State Profile

Summer 2004

Maryland and Washington, D.C.

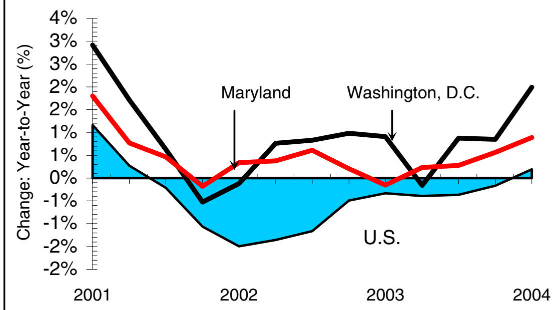
Washington, D.C. and Maryland economies continued to outperform the nation.

- Job growth in the Washington, D.C. metropolitan area and Maryland exceeded the nation in 2003 and strengthened in first quarter 2004 (See Chart 1).
- Spurred by increased security and defense-related spending, Washington, D.C.'s year-to-year employment growth of 2 percent in first quarter 2004 was ten times the national job growth rate.
- Consistent with an expanding economy, office vacancy rates for the Washington D.C. metropolitan area have declined for four consecutive quarters. Office rents have stabilized, but remained 10 percent lower than their cyclical peak.[1] In Baltimore, the office vacancy rate reached 14.1 percent, its lowest level in almost two years.

Employment trends have improved across all of Maryland's key industry sectors.

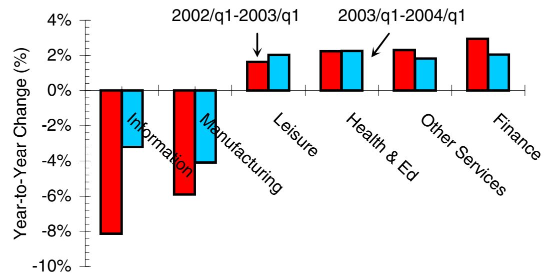
- Maryland's job picture has been helped by increased employment in health, education, and leisure time industries (See Chart 2). Health and education sectors have benefited from aging baby boomers, who are increasingly demanding health-related services, and a surge in school-age children. Job growth in leisure-time industries reflects a rebound in travel and tourism from the 2001 economic downturn.
- Although easing in first quarter 2004, employment losses in Maryland's manufacturing sector have been persistent, having declined for three consecutive years.
- First quarter 2004 year-to-year home price appreciation of 12.9 and 12.7 percent in Maryland and the metropolitan Washington, D.C. area exceeded the national average of 7.7 percent and approached rates reached during the area's 1980s housing boom (See Chart 3). Current appreciation rates may not be sustainable, particularly if mortgage rates increase significantly over a short period.

Chart 1: Employment Growth in Maryland and Washington, D.C Exceeded the Nation



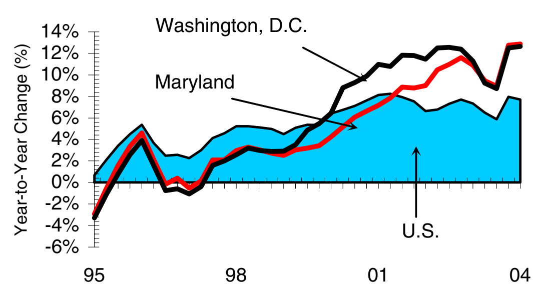
Source: Bureau of Labor Statistics.

Chart 2: Many of Maryland's Industry Sectors Reported Modest Gains in First Quarter 2004



Source: Bureau of Labor Statistics. Other services includes not-for-profits and repair and maintenance.

Chart 3: Home Price Appreciation Remains At High Levels



Source: Ofice of Federal Housing Enterprise Oversight.

[1]The Washington, D.C. metropolitan area includes parts of Maryland and Northern Virginia.

FDIC-insured institutions headquartered in Maryland and Washington, D.C. report favorable credit quality.

- Credit quality reported by FDIC-insured institutions headquartered in Maryland and Washington, D.C. improved in first quarter 2004, and compared favorably to national trends (See Chart 4).

- Loan delinquency rates were low across loan categories in first quarter 2004, reflecting the area's positive employment trend, strong housing markets, and overall favorable economic performance.

Insured institutions headquartered in Maryland and Washington, D.C. have increased exposure to construction and land development lending in recent years.

- The median ratio of construction and land development (C&D) loans-to-Tier 1 Capital reported by insured institutions headquartered in Maryland and Washington, D.C. increased significantly in 2003 and first quarter 2004, outpacing the increase reported nationwide (See Chart 5).

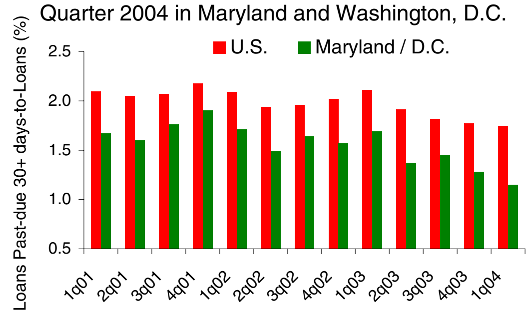
- While increased C&D loan exposure has been reported by insured institutions in major metropolitan areas such as Baltimore and D.C., more significant increases have been reported by institutions in less urban parts of Maryland, such as the eastern shore area.[2] The median ratio of C&D loans-to-Tier 1 Capital for institutions headquartered in a large part of Maryland's eastern shore area has almost doubled since 2001 from 34 percent to 60 percent.

