

FDIC State Profile

Summer 2004

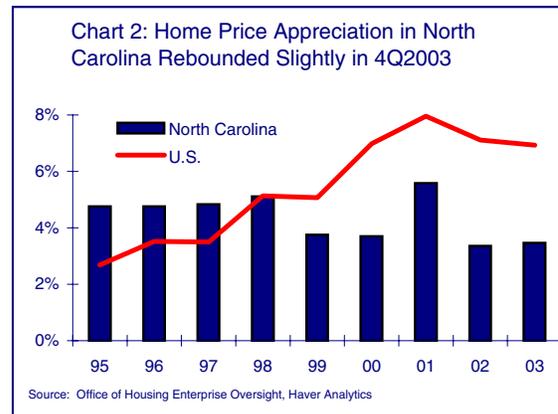
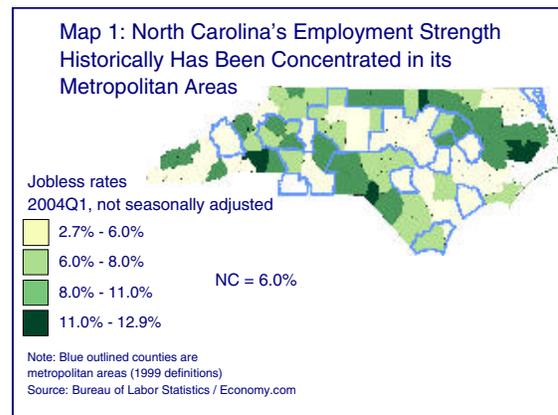
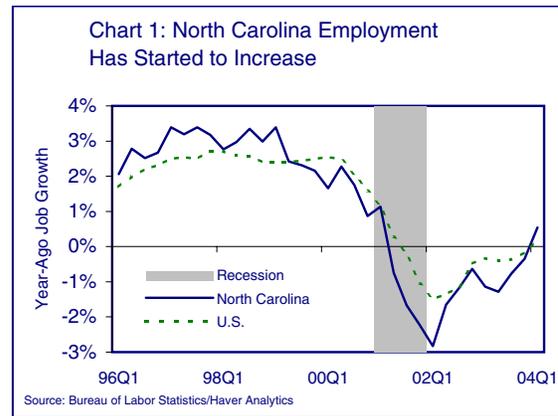
North Carolina

North Carolina has begun to see employment growth.

- Losses in North Carolina's labor market moderated in late 2003 with slight growth reported in first quarter 2004 (See Chart 1). Wage and salary growth, likewise, posted a small improvement through fourth quarter 2003 (most recent data available). Although jobless rates remain above the national average, the gap is narrowing. Initial unemployment insurance claims also have continued to trend downward.
- Many of North Carolina's metropolitan areas are plagued with heavy job losses, primarily in the manufacturing sector. The Charlotte, Greensboro, Greenville, and Hickory metro areas, along with the I-85 corridor (Kannapolis area) between Charlotte and Winston-Salem, have been particularly hard hit by the recent layoffs at Pillowtex. Although several North Carolina counties saw declines in unemployment rates over the past year ending first quarter 2004, the shift was likely the result of a shrinking labor force rather than improving job prospects (See Map 1).

Manufacturing remains a drag on the state's economy.

- Manufacturing continued to deteriorate into first quarter 2004 as bankruptcies, global competition, the relocation of jobs offshore, and greater automation weighed on payrolls. Employment losses in this sector were 5.4 percent in first quarter 2004, marking an improvement in the year-over-year double-digit declines of 2001 to 2002. Job losses in the textiles industry, where employment fell by another 13,000 workers over the past year, continue to hamper economic recovery statewide. U.S. quotas of textile imports are slated to expire in 2005, which likely will result in even more layoffs.
- Home price appreciation in North Carolina rebounded slightly in fourth quarter 2003 after a drop in the previous quarter (See Chart 2). Home price gains in several metropolitan areas, including Charlotte, Greensboro, and Raleigh, have had difficulty keeping pace with the rate of inflation. Weakening appreciation is occurring at a time when foreclosure rates reached record high levels in third and fourth quarters 2003.



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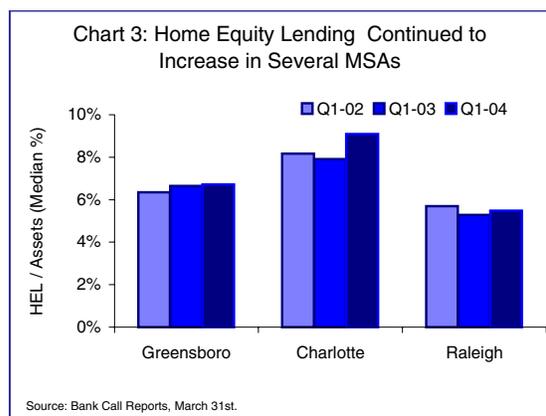
- Some commercial real estate (CRE) markets in the state have improved marginally; however, conditions in Charlotte and Raleigh remain weak. Raleigh's office market vacancy rate remains near 20 percent, but has improved significantly over the past year ending fourth quarter 2003. The percent of available space in Charlotte remains consistent with the national average. Vacancy rates in the state's industrial markets may have peaked, but remain among the highest in the nation. Manufacturing losses likely will continue to limit industrial space absorption statewide.
- Total state tax collections were up 3.7 percent from one-year earlier as of fourth quarter 2003, which could signify that moderating job losses may be helping to boost North Carolina's fiscal conditions.

