FDIC State Profile

SPRING 2003

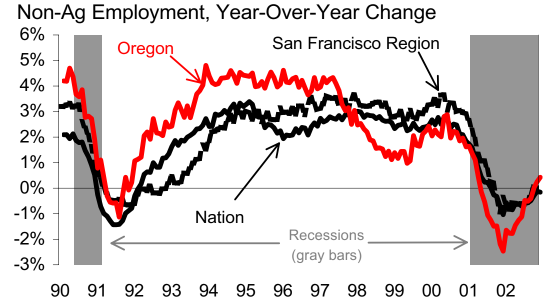
Oregon

Nonfarm employment in Oregon stabilized during 2002; however, weakness in the high-tech sector continued to adversely affect the economy.

- Although employment appeared to be on the rebound during 2002 (see **Chart 1**), Oregon reported the second highest unemployment rate in the nation at 7 percent in December. Year-over-year employment losses occurred in the transportation and utilities, manufacturing, and trade sectors.
- The communications industry in Oregon lost 1,600 employees during the year ending December 2002. General weakness in the telecom industry has contributed to this trend. In addition, venture capital funding in the state declined 71 percent during 2002 compared to the high in 1999.
- Employment in the electronic products and industrial machinery manufacturing sectors, which produce semiconductors and computers and generate 16 percent of the state's Gross State Product declined year-over-year by more than 3 percent through December 2002.

Chart 1: Nonfarm Employment in Oregon Stabilized During 2002

Non-Ag Employment, Year-Over-Year Change



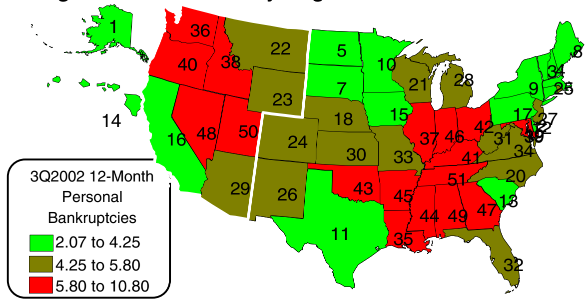
Source: Bureau of Labor

- A strained state budget has contributed to layoffs in the government sector in Oregon.

Weak employment contributed to relatively high personal bankruptcy and foreclosure rates in Oregon.

- The personal bankruptcy rate in Oregon was the twelfth highest in the nation as of third quarter 2002 (see **Map 1**). Personal and business bankruptcies increased year-over-year as of third quarter 2002.
- Foreclosure rates also increased in Oregon to the highest levels since the mid-1980s.
- According to PMI Mortgage Insurance Co., the ***Portland*** MSA ranked third out of 50 cities, reflecting a "high risk" of a housing price decline, which could adversely affect foreclosure rates.
- Reflecting the relatively high bankruptcy rates, consumer loan[1] quality deteriorated somewhat during the year ending third quarter 2002. Established community institutions[2] headquartered in Oregon reported a median past-due consumer loan ratio of 1.05 percent (up from 0.93 percent a year earlier). The median annualized net consumer loan charge-off ratio increased from 0.23 to 0.43 percent during the same period.

Map 1: The Personal Bankruptcy Filing Rate in Oregon Was Relatively High



*Note: Population estimates for 2001 were used.

Source: U.S. Courts, and Bureau of Economic Analysis

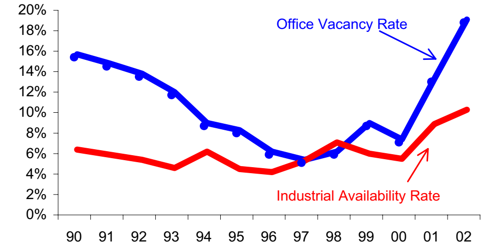
[1] Consumer loans include credit cards, automobile loans, and other loans to individuals not secured by real estate.

[2] Established community institutions include insured institutions in operation more than three years, with less than $1 billion in total assets, and consumer loan-to-Tier 1 capital ratios below 200 percent.

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

- The office vacancy rate in the Portland MSA as of fourth quarter 2002 reached 18.8 percent and exceeded peaks reached during the 1990s (see **Chart 2**). Office market conditions deteriorated to the greatest extent in the suburbs, where vacancies averaged 22.4 percent, up from 15.9 percent one year earlier. The industrial vacancy rate rose 1 percentage point to 10 percent during the year ending fourth quarter 2002, the highest level since 1984.
- Demand for apartment, retail, and hotel space in the Portland MSA also waned during 2001 and 2002, depressing occupancy rates. Higher unemployment and reduced manufacturing and tourism activity contributed to the rise in vacancies.
- As of third quarter 2002, over two-thirds of insured institutions headquartered in the state held CRE loan[3] exposures exceeding 300 percent of Tier 1 capital. Nationwide, only one quarter of insured institutions reported similarly high concentrations. Exposures to construction and development (C&D) loans, one of the traditionally higher-risk segments of CRE lending, contributed to the trend. Institutions based in Oregon reported a third quarter 2002 median C&D loan-to-Tier 1 capital ratio of 85 percent, more than four times the level reported by banks and thrifts nationwide.
- As of third quarter 2002, nearly half the state's 13 insured institutions that reported high CRE and C&D loan exposures[4] have been in operation less than nine years. The ability of these newer institutions to monitor and manage high concentrations through a full economic cycle has only begun to be tested.

