

FDIC State Profile

WINTER 2003

Tennessee

Employment conditions in Tennessee improved modestly over the past four quarters.

- Employment in Tennessee grew .03 percent in third quarter 2003, compared with one year ago, the fourth consecutive quarterly increase.
- Overall employment growth figures would be larger, if not for the adverse affect of ongoing job losses in the manufacturing sector (see Chart 1).
- Employment in the manufacturing sector declined by more than 54,000 jobs since the recession of 2001 began, and job losses continued in every major manufacturing sub-sector (see Chart 2).
- The prospects for manufacturing overall are improved according to a prominent national survey; however, increased hiring seems unlikely in the near term.¹

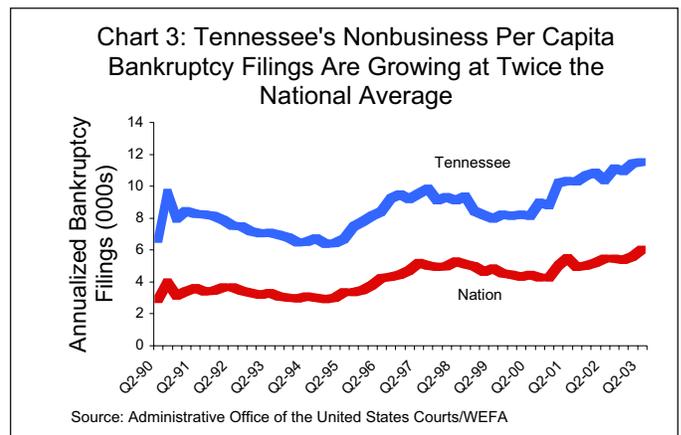
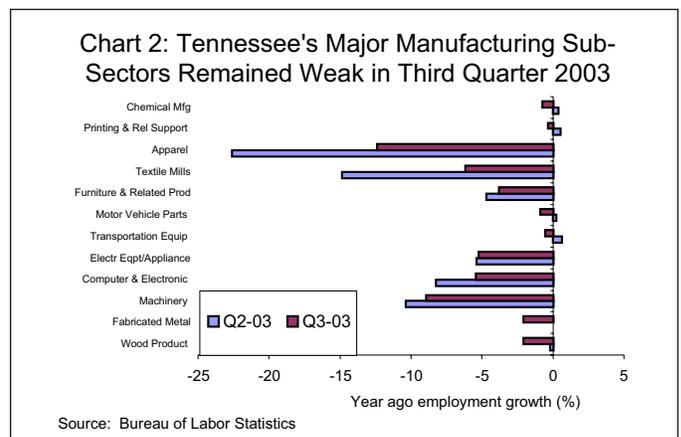
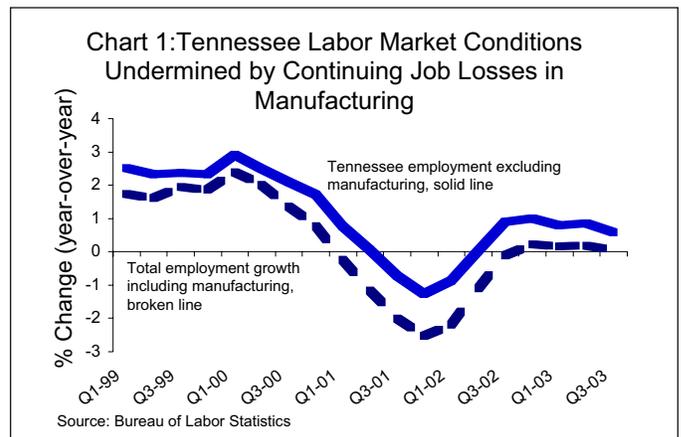
Bankruptcy filings are rising.

- Tennessee continued to have the highest per capita personal bankruptcy filing rate in the nation.
- The level of Tennessee personal bankruptcy filings are increasing, mirroring national trends, but at a faster pace (see Chart 3).
- Median consumer loan-loss rates reported by insured institutions headquartered in the state during 2001 and 2002 were significantly higher than rates reported for any other year since 1992, suggesting that banks and thrifts were challenged by weakness in the financial condition of borrowers.

Although consumer credit quality issues remain, past-due loan levels declined among insured institutions based in Tennessee.

- High and increasing bankruptcy rates were only one indicator of consumer financial distress; additionally, the state had the second highest reported past-due consumer loan level nationally, exceeded only by Mississippi (see Table 1).
- Overall median past-due loan levels rose during 2001 to levels not reported since 1992, but the figures improved through the second half of 2003.

¹ The Institute for Supply Management conducts monthly surveys of conditions and expectations for the manufacturing industry. In October 2003, the Institute reported the sixth consecutive favorable reading of the new orders component, and the 37th consecutive unfavorable reading for the employment component.



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- The number of insured institutions reporting a relatively high rate of past-due loans of 5 percent or more of total loans also declined (see Chart 4).

Net interest margins compressed in first half of 2003 and may be further pressured.

- The quarterly median net interest margin (NIM) reported by established insured institutions headquartered in Tennessee peaked at 4.45 percent in second quarter 2002, but declined to 4.16 percent in second quarter 2003 (see Chart 5).
- The decline in NIMs occurred despite favorable interest rate spreads. The decline was attributable in part to rising competition and a general decline in loans, which typically offer higher rates of return than alternative investments.
- As the national economy gains momentum, interest rates are expected to rise. An increase in interest rates, particularly if accompanied by a shrinking of currently high spreads between short- and long-term rates, could place significant downward pressure on NIMs.
- Traditionally, net interest margins are adversely affected by rising interest rates with a lag of approximately three quarters. Net interest margins may be further pressured among community banks in Tennessee, as income is primarily earned through interest-related products.
- Improved economic growth should bolster the financial condition of many borrowers; however, some borrowers may experience deteriorating financial positions as interest rates rise, because their funding costs and sales revenue are rate sensitive.

