

FDIC State Profile

Summer 2004

Maine

Maine's economy is on the road to recovery along with the Nation.

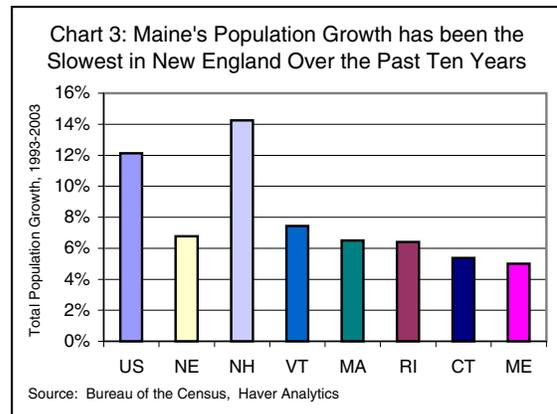
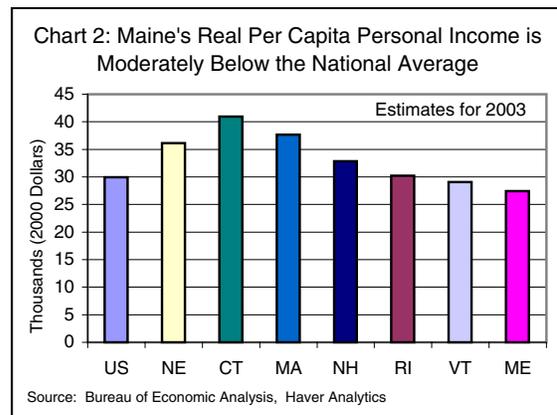
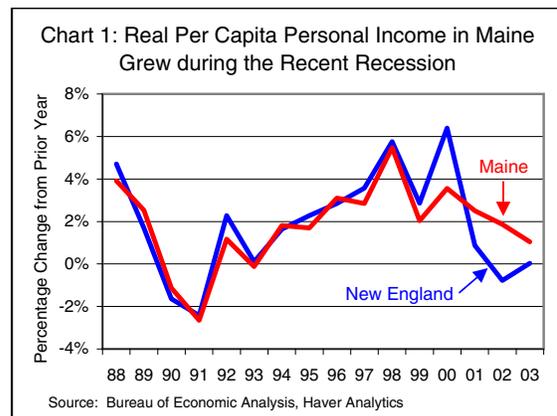
- According to official payroll estimates, while Maine has yet to experience sustained, sizeable increases in employment, current (or 2004) employment levels are only modestly below the pre-recession peak reached in early 2001.
- The unemployment rate, which rose during the recession through mid-2003, steadied late last year at just over 5.0 percent. During 2004 the rate has fallen and stood at 4.3 percent in April.

Personal income growth in Maine is stronger than the Nation.

- In terms of rate of growth of personal income, Maine was tied with Vermont, and behind Rhode Island, for the second fastest in New England over the past year. Moreover, Maine outperformed the nation in growth in 2003, as it had over the prior two years.
- Maine has not experienced the swings in real (inflation-adjusted) per capita personal income seen by the rest of New England before and after the recent recession (See Chart 1). Income growth has continued during this entire period although the rate of growth decelerated noticeably through 2003.
- While personal income growth in Maine exceeded the growth rate in New England over recent years, the *level* of real personal income per capita in Maine remains the lowest in New England (See Chart 2). Maine's income level is also somewhat below the Nation's.

Slow population growth will likely limit overall economic growth.

- Maine significantly trails New England and the United States in the pace of population growth. (See Chart 3). According to New England Economic Partnership estimates, population growth is expected to remain modest over the years ahead, though growth in per capita real personal income should accelerate slightly to a pace close to its long-term (fifteen year) average.



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Net interest margin compression continues, with insured institutions utilizing other income sources to supplement earnings.

- Maine's community institutions¹ continue to be profitable, but showed net interest margin compression during the first quarter of 2004, compared to the same period in 2003 (See Table 1). The low interest rate environment has contributed to the decline in net interest margins as yields on earning assets have declined faster than funding costs. Funding costs are historically low and may have reached effective floors.
- Community institutions maintained profitability in first quarter 2004, in part by a 10-basis point, year-over-year, increase in noninterest income as a percentage of average assets. This included utilizing gains on the sale of securities. With past-due loan levels historically low, the community institutions posted a decline in loan-loss provisions, which also helped profitability.

Number of branches relatively stable in Maine but out-of-state ownership increasing.

- In 1994, there were 492 branches of insured financial institutions in Maine with none operated by insured institutions headquartered out-of-state. In 2003, the total number of branches increased to 507 with 107 owned by institutions based elsewhere (See Chart 4).
- Deposits in branches in the state increased from \$12 billion in 1994 to \$16 billion in 2003 while total deposits of Maine headquartered institutions increased from \$12 billion to \$28 billion during the same period. The 2003 difference in total deposits represents deposits held in branches located outside the state.

Interest rate risk remains a concern for Maine's institutions as concentrations of fixed-rate, long-term assets continue to increase.

- The conventional 30-year mortgage rate has declined significantly over the past several years and is still historically low. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13.5 percent of originations in December 2002 to almost 28 percent as of March 2004. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates.
- As of March 31, 2004, the median ratio of long-term assets to total assets was 34 percent. With the large volume of long-term assets on the books, some insured institutions

may be faced with a mismatch of asset and liability repricing. Net interest margin compression may occur, when short-term interest rates increase, as liabilities reprice at a faster rate than assets (See Chart 5).

