FDIC State Profile

SUMMER 2003

Arizona

Nonfarm employment in Arizona rose during the year ending January 2003 after falling the previous year.

- Payroll jobs increased 1.1 percent, which was above the nation's 0 percent growth, but well below the state's strong growth rate in the 1990s (see Chart 1).
- Employment growth, primarily in education and health services and in trade, transportation, and utilities, offset job losses in the manufacturing and information sectors.
- A projected $1.5 billion (25%) state budget deficit for fiscal year 2004 may curtail employment in the government sector. Already growth in state and local government employment had slowed to 0.3 percent in early 2003, down from 4.0 percent in 2001 when it was nearly the only growing sector.

Employment in the state's high-tech sector has declined significantly.

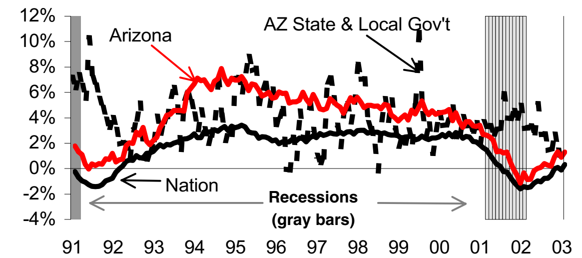
- Employment in computer and electronics products manufacturing declined 10.1 percent during the year ending January 2003 (see Chart 2).
- According to Economy.com, Arizona faces increasing competition from other states for these high-tech manufacturing operations, because of the state's relatively high labor costs.
- High-tech manufacturing in the Tucson metropolitan statistical area (MSA) depends more on demand for defense-related products than does the Phoenix area. The recent increase in national security spending, however, has not yet resulted in high-tech manufacturing job growth in this metropolitan area.

Office and industrial vacancy rates have risen in both the Phoenix and Tucson MSAs.

- According to Torto Wheaton Research (TWR), the Phoenix MSA office and industrial vacancy rates now exceed national averages. In addition, TWR reports that office rental rates in the Phoenix MSA as of fourth quarter 2002 declined 8.1 percent from their peak in the second quarter of 2000.
- Property and Portfolio Research, LLC (PPR) data indicate that, with the exception of hotels, vacancy rates in the Phoenix MSA remain below those experienced during the serious real estate downturn in the late 1980s and early 1990s.

Chart 1: Arizona's Employment Rebounded in Late 2002

Non-Ag Employment, Year-Over-Year Change

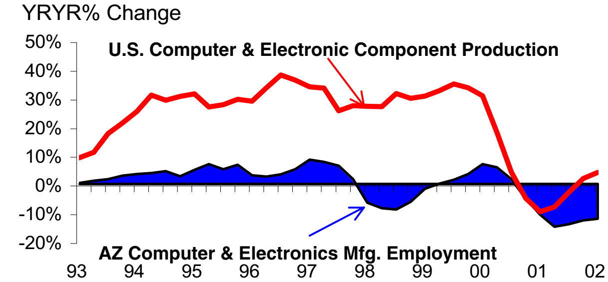


Note: End of 2001 recession projected to be February 2002; official date not yet determined

Source: Bureau of Labor Statistics

Chart 2: Computer & Electronic Production Has Improved in the Nation, But Arizona Continues to Shed Jobs in This Sector

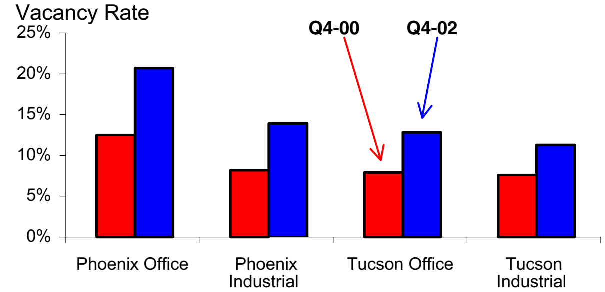
YRYR% Change



Source: Bureau of Labor Statistics, Federal Reserve Board

Chart 3: Increased Phoenix and Tucson Office and Industrial Vacancies Resulted From the Slowing Arizona Economy

Vacancy Rate



Source: Torto Wheaton Research

Weakening CRE market conditions could adversely affect the 18 established community institutions[1] headquartered in the Phoenix MSA that hold CRE loans.

