FDIC State Profile

Fall 2004

Maryland and Washington, D.C.

Washington, D.C. and Maryland economies outperformed the nation as employment growth accelerated.

- Economic conditions in Maryland and the Washington D.C. metro area continued to be strong as job growth has consistently exceeded the nation (See Chart 1).[1] Increased employment in the health, education, and tourism industries has helped strengthen the area's economy.

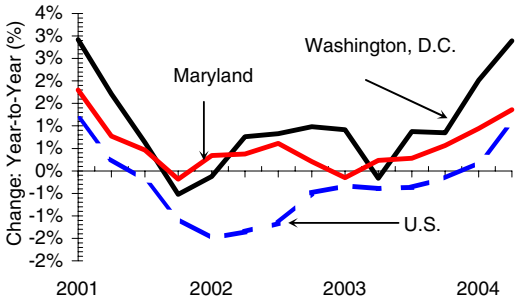
- Boosted by Federal spending and job growth in professional and business services, Washington, D.C. is undergoing an across-the-board expansion. The District's job growth rate ranked among the top 20 metro areas in the nation in the second quarter. Federal government represents over a quarter of the employment and wages and salaries in Washington D.C.

Home price appreciation continues strong, while office market conditions are improving.

- Double-digit home price appreciation continued in Washington D.C. and Maryland, exceeding the U.S. average of 9.4 percent (See Chart 2). Price appreciation in Washington remained among the top 15 percent of metro areas in the nation. Current appreciation rates are similar to those reached during the area's 1980s housing boom.

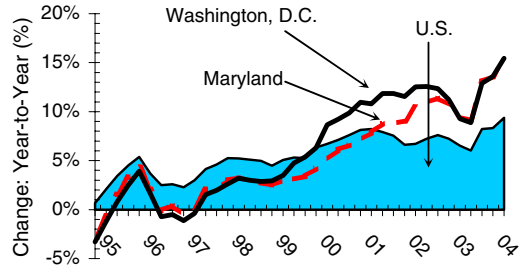
- Reflecting a strong economy, the office vacancy rate for the Washington D.C. metro area reached its lowest level in two years (See Chart 3). Absorption of space reached a four-year high; the majority of the increase in absorption was in suburban Maryland and northern Virginia. Office rents have increased, but remained 8.3 percent lower than their cyclical peak. Approximately 10.6 million square feet of new office space, 4.3 percent of the metro area's total supply, is in the pipeline. **Baltimore's** office vacancy rate also improved, and at 13.6 percent was its lowest level in two years.

Chart 1: Employment Growth Has Been Strong in Maryland and Washington D.C.



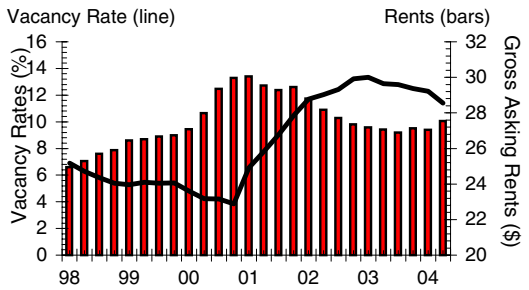
Source: Bureau of Labor Statistics.

Chart 2: Home Price Appreciation Remains High Compared With the U.S.



Source: Office of Federal Housing Enterprise Oversight.

Chart 3: Vacancy Rates in Washington, D.C Have Declined, While Rents Are Rising



Source: Torto Wheaton Research.

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

Profitability reported by FDIC-insured institutions headquartered in Maryland and Washington, D.C. was favorable.

- Reported return-on-assets improved in second quarter 2004. Net interest margins were stable, as both asset yields and funding costs declined.[2]
- Marking the 14th consecutive quarterly decline, the median cost of funds decreased in second quarter 2004. However, the pace of decline has slowed, reflecting a rise in short-term interest rates (See Chart 4). Banks typically delay increases in deposit rates following increases in market rates, but continued reductions in funding costs seem unlikely.

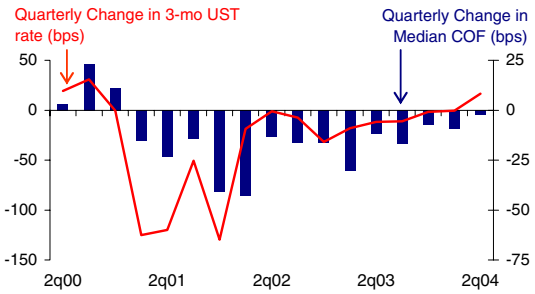
Construction and land development (C&D) lending has grown with booming housing markets.

- C&D lending, typically a higher risk form of lending, has grown in recent years among insured institutions in Maryland and Washington, D.C. Growth has outpaced the increase nationwide (See Table 1).
- While not among the nation's MSAs with the highest C&D loan exposure, Washington, D.C. ranks 83rd out of 227 MSAs, up from 114th one year ago.[3]
- In addition, since 2000, the ratio of C&D loans-to-capital has more than doubled along the state's eastern shore, a popular vacation area.[4] While construction loan exposure has increased, housing market conditions remain strong.

Small business lending may be poised to grow.