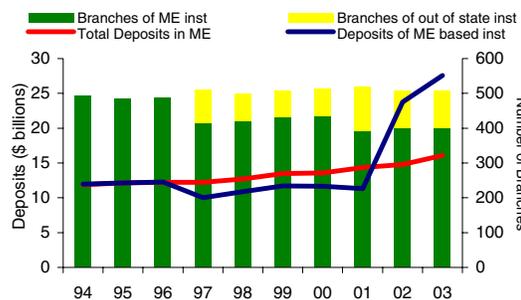
- The extension of asset maturities is pronounced in the state, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 58 percent of insured institutions in Maine, and residential real estate loans comprised almost 54 percent of their average loan portfolio as of March 31, 2004.

Table 1: Earnings Hampered by Net Interest Margin Compression

Percentage of Average Assets	First Quarter		Basis Point Change
	2003	2004	
Net Interest Income	3.72	3.59	-0.13
Total Noninterest Income	0.73	0.83	0.10
Noninterest Expense	2.89	2.87	-0.02
Provision Expense	0.15	0.08	-0.07
Security Gains & Losses	0.07	0.16	0.09
Income Taxes	0.50	0.52	0.02
Net Income (ROA)	0.97	1.12	0.15
Net Interest Margin (NIM)	4.03	3.88	-0.15

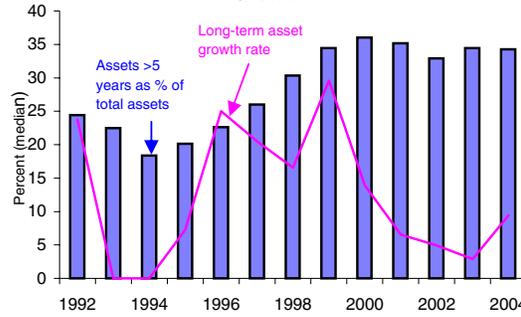
Source: Bank and Thrift Call Reports. Aggregate data for institutions with assets <\$1 billion. Excludes specialty institutions and de novos.

Chart 4: Number of Branches Stable but Out-of-State Ownership Increasing



Source: Summary of Deposits. Data as of 2nd quarter.

Chart 5: Long-Term Assets Still Exhibiting Strong Growth



Source: Bank Call Reports, Data as of 1st quarter.

¹Insured institutions with assets less than \$1 billion, excluding institutions less than three years old and specialty institutions.

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Maine at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	40	40	39	41	43
Total Assets (in thousands)	40,842,661	39,107,011	32,418,975	15,246,342	16,168,177
New Institutions (# < 3 years)	1	1	0	0	0
New Institutions (# < 9 years)	1	2	1	2	3
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.23	8.73	8.74	9.21	9.33
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.19%	1.38%	1.64%	2.07%	1.72%
Past-Due and Nonaccrual >= 5%	2	3	3	4	1
ALLL/Total Loans (median %)	1.18%	1.18%	1.18%	1.11%	1.15%
ALLL/Noncurrent Loans (median multiple)	2.76	1.72	1.48	1.24	1.73
Net Loan Losses/Loans (aggregate)	0.15%	0.18%	0.29%	0.22%	0.21%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	1	2	0	1	0
Percent Unprofitable	2.50%	5.00%	0.00%	2.44%	0.00%
Return on Assets (median %)	1.02	0.95	0.78	0.82	0.77
25th Percentile	0.68	0.65	0.53	0.40	0.55
Net Interest Margin (median %)	3.83%	3.96%	4.06%	3.99%	4.16%
Yield on Earning Assets (median)	5.53%	6.10%	6.90%	8.02%	7.80%
Cost of Funding Earning Assets (median)	1.70%	2.14%	2.80%	4.27%	3.92%
Provisions to Avg. Assets (median)	0.09%	0.11%	0.11%	0.12%	0.11%
Noninterest Income to Avg. Assets (median)	0.70%	0.62%	0.62%	0.55%	0.54%
Overhead to Avg. Assets (median)	3.03%	3.09%	3.10%	3.08%	3.15%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	99.71%	95.85%	94.98%	96.53%	96.31%
Loans to Assets (median %)	73.54%	70.96%	70.53%	71.17%	71.15%
Brokered Deposits (# of Institutions)	17	12	11	8	9
Bro. Deps./Assets (median for above inst.)	2.28%	3.73%	1.42%	2.55%	2.59%
Noncore Funding to Assets (median)	25.34%	22.49%	23.55%	21.70%	19.64%
Core Funding to Assets (median)	62.03%	65.54%	66.85%	67.00%	69.66%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	8	8	7	7	7
National	6	6	6	6	5
State Member	3	3	2	2	3
S&L	7	7	7	7	7
Savings Bank	2	2	2	3	4
Stock and Mutual SB	14	14	15	16	17
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
No MSA		29	9,429,469	72.50%	23.09%
Portland ME		4	27,726,671	10.00%	67.89%
Lewiston-Auburn ME		4	1,264,998	10.00%	3.10%
Bangor ME		3	2,421,523	7.50%	5.93%