FDIC State Profile

SPRING 2003

Colorado

The downturn in the high-tech, construction, manufacturing, and financial services sectors adversely affected the Colorado economy during 2002, resulting in the first annual decline in employment since 1986.

- Following a period of strong employment growth relative to the nation during the 1990s, the rate of job loss in Colorado now exceeds the nation (see **Chart 1**). The state's economy is being pulled down by significant job losses in the construction, manufacturing, and transportation-public utilities sectors (see **Chart 2**). The mining and government sectors registered modest growth of 2.3 percent and 2.7 percent, respectively, from fourth quarter 2001 to fourth quarter 2002.
- Sluggish employment growth, declines in the stock market, contractions in the manufacturing and high tech sectors, and soaring health care costs have hurt state budget revenue. The 2003 budget gap is estimated to be $803 million or 13.2 percent of the general state budget. In response, the governor is proposing 10 percent cuts in education, Medicaid, and corrections. The effects of these cuts will be most evident in areas with high shares of employment in the local and state government sector (see **Table 1**).

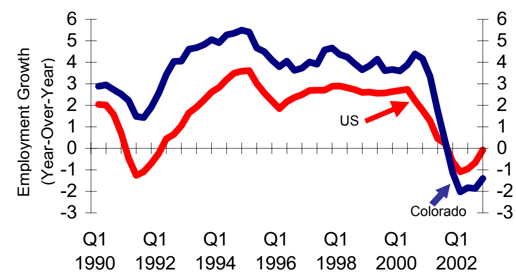
Table 1: State And Local Government Employment Concentration By MSA

MSA NAME	Share Of Total Jobs
Boulder-Longmont	14.75
Denver	11.73
Colorado Springs	11.60

Source: Bureau of Labor Statistics (Haver Analytics)

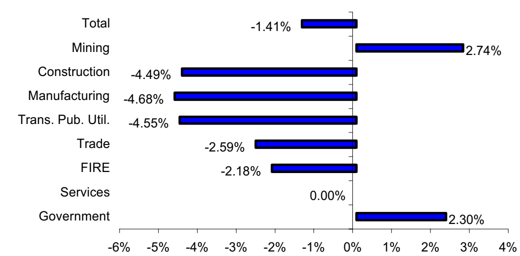
- The volume of Colorado exports (concentrated in the computer and electronics sector) declined significantly during the past two years due to waning overseas demand and a relatively strong U.S. dollar (see **Chart 3**). However, more recently, the U.S. dollar has declined somewhat in value, a trend that may help stimulate exports.
- The defense sector represents a positive for the Colorado economy. Increased defense spending to combat domestic and international terrorism is expected to trickle down to aerospace firms and military suppliers. Although unlikely to pull the state out of its current malaise, a stronger

Chart 1: Rate of Job Loss in Colorado Continues To Exceed That of the Nation.



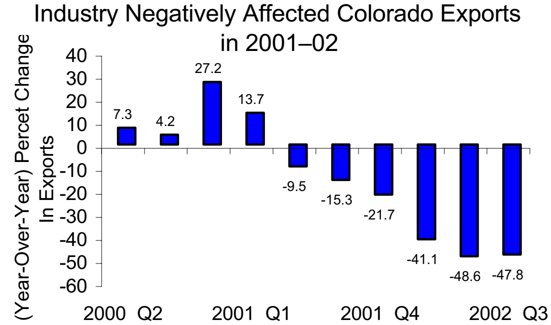
Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Most Employment Sectors Continue to Lose Jobs, Indicating Sluggishness in the Colorado Economy.



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 3: Problems in Telecommunications Industry Negatively Affected Colorado Exports in 2001–02



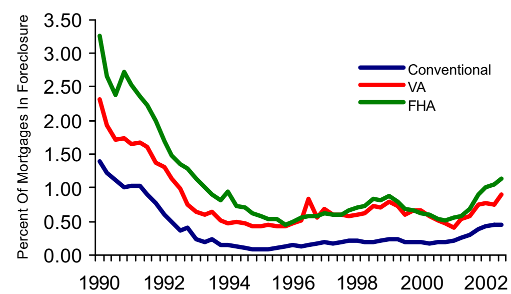
Source: Bureau Of The Census (Haver Analytics) defense sector should help mitigate weakness in other areas of the economy, helping to stabilize employment.

- The Great Plains and Western U.S. have experienced severe drought conditions during 2002. Cattle-producing areas have been among the hardest hit. The majority of Colorado's agricultural receipts are generated by the cattle industry. Producers, faced with rising feed prices because of the drought, have liquidated herds, increasing the supply of beef on the market and driving down prices.
- Tourism expenditures in Colorado totaled $7 billion, making it one of the state's largest industries and one of the country's leading tourism markets. According to research conducted by Longwoods International in 2001, tourism visits to Colorado declined, led by a 22 percent drop in business travel. This decline was attributable to the aftermath of 9/11, and the U.S. recession.

Despite a sluggish Colorado economy, insured institutions headquartered in the state have performed well during the past year.

