FDIC State Profile

SUMMER 2003

Tennessee

Employment conditions in Tennessee are improving.

- Labor market conditions in Tennessee are improving with the pace of job gains increasing for the latest two consecutive quarters ending March 2003, following several periods of employment declines. The pace of job gains improved in first quarter 2003, on a year-over-year basis, to 4,267 from a decline of 59,700 a-year earlier (see Chart 1).
- Employment levels in Tennessee's manufacturing sector have fallen every year since 1995. Manufacturing job losses surged in 2001 to 37,833, and then slowed significantly in 2002 with virtually all areas of the states' manufacturing sectors experiencing job losses. Manufacturing still is relatively more important in Tennessee than the nation with the share of manufacturing jobs as a percentage of total employment of 15 percent, compared with 13 percent for the nation as of first quarter 2003.
- The prospects for overall improvement in manufacturing sector are unclear. Recent surveys by the Institute for Supply Management indicate overall weaknesses in manufacturing activity are expected to continue in the near term. Employment conditions in manufacturing typically lag increases in demand, as decision-makers delay increases in hiring until improvements appear to be of an on-going nature (see Chart 2).

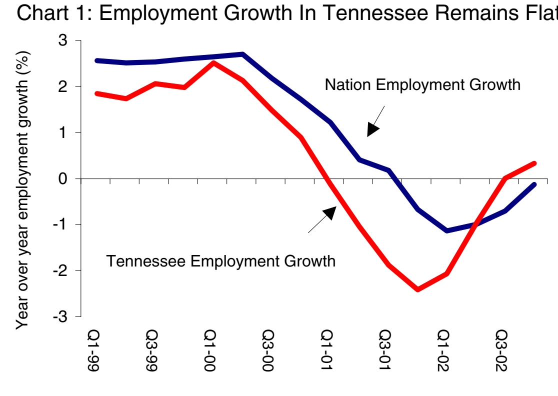
Bankruptcy filings are rising.

- The state's slowing economy has contributed to a higher rate of bankruptcy filings (see Chart 3). Tennessee ranked 1st in the nation in per capita bankruptcy filings as of fourth quarter 2002. While it is not possible to determine the precise effect of increased bankruptcy filings on bank performance, median loan loss rates among insured institutions in the state during 2001 and 2002 were nearly double the rate of the mid 1990s, suggesting that institutions did encounter adversity from this trend.

Other factors which may affect the state's economy.

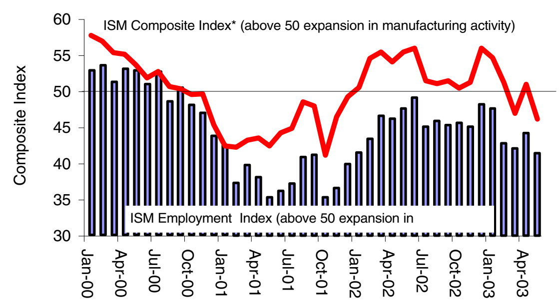
- Tennessee's economy benefited throughout the 1990s from a very strong positive flow of new residents. However, with the state economy generating fewer jobs in 2001, the net inflow has dropped to an eleven-year low.
- The reduction in state revenues resulting from recent economic slowing led the state's legislature to increase sales taxes during the summer of 2002. However, as of March

Chart 1: Employment Growth In Tennessee Remains Flat



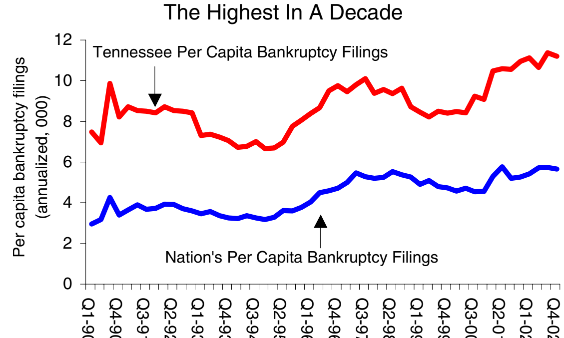
Source: Bureau of Labor Statistics

Chart 2: Prospects for Improvement in the Manufacturing Sector Remain Uncertain



*ISM index: a monthly survey of over 400 industrial companies, purchasing and supply managers.
Source: Institute for Supply Management

Chart 3: Tennessee's Per Capita Bankruptcy Filings Are The Highest In A Decade



Source: United States Administrative Courts

2003, those efforts had not been sufficient to balance the budget, prompting the Governor to ask for cuts of approximately 9 percent. The cuts appear likely to lead to reductions in state and local payrolls and the potential for additional taxes.[1] State and local government employment in Tennessee represented 13.8 percent of total employment in first quarter 2003.

