

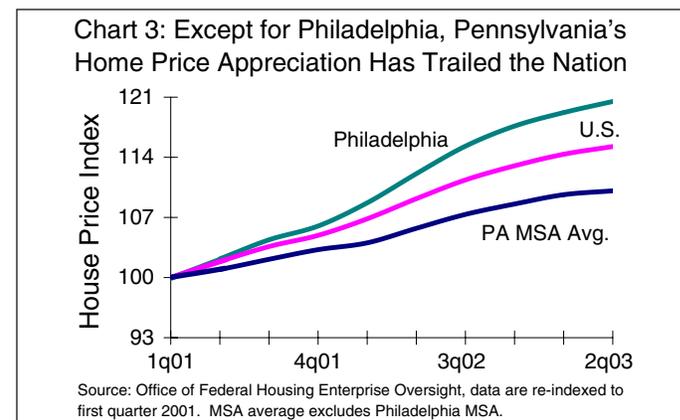
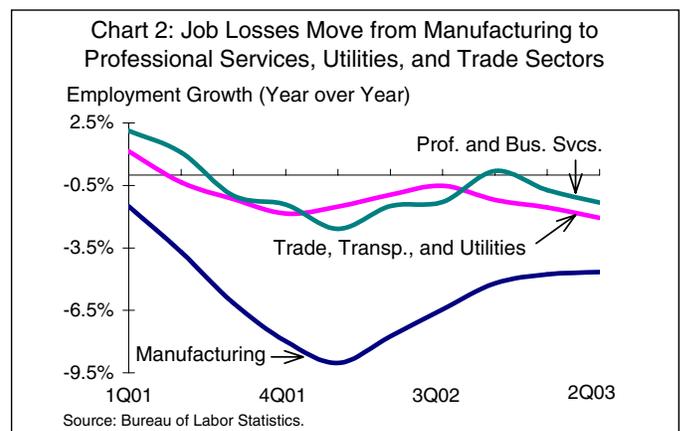
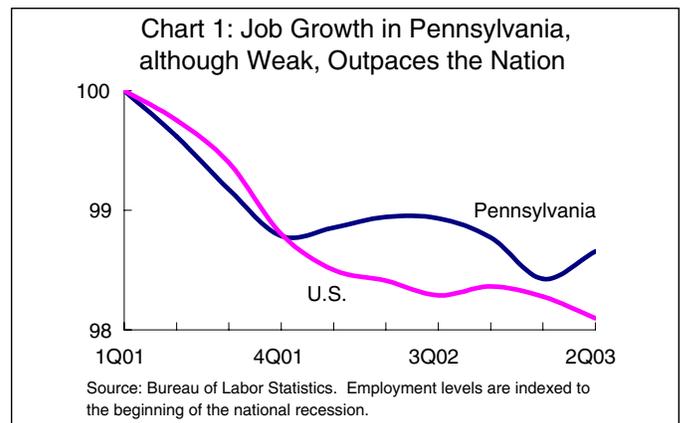
FDIC State Profile

FALL 2003

Pennsylvania

Since the end of the 2001 recession, Pennsylvania has lost proportionally fewer jobs than the nation. However, continuing weakness in manufacturing and a few other sectors is driving the state's net job losses.

- Pennsylvania's job growth, though still weak, has outperformed the nation's since the end of the 2001 recession (see Chart 1). Relative strength in the state's education and health, and government sectors has partially offset weakness in Pennsylvania's manufacturing, trade, transportation, and utilities sectors. Labor market weakness was most pronounced in the **Scranton, Sharon, Erie, and Johnstown** MSAs; these metro areas rely more heavily on manufacturing employment.
- Pennsylvania's manufacturing sector, which accounts for 13 percent of total state employment, has been shedding jobs since fourth quarter 2000. The rate of manufacturing job losses in the state, however, has abated since 2002 (see Chart 2). Nevertheless, manufacturing job losses continued through second quarter 2003, when the state's manufacturing industry contracted by 4.7 percent (36,000 jobs year-over-year), slightly more than the 4.1 percent decline of manufacturing jobs nationally.
- In addition to manufacturing, job losses continue in the state's professional and business services sector as well as in the trade, transportation, and utilities sector. As the broader economy gains momentum, so too should these sectors.
- With the exception of the **Philadelphia** MSA, rates of home price appreciation among the state's metropolitan areas have trailed the nation since the recession began in first quarter 2001 (see Chart 3). As a result, the amount of equity available to homeowners has not grown as rapidly as in some other parts of the nation and may, in part, limit the role of the consumer in the state's economic recovery. Another indication of potential consumer weakness in the state is the rise in the mortgage foreclosure rate, which reached a record high in the first quarter of 2003.
- Office market conditions in the state's two largest office markets were stable in first half 2003. The office vacancy rate in the Philadelphia MSA increased slightly to 15.9 percent in second quarter 2003 and remained below the national average of 17 percent. The vacancy rate in the **Pittsburgh** MSA office market remained stable at 18.2 percent. The Pittsburgh metro area was characterized by fewer office completions and positive net absorption in second quarter 2003, compared to the prior quarter.



