FDIC State Profile

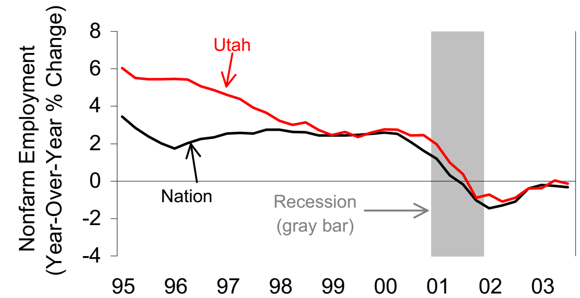
WINTER 2003

Utah

Utah nonfarm employment decreased in the third quarter of 2003, compared to the same quarter one year earlier.

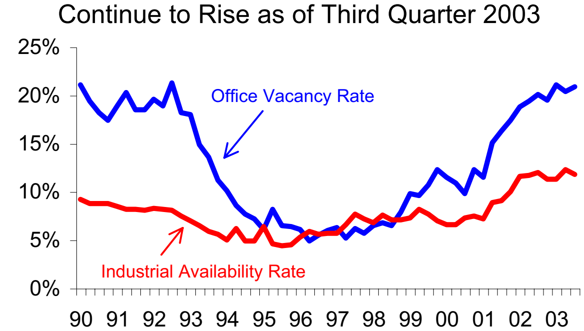
- Total nonfarm employment decreased 0.17 percent year-over-year as of third quarter 2003, (see Chart 1), with the mining and manufacturing sectors experiencing the highest rates of job losses. Employment growth in the educational, health, and financial service sectors offset these declines.
- Job losses in the manufacturing sector were centered in computer and electronics manufacturing, which declined year-over-year by 4.82 percent as of the third quarter 2003. A continued contraction in venture capital funding contributed to weakness in the state's high-tech manufacturing industry. During 2003, venture capital investment in Utah declined by 90 percent from its peak level in 2000.
- Utah tourism remained sluggish. Employment in the leisure and hospitality sectors declined by 0.46 percent year-over-year as of third quarter 2003. The August 2003 Utah hotel vacancy rate was lower than one year ago, and nightly room charges had also declined.[1]

Chart 1: Utah Employment Declined Significantly During the Last Recession



Source: Bureau of Labor Statistics and National Bureau of Economic Research

Chart 2: Vacancy Rates in Salt Lake City Continue to Rise as of Third Quarter 2003



Source: Torto Wheaton Research

Commercial real estate (CRE) market deterioration in the Salt Lake City MSA could adversely affect a significant number of insured institutions.

- The third quarter 2003 office vacancy rate of 21 percent in the Salt Lake City metropolitan statistical area (MSA) was 28 percent higher than its 2001 level, a reflection of continued weakness in the high-tech sector (see Chart 2). Vacancy rates in the industrial property sector have similarly increased, rising 29 percent from their third quarter 2001 level to 12 percent.
- Most established community institutions[2] headquartered within the Salt Lake City MSA hold high CRE loan[3] concentrations. The median CRE loan-to-Tier 1 capital ratio among this group of institutions was 395 percent as of June 30, 2003, up from 174 percent 10 years earlier. Rising construction and development (C&D) loan concentrations contributed materially to the trend. Over the past decade, the median C& D loan-to-Tier 1 capital ratio increased more than five-fold, rising from 35 percent to 164 percent.
- Softer CRE conditions may have adversely affected credit quality among banks operating in the market. Although the second quarter 2003 median past-due CRE loan ratio among established community institutions headquartered in the Salt Lake City MSA was 1.95 percent, down from 2.24 percent one year earlier, it was the highest median past-due CRE loan ratio of any major MSA in the San

[1] Gorrel, Mike. "Utah Hotel Occupancy Up a Tick Last Month," *The Salt Lake Tribune*, September 24, 2003.

[2] Established community institutions are defined as insured institutions open more than three years, with less than $1 billion in total assets. Industrial loan companies and specialty institutions are excluded from the definition.

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

Francisco Region as of June 30, 2003.[4] However, established community institutions headquartered in the Salt Lake City MSA also reported second quarter 2003 median return on average assets (ROA), Tier 1 leverage capital, and allowance for loan loss to total loan ratios among the highest reported by major MSAs in the San Francisco Region.

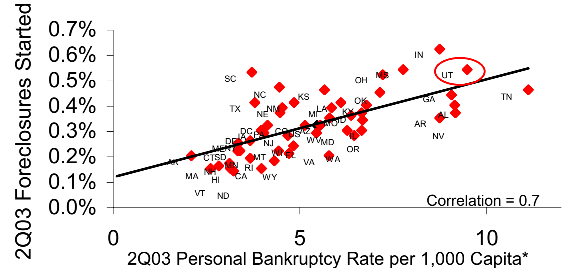
Job losses and high debt levels contributed to increased bankruptcy and foreclosure activity in Utah.