Although past-due loan levels declined, credit problems remain.

- Insured institutions headquartered in Tennessee reported deteriorating credit quality with higher past-due and nonaccrual loan levels and rising loan-loss rates during 2001, levels not seen since third quarter 1992.
- The reported median past-due ratio declined in fourth quarter 2002 from one year ago and remained virtually unchanged from the previous quarter. However, the number of insured institutions reporting past-dues of 4 percent or more increased at year-end from third quarter 2002[2] (see Chart 4).

Coverage levels of nonperforming loans increased at year-end 2002 after a steep decline.

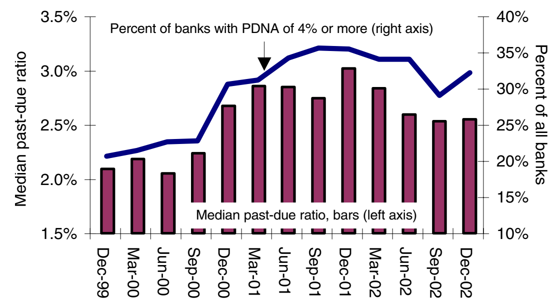
- Insured institutions headquartered in Tennessee responded to rising delinquencies in 2001 by increasing provisions for loan loss reserves; this trend continued through 2002.[3]
- Median loan-loss reserve coverage of past-due and noncurrent loans significantly declined during the second half of the 1990s from a high of 3.50 in second quarter 1995 to a low of 1.36 in third quarter 2001. Since that time, coverage levels have increased to 1.64 in fourth quarter 2002 (see Chart 5).

Favorable interest rates and lower provisions boost returns.

- Median net interest margins for insured institutions headquartered in Tennessee reached 4.32 percent in fourth quarter 2002, up from 4.23 percent one year ago. The improvement is primarily attributed to the wide spread between short and long term interest rates (see Chart 6). However, short and long term interest rate spreads have actually narrowed, suggesting that net interest margins may soon began to fall.[4] The margin improvement occurred across various institutions types and sizes, as well as varied geographic locations.
- Median return on asset (ROA) levels rose to 1.09 percent in fourth quarter 2002 from 0.94 percent one year ago. Lower provisions for loan losses during 2002 and improved margins contributed to the improvement in ROAs.

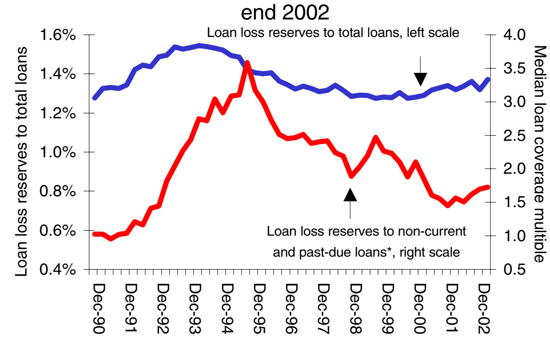
[1] A number of local governments were considering property tax increases during Spring 2003 budget discussions.

