FDIC State Profile

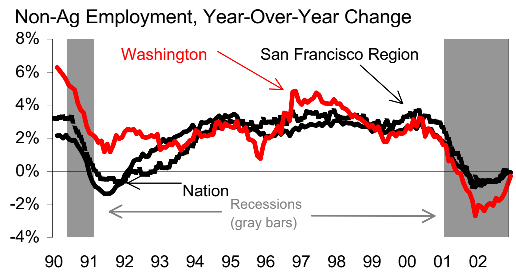
SPRING 2003

# Washington

**Driven by job losses in the aerospace and high-tech sectors, the Washington economy continues to experience the worst recession since 1980-1981.**

- All major sectors except government and finance, insurance, and real estate shed jobs year over year through November 2002 (see **Chart 1**).
- Already in a slump before 9/11, Boeing has been severely affected by the subsequent declines in the airline industry. Boeing cut 18 percent of its Washington workforce during 2002, and plans to cut more. The company has warned that many of these cuts will be permanent.
- As of December 2002, the unemployment rate was 6.8 percent; the third highest in the nation, surpassed only by Alaska and Oregon. A decline in demand for high-tech products and a cutback in venture capital investment have contributed to a loss of 20,000 jobs in the "dot.com" and high-tech sectors.[1]
- Wages in the aerospace and high-tech sectors were nearly twice the state's average wage in 2001; as a result, job losses in these sectors have disproportionately impacted per-capita income.[2]

Chart 1: Job Losses in Washington Were Severe During the Recent Recession



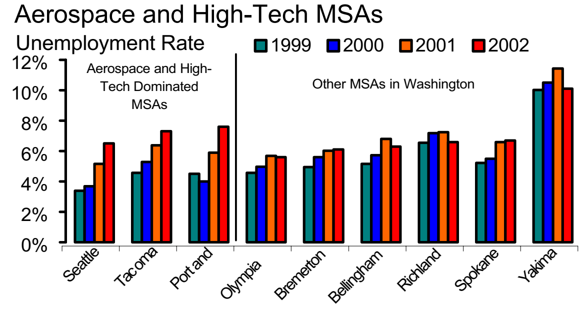

Source: Bureau of Labor Statistics

- Employment in the previously robust government sector could decline during 2003, as Washington faces a $2 billion budget deficit for the 2003-2004 fiscal biennium. Areas heavily dependent upon state government employment include ***Olympia***, the capital, and the university towns of ***Bellingham*** and ***Pullman*** (Western Washington University and Washington State University).

**Job cuts in the aerospace and high tech sectors have hurt unemployment rates in Seattle, Tacoma, and Vancouver, but employment is relatively stable in other parts of the state (see Chart 2).**

- Although ***Spokane*** continues to be adversely affected by the bankruptcy of Kaiser Aluminum, unemployment appears to have stabilized.
- Drought conditions have eased somewhat in the agricultural areas of central and eastern Washington. Production has increased, and prices are higher for most crops, especially apples.

Chart 2: Unemployment Rates Increased Most in Aerospace and High-Tech MSAs




Note: MSA = Metropolitan Statistical Area.
Source: Bureau of Labor Statistics / Haver Analytics

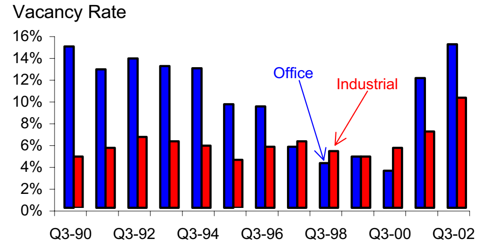
[1] Dunphy, Stephen H., "Seattle's Long Road Back: Return to Economic Health Won't Be Rapid," *Seattle Times*, August 18, 2002.

[2] Cook, John, "Microsoft Boosts State to Top in High Tech Pay," *Seattle Post Intelligencer*, June 27, 2002.

