FDIC State Profile

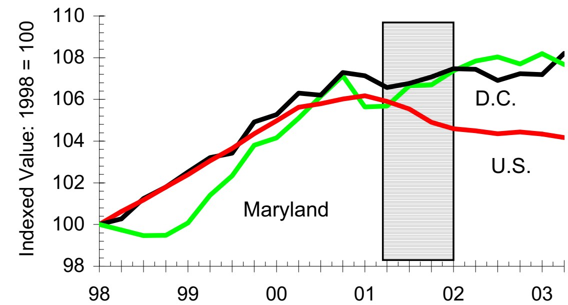
FALL 2003

Maryland & Washington, D.C.

The Washington, D.C./Maryland economies have outperformed the nation during the past two years and are poised for further improvement, because of expected increases in healthcare and federal government spending.

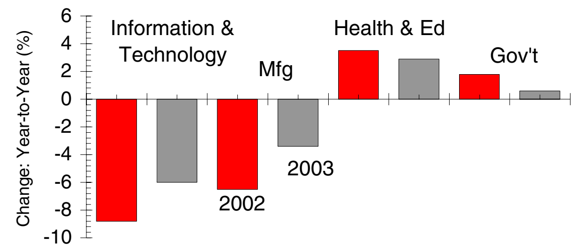
- Job growth in the District of Columbia and Maryland outperformed the nation since the 2001 recession (see Chart 1). Gains in Maryland's government, healthcare and educational services offset losses in manufacturing and information technology industries (see Chart 2).
- Increased federal spending, particularly in defense-related industries, has stimulated the area's economy. Many Maryland firms have received new defense contracts, reflecting heightened military and security readiness.
- Increased employment in Maryland's healthcare sector reflects nationwide trends of an aging population, placing greater demands on health care. Education job growth is attributable to a surge in the school-age population. Employment in Maryland's information technology sector, which includes the telecommunications and publishing industries, declined significantly during the past two years, but the rate of decline has eased. Losses in the technology sector were prompted by the end of the high-tech bubble. Job losses in manufacturing reflect reduced demand for manufactured goods nationwide and stiff overseas competition.
- The federal government represents a key economic driver in the District of Columbia, accounting for 29 percent of the total workforce. Increases in federal government jobs over the past two years have benefited the local economy, including residential and commercial real estate markets.
- Home price appreciation in Maryland and ***Washington, D.C.,*** modestly exceeds the nation (see Chart 3). ***Baltimore*** and Washington, D.C., areas reported the greatest increase in home values over the past several years, a reflection of low mortgage interest rates and a limited supply of single-family housing. Recent data suggest, however, that home price appreciation has eased.
- Office vacancy rates appear to have peaked in Maryland and Washington, D.C., in early 2003, being generally stable over the past several quarters. In second quarter 2003, the office vacancy rate was 14.7 percent in the Baltimore MSA and 12.9 percent in the Washington, D.C., area, substantially below the 17 percent average vacancy rate for the nation. Increased demand for space has been driven by large law firms and the federal government. Net absorption

Chart 1: Employment Trends in Maryland and Washington, D.C. Have Outperformed the Nation



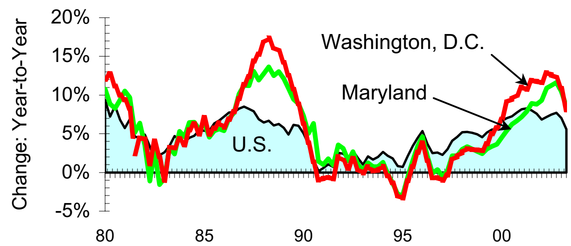
Source: Bureau of Labor Statistics. Shaded area denotes recession.

Chart 2: Job Gains in Health, Education, and Government Have Offset Losses in the Information Technology and Manufacturing Sectors



Source: Bureau of Labor Statistics. 2003 is a six month average over the prior comparable period.

Chart 3: After a Sharp Increase, Home Price Appreciation Has Eased in Maryland and Washington, D.C., as Well as the Nation



Source: Office of Federal Housing Enterprise Oversight.

in Baltimore also was positive in first half 2003, following recent job growth. Baltimore's office market is benefiting from a growing university (Johns Hopkins) and increasing demand for back-office space from national corporations.

