FDIC State Profile

Spring 2004

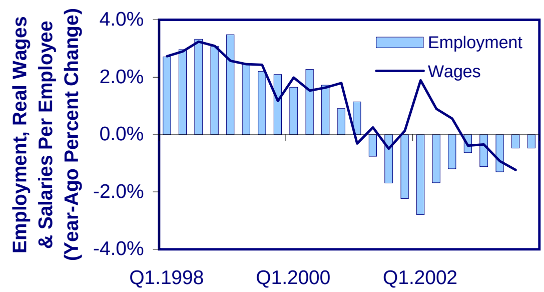
North Carolina

Job losses in North Carolina moderated in late 2003.

- Erosion in North Carolina's jobs base moderated in late 2003 (See Chart 1). However, wage and salary growth continued to contract on a real basis through third quarter 2003. Positively, labor market conditions displayed limited signs of tightening during the latter half of 2003. Jobless rates, though declining, remain above the national average. Initial unemployment insurance claims also have continued to trend downward.

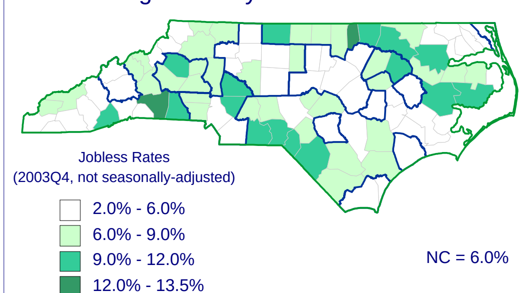
- Economic conditions across the state remained mixed with the lowest jobless rates tending to occur in metropolitan areas (See Map 1). The exceptions, however, were Hickory and Rocky Mount. Labor market conditions also deteriorated along the I-85 corridor (Kannapolis area) between Charlotte and Winston-Salem, a result of layoffs at Pillowtex. Although several counties throughout the state saw declines in jobless rates over the past year ending fourth quarter 2003, it may have been the result of a shrinking labor force rather than brightening job prospects.

Chart 1: Substantial Job Growth in North Carolina Remains Elusive



Source: Bureau of Labor Statistics, Bureau of Economic Analysis (Haver Analytics)

Map 1: Jobless Rates Remain Above the U.S. Average in Many North Carolina



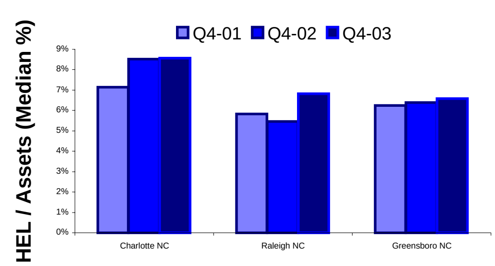
Note: Dark outlined counties are metropolitan areas (1999 definitions).
Source: Bureau of Labor Statistics/Haver Analytics

Manufacturing conditions remain weak

- North Carolina's critical manufacturing sector continued to erode in 2003 as bankruptcies, overseas competition, the relocation of jobs offshore, and greater automation weighed on payrolls. Although the pace of employment loss in this sector was 6.4 percent in fourth quarter 2003, it remained an improvement to the year-over-year double-digit declines, which occurred in late 2001 and early 2002. Textiles has been one industry that has not improved; however, employment fell by nearly 13,000 workers over the past year. The industry fears further layoffs in 2005, when U.S. quotas of textile imports are slated to expire. Apparel manufacturers and furniture makers represent other industries that have seen large declines in employment in recent years.

- Home price appreciation in North Carolina continued to moderate through third quarter 2003. In several metropolitan areas, including Charlotte, Greensboro, and Raleigh, gains in housing prices were hard pressed to keep pace with the rate of inflation. Weakening appreciation

Chart 2: Growth in Home Equity Lending is picking up in Several MSAs



Source: Bank Call Reports, December 31st.

is occurring at a time when foreclosure rates reached record high levels in third quarter 2003.

- Commercial real estate markets in Charlotte and Raleigh remain exceptionally weak; however, conditions in some areas have seen marginal improvement. Vacancy rates in Raleigh's office market, though still close to 20 percent, declined significantly over the past year ending fourth quarter 2003. In Charlotte, the percent of available space remains on par with the national average. Rising vacancy rates in the metropolitan area's industrial markets may have peaked as well, but remain among the highest in the nation. Continued losses in manufacturing likely will continue to constrain industrial space absorption statewide.

- Moderating job losses may be helping boost North Carolina's fiscal conditions. In third quarter 2003, total state tax collections were up 4.8 percent from one-year earlier, the largest rise in more than two years.

Banking conditions in North Carolina remain healthy, amid solid loan growth.

- Net income at North Carolina headquartered commercial banks reached a record high $5.6 billion for the year ending December 31, 2003. Nevertheless, median return-on-asset (ROA) and net interest margin (NIM) ratios experienced declines and at 0.90 percent and 3.70 percent, respectively, remained below national medians. Lower provision expenses and mostly stable noninterest revenue could not offset lower net interest income combined with an increase in overhead expenses. As a result, only 36 percent (24 banks) of North Carolina's commercial banks reported a positive change in ROA, with roughly 28 percent (19 banks) reporting a positive change in NIM over the 12-month period ending December 31, 2003.