## Softening in the commercial real estate (CRE) market in Washington could adversely affect credit quality among insured institutions with relatively high CRE loan concentrations.[3]

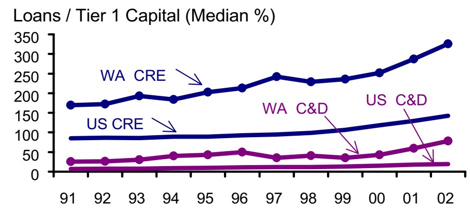
- The slowing economy has weakened demand for commercial properties in the ***Seattle*** MSA. Office and industrial vacancy rates have climbed sharply to 15 and 10 percent respectively during the past three years. Seattle office rents have declined 20 percent from the peak in 2000, and the market continues to soften. Industrial rents have declined 10 percent, but are expected to drop further as Boeing vacates more properties (see **Chart 3**).
- Despite the state's ongoing recession, low interest rates have pushed up housing prices in the Seattle MSA. The National Association of Realtors reports that median sales prices of existing single family homes in Seattle increased 3.8 percent in 2001 and 7.3 percent through third quarter 2002. However, prices could face downward pressure if interest rates rise before the Seattle economy recovers.
- Insured institutions headquartered in Washington are exposed to deterioration in the CRE and construction and development (C&D) markets. The median CRE loan-to-Tier 1 capital ratio among these institutions was 325 percent as of September 2002, more than double the national ratio. The median C&D ratio was 78 percent; more than four times the national ratio (see **Chart 4**). Concentrations among insured institutions based in the Seattle MSA are even higher.[4]
- CRE loan delinquency ratios among established community institutions[5] have increased, particularly in the Seattle MSA. The median past–due CRE loan ratio nearly tripled in the year ending third quarter 2002 to 1.2 percent. C&D delinquency ratios among institutions based in the Seattle MSA jumped sharply from a median of 0.0 percent last year to 1.7 percent.

Chart 3: Office and Industrial Vacancy Rates Have Increased Rapidly in the Seattle MSA




Note: MSA = metropolitan statistical area.
Source: Torto Wheaton Research

Chart 4: Washington Institutions Report High Exposures to Construction and CRE Lending

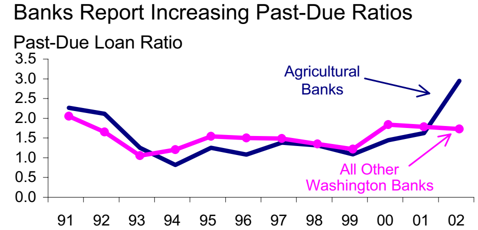



Notes: Excludes institutions less than 3 years old, over $1 billion in assets, or with consumer loan-to-Tier 1 capital ratios exceeding 200 percent. CRE = commercial real estate; C&D = construction and development.
Source: Bank and Thrift Call Reports (September of each year)

## Earnings improved among insured institutions headquartered in Washington during the first nine months of 2002, but asset quality has deteriorated since the recession began.

- The median return on assets among insured institutions headquartered in Washington improved from 0.95 percent at September 2001 to 1.04 percent a year later. This compares to a median of 1.10 percent for insured institutions nationally. Net interest margins (NIM) widened and overhead costs declined, contributing to this improvement.
- Weak economic conditions have adversely affected asset quality among established community institutions headquartered in Washington. Median past-due loan levels increased from a low of 1.13 percent in September 1999 to 1.64 percent in September 2002. The 12 agricultural banks headquartered in the state, which reported a median past-due ratio of 2.9 percent, were among the insured institutions reporting asset quality pressures (see **Chart 5**).[6]

Chart 5: Washington Community Agricultural Banks Report Increasing Past-Due Ratios




Note: Includes insured commercial banks over 3 years old and under $1 billion in total assets. Agricultural banks have agricultural lines and farm real estate loans exceeding 100 percent of Tier 1 Capital.
Source: Washington Bank Call Reports (September of each year)

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

[4] The median CRE loan-to-Tier 1 capital ratio reported by insured institutions headquartered in the Seattle MSA was 384 percent. The C&D ratio reported by this same group of institutions was 97 percent.

[5] Defined as insured institutions open more than 3 years, with assets of less than $1 billion, and with consumer loan-to-Tier 1 capital ratios under 200 percent.

[6] Agricultural banks include insured commercial banks in operation at least three years, holding less than $1 billion in total assets, with agricultural loan-to-Tier 1 capital ratios exceeding 100 percent.