Net interest margins (NIMs) among insured institutions headquartered in Maryland and Washington, D.C., have declined, as flattening in the Treasury yield curve throughout 2002 contributed to a reduction in asset yields that outpaced the decline in deposit costs.

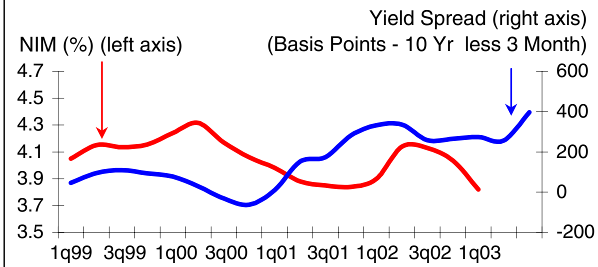
- The median NIM has declined for three consecutive quarters as the spread between long- and short-term Treasury rates narrowed (see Chart 4). Long-term interest rates approached record lows in first quarter 2003, pressuring asset yields. Asset yields declined more than funding costs as deposit costs approached floors, resulting in a decrease in the median NIM to 3.82 percent in first quarter 2003, down from 4.04 percent in fourth quarter 2002.
- Since the end of first quarter 2003, a dramatic increase in long-term interest rates has caused a steepening in the yield curve, a situation which is typically positive for NIMs. However, some institutions likely will benefit more than others depending on balance sheet structure and asset/liability management activities.

Credit quality weakened moderately among insured institutions headquartered in Maryland and Washington, D.C., following the recession, but the median past-due rate remains below the nation's.

- The median past-due loan ratio for insured institutions headquartered in Maryland and Washington, D.C., increased in 2001, but declined throughout much of last year. The past-due ratio increased in first quarter 2003, but remains below the national average (see Chart 5).
- The delinquency rate on residential loans increased moderately to 1.61 percent in first quarter 2003 from 1.52 percent in fourth quarter 2002. Commercial loan delinquency rates were stable and remained below national measures. Lower loan delinquency rates across loan categories are consistent with generally favorable economic trends in Maryland and Washington, D.C., compared with the nation.

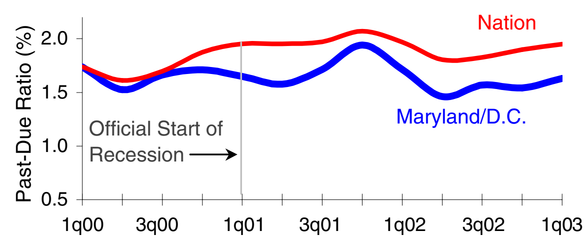
Although the median concentration of traditionally higher-risk loans among institutions headquartered in Maryland and Washington D.C., remains below the nation, concentrations among individual institutions have increased.

Chart 4: Median NIM Declined as Deposit Costs Approach Floors



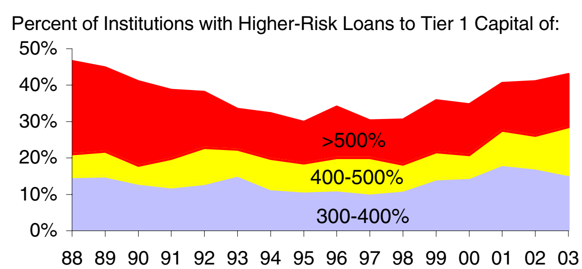
Note: Data for institutions with total assets less than $10 billion excluding banks less than three years old. Median data displayed. NIM figures are through 1q03. Yield Spread data are through July 03.
Source: Bank and Thrift Call Reports.

Chart 5: Past-Due Loan Rates among Maryland/ Washington, D.C.'s Insured Institutions Remained below the Nation during the Economic Downturn



Includes loans 30 days or more past-due. Excludes agricultural and credit card banks and banks less than three years old.
Source: Bank and Thrift Call Reports.

Chart 6: Exposure to Higher-Risk Loans Has Risen at Insured Institutions in Maryland/Washington, D.C.



