FDIC State Profile

Fall 2004

North Carolina

North Carolina job growth begins to recover, but employment levels remain well below their cyclical peak.

- North Carolina's labor market is showing signs of recovery following major layoffs in the manufacturing sector in 2003. Likewise, total personal income increased through first quarter 2004 (most recent data available). Employment growth is near the national average for the first time since first quarter 2001 (See Chart 1), and initial unemployment insurance claims are well below their peak reached in first quarter 2001.

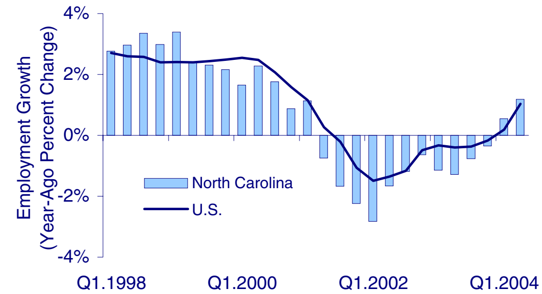
- Although unemployment levels are well below their pre-recession peak, they remain high in many counties (See Map 1). Many of North Carolina's metropolitan areas continue to feel the aftermath of huge job losses, particularly in the manufacturing sector. Layoffs at Pillowtex, for example, devastated **Rowan** and **Cabarrus** counties, which are components of the **Charlotte** metropolitan area. Although the unemployment rates in each of these counties have moderated, approximately 1,600 former Pillowtex workers remain without jobs or health insurance one year later. Likewise, the state's furniture industry continues to struggle as more businesses establish operations in China to take advantage of lower cost production. Higher personal bankruptcies and mortgage foreclosures have resulted from statewide layoffs.

Tax collections are rebounding, but new business formations are slow to recover.

- Gross state tax collections were up 5.9 percent from one year earlier, which could signify that moderating job losses may be helping to boost North Carolina's fiscal conditions.

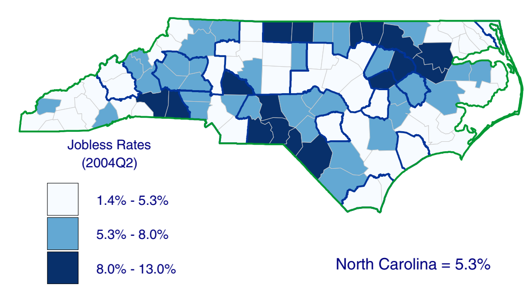
- Weak economic conditions in recent years have limited creation of new firms in North Carolina and contributed to increases in business bankruptcy filings (See Chart 2). However, quarterly bankruptcy filings slowly have been receding to pre-recession levels, and proprietor income increases indicate that the state may be poised for a more favorable climate for business development. During the first half of 2004, the number of **Greensboro-Winston-Salem-High Point** businesses receiving loans guaranteed by the U.S. Small Business

Chart 1: Job Growth in North Carolina Is Comparable to the Nation



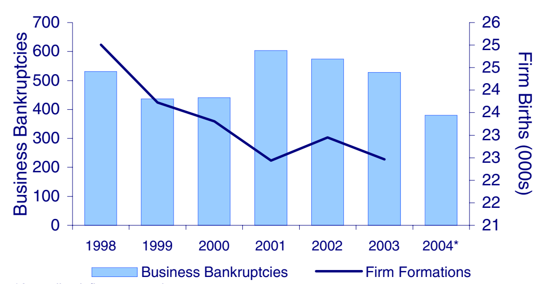
Source: Bureau of Labor Statistics/Haver Analytics

Map 1: Jobless Rates in North Carolina Remain High in Many Counties



Note: Data not seasonally-adjusted.
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Business Formations in North Carolina Have Fallen



*Annualized, first quarter data.
Source: Administrative Office of the U.S. Courts/Haver Analytics, U.S. Small Business Administration

Administration's 7(a) program grew nearly 20 percent above 2003 levels. Nevertheless, commercial loan growth at insured institutions has not yet stabilized. After improving in 2003, commercial and industrial loan growth slowed again in 2004.

Active hurricane season may affect the state's economy.

- The remnants of Hurricane Frances flooded western parts of the state causing estimated agricultural losses of $54 million. Recent activity may be part of a trend in increasingly frequent and severe storms in the Atlantic basin. From the 1960s through the mid-1990s, hurricane activity (with notable exceptions) was generally moderate. A higher probability of storm strikes, combined with greater physical exposure, may result in a greater likelihood of large economic losses in the future.

North Carolina's residential real estate market is thriving because of affordable home prices.

- Home price appreciation in North Carolina has been modest compared to national increases, making the housing market both affordable and active. Based on a housing affordability index comprised of home price appreciation, mortgage interest rates, and personal income growth, the Greensboro/Winston-Salem/High Point metropolitan area has the most affordable housing, followed by **Charlotte-Gastonia-Rock Hill**.[1] Statewide, residential permitting accelerated during the first half of 2004, but median home price gains are below the rate of inflation.

- Raleigh's commercial real estate markets remain generally weak. The office market deteriorated sharply following the dot.com bust and vacancy rates are unusually high. Industrial and retail markets weakened further over the past year ending second quarter 2004. Apartment markets showed minor improvement, but vacancies remain very high. The hotel market is improving slightly.

Despite sluggish earnings performance, banking conditions in North Carolina were favorable.

- After a strong earnings performance in 2003, revenue slid a bit. Net income growth was slightly negative during the 12-month period, but finished mostly unchanged at $85 million. Higher interest expenses may have contributed to the decrease, with noncore funding as a percentage of assets reaching its highest level in a decade. Lower noninterest revenues also helped depress earnings as this income source fell for the first time in five years.