Chart 2: Vacancy Rates in Portland Recently Rose Above 1990 Levels

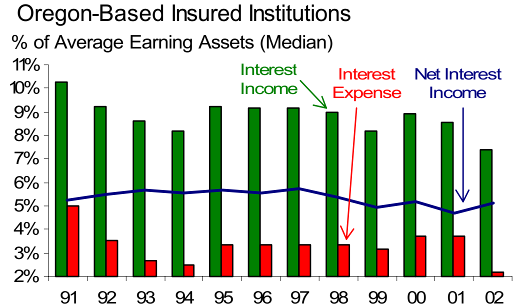


Source: Torto Wheaton Research

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

- Oregon-based insured institutions reported a median return on average assets ratio (ROA) of 1.26 percent for the nine months ending September 2002, up slightly from 1.24 percent one year earlier, and higher than the 1.10 percent median ROA reported by all insured institutions in the nation.
- Although interest rate cuts initially hampered net interest margins in 2001 because liabilities were slow to re-price, funding costs declined dramatically during 2002, contributing to improved margins by the third quarter (see **Chart 3**).
- Earnings were bolstered by efforts to control overhead costs and boost fee income. The median noninterest expense to average assets ratio declined from 3.85 percent to 3.34 percent between September 2000 and September 2002. The median noninterest income-to-average asset ratio improved from 0.87 to 0.96 percent during the same period.

Chart 3: Funding Costs Sank During 2002 Among Oregon-Based Insured Institutions



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

Drought conditions and strained crop yields have pressured credit quality among agricultural lenders.

- Persistent drought conditions in Oregon may adversely affect crop yields. In addition, poor pastureland conditions and low milk prices may challenge the livestock business. The Oregon Department of Agriculture reported that farm income declined 30 percent during 2001, reaching the 1983 low.
- As of third quarter 2002, 5 of Oregon's 31 established community institutions reported agricultural loan-to-Tier 1 capital ratios exceeding 100 percent. Past-due agricultural loan ratios remain low among these 5 insured lenders. However, during the year ending third quarter 2002, the group's median overall delinquency ratio surged from 1.70 to 2.32 percent, primarily as a result of rising commercial loan delinquencies. Should stress continue in the Oregon farm economy, insured institution credit quality could deteriorate further.

[3] CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

[4] Includes insured institutions that report a CRE loan-to-Tier 1 capital ratio exceeding 300 percent and a C&D loan-to-Tier 1 capital ratio exceeding 100 percent.

Oregon at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	39	45	48	51	49
Total Assets (in thousands)	22,980,530	19,400,838	19,895,476	37,100,176	30,060,567
New Institutions (# < 3 years)	5	8	9	8	9
New Institutions (# < 9 years)	13	16	15	14	13

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.28	9.23	9.77	9.90	9.84

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.00%	1.05%	0.99%	1.07%	1.30%
Past-Due and Nonaccrual ≥ 5%	1	4	5	5	7
ALLL/Total Loans (median %)	1.25%	1.16%	1.18%	1.09%	1.12%
ALLL/Noncurrent Loans (median multiple)	3.22	2.35	2.25	2.60	2.42
Net Loan Losses/Loans (aggregate)	0.30%	0.15%	0.15%	0.17%	0.29%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	4	2	3	8	3
Percent Unprofitable	10.26%	4.44%	6.25%	15.69%	6.12%
Return on Assets (median %)	1.26	1.24	1.16	1.28	1.42
25th Percentile	0.90	0.85	0.64	0.57	1.10
Net Interest Margin (median %)	5.10%	4.69%	5.16%	4.97%	5.40%
Yield on Earning Assets (median)	7.40%	8.53%	8.90%	8.17%	8.96%
Cost of Funding Earning Assets (median)	2.19%	3.74%	3.70%	3.18%	3.36%
Provisions to Avg. Assets (median)	0.23%	0.20%	0.22%	0.20%	0.18%
Noninterest Income to Avg. Assets (median)	0.96%	1.03%	0.87%	0.91%	1.02%
Overhead to Avg. Assets (median)	3.34%	3.55%	3.85%	3.72%	3.67%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	87.10%	85.70%	80.13%	79.86%	76.52%
Loans to Assets (median %)	72.82%	72.66%	71.14%	63.57%	64.57%
Brokered Deposits (# of Institutions)	12	9	9	8	7
Bro. Deps./Assets (median for above inst.)	2.48%	4.37%	2.12%	1.46%	1.65%
Noncore Funding to Assets (median)	17.15%	16.97%	15.18%	12.92%	11.87%
Core Funding to Assets (median)	69.95%	71.49%	73.09%	74.96%	76.26%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	28	28	30	31	30
National	3	3	4	4	4
State Member	3	9	9	9	8
S&L	3	3	3	3	3
Savings Bank	2	2	2	4	4
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	14	5,861,407	35.90%	25.51%
Portland-Vancouver OR-WA PMSA	13	14,601,857	33.33%	63.54%
Salem OR PMSA	5	483,299	12.82%	2.10%
Eugene-Springfield OR	4	1,157,556	10.26%	5.04%
Medford-Ashland OR	2	567,254	5.13%	2.47%
Corvalis OR	1	309,157	2.56%	1.35%