Higher-Risk Loans is the total of construction & development, commercial real estate, and commercial & industrial loans. Excludes credit card and agricultural banks.
Source: Bank and Thrift Call Reports.

- The percent of insured institutions in Maryland and Washington D.C., reporting concentrations in typically higher-risk loans has increased in recent years and approaches levels reached a decade ago. Through first quarter 2003, 43 percent of Maryland's and Washington, D.C.'s insured institutions reported concentrations of traditionally higher-risk loans above 300 percent of capital, compared with 31 percent four years ago (see Chart 6). The percentage, while increasing, remains below the national percentage of 49 percent.

Maryland & Washington, D.C.

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99	Mar-98
Institutions (#)	130	136	142	146	152	155
Total Assets (in thousands)	59,267,839	57,158,661	55,506,202	54,284,839	53,452,014	46,425,687
New Institutions (# < 3 years)	4	6	8	6	5	2
New Institutions (# < 9 years)	12	14	14	11	9	11

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99	Mar-98
Tier 1 Leverage (median)	9.78	10.30	10.28	10.16	10.20	10.13

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99	Mar-98
Past-Due and Nonaccrual (median %)	1.65%	1.71%	1.64%	1.71%	2.07%	2.29%
Past-Due and Nonaccrual >= 5%	13	16	12	11	14	23
ALLL/Total Loans (median %)	1.08%	1.11%	1.10%	1.08%	1.14%	1.10%
ALLL/Noncurrent Loans (median multiple)	1.60	1.49	2.02	1.63	1.19	1.08
Net Loan Losses/Loans (aggregate)	0.31%	0.16%	0.23%	0.19%	0.28%	0.21%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99	Mar-98
Unprofitable Institutions (#)	13	22	20	13	12	7
Percent Unprofitable	10.00%	16.18%	14.08%	8.90%	7.89%	4.52%
Return on Assets (median %)	0.90	0.71	0.77	0.81	0.85	1.00
25th Percentile	0.46	0.39	0.34	0.47	0.47	0.63
Net Interest Margin (median %)	3.80%	3.80%	3.96%	4.23%	4.01%	4.27%
Yield on Earning Assets (median)	5.79%	6.60%	7.84%	7.69%	7.44%	8.03%
Cost of Funding Earning Assets (median)	2.05%	2.77%	3.95%	3.78%	3.65%	3.90%
Provisions to Avg. Assets (median)	0.06%	0.06%	0.05%	0.07%	0.05%	0.08%
Noninterest Income to Avg. Assets (median)	0.59%	0.50%	0.52%	0.47%	0.49%	0.50%
Overhead to Avg. Assets (median)	2.71%	2.67%	2.79%	2.79%	2.69%	2.79%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99	Mar-98
Loans to Deposits (median %)	75.95%	81.34%	82.52%	86.56%	80.80%	81.17%
Loans to Assets (median %)	63.84%	66.48%	68.80%	68.93%	65.55%	66.99%
Brokered Deposits (# of institutions)	26	27	23	20	20	19
Bro. Deps./Assets (median for above inst.)	3.62%	2.85%	3.12%	2.28%	2.34%	3.11%
Noncore Funding to Assets (median)	18.27%	16.45%	15.02%	14.82%	12.49%	11.53%
Core Funding to Assets (median)	71.08%	71.52%	72.53%	72.84%	74.52%	75.96%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99	Mar-98
State Nonmember	43	44	44	46	48	48
National	15	17	20	22	22	26
State Member	19	16	14	13	15	14
S&L	13	15	17	18	21	24
Savings Bank	38	42	45	45	44	41
Mutually Insured	2	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Baltimore MD PMSA	71	40,183,924	54.62%	67.80%
Washington DC-MD-VA-WV PMSA	30	11,275,407	23.08%	19.02%
No MSA	21	5,622,703	16.15%	9.49%
Wilmington-Newark DE-MD PMSA	5	842,826	3.85%	1.42%
Hagerstown MD PMSA	2	1,297,280	1.54%	2.19%
Cumberland MD-WV	1	45,699	0.77%	0.08%