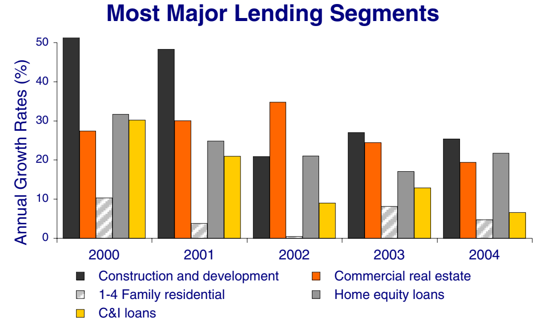
- Profitability measures suffered as both net interest margins (NIM) and return on assets (ROA) fell for the second time in as many periods and remained much lower than national averages at 3.85 and 0.86 percent, respectively. The NIM national average is 4.17 percent, and the national average ROA stood at 1.22 percent.

Loan growth is steady and quality measures improve.

- Loan growth in North Carolina was in line with national performance. On a merger-adjusted basis, loans grew 13 percent during the 12 months ending June 30, 2004. Construction and development (C&D) and home equity loans continued to be the fastest growing loan segments during this period increasing 25 and 22 percent, respectively (See Chart 3). The **Raleigh**, Charlotte and Greensboro MSAs have been some of the most active markets in terms of C&D exposures. As of June 30, 2004, these markets were ranked 32nd, 64th and 69th nationally out of 227 markets, respectively, for C&D loans relative to capital. Anecdotal reports indicate that the majority of C&D lending is for residential construction.

- Asset quality measures improved during the 12 months ending June 30, 2004, to finish the period at 1.36 percent, down from 1.55 percent a year earlier. Capital levels appeared sufficient to handle any unexpected problems with asset quality. Tier 1 leverage capital was 9.41 percent at period end, up 12 basis points from a year ago, but still below the national average of 9.7 percent.

Chart 3: Loan Growth Has Started to Slow in Most Major Lending Segments



Source: FDIC, Call Reports dated June 30th Commercial Banks with Assets < $1 Billion. Growth rates are merger adjusted.

[1] Federal Reserve Bank of Richmond, Region Focus, Summer 2004, page 48

North Carolina at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	106	108	110	119	115
Total Assets (in thousands)	1,217,843,764	1,117,819,103	974,964,124	970,258,973	995,097,378
New Institutions (# < 3 years)	9	9	14	21	26
New Institutions (# < 9 years)	39	39	40	39	38

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.80	9.22	9.60	9.99	11.36

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.24%	1.55%	1.43%	1.53%	1.03%
Past-Due and Nonaccrual >= 5%	8	9	6	8	3
ALLL/Total Loans (median %)	1.24%	1.30%	1.32%	1.31%	1.34%
ALLL/Noncurrent Loans (median multiple)	2.08	1.97	1.96	1.84	2.46
Net Loan Losses/Loans (aggregate)	0.23%	0.51%	0.75%	0.62%	0.42%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	7	12	13	23	20
Percent Unprofitable	6.60%	11.11%	11.82%	19.33%	17.39%
Return on Assets (median %)	0.72	0.83	0.84	0.61	0.77
25th Percentile	0.52	0.57	0.54	0.14	0.34
Net Interest Margin (median %)	3.64%	3.68%	3.82%	3.65%	4.13%
Yield on Earning Assets (median)	5.34%	5.79%	6.61%	8.05%	8.13%
Cost of Funding Earning Assets (median)	1.65%	2.09%	2.78%	4.39%	4.08%
Provisions to Avg. Assets (median)	0.17%	0.21%	0.23%	0.18%	0.17%
Noninterest Income to Avg. Assets (median)	0.73%	0.92%	0.72%	0.63%	0.56%
Overhead to Avg. Assets (median)	2.80%	2.91%	2.86%	3.03%	3.08%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	93.71%	89.34%	89.08%	87.13%	89.11%
Loans to Assets (median %)	74.11%	72.30%	72.51%	70.49%	70.95%
Brokered Deposits (# of Institutions)	48	38	30	23	16
Bro. Deps./Assets (median for above inst.)	4.41%	4.59%	6.31%	2.36%	2.78%
Noncore Funding to Assets (median)	26.09%	22.36%	23.65%	21.78%	19.84%
Core Funding to Assets (median)	60.18%	62.75%	62.87%	63.61%	64.87%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	56	58	57	62	60
National	6	6	7	8	9
State Member	8	8	8	7	2
S&L	7	7	8	8	10
Savings Bank	9	9	9	9	9
Stock and Mutual SB	20	20	21	25	25

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	35	11,102,755	33.02%	0.91%
Greensboro--Winston-Salem--High Point NC	18	81,193,604	16.98%	6.67%
Charlotte-Gastonia-Rock Hill NC-SC	17	1,082,616,068	16.04%	88.90%
Raleigh-Durham-Chapel Hill NC	13	15,577,646	12.26%	1.28%
Hickory-Morganton NC	6	2,309,555	5.66%	0.19%
Wilmington NC	4	1,093,756	3.77%	0.09%
Rocky Mount NC	4	21,612,878	3.77%	1.77%
Asheville NC	4	880,189	3.77%	0.07%
Fayetteville NC	2	312,069	1.89%	0.03%
Norfolk-Virginia Bch-Newport News VA-NC	1	123,852	0.94%	0.01%
Greenville NC	1	25,508	0.94%	0.00%
Goldsboro NC	1	995,884	0.94%	0.08%