# FDIC State Profile

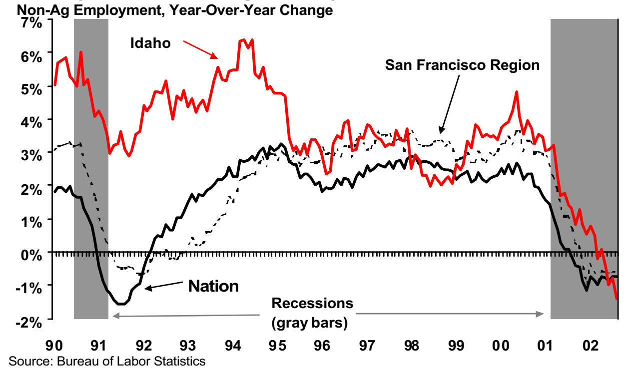
**WINTER 2002**

## Idaho

### Idaho's economy continued to experience a mild recession as of August 2002, primarily because of weakness in the high-tech, lumber, mining, and chemical industries.

- Electronics manufacturing companies laid off 3,000 workers in the state during 2001. High-tech workers earn more than twice the average private sector wage. As a result, these layoffs could exert significant ripple effects throughout the local economies. Employment in the business services industry, which includes temporary workers in the high-tech sector, dropped by 7 percent through August 2002 from a year ago.
- Low lumber prices and stiff foreign competition are adversely affecting Idaho's lumber industry. Employment in this sector fell 8 percent from August 2001 through August 2002.
- Silver prices in 2001 were the lowest since 1993, contributing to smelter shutdowns. In addition, a low price for vanadium forced the closure of a vanadium and phosphate plant. Employment in the mining and the chemical and allied product manufacturing industries was at a historically low level during the first 8 months of 2002.

**Although Recession-Proof in the Early 1990s, Idaho's Employment Slowed Significantly in 2002**

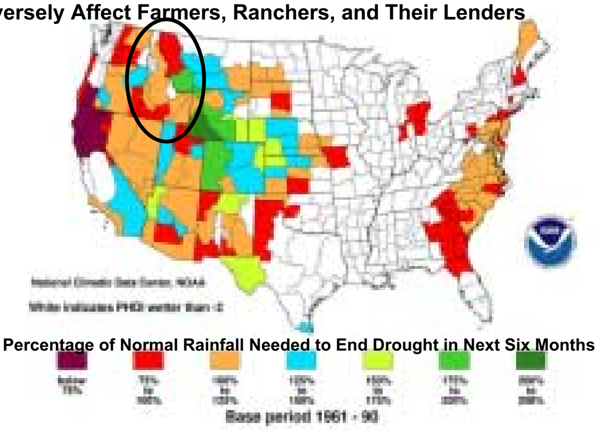



Source: Bureau of Labor Statistics

### Drought and declining beef prices are expected to hurt Idaho's farmers and cattle ranchers.

- Beef prices have declined for the past year and a half, adversely affecting the cattle and calf industry, which accounts for over 22 percent of Idaho's farm cash receipts. In addition, the drought has severely reduced the supply and quality of pastureland available for grazing young cattle, and reduced supplies of feed hay.
- Drought conditions are also expected to severely hurt the potato crop that provided more than 17 percent of the state's 2000 farm cash receipts. The 2002 farm bill includes provisions for wheat subsidies, but federal government financial support is not available for potato growers.
- Poor crop yields and lower beef prices could adversely affect insured institutions with agricultural loan concentrations. As of mid-2002, 40 percent of the state's 20 insured institutions reported agricultural loans-to-Tier 1 capital ratios exceeding 100 percent. Despite these relatively high concentrations at a time when the agricultural sector is under stress, credit quality has not yet shown signs of weakening. In fact, in second quarter 2002, the state's agricultural lenders reported a median overall past -due loan ratio of 1.55 percent, down from a year-ago (1.82 percent). However, should drought conditions persist, asset quality could deteriorate.

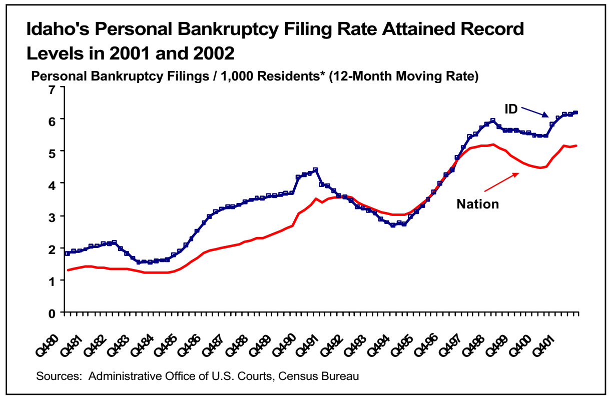
**Extreme Drought Conditions Throughout Much of Idaho Could Adversely Affect Farmers, Ranchers, and Their Lenders**




Source: National Oceanic and Atmospheric Administration (as of September 2002)

### Idaho recently has experienced relatively high bankruptcy and foreclosure rates. The effects on insured institutions so far have been modest.