State Profile

The median net interest margin (NIM) reported by Pennsylvania's insured institutions declined for the third consecutive quarter, reaching a 19-year low.

- The median NIM narrowed to 3.48 percent in first quarter 2003, down from 3.52 percent in fourth quarter 2002, marking the third consecutive quarterly decline (see Chart 4). The median NIM reached a 19-year low as falling intermediate- and long-term market interest rates spurred refinancing activity and pushed asset yields lower. Funding costs dropped to a lesser extent as short-term interest rates declined more modestly and as deposit costs neared effective floors.
- Long-term interest rates continued to drop and refinancing activity accelerated in second quarter 2003. As a result, the state's insured institutions may experience continued NIM compression in coming quarters as loan yields are pushed lower. Residential mortgage lenders, which comprise 38 percent of insured institutions in Pennsylvania compared with 12 percent nationally, have experienced strong origination volume, but may experience continued NIM contraction as mortgage rates reached record lows during second quarter 2003.¹ The steepening in the yield curve that occurred in third quarter 2003 may help boost margins; however, the dramatic rise in long-term interest rates likely will accompany moderation in loan demand.
- The median ratio of long-term assets-to-earning assets among insured institutions headquartered in Pennsylvania remains well above national levels (see Chart 5). A large number of residential lenders in Pennsylvania coupled with more widespread use of long-term mortgage products in the Northeast contributed to the higher ratio. Insured institutions with high concentrations of long-term assets may face asset depreciation and lengthening in asset duration given the significant rise in interest rates that began in the second half of the year, 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. However, the median commercial real estate (CRE) loan delinquency rate has increased and slightly exceeds the nation's.

- The median past-due loan ratio among Pennsylvania's insured institutions has increased during the economic downturn, but loan delinquency rates remain lower than the nation's across loan categories, except for CRE loans (see Chart 6). Nonetheless, CRE loan

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.

Chart 4: After Widening in 2001 and the First Half of 2002, NIMs Have Declined for Three Straight Quarters

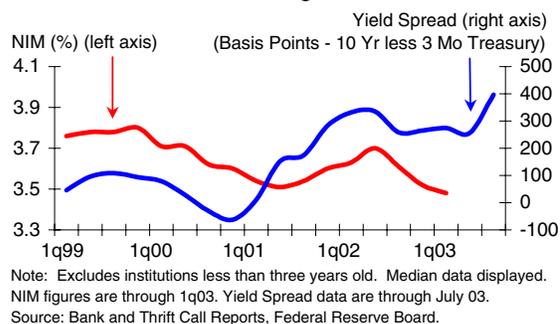


Chart 5: Long-Term Asset Concentrations Are Widespread among Banks in Pennsylvania

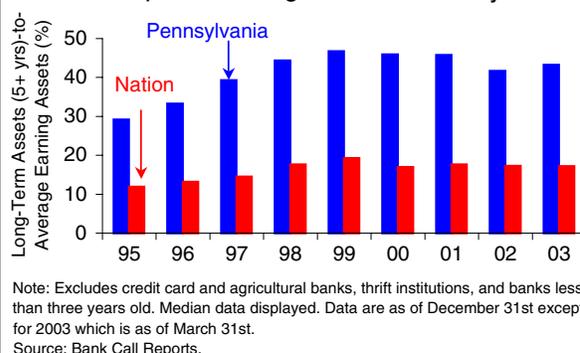
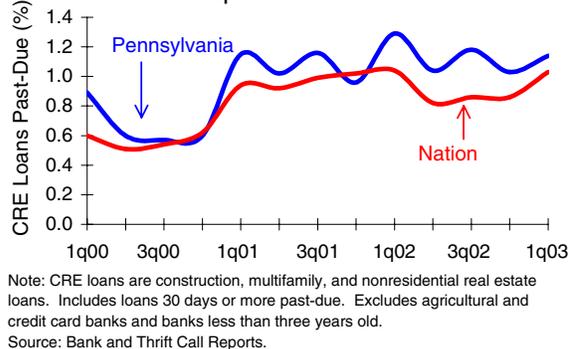


