FDIC State Profile

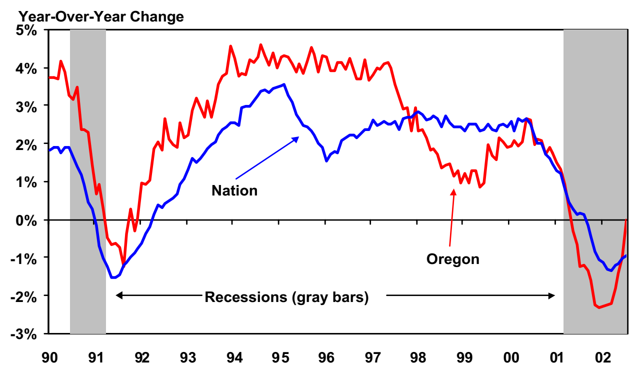
WINTER 2002

Oregon

Manufacturing and construction sector employment in Oregon continued to decline through August 2002, a reflection of a softer economy and lower demand for microchips and high-tech equipment.

- Although employment appeared to be on the rebound, Oregon reported the third highest unemployment rate in the nation at 7 percent in August 2002. Employment in the cyclical sectors of construction and manufacturing weakened notably in Oregon. Together, these sectors represented 31 percent of Oregon's Gross State Product (GSP) in 2000.
- Employment in the electronic products and industrial machinery manufacturing sectors, which generate 16 percent of the state's GSP, fell year-over-year by more than 5 percent through August 2002.
- Reduced demand for commercial space slowed building activity, and resulted in steep construction sector job losses through much of 2001 and 2002.

Oregon's Nonfarm Employment Plummeted During 2001

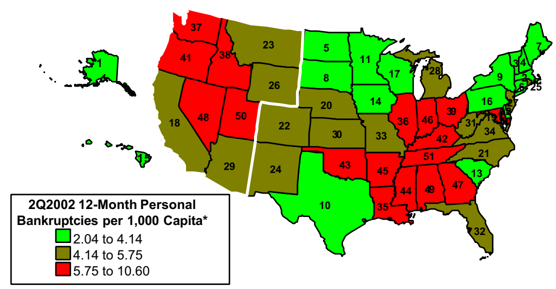


Source: Bureau of Labor Statistics and National Bureau of Economic Research

Weakened employment trends contributed to Oregon's relatively high personal bankruptcy rate, the eleventh highest state-level filing rate in the nation.

- A relatively high level of personal bankruptcies and high unemployment may pressure consumer and mortgage credit quality (see map).
- Several insured institutions headquartered within the state reported moderate year-over-year increases in consumer loan[1] delinquencies and consumer loan net charge-offs. The median past-due consumer loan ratio increased from 1.11 to 1.14 percent, and the median annualized net charge-off ratio through mid-2002 was 0.22 percent, up from 0.18 percent one year earlier.

Oregon's Personal Bankruptcy Rate was High for the 12-months Ended June 2002*



*Note: Population estimates for 2001 were used in computing the personal bankruptcy rate.
Source: U.S. Courts, and Bureau of Economic Analysis

Reduced demand for commercial real estate (CRE) and high CRE loan concentrations could challenge the credit quality of many Oregon insured institutions.

- *Portland's* office and industrial availability rates, as of second quarter 2002, exceeded peaks reached during the 1990s (see chart). Office market conditions deteriorated to the greatest extent in Portland's suburbs, where vacancies averaged 20 percent by June 2002, compared to 12 percent one year earlier. During the same period, Portland's industrial vacancy rate rose 3 percentage points to 9 percent, the highest level since 1984.
- Demand for apartment, retail, and hotel space in Portland also waned during 2001 and 2002, depressing occupancy rates. Higher unemployment and reduced manufacturing and tourism activity contributed to the rise in vacancies.

[1] Consumer loans include credit cards, automobile loans, and other loans to individuals not secured by real estate.

