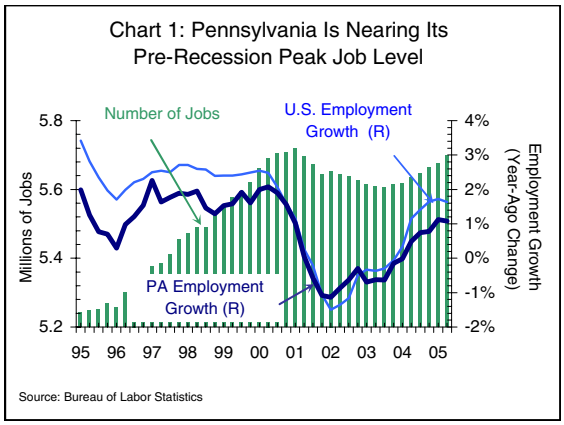
FDIC State Profile

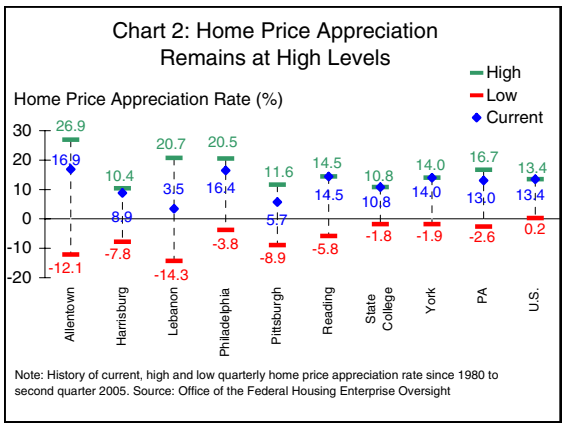
Fall 2005

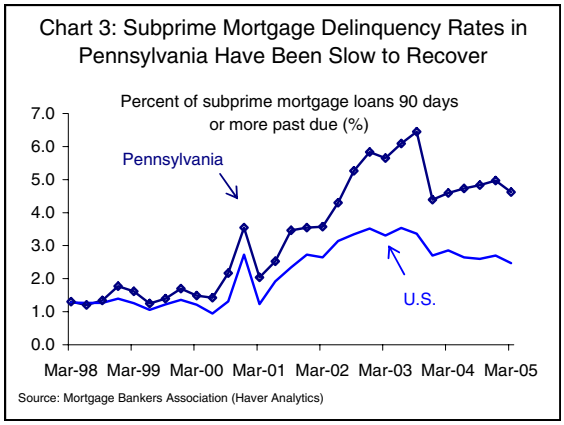
Pennsylvania

Pennsylvania's economic recovery continued, but job growth remained below the U.S. average.

- Pennsylvania has added jobs for five consecutive quarters, and the second quarter employment level approached the state's pre-recession peak (see Chart 1). With approximately 60,000 new jobs added in the first half of 2005, a 1 percent gain, Pennsylvania enjoyed its strongest job growth since 2000.
- Business, health, and tourism services accounted for more than three out of four new jobs added in the state in the year-ending second quarter 2005. Housing-related employment, including construction and mortgage-related jobs, also has been an important contributor and represented 10 percent of the private sector jobs added last year.
- Pennsylvania's manufacturing sector has consistently lost jobs since mid-1998, although the rate of job loss has abated. In second quarter 2005, manufacturing employment declined by 1.1 percent, slightly higher than the national average.
- Except for **State College**, which posted a slight decline, job growth was positive across all of the state's metropolitan areas. At approximately 1.9 percent, **York-Hanover** generated the strongest second quarter employment growth, although the rate of growth has eased during the past year.
- **Philadelphia** continued its recovery, shedding jobs in manufacturing and telecommunications but gaining in health services and retailing. Job weakness in manufacturing and air transportation, the latter from the consolidation of U.S. Airways, continued to hamper **Pittsburgh**.
- The recent hurricanes have contributed to higher gas prices in Pennsylvania and may lead to higher heating bills this winter. After increasing following Katrina, statewide gas prices have eased, and the price per gallon in Pennsylvania approximated the national average.[1] In past years, petroleum and natural gas represented 70







[1] American Automobile Association.

percent of all residential energy consumed in the state, which was above the national average.[2]

Pennsylvania's housing boom slightly trails the U.S. average.

