FDIC State Profile

SUMMER 2003

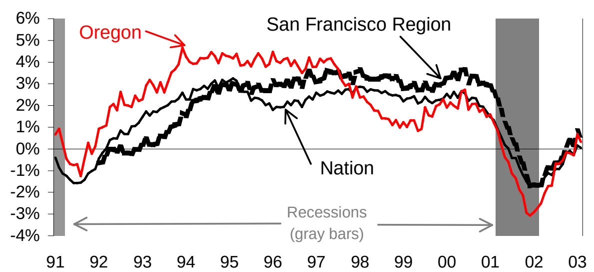
Oregon

Nonfarm employment in Oregon increased 0.3 percent in the year ending February 2003; however, weakness in the high-tech sector continued to adversely affect the economy.

- Although employment appeared to be on the rebound since 2002 (see Chart 1), Oregon reported the highest unemployment rate in the nation at 7.3 percent in February. Year-over-year employment losses occurred in the manufacturing, information services, trade, transportation and utilities sectors.
- Manufacturing produced the largest employment losses in Oregon, decreasing by 2.7 percent year-over-year as of February 2003, and losing 5,300 jobs. Within manufacturing, the computers and electronic products sub-sector experienced the largest employment decrease, losing 2,900 jobs.
- The information services sector experienced the second largest employment loss in Oregon, decreasing by 6.3 percent year-over-year as of February 2003, and losing 2,400 jobs. General weakness in the telecom industry has contributed to this trend. In addition, Oregon 2002 venture capital funding declined 71 percent from its 1999 peak.
- Employment in the trade, transportation and utilities sector decreased by 0.2 percent year-over-year as of February 2003, losing 500 jobs. Employment losses were concentrated mainly within the warehousing and storage and the air transportation sub-sectors.
- State tax collections during the fiscal year ending June 30, 2002 decreased by almost 13 percent when compared to the previous year. A strained state budget contributed to layoffs and a year-over-year employment decline of 0.3 percent in the Oregon government sector, which lost a total of 900 jobs.

Chart 1: Nonfarm Employment in Oregon Stabilized During 2002

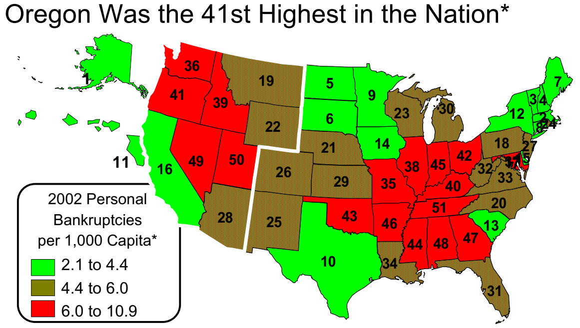
Non-Ag Employment, Year-Over-Year Change



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

Source: Bureau of Labor Statistics

Map 1: The Personal Bankruptcy Filing Rate in Oregon Was the 41st Highest in the Nation*



*Note: Population estimates for 2001 were used. State rank reflects the personal bankruptcy rate (1=best). Sources: U.S. Courts and Bureau of Economic Analysis

Weak employment contributed to relatively high personal bankruptcy and foreclosure rates in Oregon.

- The personal bankruptcy rate in Oregon was higher than that of 40 other states in the nation during 2002 (see Map 1). The Oregon personal bankruptcy rate increased 5 percent in 2002.
- According to PMI Mortgage Insurance Co., the Portland MSA ranked fourth out of 50 cities, reflecting a "high risk" of a housing price decline, which could adversely affect foreclosure rates.
- Reflecting the relatively high personal bankruptcy rates, consumer loan[1] quality deteriorated somewhat during 2002.

Established community institutions[2] headquartered in Oregon reported a median past-due consumer loan ratio of 1.5 percent for the fourth quarter of 2002, up from 0.95 percent a year earlier. The median annualized net consumer loan charge-off ratio increased from 0.57 to 0.84 percent during the same period. In addition, half of established community institutions reported a rising past-due mortgage loan ratio.