Chart 4: Credit Problems Remain a Concern for Insured Institutions in Tennessee



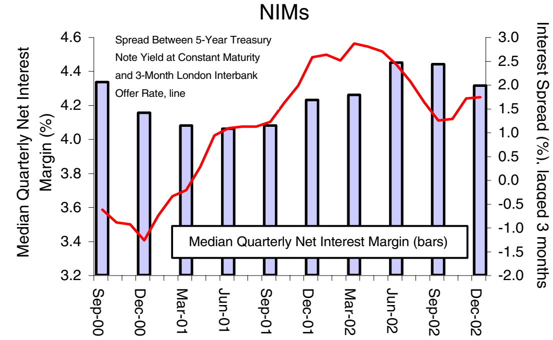
PDNA includes loans 30 days or more past-due and nonaccural loans.
Source: Bank and Thrift Call Reports

Chart 5: Coverage Levels Slightly Increased At Year-end 2002



*Median multiple
Source: Bank and Thrift Call Reports

Chart 6: Recent Narrowing of Spreads Could Pressure NIMs



Median Quarterly Net Interest Margin for all Insured TN Institutions, excluding de novos.
Source: Federal Reserve Board: Bank & Thrift Call Reports

[2] The median past-due ratio (PDNA) among established banks (those in existence for at least three years) was 2.55 percent in fourth quarter 2002, down from 3.02 percent one year ago. Nearly one third of insured institutions reported a PDNA of 4 percent or more in fourth quarter 2002, up from 28.3 percent in third quarter 2002. By comparison, this figure reached 60 percent during the 1990-91 recession.

[3] Loan loss reserves were 1.34 percent of total loans as of December 31, 2002, up from 1.29 percent one year ago.

[4] Changes in net interest margins tend to lag changes in interest rates spreads by approximately 9 months.

Tennessee at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	213	213	221	226	229
Total Assets (in thousands)	115,472,004	105,931,140	91,998,075	96,725,350	108,133,987
New Institutions (# < 3 years)	17	23	21	20	17
New Institutions (# < 9 years)	45	45	44	36	31

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.35	9.21	9.39	9.16	9.24

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.55%	3.02%	2.68%	2.09%	2.60%
Past-Due and Nonaccrual >= 5%	48	52	43	21	32
ALLL/Total Loans (median %)	1.34%	1.29%	1.26%	1.25%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.70	1.52	1.85	2.15	2.03
Net Loan Losses/Loans (aggregate)	0.56%	0.47%	0.37%	0.35%	0.46%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	16	30	20	16	12
Percent Unprofitable	7.51%	14.08%	9.05%	7.08%	5.24%
Return on Assets (median %)	1.06	0.89	1.01	1.12	1.17
25th Percentile	0.72	0.58	0.62	0.79	0.89
Net Interest Margin (median %)	4.30%	4.07%	4.32%	4.38%	4.42%
Yield on Earning Assets (median)	6.81%	8.08%	8.64%	8.23%	8.52%
Cost of Funding Earning Assets (median)	2.48%	4.04%	4.33%	3.84%	4.06%
Provisions to Avg. Assets (median)	0.31%	0.31%	0.22%	0.23%	0.21%
Noninterest Income to Avg. Assets (median)	0.77%	0.78%	0.71%	0.69%	0.73%
Overhead to Avg. Assets (median)	3.11%	3.03%	3.00%	2.99%	2.99%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	78.38%	77.24%	79.31%	79.32%	75.39%
Loans to Assets (median %)	65.92%	65.55%	67.31%	66.87%	63.86%
Brokered Deposits (# of Institutions)	35	31	19	21	21
Bro. Deps./Assets (median for above inst.)	3.44%	2.94%	2.27%	1.77%	1.86%
Noncore Funding to Assets (median)	21.23%	20.50%	19.70%	19.32%	16.25%
Core Funding to Assets (median)	67.45%	68.15%	68.00%	69.85%	72.94%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	149	151	157	159	162
National	28	28	29	32	34
State Member	15	10	11	10	8
S&L	6	6	6	6	6
Savings Bank	14	17	17	18	18
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	132	18,705,369	61.97%	16.20%
Memphis TN-AR-MS	24	83,447,679	11.27%	72.27%
Nashville TN	23	5,247,385	10.80%	4.54%
Knoxville TN	12	3,815,384	5.63%	3.30%
Johnson City-Kingsport-Bristol TN-VA	10	2,254,977	4.69%	1.95%
Chattanooga TN-GA	5	939,248	2.35%	0.81%
Clarksville-Hopkinsville TN-KY	4	798,117	1.88%	0.69%
Jackson TS	3	263,845	1.41%	0.23%