- Increased C&D loan exposure is reflective of robust housing markets and favorable employment trends in Maryland and the Washington, D.C. area.

Net interest margins may rise with a steeper yield curve.

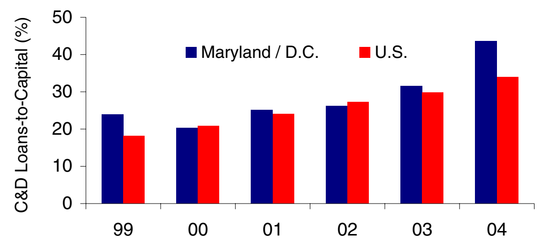
- Insured institutions headquartered in Maryland and Washington, D.C. have reported a higher net interest margin for two consecutive quarters (See Chart 6). Asset yields increased somewhat with the increase in long-term interest rates, while funding costs remained low. Bank margins may continue to widen following significant steepening in the yield curve that occurred in mid-2004, although funding costs likely will rise with higher short-term interest rates.

Chart 4: Credit Quality Improves in 2003 and First Quarter 2004 in Maryland and Washington, D.C.



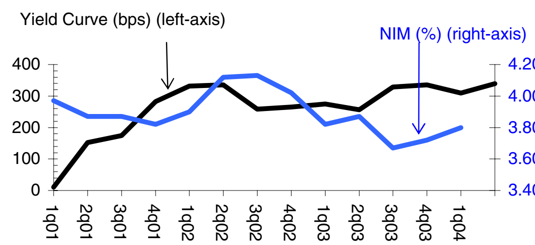
Note: Excludes credit card banks and banks less than three years old. Median data displayed. Source: Bank anf Thrift Call Reports.

Chart 5: C&D Loan Exposure in Maryland and Washington, D.C. Increases Significantly in 2003/04



Note: Excludes credit card and agricultural banks, and banks less than three years old. Median data displayed. Data as of March 31st. Source: Bank and Thrift Call Reports.

Chart 6: Net Interest Margins Increase in Fourth Quarter 2003 and First Quarter 2004



Notes: "Yield Curve" is the difference between the yield on ten-year and three-month U.S. Treasury securities. Yield curve data is through April 2004. Median NIM displayed.
Source: Federal Reserve Board and Bank and Thrift Call Reports.

[2]"Eastern shore area" is defined in this article as the Maryland counties of Caroline, Kent, Somerset, Talbot, Wicomico, and Worcester.

Maryland at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	127	130	136	142	146
Total Assets (in thousands)	44,778,804	59,268,396	57,158,661	55,506,202	54,173,968
New Institutions (# < 3 years)	3	4	6	8	6
New Institutions (# < 9 years)	13	12	14	14	11

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.34	9.74	10.30	10.28	10.16

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.08%	1.65%	1.71%	1.64%	1.71%
Past-Due and Nonaccrual >= 5%	9	13	16	12	11
ALLL/Total Loans (median %)	0.97%	1.06%	1.11%	1.10%	1.08%
ALLL/Noncurrent Loans (median multiple)	2.20	1.60	1.49	2.02	1.63
Net Loan Losses/Loans (aggregate)	0.10%	0.31%	0.16%	0.23%	0.19%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	9	13	22	20	13
Percent Unprofitable	7.09%	10.00%	16.18%	14.08%	8.90%
Return on Assets (median %)	0.82	0.90	0.71	0.77	0.81
25th Percentile	0.46	0.46	0.39	0.34	0.47
Net Interest Margin (median %)	3.79%	3.80%	3.80%	3.96%	4.23%
Yield on Earning Assets (median)	5.29%	5.79%	6.60%	7.84%	7.69%
Cost of Funding Earning Assets (median)	1.60%	2.05%	2.77%	3.95%	3.78%
Provisions to Avg. Assets (median)	0.01%	0.06%	0.06%	0.05%	0.07%
Noninterest Income to Avg. Assets (median)	0.52%	0.59%	0.50%	0.52%	0.47%
Overhead to Avg. Assets (median)	2.74%	2.71%	2.67%	2.79%	2.80%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	79.56%	75.98%	81.34%	82.52%	86.56%
Loans to Assets (median %)	66.76%	63.96%	66.48%	68.80%	68.93%
Brokered Deposits (# of Institutions)	26	26	27	23	20
Bro. Deps./Assets (median for above inst.)	4.09%	3.62%	2.85%	3.12%	2.28%
Noncore Funding to Assets (median)	18.83%	18.27%	16.45%	15.02%	14.82%
Core Funding to Assets (median)	69.13%	71.08%	71.52%	72.53%	72.84%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	41	43	44	44	46
National	15	15	17	20	22
State Member	18	19	16	14	13
S&L	13	13	15	17	18
Savings Bank	38	38	42	45	45
Stock and Mutual SB	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Baltimore MD PMSA	69	25,181,529	54.33%	56.24%
Washington DC-MD-VA-WV PMSA	30	11,062,639	23.62%	24.71%
No MSA	20	5,980,826	15.75%	13.36%
Wilmington-Newark DE-MD PMSA	5	909,747	3.94%	2.03%
Hagerstown MD PMSA	3	1,644,063	2.36%	3.67%