- As of mid-2002, over two-thirds of insured institutions headquartered in the state held CRE loan[2] exposures exceeding 300 percent of Tier 1 capital, as compared to only one quarter of institutions elsewhere in the nation.
- Moreover, institutions headquartered in Oregon reported a median construction and development (C&D) loan-to-Tier 1 capital ratio of 78 percent, four times the level reported by banks and thrifts elsewhere in the nation.
- Half of the state's 12 CRE lenders that reported relatively high[3] CRE and C&D loan exposures were less than nine years old. The ability of these newer institutions to monitor and manage high concentrations through a full economic cycle has only begun to be tested.

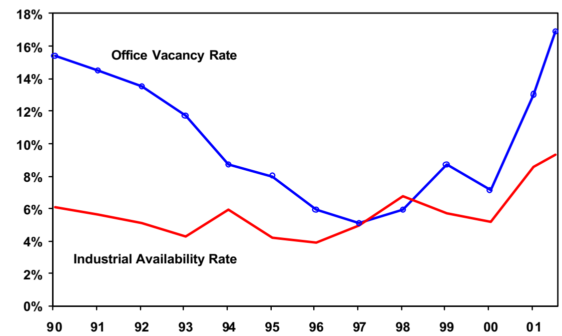
Significant declines in funding costs contributed to an improvement in insured institution earnings.

- Insured institutions headquartered in Oregon reported a median return on average assets ratio of 1.20 percent in mid-2002; this ratio compared favorably to performance elsewhere in the nation and increased from 1.18 a year ago.
- Although interest rate cuts initially hampered net interest margins in 2001 because liabilities were slow to reprice, funding costs declined dramatically between mid-2001 and mid-2002, contributing to improved margins during this period.
- Insured institutions earnings were bolstered by efforts to control overhead costs and boost fee income. The median non-interest expense to average assets ratio declined from 3.93 percent to 3.40 percent between June 2000 and June 2002. The median non-interest income-to-average asset ratio improved from 0.76 to 0.90 percent during the same period.

Drought conditions and strained crop yields could pressure credit quality of those insured institutions holding relatively high concentrations of agricultural loans.

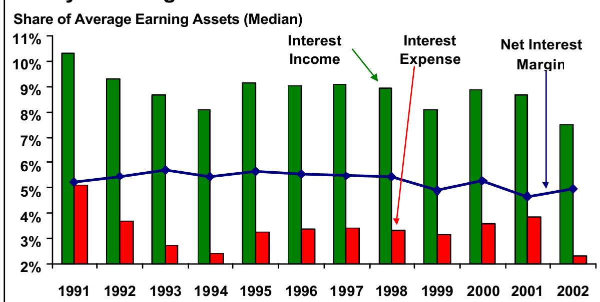
- Drought conditions have persisted in the state; crop yields and quality could be adversely affected. In addition, poor pastureland conditions in the Western U.S. have prompted ranchers to slaughter cattle early, increasing the supply of beef and pressuring prices. Parts of the state would require above-average rainfall to end the drought by March (see map).
- As of second quarter 2002, 16 percent of Oregon's insured institutions reported agricultural loan-to-Tier 1 capital ratios exceeding 100 percent. Should stress continue in the Oregon farm economy, insured institution credit quality could be challenged going forward.

Vacancy Rates in Portland Recently Rose Above 1990 Levels



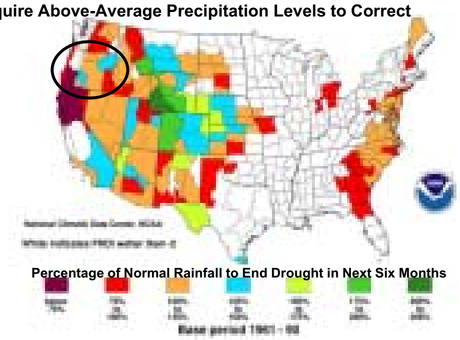
Source: Torto Wheaton Research

Liabilities Among Oregon's Insured Institutions Repriced Slowly Following Interest Rate Cuts in 2001



Source: Bank and Thrift Call Reports (June of each year)

Extreme Drought Conditions Throughout Much of Oregon Will Require Above-Average Precipitation Levels to Correct



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

[2] Defined as mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

[3] Defined as CRE loans-to-Tier 1 capital ratio exceeding 300 percent and C&D loans-to-Tier 1 capital ratio exceeding 100 percent.

