FDIC State Profile

SPRING 2003

Oklahoma

Employment growth in Oklahoma decelerated in the second half of 2002, but exceeds the U.S. on a year ago basis. Significant exposure to the oil and agricultural sectors, as well as a growing state budget deficit, may result in another year of modest employment growth.

- The Oklahoma economy has fared better than the U.S. during the recent recession (see **Chart 1**). Job growth in the state has benefited from a strong government sector and the fact that the stressed manufacturing sector represents a relatively small share of employment compared with the national average. A slump in Oklahoma's communications equipment sector reflects problems in the U.S. telecom industry. Local economies in ***Oklahoma City*** and ***Tulsa*** have been hurt by significant layoffs at Worldcom and Williams Communications.

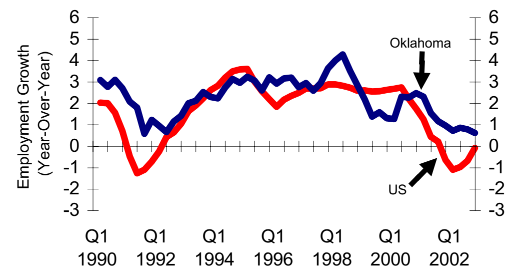
- Military installations represent a source of employment strength and stability in the state. Fort Sill and Tinker Air Force Base, two of Oklahoma's top five employers, have benefited from recent increases in defense spending.

- Sluggish employment growth and soaring health care costs are pressuring tax revenues and undermining the Oklahoma state budget. The 2003 budget deficit is estimated to be $291.7 million, or 6.5 percent of the general budget, and is projected to more than double in 2004. In response, the governor has called for a 6.5 percent reduction in all government programs. These cuts will be most evident in areas with a high share of employment in the local and state government sector (see **Table 1**).

- Oil and natural gas prices have increased during the past year because of geopolitical tensions in the Middle East, a Venezuelan oil strike, and harsh winter weather across the country. Oil prices increased 67 percent over the 12 months ending January 2003 and exceeded $35 a barrel in early February. Similarly, natural gas prices have more than doubled during the same period (see **Chart 2**). Gasoline prices for regular unleaded nationwide averaged $1.61 in early February 2003, up 50 cents from a year ago.

  Higher oil and natural gas prices contributed to an increase in the rig count and mining employment in Oklahoma through year-end 2002. However, both remain below 2001 highs. Despite higher prices, production volumes for oil and natural gas continue to decline due to industry consolidation and concern that current high prices will not hold once the uncertainty surrounding possible war with Iraq has been resolved.

Chart 1: Job Losses in Oklahoma During the Past Two Recessions Have Not Been as Severe



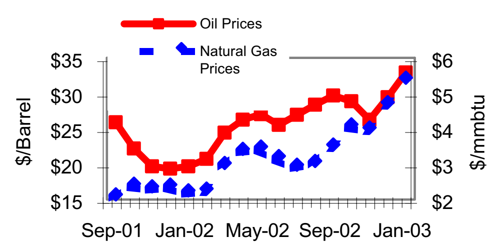
Source: Bureau of Labor Statistics (Haver Analytics)

Table 1: State and Local Government Employment Concentration by MSA

MSA NAME	Share of Total Jobs
Lawton	21.11
Enid	15.19
Oklahoma City	14.33
Fort Smith	10.66
Tulsa	9.90

Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Oil and Natural Gas Prices Continued Their Upward Surge in 2003



Note: Oil Prices are West Texas Intermediate, Cushing and Natural Gas Prices are Henry Hub, LA. Source: The Wall Street Journal

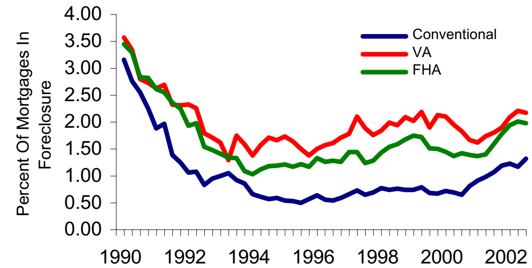
- Agricultural prices remain below the decade average for corn, soybeans and cotton. Prices increased in 2002 after four years of steady declines; however, this was the result of widespread drought conditions, not a reversal in supply and demand imbalances. Therefore, a year of normal production could once again pressure prices below break even levels.

Historically high government subsidy levels are helping to mitigate the effects of low commodity prices and drought-related losses. Subsidies are also helping to bolster farm land values.

Despite weakness in the residential and commercial real estate sectors, insured institutions headquartered in Oklahoma continue to report favorable conditions.

