BANKING BRIEF
FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Fourth Quarter 2002

Despite the economic downturn and slow recovery, banks posted record earnings in the fourth quarter of 2002. During the quarter, the average return on assets at both large and community banks was 1.2 percent. Banks continued to benefit from falling interest rates, which stimulated residential mortgage lending. Overall real estate lending was up almost 27 percent from last quarter for large banks in the nation and 13.4 percent at community banks. Year-over-year growth rates of real estate loans at community banks were in line with those registered by large banks.

Community banks in the District and the nation reported healthy gains in business and real estate lending but a decline in consumer lending. Business lending declined from the previous quarter at large banks in the nation and the District. The Senior Loan Officer Opinion Survey for January 2003 reported that 47 percent of large banks surveyed experienced moderately weaker demand for business loans from large and middle-market firms. The demand from smaller firms was weaker as well, but the net percentage of banks that reported weaker conditions declined from the previous survey. The most frequently cited reason for weaker demand was a decline in their customers' needs for bank loans to finance capital expenditures.

2001 Survey of Consumer Finances

In January 2002, the Federal Reserve Board released results of the 2001 Survey of Consumer Finances. The survey is conducted once every three years and provides information on what Americans own (from houses and cars to stocks and bonds), how and how much they borrow, and how they bank.

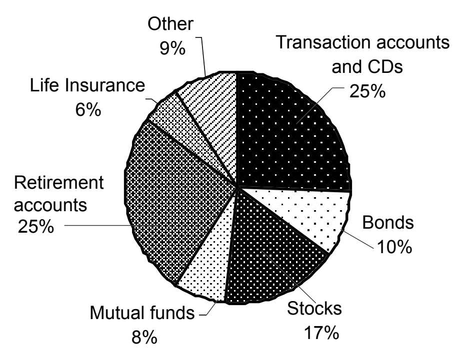
The survey showed that median (inflation-adjusted) family incomes rose 9.6 percent during 1998-2001, much more than the increase of 2.5 percent during the 1995-1998 period. Income grew even more rapidly for households in the top and bottom quintiles of the income distribution. Similarly, net worth or wealth rose strongly during the reporting period, even after adjusting for recent declines in equity prices. Net worth increased for all income groups, but particularly for the top 20 percent of income distribution and the bottom 20 percent. In dollar terms, the median increase for the top quintile was $400,000 while the median increase for the bottom quintile was $1,600.

Financial assets as a percent of all assets rose 1.3 percentage points between 1998 and 2001. Within this category, the share of retirement accounts increased and the share of certificates of deposit and transaction accounts continued its longer-term pattern of decline (see Figure). The direct ownership of publicly traded stocks has been rising since 1995 and rose 2.1 percentage points over the last survey period, with the greatest levels and increases in ownership concentrated among high-income and high-wealth families. The pattern of ownership of mutual funds is very similar to that of stocks, with the greatest fraction of families that own mutual funds concentrated in the highest income decile. Ownership of tax-deferred retirement accounts also increased.

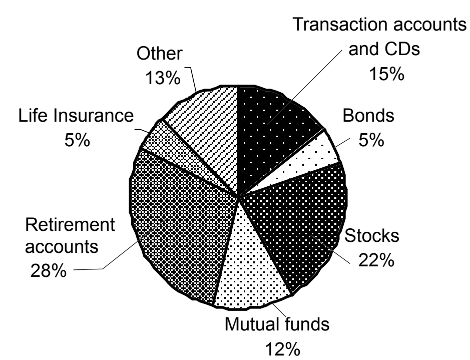
The percent of families with any sort of debt rose from 74.1 percent in 1998 to 75.1 percent in 2001, with home-secured debt, installment loans, and credit card balances among the categories that experienced gains since the last survey. Use of home-secured debt rose 1.5 percentage points from the previous survey, continuing a trend that has been observed since 1992. The rising values of houses over the period resulted in increases of 9 percent in median home equity among families with home-secured debt. The proportion of families owning a primary residence, which includes various types of permanent dwellings, rose from 66.2 percent in 1998 to 67.7 percent in 2001.

Although the median value of debt rose 9.6 percent, the aggregate ratio of debt burden, measured by debt payments to family income, declined from 14.4 percent in 1998 to 12.5 percent in 2001. The median amount of debt rose for all wealth groups except for the lowest 25 percent of wealth distribution. Median credit card balances remained at the same level since the last survey, and the percentage of families that hold credit card balances rose 0.3 percentage point. Ownership of bank-type cards became more common while ownership of store cards and gasoline company cards became less common.

