FDIC State Profile

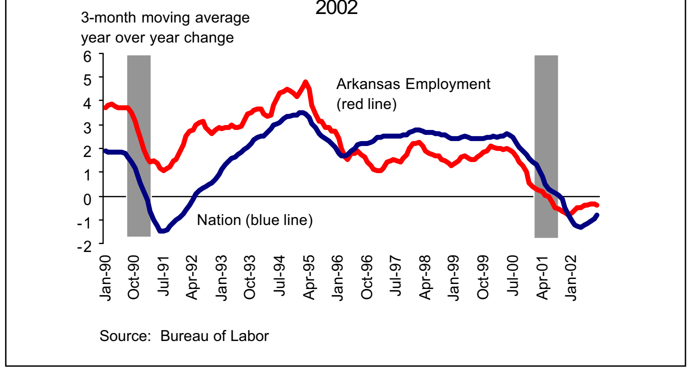
WINTER 2002

Arkansas

Employment Conditions in Arkansas Remain Weak, but the State's Economy Appears to be Rebounding

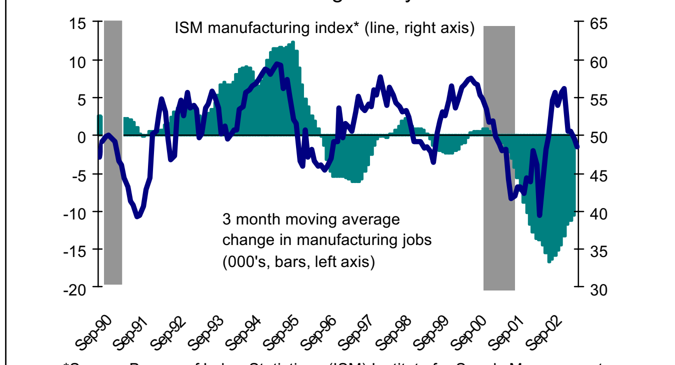
- Labor market conditions in Arkansas are weaker than during the 1990-1991 recession, although conditions have improved slightly since Spring 2002 (see chart). The state's payroll employment growth under-performed the nation since the mid 1990s; however, recent data suggest a possible reversal. Year-over-year employment growth in the state in third quarter 2002 fell 0.4 percent, compared with a 0.8 decline for the nation.uggest a possible reversal. Year-over-year employment growth in the state in third quarter 2002 fell 0.4 percent, compared with a 0.8 decline for the nation.
- Similar to many of the states in the Midsouth, the contraction in the manufacturing sector continues to impede economic growth in Arkansas. The manufacturing sector remained weak since employment peaked in late 1995, with job losses increasing until the middle of 2002 (see chart). The state's manufacturing sector lost over 17,000 jobs during 2001, compared with a loss of 5,700 jobs for the nine months ending September 2002. Structural and cyclical weaknesses continue to restrain job growth, particularly in the sub-sectors of industrial machinery and equipment, textiles and apparel, lumber and wood products, and paper and allied products.
- The state's retail sector continues to thrive, especially Wal-Mart. As a result, economic conditions in the giant retailer's headquarters community, *Fayetteville-Springdale-Rogers*, have been less affected by statewide economic contraction. The Fayetteville economy continues to outperform other metro areas in Arkansas with an unemployment rate of 2.3 percent, well below the state average of 5.1 in third quarter 2002.
- The state's weak economic conditions have held income growth to the lowest level in more than a decade. Annual personal income growth during 2001 was 4.5 percent, the lowest since a 3.8 percent gain in 1987. The state's per capita income of $22,887 ranked 48th in the nation last year compared with the U.S. average of $30,472. Rising debt levels and slowing income growth, in addition to job losses have contributed to a rise in personal bankruptcy filings (see chart). The gap between the per capita bankruptcy filing rate in the state and the nation has widened considerably. Arkansas ranked 7th in the nation in 2001.