# Washington at a Glance

| General Information | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|---|---|---|---|---|---|
| Institutions (#) | 102 | 99 | 104 | 102 | 102 |
| Total Assets (in thousands) | 71,702,295 | 72,956,208 | 71,125,132 | 66,874,382 | 60,252,735 |
| New Institutions (# < 3 years) | 11 | 15 | 20 | 19 | 13 |
| New Institutions (# < 9 years) | 35 | 33 | 35 | 32 | 28 |

| Capital | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median) | 9.67 | 9.52 | 10.36 | 10.55 | 10.50 |

| Asset Quality | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual (median %) | 1.41% | 1.42% | 1.30% | 1.01% | 1.03% |
| Past-Due and Nonaccrual ≥ 5% | 8 | 4 | 5 | 3 | 2 |
| ALLL/Total Loans (median %) | 1.28% | 1.16% | 1.11% | 1.13% | 1.19% |
| ALLL/Noncurrent Loans (median multiple) | 1.37 | 1.50 | 1.59 | 2.08 | 2.31 |
| Net Loan Losses/Loans (aggregate) | 0.27% | 0.21% | 0.12% | 0.11% | 0.08% |

| Earnings | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|---|---|---|---|---|---|
| Unprofitable Institutions (#) | 12 | 14 | 19 | 18 | 11 |
| Percent Unprofitable | 11.76% | 14.14% | 18.27% | 17.65% | 10.78% |
| Return on Assets (median %) | 1.04 | 0.95 | 1.05 | 1.03 | 1.13 |
| 25th Percentile | 0.60 | 0.50 | 0.57 | 0.55 | 0.74 |
| Net Interest Margin (median %) | 4.70% | 4.51% | 5.07% | 4.96% | 5.06% |
| Yield on Earning Assets (median) | 7.22% | 8.42% | 8.77% | 8.17% | 8.73% |
| Cost of Funding Earning Assets (median) | 2.39% | 3.94% | 3.92% | 3.23% | 3.58% |
| Provisions to Avg. Assets (median) | 0.32% | 0.24% | 0.25% | 0.18% | 0.18% |
| Noninterest Income to Avg. Assets (median) | 0.59% | 0.59% | 0.48% | 0.52% | 0.67% |
| Overhead to Avg. Assets (median) | 3.53% | 3.64% | 3.68% | 3.88% | 3.72% |

| Liquidity/Sensitivity | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|---|---|---|---|---|---|
| Loans to Deposits (median %) | 91.08% | 91.20% | 88.52% | 85.67% | 80.17% |
| Loans to Assets (median %) | 73.39% | 75.36% | 74.05% | 71.10% | 67.00% |
| Brokered Deposits (# of Institutions) | 33 | 26 | 21 | 12 | 10 |
| Bro. Deps./Assets (median for above inst.) | 3.06% | 3.49% | 2.42% | 0.17% | 0.97% |
| Noncore Funding to Assets (median) | 22.34% | 22.28% | 20.75% | 16.49% | 13.70% |
| Core Funding to Assets (median) | 65.91% | 65.86% | 66.37% | 68.49% | 71.33% |

| Bank Class | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|---|---|---|---|---|---|
| State Nonmember | 63 | 60 | 64 | 61 | 60 |
| National | 15 | 15 | 15 | 16 | 18 |
| State Member | 2 | 2 | 2 | 2 | 2 |
| S&L | 7 | 7 | 7 | 7 | 7 |
| Savings Bank | 1 | 1 | 2 | 2 | 2 |
| Mutually Insured | 14 | 14 | 14 | 14 | 13 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| Seattle-Bellevue-Everett WA PMSA | 39 | 48,835,506 | 38.24% | 68.11% |
| No MSA | 28 | 7,346,137 | 27.45% | 10.25% |
| Tacoma WA PMSA | 9 | 2,657,818 | 8.82% | 3.71% |
| Spokane WA | 6 | 6,695,090 | 5.88% | 9.34% |
| Olympia WA PMSA | 5 | 1,298,956 | 4.90% | 1.81% |
| Portland-Vancouver OR-WA PMSA | 4 | 1,271,100 | 3.92% | 1.77% |
| Yakima WA | 3 | 1,233,475 | 2.94% | 1.72% |
| Bremerton WA PMSA | 3 | 797,036 | 2.94% | 1.11% |
| Bellingham WA | 3 | 1,339,800 | 2.94% | 1.87% |
| Richland-Kennewick-Pasco WA | 2 | 227,377 | 1.96% | 0.32% |