FDIC State Profile

Spring 2003

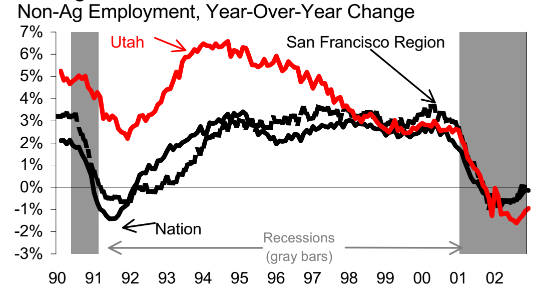
Utah

Job losses in Utah ranked seventh-in the nation for the year ending December 2002, in part because of weakness in the construction and high-tech manufacturing sectors.

- Year-over-year nonfarm employment losses of 1.1 percent for December 2002 were concentrated in the construction and manufacturing sectors (see **Chart 1**).
- As building related to the 2002 Winter Olympics ended, construction employment declined more than 7 percent.
- Employment in the manufacturing sector declined year-over-year by 3.2 percent as of December 2002. A continued contraction in venture capital funding contributed to weakness in the state's high-tech industry which lost almost 5,000 relatively high-paying jobs during the first six months of 2002 compared to a year ago.[1] Venture capital investment in the state declined from $706 million in 2000 to $223 million in 2001, and finished 2002 under $95 million.
- The key government sector was the only component of the Utah economy to experience strong positive growth; employment in this sector expanded nearly 3 percent year-over-year as of December 2002. Projected shortfalls in tax revenues may adversely affect employment and spending in this sector which could exacerbate weakness in the Utah economy.

Chart 1: Utah Employment Declined Significantly During the Last Recession

Non-Ag Employment, Year-Over-Year Change



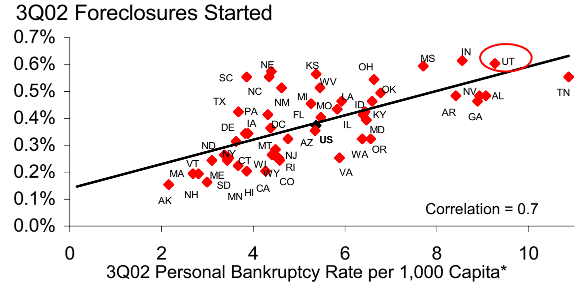
Source: Bureau of Labor Statistics

Weak employment conditions contributed to increasing bankruptcy and foreclosure activity in Utah.

- Utah continued to report one of the highest bankruptcy and foreclosure start rates in the nation as of third quarter 2002 (see **Chart 2**). The number of personal bankruptcy filings for the year ending September 2002 was 15 percent higher than a year ago.
- While the median past-due consumer loan ratio among insured institutions headquartered in Utah declined from 3.5 to 2.9 percent during the year ending September 2002, the median consumer loan net charge-off ratio doubled from 0.6 to 1.2 percent.
- Mortgage Bankers Association of America survey data suggest high and increasing foreclosure activity in Utah. However, the median past-due 1-4 family mortgage ratio reported among Utah-based insured institutions declined from 1.3 to 0.9 percent during the same period. Very low home mortgage interest rates prompted robust refinancing activity, enabling some borrowers to use cash from refinanced loans to keep debts current.

Chart 2: Foreclosures Correlated to Personal Bankruptcies in the Third Quarter 2002

3Q02 Foreclosures Started



*Note: The bankruptcy rate was estimated using personal bankruptcies for full year ended 3Q02 and population figures for the year 2001.

Source: U.S. Courts, Bureau of Econ. Analysis, and Mortgage Bankers Assoc.

- Continued out-migration from ***Salt Lake City*** and Utah could place downward pressure on home prices in some areas.[2] A slowing in home appreciation rates could stress credit quality among mortgage lenders.

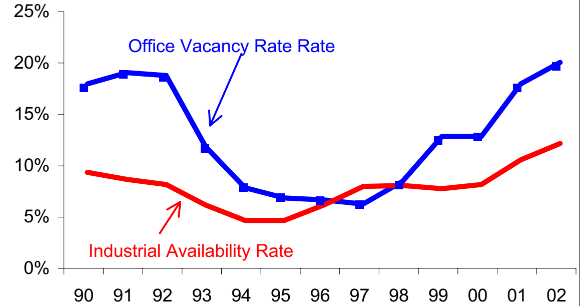
[1] Nancy Perkins and Dave Anderton, "Southern Utah is hot spot in economy", Deseret News, January 9, 2003. (http://deseretnews.com/dn/view/0,1249,450025558,00.html)

[2] "Southern States Gaining Appeal, North Sees More Leaving, According to Latest United Van Lines Study," United Van Lines Press Release, January 7, 2003.

Commercial real estate (CRE) market deterioration in the Salt Lake City MSA could adversely affect a significant number of insured institutions.

- The office vacancy rate in the Salt Lake City metropolitan statistical area (MSA) was nearly 20 percent as of fourth quarter 2002, up sharply over the past two years. This was due, in part, to weakness in the high tech sector (see **Chart 3**). Vacancy rates in the retail, multifamily, and industrial property sectors also deteriorated during the period, although not as dramatically.
- Deterioration in Salt Lake City's CRE markets is a concern because most established community[3] institutions headquartered within the MSA hold high CRE loan[4] concentrations. The median CRE loan-to-Tier 1 capital ratio among these institutions was 482 percent as of September 2002, up from 176 percent ten years earlier. Rising construction and development (C&D) loan concentrations, one of the traditionally higher-risk components of CRE lending, contributed materially to the trend. Over the past decade, the median C&D loan-to-Tier 1 capital ratio reported among established community institutions based in the Salt Lake City MSA increased more than six-fold, from 30 to 190 percent.