Oregon Insured Institutions at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	37	47	49	51	49	48
Total Assets (in thousands)	20,971,860	19,124,020	17,361,890	38,726,312	26,384,368	53,711,394
New Institutions (# <3 years)	3	8	10	8	9	7
Capital						
Tier 1 Leverage (median)	9.32%	9.08%	9.74%	9.48%	10.00%	10.31%
Asset Quality						
Past-Due and Nonaccrual (median)	0.94%	0.98%	0.83%	1.00%	1.21%	1.46%
Loan Loss Reserves/Total Loans (median)	1.23%	1.12%	1.10%	1.08%	1.12%	1.09%
Loan Loss Reserves/ Noncurrent Loans (median multiple)	4.34	2.61	2.23	2.32	2.65	2.45
Earnings						
Percent Unprofitable	5.41%	4.26%	10.20%	15.69%	6.12%	10.42%
Return on Assets (median)	1.20%	1.18%	1.02%	1.28%	1.43%	1.44%
Net Interest Margin (median)	4.98%	4.69%	5.30%	4.90%	5.46%	5.47%
Yield on Earning Assets (median)	7.49%	8.64%	8.88%	8.09%	8.90%	9.07%
Cost of Funding Earning Assets (median)	2.31%	3.88%	3.60%	3.16%	3.34%	3.43%
Provisions to Avg. Assets (median)	0.19%	0.20%	0.20%	0.15%	0.18%	0.19%
Noninterest Income to Avg. Assets (median)	0.90%	0.82%	0.76%	0.83%	0.94%	0.84%
Overhead to Avg. Assets (median)	3.40%	3.62%	3.93%	3.70%	3.69%	3.66%
Liquidity/Sensitivity						
Loans to Assets (median)	75.76%	72.22%	69.62%	65.32%	65.94%	67.44%
Brokered Deposits (# of Institutions)	12	8	9	8	7	7
Bro. Deps./Assets (median for above inst.)	4.08%	4.05%	2.39%	1.72%	1.48%	4.90%
Noncore Funding to Assets (median)	16.90%	16.44%	16.29%	11.82%	11.30%	10.18%
Loan Concentrations						
Median Commercial RE to Tier 1	373.78%	315.77%	278.77%	244.92%	216.09%	237.38%
Commercial RE = Construction, Multifamily, and Nonres.						
Median Commercial & Industrial to Tier 1	109.39%	123.40%	113.13%	95.27%	94.87%	98.38%
Median Construction to Tier 1	77.91%	73.64%	60.32%	50.39%	38.00%	43.88%
Median Residential RE to Tier 1	65.57%	81.46%	76.74%	76.62%	95.74%	105.95%
Median Consumer to Tier 1	32.91%	33.49%	35.92%	51.45%	52.68%	59.59%
Consumer = Credit Card and other non-RE secured						
Median Agricultural to Tier 1	10.57%	8.10%	8.28%	8.76%	8.41%	11.69%
Primary Regulator						
FDIC	26	29	31	31	34	32
OCC	3	4	4	4	3	4
FRB	3	9	9	9	5	5
OTS	5	5	5	7	7	7
Asset Distribution						
$0 to $100 million	14	21	22	24	23	22
$100 to $250 million	8	11	14	15	14	19
$250 to $500 million	8	10	9	8	8	3
$500 million to $1 billion	3	2	1	1	3	2
$1 to $3 billion	3	2	2	2	0	0
$3 to $10 billion	1	1	1	0	0	0
Over $10 billion	0	0	0	1	1	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Not in an MSA	13	5,559,692	35.14%	26.51%
Portland-Vancouver OR-WA PMSA	12	13,000,932	32.43%	61.99%
Salem OR PMSA	5	460,298	13.51%	2.19%
Eugene-Springfield OR	4	1,120,040	10.81%	5.34%
Medford-Ashland OR	2	535,968	5.41%	2.56%
Corvalis OR	1	294,930	2.70%	1.41%