- As of year-end 2002, the median CRE loan-to-Tier 1 capital ratio among these institutions was 451 percent, more than twice the concentration reported ten-years earlier (see Chart 4).[2] The group's median construction and development (C&D) loan-to-Tier 1 capital ratio increased six-fold over the past ten years to 142 percent. Median CRE and C&D concentration measures far exceeded levels reported by MSA-based institutions nationwide.
- Increasing CRE vacancy rates pushed up CRE loan delinquencies for only two of Phoenix's established community institutions (see Chart 4). The fourth quarter 2002 median past-due CRE loan ratio remained well below levels reported in the early 1990s, when rapid declines in CRE market conditions battered insured institution asset quality.

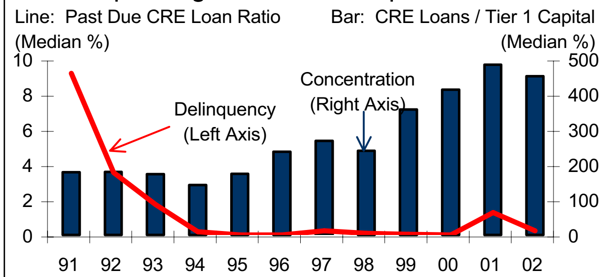
Earnings among Arizona's insured institutions were weak through fourth quarter 2002, primarily because of the state's high proportion of relatively young institutions (i.e., less than 9 years old).

- The median return-on-assets (ROA) ratio declined to 0.81 percent, down from 0.87 at year-end 2001, and substantially below the 1.06 percent national median. Narrower net interest margins among the state's predominantly asset-sensitive institutions depressed earnings.
- ROA ratios were weaker among institutions less than nine years old, which accounted for 61 percent of the state's insured institutions (see Chart 5). Insured institutions in operation more than nine years reported strong ROA ratios, primarily because of the high proportion of credit-card lenders.

Insured institutions based in Arizona relied increasingly on non-core funding sources,[3] including brokered deposits.

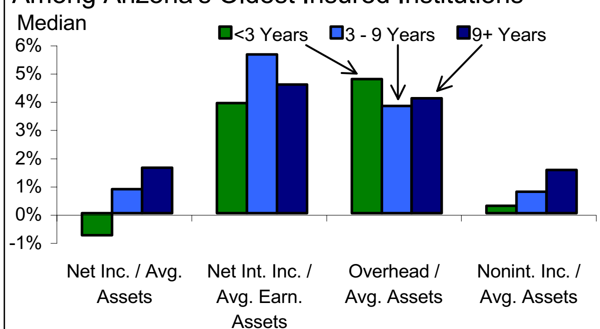
- The median non-core funds-to-total asset ratio among Arizona's insured institutions increased from 8 to 17 percent during the past decade.
- Brokered deposits, traditionally one of the least stable funding components, now represent an important source of funding for many institutions. The share of Arizona-based institutions using brokered funds increased to 43 percent by December 2002 (see Chart 6). Brokered deposits now fund just over 10 percent of these institutions' assets.