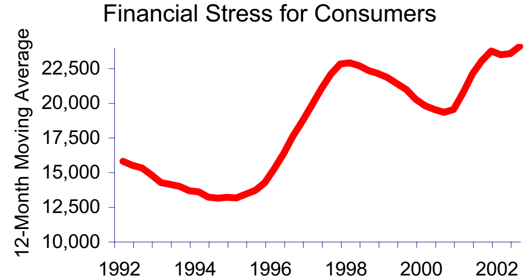
- Insured institutions headquartered in Oklahoma reported an average return on assets ratio of 1.50 percent for the nine months ending September 30, 2002, the *highest* nine month average in a decade. Past-due and charge-off ratios are at the low end of the ten-year range. The equity capital ratio is similarly strong at 12.19 percent, a 10 year high.
- Residential real estate is showing some signs of stress as evidenced by an increase in the number of home foreclosures in Oklahoma (see **Chart 3**). The greatest deterioration has occurred in FHA and VA mortgages where past-due loans have risen to levels reported during the early 1990s. Despite stress in the residential real estate sector, insured institutions headquartered in Oklahoma reported an average residential mortgage past-due rate of 1.42 percent, significantly less than the national average.
- Bankruptcy filings continue to rise in Oklahoma (see **Chart 4**). Oklahoma is the only state in the Southwest Region in which the state per capita bankruptcy rate is above the national average. While consumer past-due and charge-off rates among Oklahoma banks and thrifts remain at levels reported during the past several years, the upward trend in consumer debt and bankruptcy filings suggests that credit quality could weaken going forward.
- The Oklahoma City MSA reported the fourth highest office vacancy rate in the country (21.7 percent) as of third quarter 2002. The rate had been as low as 15.1 percent in 1997, but has increased during the past five years. While new office construction has been nominal during the past decade, absorption has been negative, reflecting corporate relocations out of the state. Industrial vacancy rates in the Oklahoma City MSA more than doubled during the past three years to 10.1 percent as of September 30, 2002. However, despite weakness in the commercial real estate sector, insured institutions headquartered in the Oklahoma MSA have increased CRE exposure to the highest level on record (see **Chart 5**). Despite this heightened exposure, CRE past-due and charge-off rates have remain within the five-year range.
- Agricultural banks continue to report strong conditions, largely due to significant levels of government payments. The average return on assets for Oklahoma agricultural banks was 1.51 percent for the nine months ending September 30, 2002, the highest level in a decade. While average past-due and charge-off rates are at the high end of the five year range, equity capital plus the allowance for loan and lease losses exceeds 13 percent of assets. Increased dependence on subsidies could pose problems for agricultural lenders if payment levels decline in the future at the same time commodity prices are low.

Chart 3: The Number of Oklahoma Foreclosures Has Increased Noticeably Since the Start of the 2001 Recession



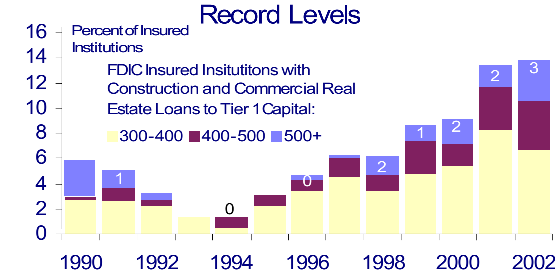
Source: Mortgage Bankers Association (Haver Analytics)

Chart 4: An Unprecedented Number of Bankruptcy Filings in Oklahoma Suggests Added Financial Stress for Consumers



Source: Administrative Office of the United States Courts (Haver Analytics)

Chart 5: Commercial Real Estate Concentrations among Insured Institutions Headquartered in Oklahoma Have Increased to Record Levels



Source: Bank & Thrift Call Reports

Oklahoma at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	280	290	301	314	327
Total Assets (in thousands)	54,741,528	52,155,183	48,206,038	45,262,133	42,560,580
New Institutions (# < 3 years)	3	3	6	6	9
New Institutions (# < 9 years)	13	12	12	11	11

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.43	9.17	9.35	9.14	9.25

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	2.82%	2.55%	2.44%	2.52%	2.43%
Past-Due and Nonaccrual ≥ 5%	53	55	52	69	74
ALLL/Total Loans (median %)	1.26%	1.28%	1.28%	1.33%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.45	1.45	1.38	1.37	1.32
Net Loan Losses/Loans (aggregate)	0.29%	0.33%	0.31%	0.24%	0.42%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	15	14	17	20	14
Percent Unprofitable	5.36%	4.83%	5.65%	6.37%	4.28%
Return on Assets (median %)	1.32	1.21	1.24	1.18	1.28
25th Percentile	0.89	0.82	0.84	0.78	0.91
Net Interest Margin (median %)	4.65%	4.48%	4.70%	4.57%	4.70%
Yield on Earning Assets (median)	6.81%	8.16%	8.43%	7.92%	8.33%
Cost of Funding Earning Assets (median)	2.24%	3.65%	3.74%	3.39%	3.67%
Provisions to Avg. Assets (median)	0.18%	0.15%	0.16%	0.16%	0.16%
Noninterest Income to Avg. Assets (median)	0.91%	0.92%	0.85%	0.83%	0.82%
Overhead to Avg. Assets (median)	3.35%	3.30%	3.26%	3.19%	3.19%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	69.47%	67.74%	68.25%	66.07%	64.69%
Loans to Assets (median %)	59.43%	58.22%	59.33%	56.20%	56.32%
Brokered Deposits (# of institutions)	27	25	19	19	18
Bro. Deps./Assets (median for above inst.)	3.57%	2.84%	2.97%	2.89%	2.11%
Noncore Funding to Assets (median)	17.15%	16.52%	16.46%	14.80%	13.76%
Core Funding to Assets (median)	70.94%	71.66%	72.43%	73.83%	74.21%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	123	123	126	138	159
National	93	97	103	115	120
State Member	58	62	63	50	36
S&L	2	2	3	3	2
Savings Bank	4	6	6	8	10
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	183	16,240,379	65.36%	29.67%
Oklahoma City OK	45	21,467,043	16.07%	39.22%
Tulsa OK	41	15,584,157	14.64%	28.47%
Enid OK	5	760,225	1.79%	1.39%
Lawton OK	4	456,505	1.43%	0.83%
Ft Smith AR-OK	2	233,219	0.71%	0.43%