- Loan growth at North Carolina commercial banks continued at a solid pace. By December 31, 2003, the 12-month median loan-to-asset ratio increased to 73.4 percent. The loan portfolio was driven higher primarily by commercial real estate and home equity loans (HEL).[1] However, some minor signs of weakness have started to develop in the 1-to-4 family and consumer loan segments as noncurrent loan levels moved slightly higher.

- At urban banks in the state, median home equity loans climbed to 6.7 percent of assets at December 31, 2003. Growth in this loan category was driven primarily by banks located in the Charlotte and Raleigh MSAs, where HELs as a percentage of assets grew at least 1 percentage point in each of these areas since December 31, 2001 (See Chart 2). Generally, weak wage and salary growth in the state may contribute to borrowers using their home equity to support consumption. If so, prolonged weakness in the labor markets and higher interest rates could impair debt service capacity, should the rise in home values slow.

Commercial real estate lending activity continued to be robust.

- Commercial real estate (CRE) lending continues to grow at many banks in the state. Rapid growth occurred in 2003 at banks in Raleigh and Charlotte while a slower expansion rate was reported in Greensboro. The exposure levels in all three markets are above the national levels.

- Construction and development (C&D) lending accelerated in 2003 at banks in the Charlotte, stayed nearly flat in Raleigh, and fell slightly in Greensboro. Exposure levels are highest in Raleigh, while Charlotte and Greensboro area banks are above national levels. The majority of C&D lending is for residential construction.

- As the state moves toward recovery, a pick up in new banking may be occurring. Although through February 2004 only one bank had been chartered, an additional five were pending. The North Carolina Bankers Association estimates that there may be as many as two dozen new insured financial institutions in the planning stages. Rising numbers may be driven, in part, to industry consolidation that has occurred in the state.

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

North Carolina at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	104	108	115	118	117
Total Assets (in thousands)	1,101,886,145	1,006,849,016	962,554,092	988,017,824	943,400,188
New Institutions (# < 3 years)	7	14	16	22	22
New Institutions (# < 9 years)	37	39	41	39	33

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.46	9.59	9.68	10.52	11.60

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	1.58%	1.50%	1.61%	1.49%	1.34%
Past-Due and Nonaccrual >= 5%	10	8	11	10	5
ALLL/Total Loans (median %)	1.28%	1.34%	1.30%	1.31%	1.26%
ALLL/Noncurrent Loans (median multiple)	1.92	2.14	1.71	2.36	2.30
Net Loan Losses/Loans (aggregate)	0.44%	0.80%	0.84%	0.68%	0.43%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	10	11	17	23	19
Percent Unprofitable	9.62%	10.19%	14.78%	19.49%	16.24%
Return on Assets (median %)	0.75	0.84	0.64	0.73	0.83
25th Percentile	0.51	0.61	0.25	0.31	0.38
Net Interest Margin (median %)	3.65%	3.83%	3.58%	4.04%	4.02%
Yield on Earning Assets (median)	5.66%	6.47%	7.56%	8.28%	7.78%
Cost of Funding Earning Assets (median)	1.96%	2.56%	3.98%	4.33%	3.80%
Provisions to Avg. Assets (median)	0.20%	0.29%	0.19%	0.22%	0.15%
Noninterest Income to Avg. Assets (median)	0.88%	0.83%	0.66%	0.54%	0.55%
Overhead to Avg. Assets (median)	2.96%	2.87%	3.02%	3.05%	3.13%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	90.85%	90.82%	89.47%	89.70%	89.44%
Loans to Assets (median %)	73.03%	72.13%	70.68%	70.86%	69.69%
Brokered Deposits (# of Institutions)	39	31	23	23	16
Bro. Deps./Assets (median for above inst.)	3.91%	4.73%	3.69%	2.51%	1.81%
Noncore Funding to Assets (median)	24.04%	23.22%	22.61%	21.06%	19.82%
Core Funding to Assets (median)	61.82%	63.68%	62.85%	63.91%	65.26%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	54	57	60	64	57
National	6	6	8	9	10
State Member	8	8	7	2	4
S&L	7	8	8	10	11
Savings Bank	9	9	9	9	7
Stock and Mutual SB	20	20	23	24	28

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	35	10,406,453	33.65%	0.94%
Greensboro--Winston-Salem--High Point NC	18	73,521,120	17.31%	6.67%
Charlotte-Gastonia-Rock Hill NC-SC	16	978,090,547	15.38%	88.77%
Raleigh-Durham-Chapel Hill NC	13	15,206,581	12.50%	1.38%
Hickory-Morganton NC	6	2,252,601	5.77%	0.20%
Wilmington NC	4	1,008,706	3.85%	0.09%
Rocky Mount NC	4	19,220,344	3.85%	1.74%
Asheville NC	4	832,524	3.85%	0.08%
Norfolk-Virginia Bch-Newport News VA-NC	1	122,575	0.96%	0.01%
Greenville NC	1	24,986	0.96%	0.00%
Goldsboro NC	1	988,064	0.96%	0.09%
Fayetteville NC	1	211,644	0.96%	0.02%