[1] Consumer loans include credit cards, automobile loans, and other loans to individuals not secured by real estate.

[2] Established community institutions include insured institutions in operation more than three years, with less than $1 billion in total assets, excluding specialty institutions.

Declining demand for commercial real estate (CRE), and high CRE loan concentrations, could challenge credit quality among many Oregon-based insured institutions.

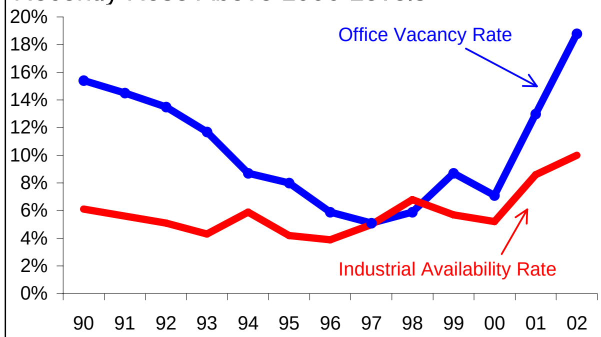
- According to Torto Wheaton Research (TWR), the office vacancy rate in the Portland MSA rose to 18.9 percent as of first quarter 2003 and exceeded peaks reached during the early 1990s (see Chart 2). Office market conditions deteriorated to the greatest extent in the Hillsboro, Beaverton, and Clackamas submarkets, where office vacancies reportedly exceeded 25 percent. TWR also reported an industrial availability rate of 10.2 percent in first quarter 2003, the highest level since 1984. Above average industrial availability rates were reported in the Southwest and Vancouver submarkets.
- Deteriorating market conditions may have contributed to a year-over-year increase in CRE loan[3] delinquencies among established community institutions headquartered in the Portland MSA—the median past-due CRE loan ratio reported by these institutions rose from 0.66 to 0.92 percent, which compares unfavorably to the nation's decrease from 0.92 to 0.80. Delinquency trends are of concern given that the median CRE loan-to-Tier 1 capital ratio among these institutions was 583 percent as of year-end 2002.
- In all, nearly two-thirds of insured institutions headquartered in the state held CRE loan exposures exceeding 300 percent of Tier 1 capital. Nationwide, only one quarter of insured institutions reported similarly high concentrations. Exposures to construction and development (C&D) loans, one of the traditionally higher-risk segments of CRE lending, contributed to the trend. Institutions based in Oregon reported a fourth quarter 2002 median C&D loan-to-Tier 1 capital ratio of 87 percent, more than four times the level reported by banks and thrifts nationwide.

Significant declines in funding costs contributed to an improvement in insured institution earnings.

- Oregon-based insured institutions reported a median return on average assets ratio (ROA) of 1.25 percent for 2002, up from 1.15 percent one-year earlier, and higher than the 1.06 percent median ROA reported by all insured institutions in the nation.
- Although declining interest rates initially hampered net interest margins in 2001 because liabilities were slow to re-price, during 2002, funding costs declined dramatically, contributing to improved margins (see Chart 3).

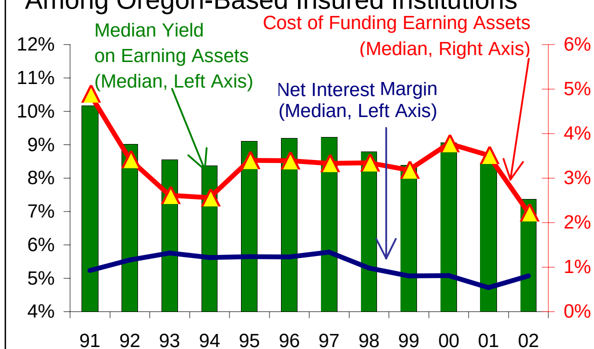
[3] CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

Chart 2: Vacancy Rates in Portland Recently Rose Above 1990 Levels



Source: Torto Wheaton Research

Chart 3: Funding Costs Sank During 2002 Among Oregon-Based Insured Institutions



Source: Oregon Bank and Thrift Call Reports (December of each year)

- Earnings were bolstered by overhead efficiencies. The median non-interest expense to average assets ratio declined from 3.48 percent to 3.45 percent in 2002, continuing a downward trend since 2000. Overhead ratios among acquisitive institutions were helped in part by accounting rule changes, which preclude automatic amortization of goodwill.