- During the year ended June 2002, personal bankruptcy rates in Idaho rose, and the state's filing rate was 20 percent higher than the national average (see chart).
- Bankruptcy trends also contributed to an above-average foreclosure start rate in the state. During second quarter 2002, 0.45 percent of all mortgages entered foreclosure, up from 0.39 percent during second quarter 2001, and above a national, record of 0.40 percent.
- Higher personal bankruptcy and foreclosure activity adversely affected portions of consumer and residential mortgage portfolios. The median past-due consumer loan ratio increased from 1.23 to 1.33 percent from mid-2001 through mid-2002 among established community institutions.[1] During the same period, 1-4 family mortgage delinquencies declined to below 1 percent, possibly as a result of heavy refinancing activity during a period of historically low mortgage interest rates.

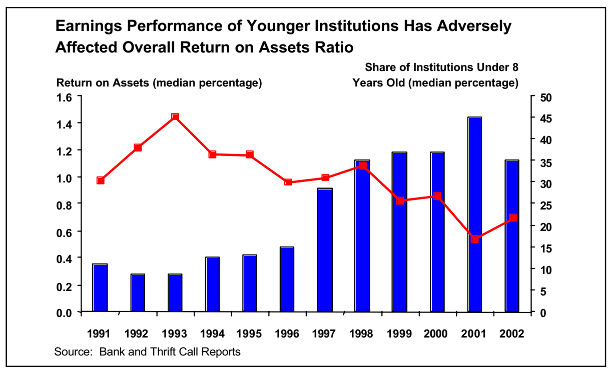


**Idaho's Personal Bankruptcy Filing Rate Attained Record Levels in 2001 and 2002**

Sources: Administrative Office of U.S. Courts, Census Bureau

### Although improved from year-ago levels, mid-2002 profits reported by Idaho's insured institutions remained weak because of high overhead and a significant number of new charters.

- The mid-2002 median return on average assets (ROA) ratio among Idaho insured institutions was 0.69 percent, far below the 1.08 percent reported by insured institutions elsewhere in the nation. High noninterest expense levels contributed significantly to this weak performance. Idaho's median overhead expense-to-average assets ratio was 4.3 percent, higher than the national median of 2.9 percent.
- The state's large proportion of younger institutions (less than nine years old) contributed to weak earnings performance (see chart); however, high overhead appears to adversely affect earnings among charters of all ages. Younger institutions, which comprise 45 percent of all Idaho-based insured institutions, reported a median ROA of 0.27 percent, compared to 0.76 percent among more established institutions in the state.

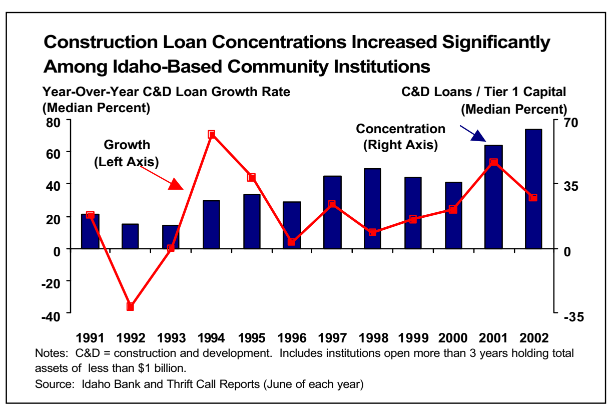


**Earnings Performance of Younger Institutions Has Adversely Affected Overall Return on Assets Ratio**

Source: Bank and Thrift Call Reports

### High-risk construction and development (C&D) loan concentrations have increased significantly.

- The state's median C&D loan-to-Tier 1 capital ratio increased significantly during the past eleven years (see chart). Construction loan growth continues to outpace construction employment growth.
- In addition, residential construction slowed sharply in 2002 because of a buildup in housing supply. Slower permitting could hamper builder cash flows, especially if the trend signals a weakening in housing markets in the near term.



**Construction Loan Concentrations Increased Significantly Among Idaho-Based Community Institutions**

Notes: C&D = construction and development. Includes institutions open more than 3 years holding total assets of less than $1 billion.
Source: Idaho Bank and Thrift Call Reports (June of each year)

[1] Established community institutions are defined as insured institutions open more than three years with total assets of less than $1 billion.