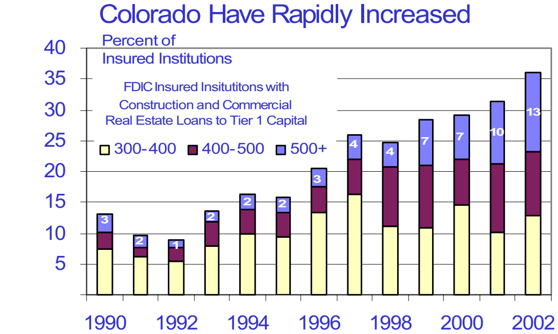
- The average return on assets ratio for the state was 1.58 percent for the nine months ending September 30, 2002, among the highest level in a decade. A low cost of funds is a primary contributor. The cost of funding earning assets declined 132 basis points from a year earlier to 1.67, the lowest level in ten years. At the same time, past-due and charge-off rates are within historical norms, allowing stable provisions to the allowance for loan and lease losses.
- Residential real estate in Colorado is showing some signs of stress as evidenced by rising home foreclosure rates (see **Chart 4**). Moreover, deterioration in FHA and VA mortgages is the greatest since 1991. Insured institution past-due and charge-off rates have remained relatively low, despite a weakening residential market, suggesting banks and thrifts may have tightened underwriting standards and benefited from the established sales and securitization markets.
- Office vacancy rates in the ***Denver*** MSA increased to 20 percent as of third quarter 2002, up from 8.8 percent two years earlier. Industrial vacancy rates also have risen to the highest level in a decade in this MSA. Despite this trend, insured institutions headquartered in Colorado have increased CRE exposures to the highest level on record (see **Chart 5**). Colorado bank and thrift CRE loan past-due and charge-off rates are increasing and were at relatively high levels as of third quarter 2002.
- Thirteen counties in eastern Colorado are home to insured institutions with high agricultural lending concentrations (see **Map 1**). The median ROA for Colorado agricultural banks was 1.21 percent for the nine months ending September 30, 2002, among the lowest levels in the past 10 years. Past-due and charge-off levels remain within decade ranges. The share of unprofitable agricultural institutions has also increased to 6.25 percent, up from zero two years ago.

Chart 4: The Number of Colorado Foreclosures Has Risen Rapidly in the Past Two Years



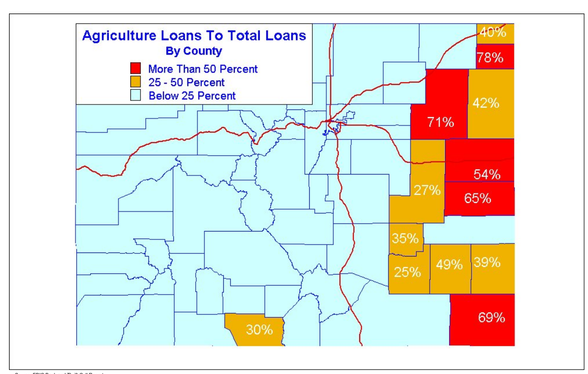
Source: Mortgage Bankers Association (Haver Analytics)

Chart 5: Insured Institutions Headquartered in Colorado Have Rapidly Increased



Source: Bank and Thrift Call Reports

Map 1: Insured Institutions Headquartered In The Agriculturally Concentrated Eastern Half of Colorado Have Performed Well, Despite Poor Agricultural Conditions



Colorado at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	181	188	195	201	213
Total Assets (in thousands)	50,652,682	50,034,154	46,909,910	41,080,625	37,812,497
New Institutions (# < 3 years)	9	9	11	16	14
New Institutions (# < 9 years)	25	24	26	26	24

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	8.19	8.27	8.46	8.57	8.68

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.56%	1.44%	1.05%	1.13%	1.34%
Past-Due and Nonaccrual ≥ 5%	17	13	14	17	18
ALLL/Total Loans (median %)	1.26%	1.16%	1.09%	1.18%	1.23%
ALLL/Noncurrent Loans (median multiple)	2.04	2.38	3.14	2.46	2.61
Net Loan Losses/Loans (aggregate)	0.26%	0.29%	0.28%	0.47%	0.39%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	11	11	10	11	13
Percent Unprofitable	6.08%	5.85%	5.13%	5.47%	6.10%
Return on Assets (median %)	1.23	1.32	1.30	1.26	1.35
25th Percentile	0.85	0.83	0.91	0.89	0.96
Net Interest Margin (median %)	4.70%	4.81%	5.10%	5.01%	5.13%
Yield on Earning Assets (median)	6.81%	8.25%	8.57%	8.14%	8.46%
Cost of Funding Earning Assets (median)	1.97%	3.28%	3.53%	3.06%	3.35%
Provisions to Avg. Assets (median)	0.13%	0.11%	0.11%	0.12%	0.13%
Noninterest Income to Avg. Assets (median)	0.84%	0.86%	0.86%	0.89%	0.90%
Overhead to Avg. Assets (median)	3.35%	3.44%	3.44%	3.43%	3.50%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	71.87%	73.76%	74.41%	72.29%	67.43%
Loans to Assets (median %)	63.24%	62.63%	63.87%	60.95%	58.70%
Brokered Deposits (# of institutions)	23	24	23	23	31
Bro. Deps./Assets (median for above inst.)	4.37%	5.51%	1.97%	1.77%	1.51%
Noncore Funding to Assets (median)	15.31%	14.49%	13.52%	12.31%	10.78%
Core Funding to Assets (median)	73.62%	73.83%	75.10%	76.17%	77.99%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	95	98	100	104	107
National	48	54	56	61	66
State Member	28	26	29	25	28
S&L	9	9	9	9	9
Savings Bank	1	1	1	2	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	84	8,209,107	46.41%	16.21%
Denver CO PMSA	54	32,794,445	29.83%	64.74%
Colorado Springs CO	15	1,986,468	8.29%	3.92%
Ft Collins-Loveland CO	8	3,503,359	4.42%	6.92%
Boulder-Longmont CO PMSA	7	2,241,282	3.87%	4.42%
Greeley CO PMSA	6	1,012,447	3.31%	2.00%
Grand Junction CO	4	510,693	2.21%	1.01%
Pueblo CO	3	394,881	1.66%	0.78%