- Utah continued to report one of the highest personal bankruptcy and foreclosure start rates in the nation as of second quarter 2003 (see Chart 3). Declines in employment, larger family sizes, and higher debt levels have been attributed as possible reasons for this phenomenon.[5]
- Mortgage Bankers Association survey data reported a high level of foreclosure activity, increasing from prior quarters.
- Utah ranked next to last in home price appreciation during the year ending June 30, 2003.[6]
- Despite these negative trends, the median past-due 1-4 family mortgage ratio decreased from 2.21 percent to 1.78 percent year-over-year as of second quarter 2003 among Utah-based established community institutions, but above the median past-due 1-4 family mortgage ratio of 1.52 percent reported by insured institutions across the nation.
- However, the median past-due consumer loan ratio among the 29 established community nonspecialty institutions headquartered in Utah increased from 2.75 percent to 3.07 percent during the year ending June 30, 2003, while the median consumer loan net charge-off ratio was essentially unchanged.

During 2002, interest rate declines boosted net interest margins among institutions chartered as Industrial Loan Corporations, but resulted in narrowing net interest margins among other Utah-based insured institutions.

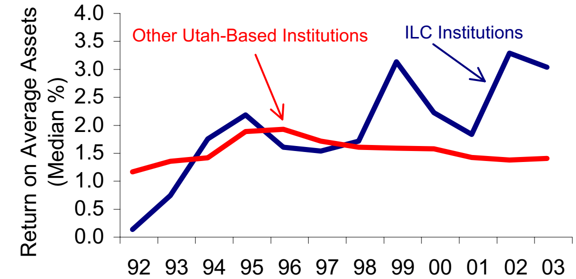
- Despite declines in the net interest margin (NIM), the median ROA ratio reported by all Utah-based insured institutions through second quarter 2003 grew slightly, increasing year-over-year from 1.64 percent to 1.66 percent. Reductions in overhead and provision expenses contributed to the improvement.

Chart 3: Foreclosures Correlated to Personal Bankruptcies in Second Quarter 2003



*Note: The bankruptcy rate was estimated using personal bankruptcies for full year ended 2Q03 and population figures for the year 2002.
Source: U.S. Courts, Bureau of Econ. Analysis, and Mortgage Bankers Assoc.

Chart 4: Utah-Based ILCs Outperform Other Utah-Based Institutions



Note: ILC = Industrial Loan Corporation
Source: Utah Bank and Thrift Call Reports (June of each year)

- Institutions chartered as Industrial Loan Corporations (ILCs), accounting for 40 percent of insured institutions headquartered in the state, reported much stronger ROA performance (see Chart 4). These companies often pursue higher-risk, higher-yielding loan niches or have non-traditional balance sheet structures. Most of these institutions reported persistently high asset yields and largely non-core, rate-sensitive funding bases, and as a result, widening NIMs year-over-year as of second quarter 2003.

[4] Based upon a comparison of second quarter 2003 median past-due CRE loan ratios within 17 MSAs, in which at least 5 established community nonspecialty institutions with CRE loans were headquartered.

[5] Thredgold, Jeff. "Utah Outlook," Summer 2003, www.thredgold.com.

[6] "OFHEO Releases Second Quarter 2003 House Price Index," *Office of Federal Housing Enterprise Oversight*, September 2, 2003.

Utah at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	60	60	62	59	53
Total Assets (in thousands)	131,751,309	128,527,061	125,842,298	72,791,427	47,149,057
New Institutions (# < 3 years)	8	13	13	12	11
New Institutions (# < 9 years)	25	27	29	25	19

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	12.10	12.56	13.04	12.43	12.49

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	3.01%	3.41%	3.64%	2.67%	3.15%
Past-Due and Nonaccrual ≥ 5%	16	19	19	12	13
ALLL/Total Loans (median %)	1.54%	1.65%	1.65%	1.60%	1.70%
ALLL/Noncurrent Loans (median multiple)	1.89	1.55	1.57	1.66	1.86
Net Loan Losses/Loans (aggregate)	2.64%	2.98%	2.70%	2.24%	2.39%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	4	6	9	9	5
Percent Unprofitable	6.67%	10.00%	14.52%	15.25%	9.43%
Return on Assets (median %)	1.66	1.64	1.50	1.69	1.71
25th Percentile	1.01	0.88	0.70	0.97	0.95
Net Interest Margin (median %)	5.50%	5.59%	5.79%	5.94%	5.86%
Yield on Earning Assets (median)	7.07%	8.00%	9.29%	9.37%	8.94%
Cost of Funding Earning Assets (median)	1.67%	2.26%	3.57%	3.64%	3.12%
Provisions to Avg. Assets (median)	0.39%	0.46%	0.48%	0.24%	0.30%
Noninterest Income to Avg. Assets (median)	1.59%	1.30%	1.37%	1.60%	1.84%
Overhead to Avg. Assets (median)	3.56%	3.89%	4.87%	4.25%	4.44%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	86.81%	90.86%	83.73%	81.21%	80.80%
Loans to Assets (median %)	70.14%	74.10%	67.04%	66.07%	64.43%
Brokered Deposits (# of institutions)	30	29	25	20	17
Bro. Deps./Assets (median for above inst.)	24.89%	23.85%	24.62%	35.56%	9.62%
Noncore Funding to Assets (median)	21.75%	24.57%	19.86%	20.15%	17.70%
Core Funding to Assets (median)	47.54%	49.46%	56.66%	54.74%	66.75%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	43	43	43	39	35
National	7	7	8	9	8
State Member	6	6	6	6	6
S&L	1	1	1	1	1
Savings Bank	3	3	4	4	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Salt Lake City-Ogden UT	41	128,752,354	68.33%	97.72%
No MSA	12	1,557,891	20.00%	1.18%
Provo-Orem UT	7	1,441,064	11.67%	1.09%