# Idaho Insured Institutions at a Glance

| General Information | Jun-02 | Jun-01 | Jun-00 | Jun-99 | Jun-98 | Jun-97 |
|---|---|---|---|---|---|---|
| Institutions (#) | 20 | 20 | 19 | 19 | 20 | 21 |
| Total Assets (in thousands) | 3,880,276 | 3,392,527 | 2,820,535 | 2,413,672 | 2,074,719 | 1,876,804 |
| New Institutions (# <3 years) | 2 | 2 | 1 | 5 | 5 | 4 |
| **Capital** | | | | | | |
| Tier 1 Leverage (median) | 8.53% | 8.71% | 9.09% | 9.76% | 9.56% | 9.07% |
| **Asset Quality** | | | | | | |
| Past-Due and Nonaccrual (median) | 1.47% | 1.52% | 1.31% | 1.76% | 1.28% | 1.63% |
| Loan Loss Reserves/Total Loans (median) | 1.27% | 1.28% | 1.27% | 1.31% | 1.31% | 1.25% |
| Loan Loss Reserves/ Noncurrent Loans (median multiple) | 2.19 | 2.56 | 2.94 | 2.93 | 1.98 | 2.59 |
| **Earnings** | | | | | | |
| Percent Unprofitable | 10.00% | 15.00% | 10.53% | 10.53% | 20.00% | 19.05% |
| Return on Assets (median) | 0.69% | 0.54% | 0.85% | 0.82% | 1.08% | 0.99% |
| Net Interest Margin (median) | 4.68% | 4.62% | 5.20% | 5.07% | 4.99% | 4.84% |
| Yield on Earning Assets (median) | 6.97% | 8.51% | 8.96% | 8.34% | 8.75% | 8.46% |
| Cost of Funding Earning Assets (median) | 2.34% | 3.86% | 3.76% | 3.39% | 3.74% | 3.64% |
| Provisions to Avg. Assets (median) | 0.35% | 0.32% | 0.34% | 0.24% | 0.22% | 0.16% |
| Noninterest Income to Avg. Assets (median) | 1.12% | 0.98% | 0.91% | 1.09% | 0.88% | 0.80% |
| Overhead to Avg. Assets (median) | 4.26% | 4.11% | 4.20% | 4.09% | 3.96% | 4.03% |
| **Liquidity/Sensitivity** | | | | | | |
| Loans to Assets (median) | 72.28% | 70.15% | 71.40% | 68.46% | 66.09% | 62.94% |
| Brokered Deposits (# of Institutions) | 4 | 4 | 4 | 1 | 0 | 0 |
| Brokered Deps./Assets (median for above inst.) | 5.88% | 7.63% | 4.04% | 8.05% | na | na |
| Noncore Funding to Assets (median) | 18.48% | 20.82% | 21.91% | 17.64% | 15.86% | 14.61% |
| **Loan Concentrations** | | | | | | |
| Median Commercial RE to Tier 1 | 231.84% | 183.20% | 173.95% | 171.45% | 158.23% | 120.23% |
| Commercial RE = Construction, Multifamily, and Nonres. | | | | | | |
| Median Commercial & Industrial to Tier 1 | 167.19% | 172.18% | 163.88% | 180.92% | 163.06% | 141.57% |
| Median Residential RE to Tier 1 | 94.56% | 106.18% | 91.12% | 88.53% | 90.90% | 111.43% |
| Median Consumer to Tier 1 | 63.56% | 54.28% | 55.90% | 57.88% | 60.93% | 61.65% |
| Consumer = Credit Card and other non-RE secured | | | | | | |
| Median Agricultural to Tier 1 | 62.02% | 63.28% | 107.40% | 51.61% | 32.04% | 59.12% |
| Median Construction to Tier 1 | 52.94% | 49.81% | 37.91% | 34.52% | 43.77% | 27.54% |
| **Primary Regulator** | | | | | | |
| FDIC | 14 | 14 | 14 | 14 | 14 | 14 |
| OCC | 1 | 1 | 1 | 1 | 1 | 1 |
| FRB | 2 | 2 | 2 | 2 | 2 | 2 |
| OTS | 3 | 3 | 2 | 2 | 3 | 4 |
| **Asset Distribution** | | | | | | |
| $0 to $100 million | 6 | 7 | 7 | 9 | 11 | 14 |
| $100 to $250 million | 6 | 7 | 10 | 8 | 8 | 6 |
| $250 to $500 million | 8 | 6 | 2 | 2 | 1 | 1 |
| Over $500 million | 0 | 0 | 0 | 0 | 0 | 0 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| Not in an MSA | 15 | 2,950,924 | 75.00% | 76.05% |
| Boise City ID | 4 | 857,659 | 20.00% | 22.10% |
| Pocatello ID | 1 | 71,693 | 5.00% | 1.85% |