Arkansas Employment Began to Rebound in the Spring of 2002



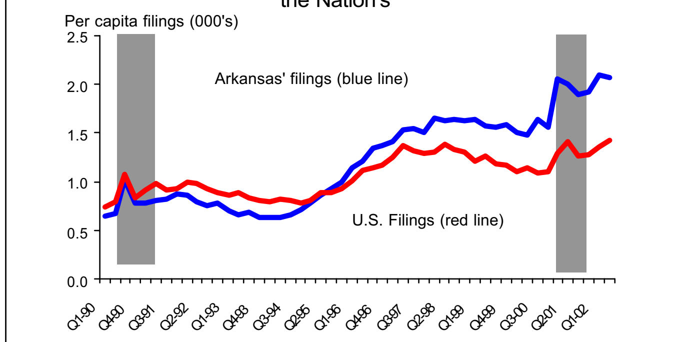
Source: Bureau of Labor

Arkansas Manufacturing Activity Remains Weak



*Source: Bureau of Labor Statistics - (ISM) Institute for Supply Management

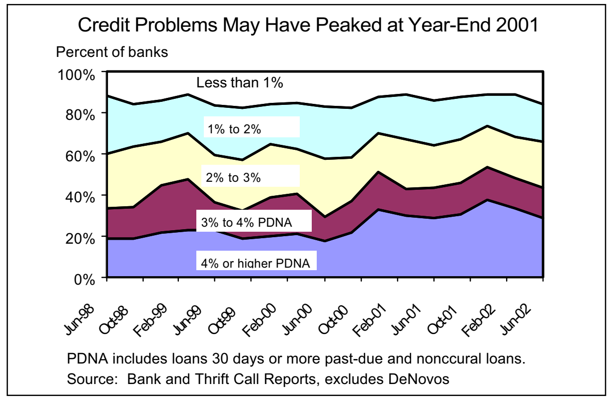
Per Capita Bankruptcy Filings in Arkansas Are Exceeding the Nation's



Source: U.S. Bankruptcy Courts/Haver Analytics

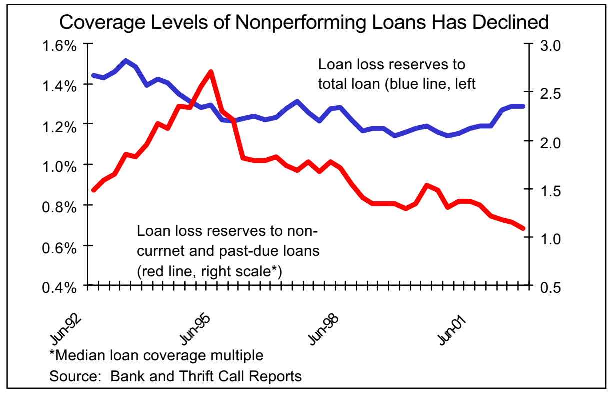
Although Asset Quality Remains an Ongoing Concern, Deterioration in Credit Quality May Have Peaked in 2001

- Insured institutions headquartered in Arkansas reported deteriorating credit quality with higher past-due and nonaccrual loan levels and rising loan loss rates during 2001.
- Reported past-dues and loss rates remained elevated in first quarter 2002. However delinquencies subsided modestly in the second quarter, signaling that deterioration in credit quality may have peaked at year-end 2001 (see chart).[1]



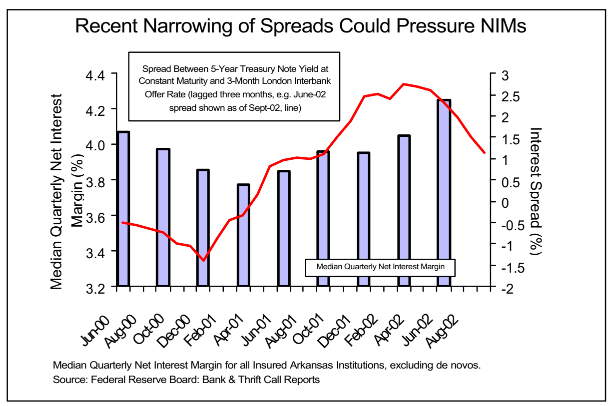
Coverage Levels of Nonperforming Loans Declined During the First Half of 2002

- Insured institutions headquartered in Arkansas responded to rising delinquencies in 2001 by increasing allowance levels relative to total loans. This trend continued through the first half of 2002.[2]
- However, coverage of nonperforming loans declined in 2001 and the first half of 2002, dropping to 1.09 as of second quarter 2002 from 1.48 two years ago.