Table 1: Consumer Credit Quality Is a Major Concern for Banks and Thrifts in Tennessee

Area	Consumer past-due loans to total consumer loans (median, %)*			2Q03 National Rank
	2Q02	1Q03	2Q03	
Arkansas	3.16	3.23	3.14	3
Louisiana	2.44	2.72	2.54	11
Mississippi	3.78	3.96	3.97	1
Tennessee	3.36	3.33	3.26	2
Nation	2.11	2.22	2.19	

*States with at least 10 established community banks
Source: Bank and Thrift Call Reports

Chart 4: Credit Quality Improved in the Second Half of 2003 for Insured Institutions Headquartered in Tennessee

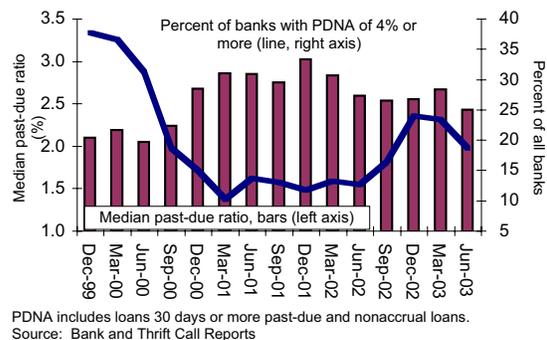
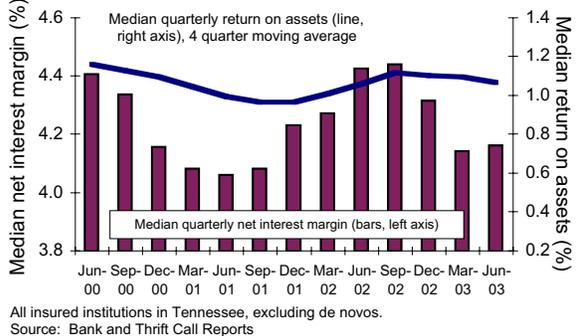


Chart 5: Traditional Earnings Measures Among Banks in Tennessee Declined from 2002 Levels



Tennessee at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	209	213	218	219	229
Total Assets (in thousands)	123,689,782	107,674,658	92,770,953	91,740,740	113,786,812
New Institutions (# < 3 years)	16	17	23	21	21
New Institutions (# > 9 years)	45	45	47	39	34
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.35	9.26	9.28	9.35	9.38
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	2.43%	2.59%	2.85%	2.05%	2.05%
Past-Due and Nonaccrual > = 5%	39	41	49	25	29
ALLL/Total Loans (median %)	1.34%	1.34%	1.30%	1.25%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.82	1.60	1.55	2.00	2.41
Net Loan Losses/Loans (aggregate)	0.50%	0.51%	0.39%	0.31%	0.33%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	18	20	20	13	14
Percent Unprofitable	8.61%	9.39%	9.17%	5.94%	6.11%
Return on Assets (median %)	1.04	1.10	0.91	1.09	1.14
25th Percentile	0.66	0.67	0.59	0.80	0.82
Net Interest Margin (median %)	4.14%	4.34%	4.07%	4.43%	4.37%
Yield on Earning Assets (median)	6.19%	6.95%	8.42%	8.51%	8.14%
Cost of Funding Earning Assets (median)	1.99%	2.62%	4.41%	4.12%	3.76%
Provisions to Avg. Assets (median)	0.21%	0.25%	0.19%	0.19%	0.19%
Noninterest Income to Avg. Assets (median)	0.78%	0.74%	0.77%	0.70%	0.67%
Overhead to Avg. Assets (median)	3.11%	3.04%	3.03%	3.01%	2.98%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	77.59%	77.66%	78.30%	80.09%	77.52%
Loans to Assets (median %)	65.69%	65.84%	66.10%	68.60%	65.77%
Brokered Deposits (# of Institutions)	41	31	30	19	21
Bro. Deps./Assets (median for above inst.)	2.24%	3.94%	3.49%	1.69%	1.60%
Noncore Funding to Assets (median)	21.32%	20.80%	21.40%	19.80%	17.80%
Core Funding to Assets (median)	66.91%	67.55%	67.00%	68.65%	71.09%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	142	151	154	157	161
National	31	28	29	28	34
State Member	16	11	11	9	9
S&L	6	6	6	6	6
Savings Bank	13	16	17	18	18
Mutually Insured	1	1	1	1	1
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	129	19,587,781	61.72%	15.84%	
Memphis TN-AR-MS	24	90,038,252	11.48%	72.79%	
Nashville TN	22	5,570,459	10.53%	4.50%	
Knoxville TN	12	4,003,362	5.74%	3.24%	
Johnson City-Kingsport-Bristol TN-VA	10	2,371,736	4.78%	1.92%	
Chattanooga TN-GA	5	1,018,523	2.39%	0.82%	
Clarksville-Hopkinsville TN-KY	4	838,891	1.91%	0.68%	
Jackson TN	3	260,778	1.44%	0.21%	