- In second quarter 2005, home appreciation rates reached historical highs in **Reading**, State College, and York; however, price appreciation for the state remained slightly below the national average (see Chart 2). Employment gains and low mortgage rates have contributed to increased housing activity in Pennsylvania.

- Home appreciation rates were strongest in **Allentown** and Philadelphia. Allentown has benefited from a spillover of demand from higher-priced areas in neighboring parts of New York and New Jersey. During the past five years, the monthly mortgage payment on the median priced home in Philadelphia increased 37 percent to $1,267, while the average monthly apartment rent declined by 3 percent to approximately $1000.[3]

Residential loan quality remained favorable among Pennsylvania's FDIC-insured institutions.

- Thirty-five percent of FDIC-insured institutions headquartered in the state are residential lenders compared with 11 percent nationwide, making housing market conditions and residential loan quality an area of prime importance.[4]

- An improving employment picture contributed to favorable residential loan quality in Pennsylvania. The median past-due residential loan ratio statewide declined over the past year and was slightly below the national ratio in second quarter 2005. In western Pennsylvania, residential loan delinquencies declined but remained above state and national levels, perhaps reflecting less favorable employment growth in that part of the state.

- Delinquency rates on subprime loans in Pennsylvania have increased relative to those nationwide (see Chart 3).[5] This trend may reflect slower employment growth in the state compared with the nation in recent years.

The state's FDIC-insured institutions report stable profitability.

- Bank profitability, as measured by the median return-on-assets, slightly increased in second quarter 2005 compared with the similar period one year ago. Net interest margins were flat as asset yields and funding costs increased in step when market interest rates rose. Loan loss provisions remained at low levels amidst favorable credit quality.

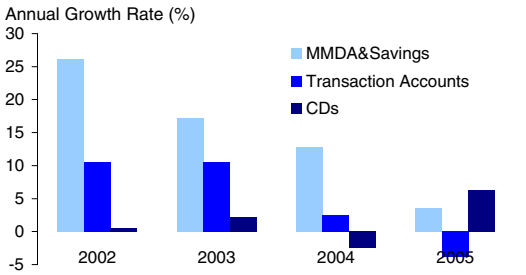
Certificates of deposit (CDs) lead core deposit growth as interest rates rise.

- After trailing for several years, CDs led deposit growth in the second quarter (see Chart 4). When short-term interest rates were low, as was the case in 2002 and 2003, the incremental income benefit to depositors from locking into a CD was modest. However, as short-term interest rates rose, depositors returned to CDs.

- Growth in CDs, in conjunction with rising interest rates, may contribute to higher funding costs for the state's banks, although the effect on funding costs varies by institution depending on the deposit mix. For banks with a high mix of low-yielding, non-maturity deposit accounts, growth in CDs may contribute to higher funding costs. Alternatively, some banks may be opting for CDs in lieu of wholesale borrowings, which typically are more sensitive to rate movements, to manage funding costs in a rising rate environment.

- Because Pennsylvania banks have a higher mix of deposits in long-term CDs than the national average, increases in funding costs may lag those of banks nationwide. The higher concentration of long-term CDs reflects, in part, the state's high mix of residential lenders, which typically attempt to obtain long-term deposits to match more closely long-term residential loans.

Chart 4: Depositors Returned to CDs of Pennsylvania Banks in 2005



Notes: Data are for banks with total assets less than $1 billion excluding thrift institutions. Data are adjusted for mergers. MMDA: Money Market and Demand Accounts. Source: FDIC

[2]Energy Information Administration, U.S. Census Bureau. Energy consumption data available through 2001.
[3]National Association of Realtors, Federal Home Loan Mortgage Corporation, Property and Portfolio Research and FDIC estimates. Monthly mortgage amounts based upon 20 percent down payment on a median priced home, at the prevailing 30-year conventional mortgage rates for the second quarters 2000 and 2005. Monthly rent data are weighted averages.
[4]"Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in one-to-four family mortgage loans and mortgage-backed securities.
[5]Mortgage Bankers Association (Haver Analytics).