1992 Value of Financial Assets of All Families



2001 Value of Financial Assets of All Families



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Fourth Quarter 2002

Community Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	02Q4	**02Q3**	**01Q4**	**02Q4***	**02Q3**	**01Q4**
Total Assets	81.0	8.0	11.8	1354.4	9.9	10.2
Total Loans	48.9	7.5	8.5	861.3	9.1	9.4
Business	6.6	10.3	1.7	147.0	6.7	4.5
Real Estate	36.6	8.6	11.2	588.9	13.4	13.2
Consumer	3.8	-8.4	-4.5	76.9	-5.2	-3.3
Total Deposits	63.6	7.4	11.2	1085.3	9.0	9.0
Ratios (in %)	**02Q4**	**02Q3**	**01Q4**	**02Q4**	**02Q3**	**01Q4**
Net Income/ Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.1
Net Interest Inc/ Avg Assets (NIM)	3.6	3.6	3.6	3.9	3.9	3.9
Noninterest Inc/ Avg Assets	1.2	1.2	1.2	1.1	1.1	1.1
Noninterest Exp/ Avg Assets	3.0	3.1	3.1	3.1	3.1	3.1
Loans/Deposits	76.9	76.9	78.8	79.4	79.4	79.1
Equity/Assets	9.3	9.3	9.1	9.7	9.7	9.4
Nonperforming Loans/ Total Loans	0.9	0.9	0.9	1.0	1.1	1.0

Large Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	02Q4	**02Q3**	**01Q4**	**02Q4**	**02Q3**	**01Q4**
Total Assets	958.9	7.0	2.4	5205.5	7.9	7.1
Total Loans	567.7	11.6	0.1	2962.9	10.0	5.3
Business	153.2	-14.6	-13.8	734.9	-6.8	-10.0
Real Estate	278.3	45.2	11.7	1396.0	26.9	14.7
Consumer	55.3	-2.9	-2.2	417.4	12.0	17.5
Total Deposits	633.9	8.3	1.3	3350.5	15.6	6.2
Ratios (in %)	**02Q4**	**02Q3**	**01Q4**	**02Q4**	**02Q3**	**01Q4**
Net Income/ Avg Assets (ROA)	1.3	1.2	1.0	1.2	1.2	1.1
Net Interest Inc/ Avg Assets (NIM)	3.3	3.3	3.1	3.2	3.2	3.1
Noninterest Inc/ Avg Assets	2.5	2.5	2.4	2.3	2.3	2.2
Noninterest Exp/ Avg Assets	3.3	3.3	3.2	3.2	3.2	3.2
Loans/Deposits	89.6	88.9	90.7	88.4	89.5	89.2
Equity/Assets	9.2	9.2	8.9	8.6	8.6	8.6
Nonperforming Loans/ Total Loans	1.5	1.6	1.3	1.6	1.7	1.5

A banking organization is an independent bank or all the banks within a highest-level bank holding company; however, banks less than five years old and those whose credit card loans make up greater than 50 percent of their total loans are excluded. The large banking organization sample is based on banking organizations whose total assets were at least as large as those of the 100th largest banking organization in the United States as of December 31, 2001. The community banking organization sample is based on the remaining banking organizations. Tri-state large banking organizations are those large banking organizations that have either at least 5 percent of the deposits of the region or any state therein or at least 5 percent of their deposits in the region. Tri-state community banking organizations are those community banking organizations that are headquartered in the region. The numbers of banking organizations in the categories are as follows: (1) community banking organizations—196 for the tri-state area and 5997 for the nation; (2) large banking organizations—20 for the tri-state area and 99 for the nation. Ratios are aggregates, that is, the numerators and denominators are summed across all banks in the group, then divided. Data are adjusted for mergers. Quarterly percentage changes are compound annualized rates.

* This quarter's sample excluded one bank that changed its charter from a thrift to a bank.

Any questions or comments should be directed to Victoria Geyfman at (215) 574-6431 or victoria.geyfman@phil.frb.org. Detailed documentation on the methodology used in constructing this document, back issues, and the current issue of *Banking Brief* are available on our web site at www.phil.frb.org/econ/bb/index.html. To subscribe to this publication, please contact the Publications Desk at (215) 574-6428 or lois.newell@phil.frb.org.