FDIC State Profile

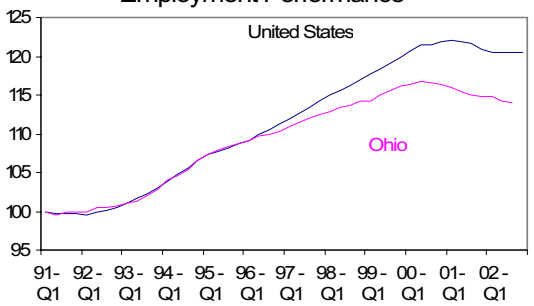
SPRING 2003

Ohio

Ohio's recovery continues; however, economic growth will depend on a sustained expansion in the manufacturing sector.

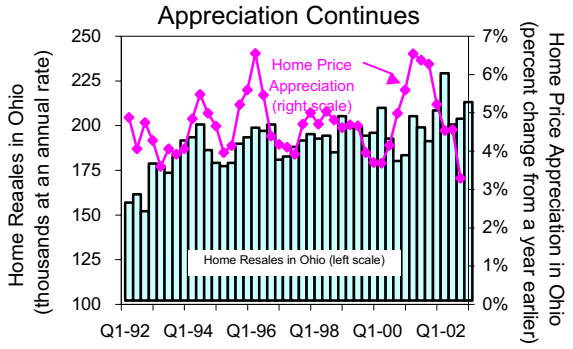
- Ohio is the seventh largest state economy and the third largest manufacturing economy in the U.S. based on gross state product. The production of durable goods represents two-thirds of Ohio's manufacturing output.
- Ohio lags the U.S. in relative employment performance (see **Chart 1**) because of significant job losses in manufacturing, which represents 18 percent of Ohio's labor force. Reflecting a 11.4 percent decline in new orders for durable goods in 2001 and a smaller decline in the first half of 2002, manufacturing employment in Ohio fell 7.5 percent between fourth quarter 2000 and fourth quarter 2002. Among manufacturers of durable goods, employment fell more sharply, declining by 8.4 percent during the same timeframe.
- Steel tariffs passed by Congress in 2002 and increased automobile sales generated by incentives offered by automakers benefit Ohio's steel industry. However, tariffs do little to solve problems related to long-term competitiveness. Should incentives offered by automakers end, Ohio can expect further consolidation in its steel industry.
- Tariffs harmed manufacturers in the Dayton market as increased steel prices raised the cost of a major input.
- Job losses in the retail trade industries in Ohio resulted from the loss of high wage manufacturing jobs and a corresponding reduction in purchasing power.
- Residential real estate in Ohio remains relatively stable as evidenced by continued strong home sales and modest price appreciation. (See **Chart 2**).
- Commercial real estate conditions continue to deteriorate within Ohio's major markets, as vacancy rates are increasing in all categories (see **Table 1**).

Chart 1: Ohio Lags the Nation in Relative Employment Performance



Source: Bureau of Labor Statistics

Chart 2: Ohio's Home Sales Remain High and Appreciation Continues



Sources: National Associaiton of Realtors, Office of Federal Housing Enterprise Oversight

Table 1
Vacancy Rates In Ohio's Major Markets Are High

	Suburban		Downtown		Industrial	
Third Qtr:	2001	2002	2001	2002	2001	2002
Cincinnati	15.5%	19.4%	10.2%	13.2%	8.3%	10.1%
Cleveland	16.3%	18.8%	11.0%	14.4%	8.9%	11.0%
Columbus	19.5%	21.4%	21.3%	23.6%	13.5%	14.3%
U.S. average	13.0%	16.5%	10.4%	12.9%	9.5%	11.4%

Source: CB Richard Ellis

In general, the Ohio banking industry remains sound, but shows elevated risk in the loan mix at "community banks"[1] and increased delinquencies and losses in one-to-four family mortgage loans at "large institutions."[2]

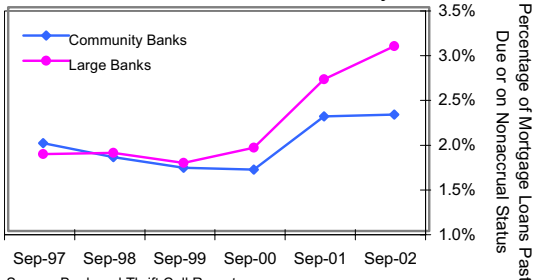
- The Ohio banking market includes 201 banks and 117 thrifts and ranks fourth in the US for percentage of total assets held and ninth in number of institutions.
- Fifty-eight percent of Ohio's financial institutions, excluding de novo and specialty banks, have concentrations in commercial real estate (CRE) or non-residential real estate loans exceeding 100 percent of Tier 1 Capital, up from a low of 49 percent in 1995. Thirty-one percent have CRE concentrations exceeding 200 percent of Tier 1 Capital.
- At the community bank level, the percent of one-to-four family mortgage loans to total loans declined steadily since September 1998. Conversely, non-residential mortgage loans as a percent of total loans shows a consistent increase over the same timeframe (see **Table 2**).
  - Contributing factors to the shift may include increased competition for mortgage loans in a low interest- rate environment and pressure to improve margins by investing funds in higher yielding assets.
  - The ratio of net loan losses to total loans increased 21 basis points since September 1998.
  - Median allowance for loan and lease losses relative to total loans remained stable and well below the national median of 1.2 percent.
  - Capital levels continued to decline.
- Ohio's large banks experienced significantly higher delinquencies in one-to-four family loans than community banks (see **Chart 3**). Large bank delinquencies in nonresidential real estate loans, although also increasing, have not experienced the same dramatic increase.