Chart 3: Vacancy Rates in Salt Lake City Rose Above 1990 Levels



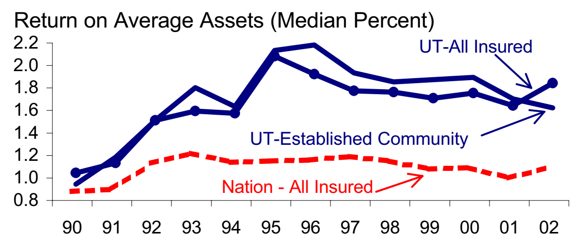
Source: Torto Wheaton Research

- Softer CRE conditions may have adversely affected credit quality among banks operating in the market. Established community institutions headquartered in the Salt Lake City MSA reported a third quarter 2002 median past-due CRE loan ratio of 2.59 percent, up from 1.84 percent one year earlier. This is the highest median past-due CRE loan ratio of any major MSA in the San Francisco Region.[5]

Net interest margin (NIM) declines pressured year-over-year earnings performance among Utah's established community institutions.

- The median return on average assets (ROA) ratio reported by all Utah-based insured institutions through third quarter 2002 increased year-over-year from 1.61 to 1.81 percent, largely because of reduced overhead-to-average asset ratios.
- Institutions with industrial loan company (ILC) charters, which accounted for over 38 percent of insured institutions headquartered in the state, boosted statewide ROA performance. Because these companies often pursue higher-risk, higher-yielding specialty loan niches, these ILCs reported a third quarter 2002 median ROA of 3.69 percent, more than 2.5 times the median ROA reported by non-ILC institutions.
- Improved overhead efficiencies were not sufficient to overcome NIM compression among established community institutions based in Utah, which reported a median ROA of 1.59 percent, down from 1.67 percent in September 2001 (see **Chart 4**).

Chart 4: Profits Slipped Among Established Community Institutions Based in Utah



Note: Includes insured institutions open for more than 3 years with less than $1 billion in assets, consumer loans-to-Tier 1 capital ratio less than 200 percent, but excludes industrial loan companies (ILCs).
Source: Bank and Thrift Call Reports (September of each year)

[3] Established community institutions are defined as insured institutions open more than three years, with less than $1 billion in total assets, and that have consumer loan-to-Tier 1 capital ratios of less than 200 percent. Industrial loan companies are also excluded from the definition.

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

[5] Based upon a comparison of third quarter 2002 median past-due CRE loan ratios within 19 markets in which at least 5 established community institutions with CRE loans were headquartered.

Utah at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	60	60	59	52	52
Total Assets (in thousands)	134,813,710	128,105,918	90,019,058	52,836,889	41,871,341
New Institutions (# < 3 years)	13	13	12	9	11
New Institutions (# < 9 years)	26	28	26	19	19

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	11.96	12.95	12.55	12.59	13.08

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	3.39%	4.00%	2.56%	3.12%	2.78%
Past-Due and Nonaccrual ≥ 5%	21	21	11	10	11
ALLL/Total Loans (median %)	1.68%	1.68%	1.59%	1.80%	1.74%
ALLL/Noncurrent Loans (median multiple)	1.81	1.48	1.72	1.99	2.11
Net Loan Losses/Loans (aggregate)	2.69%	2.77%	2.31%	2.24%	2.83%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	7	10	9	7	7
Percent Unprofitable	11.67%	16.67%	15.25%	13.46%	13.46%
Return on Assets (median %)	1.81	1.61	1.72	1.68	1.70
25th Percentile	0.93	0.65	0.89	0.99	1.30
Net Interest Margin (median %)	5.59%	5.79%	5.92%	5.99%	6.13%
Yield on Earning Assets (median)	8.06%	9.31%	9.56%	9.13%	9.46%
Cost of Funding Earning Assets (median)	2.20%	3.32%	3.71%	3.23%	3.34%
Provisions to Avg. Assets (median)	0.46%	0.42%	0.33%	0.33%	0.41%
Noninterest Income to Avg. Assets (median)	1.30%	1.35%	1.40%	1.89%	1.89%
Overhead to Avg. Assets (median)	3.82%	4.66%	4.21%	4.33%	4.78%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	86.78%	86.69%	85.03%	80.72%	75.88%
Loans to Assets (median %)	72.79%	70.99%	68.22%	64.73%	63.33%
Brokered Deposits (# of Institutions)	31	24	20	19	12
Bro. Deps./Assets (median for above inst.)	23.80%	22.20%	32.45%	10.90%	10.78%
Noncore Funding to Assets (median)	27.45%	21.01%	19.75%	17.10%	12.68%
Core Funding to Assets (median)	49.27%	56.74%	50.60%	65.11%	68.76%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	43	42	40	34	35
National	7	8	8	8	8
State Member	6	6	6	6	6
S&L	1	1	1	1	1
Savings Bank	3	3	4	3	2
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Salt Lake City-Ogden UT	41	132,057,830	68.33%	97.96%
No MSA	12	1,439,798	20.00%	1.07%
Provo-Orem UT	7	1,316,082	11.67%	0.98%