Pennsylvania at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	1.1%	0.5%	0.5%	-0.5%
Manufacturing (12%)	-1.1%	-0.7%	-3.5%	-2.9%	-6.2%
Other (non-manufacturing) Goods-Producing (5%)	2.3%	1.5%	1.6%	1.2%	-1.3%
Private Service-Producing (70%)	1.6%	1.6%	1.2%	1.2%	0.4%
Government (13%)	0.1%	0.3%	0.1%	-0.1%	0.9%
Unemployment Rate (% of labor force)	4.9	5.3	5.5	5.5	5.7

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.3%	6.2%	6.6%	5.1%	2.7%
Single-Family Home Permits	-16.1%	-23.9%	31.9%	8.3%	-2.4%
Multifamily Building Permits	-2.6%	-41.0%	16.6%	17.3%	30.8%
Existing Home Sales	2.2%	3.4%	3.4%	13.0%	8.1%
Home Price Index	13.0%	12.4%	10.0%	11.0%	6.9%
Bankruptcy Filings per 1000 people (quarterly annualized level)	5.73	5.02	5.01	4.79	4.69

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	254	256	263	262	270
Total Assets (in millions)	348,550	334,918	313,541	330,979	297,075
New Institutions (# < 3 years)	10	9	9	9	10
Subchapter S Institutions	5	5	5	5	4

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.24	1.29	1.34	1.36	1.51
ALLL/Total Loans (median %)	1.07	1.08	1.12	1.11	1.14
ALLL/Noncurrent Loans (median multiple)	1.97	2.07	1.51	1.85	1.55
Net Loan Losses / Total Loans (median %)	0.01	0.02	0.03	0.06	0.09

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.70	9.35	9.14	9.37	9.02
Return on Assets (median %)	0.83	0.83	0.80	0.82	0.87
Pretax Return on Assets (median %)	1.11	1.08	1.09	1.09	1.17
Net Interest Margin (median %)	3.40	3.42	3.39	3.37	3.38
Yield on Earning Assets (median %)	5.52	5.37	5.19	5.27	5.55
Cost of Funding Earning Assets (median %)	2.14	2.01	1.85	1.90	2.16
Provisions to Avg. Assets (median %)	0.07	0.06	0.06	0.08	0.09
Noninterest Income to Avg. Assets (median %)	0.47	0.45	0.51	0.49	0.50
Overhead to Avg. Assets (median %)	2.54	2.54	2.51	2.52	2.51

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	62.8	61.8	59.8	61.4	59.3
Noncore Funding to Assets (median %)	19.8	18.8	18.6	19.2	18.3
Long-term Assets to Assets (median %, call filers)	33.7	35.3	35.5	35.0	35.4
Brokered Deposits (number of institutions)	55	51	41	45	43
Brokered Deposits to Assets (median % for those above)	1.2	1.3	1.7	1.3	1.2

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	44.0	45.2	47.4	46.8	47.6
Commercial Real Estate	148.9	150.5	150.6	153.4	146.9
Construction & Development	16.0	15.7	14.9	16.4	14.3
Multifamily Residential Real Estate	5.6	5.9	5.5	5.9	5.7
Nonresidential Real Estate	113.2	111.9	114.8	111.9	110.2
Residential Real Estate	288.6	290.7	293.4	292.7	296.6
Consumer	19.1	20.6	22.9	21.5	25.4
Agriculture	0.8	0.9	1.1	1.0	1.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	153	181,748
Pittsburgh, PA	64	53,280
Allentown-Bethlehem-Easton, PA-NJ	34	11,502
Scranton--Wilkes-Barre, PA	24	9,699
Harrisburg-Carlisle, PA	32	8,284

Asset Distribution	Institutions
< $250 million	129 (50.8%)
$250 million to $1 billion	96 (37.8%)
$1 billion to $10 billion	24 (9.4%)
> $10 billion	5 (2%)