Table 2
Community Bank Loan Portfolios Shift Toward a Riskier Mix Without a Corresponding Increase in Allowance for Losses and Capital

	Sep-98	Sep-00	Sep-02
One- to Four-Family Loans/Total Loans	51.0%	50.4%	43.5%
Nonresidential Real Estate/Total Loans	13.2%	13.3%	16.5%
Net Loan Losses/Loans	0.14%	0.22%	0.35%
Median values:			
Allowance for Loan Losses/Total Loans	0.96%	0.90%	0.98%
Tier 1 Capital	9.75%	9.57%	9.63%

Source: Bank and Thrift Call Reports

Chart 3: One- to Four-Family Mortgage Delinquencies Have Risen More at Ohio's Large Banks than at its Community Banks



Source: Bank and Thrift Call Reports

- Losses on one-to-four family mortgage loans for Ohio's large banks represent a very high 0.41 percent of total loans in this category, while losses at community banks represent only 0.06 percent of total mortgage loans, as of September 2002.

Issues to Watch:

- As the economy continues to struggle and CRE vacancies continue to rise, delinquencies may increase, as weakness in credit quality often lags the bottom of a business cycle.
- Negative trends in one-to-four family mortgage loan delinquencies at large banks suggest that this traditionally safe lending activity can be susceptible to higher losses.
- A drop in durable goods orders, especially in the primary metals and motor vehicle and parts sectors, could result in a return to higher job losses in Ohio.

[1] Banks and thrifts, excluding de novo institutions, with total assets less than $1 billion.

[2] Banks and thrifts, excluding de novo institutions, with total assets greater than $1 billion.

Ohio at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	318	329	346	354	368
Total Assets (in thousands)	582,029,521	547,039,226	420,475,398	355,790,421	309,509,858
New Institutions (# < 3 years)	9	14	15	11	7
New Institutions (# < 9 years)	26	25	22	21	18

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.41	9.50	9.46	9.64	9.65

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	2.02%	2.13%	1.59%	1.82%	1.92%
Past-Due and Nonaccrual ≥ 5%	23	31	24	28	28
ALLL/Total Loans (median %)	1.01%	1.00%	0.96%	0.99%	0.98%
ALLL/Noncurrent Loans (median multiple)	1.12	1.12	1.48	1.54	1.45
Net Loan Losses/Loans (aggregate)	0.92%	0.93%	0.44%	0.45%	0.55%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	22	16	19	16	10
Percent Unprofitable	6.9%	4.9%	5.5%	4.5%	2.7%
Return on Assets (median %)	1.00	0.92	1.00	0.99	1.11
25th Percentile	0.65	0.56	0.67	0.69	0.79
Net Interest Margin (median %)	3.91%	3.80%	4.02%	4.01%	4.06%
Yield on Earning Assets (median)	6.71%	7.80%	8.02%	7.64%	8.00%
Cost of Funding Earning Assets (median)	2.83%	4.12%	4.17%	3.79%	4.09%
Provisions to Avg. Assets (median)	0.14%	0.11%	0.10%	0.07%	0.08%
Noninterest Income to Avg. Assets (median)	0.51%	0.50%	0.44%	0.44%	0.44%
Overhead to Avg. Assets (median)	2.69%	2.59%	2.63%	2.67%	2.65%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	84.12%	85.85%	90.37%	85.88%	82.79%
Loans to Assets (median %)	69.81%	71.48%	73.35%	70.89%	69.46%
Brokered Deposits (# of Institutions)	60	67	70	73	70
Bro. Deps./Assets (median for above inst.)	4.71%	4.42%	4.08%	1.95%	1.88%
Noncore Funding to Assets (median)	16.31%	16.98%	17.63%	15.47%	13.84%
Core Funding to Assets (median)	70.87%	70.25%	70.22%	71.49%	73.75%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	72	71	71	73	74
National	87	88	92	93	99
State Member	42	47	52	51	49
Savings and Loan	62	65	73	80	87
Savings Bank	31	33	30	30	33
Mutually Insured	24	25	28	27	26

MSA Distribution	# of Inst.	Assets ($thous)	% Inst.	% Assets
No metropolitan statistical area (MSA)	135	23,578,967	42.5%	4.1%
Cincinnati OH-KY-IN PMSA	47	236,555,562	14.8%	40.6%
Cleveland-Lorain-Elyria OH PMSA	30	192,013,586	9.4%	33.0%
Columbus OH	28	88,941,893	8.8%	15.3%
Dayton-Springfield OH	12	2,102,922	3.8%	0.4%
Youngstown-Warren OH	11	16,374,047	3.5%	2.8%
Mansfield OH	10	1,975,381	3.1%	0.3%
Akron OH	8	11,108,306	2.5%	1.9%
Toledo OH	7	1,147,141	2.2%	0.2%
Parkersburg-Marietta WV-OH	7	1,637,021	2.2%	0.3%
Lima OH	6	1,066,327	1.9%	0.2%
Huntington-Ashland WV-KY-OH	5	331,651	1.6%	0.1%
Canton-Massillon OH	4	2,942,716	1.3%	0.5%
Wheeling WV-OH	3	535,981	0.9%	0.1%
Hamilton-Middletown OH PMSA	3	1,614,411	0.9%	0.3%
Steubenville-Weirton OH-WV	2	103,609	0.6%	0.0%