Despite lower earnings, banking conditions in North Carolina were favorable.

- Net income at North Carolina community banks declined close to 10 percent for first quarter 2004 compared to first quarter 2003, dropping to \$42 million from \$47 million. This translates to a median return-on-assets of 0.78 percent and 0.86 percent for the respective periods. Meanwhile, median net interest margins were unchanged for the period though overall profitability suffered due to a significant decline in noninterest income.
- Overall, loan quality remained in good shape. However, some minor signs of weakness have started to develop in the 1-to-4 family loan segment as noncurrent loan levels moved slightly upward. Higher than average jobless rates combined with continued weakness in the manufacturing sector may be contributing to the deterioration in mortgages.
- Loan growth at North Carolina community banks continued at a solid pace. By March 31, 2004, the 12-month median loan-to-asset ratio increased to 74.2 percent. The loan portfolio was driven higher primarily by CRE and home equity loans (HEL).¹
- In some urban areas in the state, median HELs reached levels greater than 6 percent of assets at March 31, 2004. Growth in this loan category was driven primarily by banks located in the Charlotte MSA, where HELs as a percentage of assets grew by more than one percentage point since March 31, 2003 (See Chart 3). HELs as a percentage of assets were at least five times the national median in several of the other large MSAs, including Greensboro, Raleigh, and Hickory. This loan segment may be adversely affected by rising interest rates that have

the potential to lower debt service capacity and slow the appreciation of housing values.

- Construction and development (C&D) lending modestly increased during first quarter 2004 at banks in the state's major metro markets. The median C&D loan to asset ratio approached 10 percent at banks in Charlotte, up significantly from 6.65 percent a year earlier. In Greensboro, the concentration level of 7.43 percent of assets is up slightly during the quarter. Exposure levels are the highest in Raleigh at 12.63 percent of assets, but are unchanged during the last year. Anecdotal reports indicate that the majority of C&D lending is for residential construction.



¹Commercial real estate loans consist of nonresidential, construction and development, and multifamily loans.

North Carolina at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	104	108	113	118	117
Total Assets (in thousands)	1,190,782,930	1,022,305,930	946,864,828	961,761,966	964,120,251
New Institutions (# < 3 years)	8	12	15	22	24
New Institutions (# < 9 years)	37	38	41	38	35

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.46	9.40	9.45	10.21	11.69

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.34%	1.71%	1.47%	1.36%	1.20%
Past-Due and Nonaccrual >= 5%	8	5	8	7	5
ALLL/Total Loans (median %)	1.25%	1.34%	1.31%	1.33%	1.29%
ALLL/Noncurrent Loans (median multiple)	1.91	1.57	1.93	2.32	2.33
Net Loan Losses/Loans (aggregate)	0.25%	0.57%	0.71%	0.60%	0.40%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	6	13	12	21	18
Percent Unprofitable	5.77%	12.04%	10.62%	17.80%	15.38%
Return on Assets (median %)	0.78	0.86	0.80	0.71	0.83
25th Percentile	0.51	0.59	0.45	0.24	0.38
Net Interest Margin (median %)	3.63%	3.75%	3.71%	3.71%	4.11%
Yield on Earning Assets (median)	5.37%	5.88%	6.62%	8.25%	8.10%
Cost of Funding Earning Assets (median)	1.70%	2.17%	2.90%	4.51%	4.00%
Provisions to Avg. Assets (median)	0.15%	0.20%	0.22%	0.15%	0.14%
Noninterest Income to Avg. Assets (median)	0.74%	0.86%	0.74%	0.58%	0.57%
Overhead to Avg. Assets (median)	2.85%	2.91%	2.90%	3.05%	3.02%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	91.83%	88.64%	87.86%	88.06%	88.69%
Loans to Assets (median %)	72.82%	71.70%	71.27%	71.16%	70.33%
Brokered Deposits (# of Institutions)	44	37	28	23	16
Bro. Deps./Assets (median for above inst.)	3.91%	4.86%	4.29%	2.20%	2.03%
Noncore Funding to Assets (median)	24.82%	22.53%	23.10%	21.11%	18.98%
Core Funding to Assets (median)	61.70%	63.54%	62.78%	63.74%	65.82%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	54	57	58	63	59
National	6	6	8	9	10
State Member	8	8	8	4	2
S&L	7	8	8	9	11
Savings Bank	9	9	9	8	8
Stock and Mutual SB	20	20	22	25	27

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	34	10,752,824	32.69%	0.90%
Greensboro--Winston-Salem--High Point NC	18	76,953,438	17.31%	6.46%
Charlotte-Gastonia-Rock Hill NC-SC	16	1,061,720,726	15.38%	89.16%
Raleigh-Durham-Chapel Hill NC	13	15,439,193	12.50%	1.30%
Hickory-Morganton NC	6	2,289,602	5.77%	0.19%
Wilmington NC	4	1,057,371	3.85%	0.09%
Rocky Mount NC	4	20,323,599	3.85%	1.71%
Asheville NC	4	840,893	3.85%	0.07%
Fayetteville NC	2	264,289	1.92%	0.02%
Norfolk-Virginia Bch-Newport News VA-NC	1	121,279	0.96%	0.01%
Greenville NC	1	26,032	0.96%	0.00%
Goldsboro NC	1	993,684	0.96%	0.08%