Chart 4: Community Institutions in the Phoenix Area Report High CRE Loan Exposures



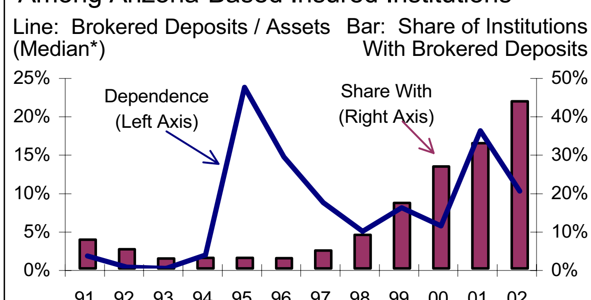
Notes: Includes insured institutions based in the Phoenix metropolitan area, open at least three years, with less than $1 billion in assets, and excludes specialty institutions. CRE = commercial real estate.
Source: Phoenix Bank and Thrift Call Reports (December of each year)

Chart 5: Earnings Performance Was Strongest Among Arizona's Oldest Insured Institutions



Source: Arizona Bank and Thrift Call Reports (December 30, 2002)

Chart 6: Brokered Deposit Usage Increased Among Arizona-Based Insured Institutions



Note: * Median is calculated on insured institutions holding brokered deposits.
Source: Arizona Bank and Thrift Call Reports (December of each year)

[1] Established community institutions are defined as insured institutions holding less than $1 billion in total assets and open at least three years and excludes specialty institutions.

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

[3] Non-core funds include brokered deposits, jumbo time deposits, foreign office deposits, and other borrowed funds such as Federal funds purchased and reverse repurchase agreements.

Arizona at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	46	46	49	47	46
Total Assets (in thousands)	48,888,376	44,232,964	62,655,059	48,600,552	42,949,384
New Institutions (# < 3 years)	13	12	16	15	15
New Institutions (# , 9 years)	28	26	27	26	23

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.59	9.25	9.20	9.42	10.42

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	0.44%	1.19%	0.81%	0.51%	0.71%
Past-Due and Nonaccrual > = 5%	0	7	4	2	5
ALLL/Total Loans (median %)	1.19%	1.30%	1.29%	1.18%	1.21%
ALLL/Noncurrent Loans (median multiple)	4.14	1.72	2.87	4.52	4.58
Net Loan Losses/Loans (aggregate)	4.95%	3.23%	1.70%	2.44%	3.08%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	9	16	14	11	11
Percent Unprofitable	19.57%	34.78%	28.57%	23.40%	23.91%
Return on Assets (median %)	0.81	0.87	1.12	1.04	1.18
25th Percentile	0.17	-1.16	-0.30	0.30	0.20
Net Interest Margin (median %)	4.67%	5.05%	5.46%	5.30%	5.30%
Yield on Earning Assets (median)	6.75%	8.38%	9.15%	8.34%	8.46%
Cost of Funding Earning Assets (median)	1.87%	3.34%	3.84%	3.11%	3.10%
Provisions to Avg. Assets (median)	0.21%	0.35%	0.33%	0.29%	0.23%
Noninterest Income to Avg. Assets (median)	0.77%	0.71%	0.66%	0.85%	0.83%
Overhead to Avg. Assets (median)	4.28%	4.39%	4.49%	4.32%	4.76%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	86.49%	81.78%	79.40%	82.32%	68.79%
Loans to Assets (median %)	69.10%	70.16%	68.01%	67.93%	57.23%
Brokered Deposits (# of Institutions)	20	15	13	8	4
Bro. Deps./Assets (median for above inst.)	10.07%	17.93%	5.52%	7.91%	4.84%
Noncore Funding to Assets (median)	17.42%	17.54%	14.91%	15.40%	10.23%
Core Funding to Assets (median)	64.13%	60.59%	64.51%	70.04%	73.83%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	21	20	20	21	22
National	17	17	18	17	15
State Member	5	6	7	6	6
S&L	0	0	0	0	0
Savings Bank	3	3	4	3	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Phoenix-Mesa AZ	32	44,628,656	69.57%	91.29%
Tucson AZ	5	3,186,799	10.87%	6.52%
Las Vegas NV-AZ	4	867,075	8.70%	1.77%
Yuma AZ	3	160,084	6.52%	0.33%
Flagstaff AZ	1	38,033	2.17%	0.08%
No MSA	1	7,729	2.17%	0.02%