Drought conditions remain a risk and dairy prices are under pressure.

- Drought adversely affected pastureland conditions in West Oregon during 2002. In addition, low milk prices may challenge the dairy sector, which generated 8.5 percent of 2001 farm receipts in the state.
- As of year-end 2002, 6 of Oregon's 32 commercial banks reported agricultural loan-to-Tier 1 capital ratios exceeding 100 percent. Past-due agricultural loan ratios remain low among these 6 insured lenders, and the group's median overall delinquency ratio moderated from 1.66 to 1.01 percent between fourth quarter 2001 and fourth quarter 2002.

Oregon at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	37	38	47	50	49
Total Assets (in thousands)	20,835,066	20,190,312	19,471,243	9,851,510	34,063,852
New Institutions (# < 3 years)	5	5	10	8	8
New Institutions (# < 9 years)	12	12	16	15	14

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.43	9.70	9.19	9.71	9.75

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	0.72%	1.09%	0.95%	0.86%	1.24%
Past-Due and Nonaccrual > = 5%	2	3	3	6	6
ALLL/Total Loans (median %)	1.20%	1.19%	1.13%	1.14%	1.13%
ALLL/Noncurrent Loans (median multiple)	3.34	2.23	2.10	2.41	2.02
Net Loan Losses/Loans (aggregate)	0.27%	0.20%	0.15%	0.36%	0.30%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	3	1	3	9	6
Percent Unprofitable	8.11%	2.63%	6.38%	18.00%	12.24%
Return on Assets (median %)	1.25	1.15	1.11	1.11	1.25
25th Percentile	0.88	0.81	0.66	0.50	0.69
Net Interest Margin (median %)	5.08%	4.72%	5.08%	5.07%	5.31%
Yield on Earning Assets (median)	7.37%	8.43%	9.06%	8.39%	8.78%
Cost of Funding Earning Assets (median)	2.22%	3.51%	3.78%	3.18%	3.34%
Provisions to Avg. Assets (median)	0.28%	0.25%	0.21%	0.20%	0.25%
Noninterest Income to Avg. Assets (median)	1.00%	0.98%	0.88%	0.92%	0.93%
Overhead to Avg. Assets (median)	3.45%	3.48%	3.86%	3.74%	3.69%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	86.17%	89.58%	82.29%	84.33%	74.95%
Loans to Assets (median %)	72.26%	74.98%	70.94%	65.06%	62.41%
Brokered Deposits (# of Institutions)	9	9	9	8	7
Bro. Deps./Assets (median for above inst.)	2.37%	3.96%	2.22%	2.87%	1.86%
Noncore Funding to Assets (median)	15.58%	17.33%	16.28%	13.51%	12.30%
Core Funding to Assets (median)	70.32%	71.16%	71.38%	74.27%	75.16%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	26	27	29	31	28
National	3	3	4	4	4
State Member	3	3	9	9	10
S&L	3	3	3	3	3
Savings Bank	2	2	2	3	4
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	14	6,813,356	37.84%	32.70%
Portland-Vancouver OR-WA PMSA	11	11,498,308	29.73%	55.19%
Salem OR PMSA	5	461,844	13.51%	2.22%
Eugene-Springfield OR	4	1,188,738	10.81%	5.71%
Medford-Ashland OR	2	560,237	5.41%	2.69%
Corvalis OR	1	312,583	2.70%	1.50%