Chart 6: CRE Loan Delinquency Rates Surpass the Nation



delinquency rates remain well below levels of a decade ago on average. Furthermore, CRE loan exposure among insured institutions in Pennsylvania is below the national average. Nevertheless, as credit quality typically lags the business cycle, CRE loan delinquency levels may increase as the economic recovery lingers, particularly in areas that have continued job losses.

State Profile

Pennsylvania at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	278	288	301	312	308
Total Assets (in thousands)	291,321,128	267,424,416	259,781,231	267,537,474	256,552,049
New Institutions (# < 3 years)	8	16	19	18	11
New Institutions (# < 9 years)	29	30	28	26	20
Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.00	9.10	9.43	9.46	9.52
Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.70%	1.65%	1.63%	1.51%	1.81%
Past-Due and Nonaccrual >= 5%	29	26	22	18	21
ALLL/Total Loans (median %)	1.14%	1.09%	1.07%	1.03%	1.08%
ALLL/Noncurrent Loans (median multiple)	1.44	1.50	1.52	1.50	1.60
Net Loan Losses/Loans (aggregate)	0.29%	0.39%	0.38%	0.20%	0.28%
Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	13	22	28	22	17
Percent Unprofitable	4.68%	7.64%	9.30%	7.05%	5.52%
Return on Assets (median %)	0.93	0.94	0.84	0.91	0.97
25th Percentile	0.62	0.56	0.54	0.62	0.65
Net Interest Margin (median %)	3.46%	3.59%	3.54%	3.69%	3.75%
Yield on Earning Assets (median)	5.81%	6.62%	7.58%	7.52%	7.36%
Cost of Funding Earning Assets (median)	2.39%	3.03%	4.13%	3.86%	3.62%
Provisions to Avg. Assets (median)	0.07%	0.09%	0.08%	0.09%	0.09%
Noninterest Income to Avg. Assets (median)	0.47%	0.44%	0.42%	0.42%	0.41%
Overhead to Avg. Assets (median)	2.48%	2.50%	2.58%	2.56%	2.52%
Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	75.48%	78.95%	81.71%	82.27%	78.08%
Loans to Assets (median %)	60.03%	63.47%	63.80%	65.50%	63.41%
Brokered Deposits (# of institutions)	38	33	29	31	21
Bro. Deps./Assets (median for above inst.)	1.38%	2.45%	1.78%	2.81%	1.19%
Noncore Funding to Assets (median)	17.56%	16.95%	16.54%	16.66%	13.16%
Core Funding to Assets (median)	70.32%	71.12%	70.78%	71.74%	74.26%
Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	62	67	64	67	63
National	80	80	88	94	97
State Member	29	29	32	33	32
S&L	32	34	35	37	38
Savings Bank	25	27	32	32	30
Mutually Insured	50	51	50	49	48
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Philadelphia PA-NJ PMSA	79	56,253,371	28.42%	19.31%	
No MSA	65	29,216,109	23.38%	10.03%	
Pittsburgh PA	44	118,894,573	15.83%	40.81%	
Harrisburg-Lebanon-Carlisle PA	19	11,479,782	6.83%	3.94%	
Scranton—Wilkes-Barre—Hazleton PA	15	5,363,155	5.40%	1.84%	
Allentown-Bethlehem-Easton PA-NJ	15	5,936,460	5.40%	2.04%	
Lancaster PA	9	8,926,912	3.24%	3.06%	
Johnstown PA	8	2,281,300	2.88%	0.78%	
Reading City PA	5	44,768,030	1.80%	15.37%	
York PA	4	1,083,023	1.44%	0.37%	
Williamsport PA	4	1,068,630	1.44%	0.37%	
Altoona PA	4	602,517	1.44%	0.21%	
Sharon PA	3	4,625,302	1.08%	1.59%	
Erie PA	3	621,183	1.08%	0.21%	
State College PA	1	200,781	0.36%	0.07%	