Favorable Interest Rates Have Boosted Margins and Returns

- Median net interest margins (NIM) for insured institutions headquartered in Arkansas reached 4.25 percent in second quarter 2002, the highest level since third quarter 1998 (see chart). The wide spread between short and long term interest rates helped contain funding costs as yields on earning assets declined. The margin improvement occurred across various asset types, geographic locations, and institution sizes. Median return on asset (ROA) levels rose to 1.21 percent on the improvement in NIMs, the highest in several years. Lower provisions for loan losses during 2002 also contributed to the improvement in ROAs. Additional declines in interest rates likely will not aid NIMs as deposits costs are at practical floors. A rise in interest rates could pressure NIMs, particularly if accompanied by a decline in interest rate spreads to more normal levels.[3]



[1] The median past-due ratio among established banks (those in existence for at least three years) was 2.7 percent in second quarter 2002, down from 3.2 percent and 2.91 percent at year-end 2001 and first quarter 2002, respectively.

[2] Loan loss reserves were 1.15 percent of total loans at year-end 2000 and steadily increased throughout 2001. As of June 2002, the figure was 1.29 percent.

[3] The 10-year average monthly spread between 3-month Libor and 5-year Treasury rates is 77 basis points, compared with 146 basis point spread on November 7, 2002.

Arkansas at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	178	192	204	209	233	249
Total Assets (in thousands)	34,132,697	30,091,442	29,594,319	29,510,540	32,197,467	35,666,157
New Institutions (# <3 years)	5	8	9	11	10	6
New Institutions (# <9 years)	17	19	23	24	22	19
Capital						
Tier 1 Leverage (median)	9.23	9.36	9.43	9.32	9.36	9.30
Asset Quality						
Past-Due and Nonaccrual (median %)	2.64%	2.55%	2.19%	2.19%	2.27%	2.18%
Past-Due and Nonaccrual ≥ 5%	32	29	18	28	26	25
ALLL/Total Loans (median %)	1.28%	1.18%	1.16%	1.13%	1.21%	1.24%
ALLL/Noncurrent Loans (median multiple)	1.17	1.34	1.48	1.39	1.56	1.77
Net Loan Losses/Loans (aggregate)	0.41%	0.27%	0.18%	0.20%	0.21%	0.20%
Earnings						
Unprofitable Institutions (#)	7	14	16	13	13	7
Percent Unprofitable	3.93%	7.29%	7.84%	6.22%	5.58%	2.81%
Return on Assets (median %)	1.13	1.01	1.12	1.15	1.28	1.30
25th Percentile	0.85	0.62	0.83	0.84	0.98	1.02
Net Interest Margin (median %)	4.13%	3.82%	4.05%	3.98%	4.14%	4.23%
Yield on Earning Assets (median)	6.81%	8.12%	7.92%	7.64%	8.09%	8.09%
Cost of Funding Earning Assets (median)	2.65%	4.27%	3.91%	3.66%	3.86%	3.76%
Provisions to Avg. Assets (median)	0.25%	0.19%	0.14%	0.15%	0.11%	0.12%
Noninterest Income to Avg. Assets (median)	0.70%	0.72%	0.64%	0.65%	0.65%	0.65%
Overhead to Avg. Assets (median)	2.71%	2.78%	2.69%	2.64%	2.61%	2.64%
Liquidity/Sensitivity						
Loans to Deposits (median %)	74.99%	75.14%	74.97%	70.20%	70.40%	69.48%
Loans to Assets (median %)	63.35%	63.95%	62.05%	59.50%	60.53%	59.41%
Brokered Deposits (# of Institutions)	40	49	39	25	20	25
Bro. Deps./Assets (median for above inst.)	4.05%	3.17%	4.00%	2.02%	2.57%	3.87%
Noncore Funding to Assets (median)	23.88%	23.64%	23.42%	19.65%	18.35%	16.60%
Core Funding to Assets (median)	65.11%	65.19%	66.05%	68.94%	70.75%	70.83%
Bank Class						
State Nonmember	107	113	118	125	128	129
National	41	41	46	51	61	73
State Member	22	29	30	23	32	32
S&L	3	3	4	5	5	7
Savings Bank	5	6	6	5	7	8
Mutually Insured	0	0	0	0	0	0
Asset Distribution						
$0 to $100 million	83	95	107	118	140	150
$100 to $250 million	69	69	68	66	68	68
$250 to $500 million	17	19	19	15	17	21
$500 million to $1 billion	6	7	9	8	5	6
$1 to $3 billion	2	2	1	2	3	4
$3 to $10 billion	1	0	0	0	0	0
Over $10 billion	0	0	0	0	0	0