- Consistent with national trends, growth in small commercial and industrial (C&I) loans among Maryland and Washington, D.C. community banks has been modest in recent years.[5] The consumer-led recovery and booming housing markets have accompanied comparatively higher growth in C&D and home equity loans (See Chart 5). However, prospects for increased C&I lending nationwide are improving, evidenced by expanding business investment and rising optimism among small business owners. If the residential lending boom wanes with rising interest rates, some banks may look to C&I lending for growth. For discussion of nationwide C&I lending trends, see ***FDIC Outlook, Fall 2004***.

Chart 4: Funding Cost Reductions Have Ground to a Halt



Note: Excludes credit card banks and banks less than three years old.
Source: FDIC

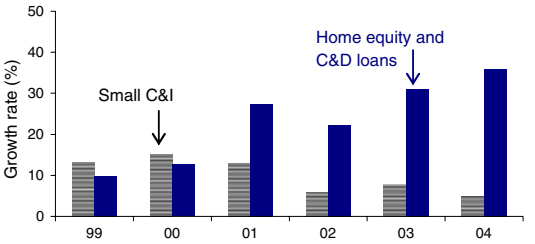
Table 1: Area Construction Loan Portfolios Have Grown Significantly

C & D Loans-to-Tier 1 Capital Ratio (%)		
Geographic Area	**2004**	**2000**
Baltimore MSA	29.9	17.2
Maryland's Eastern Shore	53.5	24.5
Washington, D.C. MSA	68.3	35.1
United States	36.8	22.5

Note: Data are median figures as of June 30th. U.S. data excludes agricultural and credit card banks.

Source: FDIC

Chart 5: Small Business Loan Growth Has Moderated as Housing Has Taken Center Stage



Note: Data for insured institutions with total assets less than $1 billion, excluding credit card banks and banks less than three years old. Small C&I Loans are loans with original amounts below $250 thousand. Data as of June 30th.
Source: FDIC

[2] Includes FDIC-insured institutions headquartered in Maryland and Washington, D.C. excluding banks less than three years old and credit card banks, unless otherwise noted.
[3] MSAs with at least five FDIC-insured institutions were ranked.
[4] "Eastern shore area" is defined in this article as the Maryland counties of Caroline, Kent, Dorchester, Somerset, Talbot, Wicomico, and Worcester.
[5] "Community banks" are defined as insured institutions with less than $1 billion in total assets, excluding credit card banks and banks less than three years old.

Maryland at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	127	129	135	138	148
Total Assets (in thousands)	46,330,409	45,356,435	57,718,435	55,279,507	55,281,089
New Institutions (# < 3 years)	4	1	6	7	9
New Institutions (# < 9 years)	14	11	14	14	14

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.27	9.48	10.08	10.24	10.34

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.04%	1.33%	1.45%	1.53%	1.45%
Past-Due and Nonaccrual >= 5%	2	9	15	14	12
ALLL/Total Loans (median %)	0.95%	1.07%	1.12%	1.11%	1.06%
ALLL/Noncurrent Loans (median multiple)	2.08	1.82	1.73	1.96	2.18
Net Loan Losses/Loans (aggregate)	0.08%	0.14%	0.23%	0.24%	0.23%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	10	11	22	18	17
Percent Unprofitable	7.87%	8.53%	16.30%	13.04%	11.49%
Return on Assets (median %)	0.85	0.84	0.75	0.72	0.81
25th Percentile	0.41	0.45	0.45	0.33	0.49
Net Interest Margin (median %)	3.76%	3.87%	3.86%	3.96%	4.23%
Yield on Earning Assets (median)	5.27%	5.69%	6.54%	7.66%	7.79%
Cost of Funding Earning Assets (median)	1.57%	2.03%	2.67%	3.85%	3.73%
Provisions to Avg. Assets (median)	0.03%	0.08%	0.07%	0.06%	0.07%
Noninterest Income to Avg. Assets (median)	0.53%	0.62%	0.52%	0.50%	0.51%
Overhead to Avg. Assets (median)	2.74%	2.67%	2.71%	2.78%	2.82%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	82.24%	77.22%	80.85%	83.84%	87.39%
Loans to Assets (median %)	68.80%	64.05%	66.89%	69.37%	70.66%
Brokered Deposits (# of Institutions)	27	27	25	22	23
Bro. Deps./Assets (median for above inst.)	5.49%	2.98%	3.11%	3.12%	2.40%
Noncore Funding to Assets (median)	19.17%	17.57%	17.80%	14.70%	14.76%
Core Funding to Assets (median)	69.18%	71.06%	71.49%	72.59%	72.52%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	42	43	43	42	46
National	15	15	15	20	22
State Member	18	18	18	15	14
S&L	13	13	15	17	17
Savings Bank	37	38	42	42	47
Stock and Mutual SB	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Baltimore MD PMSA	68	26,307,514	53.54%	56.78%
Washington DC-MD-VA-WV PMSA	31	11,372,108	24.41%	24.55%
No MSA	20	6,085,990	15.75%	13.14%
Wilmington-Newark DE-MD PMSA	5	931,395	3.94%	2.01%
Hagerstown MD PMSA	3	1,633,402	2.36%	3.53%