16	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	176,766,017	77.14%	89.49%
No MSA	6	20,526,201	17.14%	10.39%
Dover DE	2	236,537	5.71%	0.12%