FDIC State Profile

WINTER 2003

Colorado

The Colorado economy continues to lag the U.S. economy in job creation.

- Colorado's total nonfarm employment fell for the ninth consecutive quarter (see Chart 1), with job losses accelerating once again after tapering off throughout 2002.
- Construction and manufacturing continued to be the state's poorest performing industry sectors, losing 9,900 jobs (6.2 percent) and 12,800 jobs (7.8 percent), respectively, from the same quarter last year (see Chart 2).
- Moreover, employment in the trade/transportation/utilities sector fell by 6,100 (1.5 percent) from one year earlier.

Excess supply in commercial and residential real estate markets undermine Colorado construction industry.

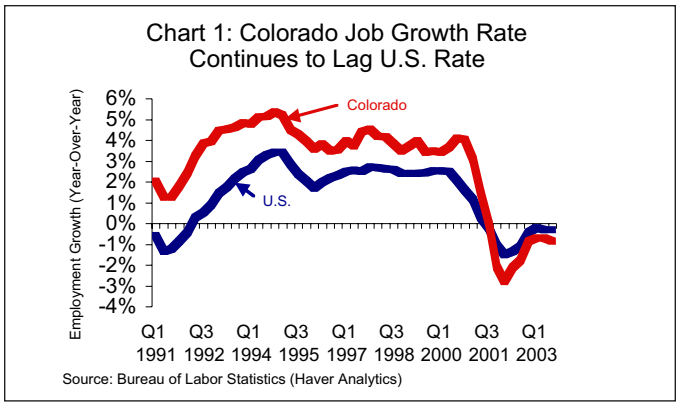
- The construction boom of the 1990s resulted in excess supply in the state's housing market as well as commercial real estate market.
- Colorado's recession led to declining in-migration, which along with falling employment, contributed to weak income growth, a slowdown in existing home sales and weak demand for new home building activity.

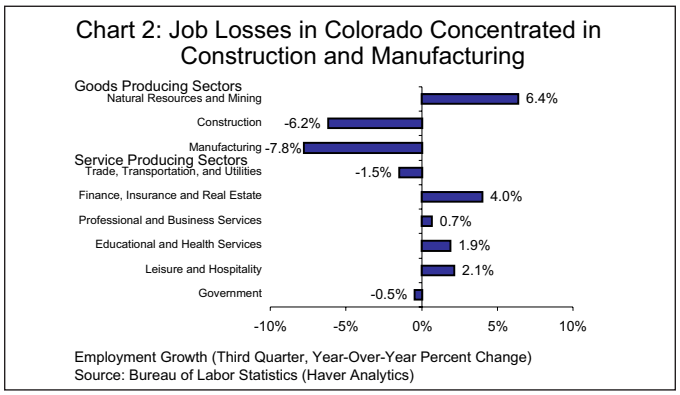
Professional and business, education and health, and leisure and hospitality services, in addition to financial activities should jump start the stalled Colorado economy in 2004.

- Employment gains in services have helped mitigate some of the weaknesses occurring in the goods-producing sectors. Favorable demographic trends and increased leisure and business travel will contribute to job growth in education and health services and the leisure and hospitality industries.
- Stronger national demand for manufactured products, particularly information technology goods, should aid both the professional and business services and manufacturing sectors as the recovery progresses.
- Financial sector employment increased 4.7 percent (7,000 jobs) in the year ending September 2003, but if mortgage rates rise – curtailing purchase and refinance originations – job growth will slow.

State budget concerns are still a primary issue for Colorado.

- The phase out of the state tax credit on federal estate tax returns resulted in a decline of over 26 percent in Colorado estate taxes. In addition, federal tax law changes will reduce state tax receipts from corporations by almost $28 million during the current fiscal year.
- In spite of these two factors, Colorado enacted sufficient spending cuts in each of the last two years to balance the budget. Easing the budget stress were revenues that exceeded projections by $77 million for the most recent year; a revenue trend that has continued through July 2003. However, part of the unexpected gain in revenues was also from a one-time tax amnesty program. Moreover, spending on infrastructure has not been restored to pre-recession levels.





Larger institutions benefit from noninterest income sources, while small insured institutions face falling profits.

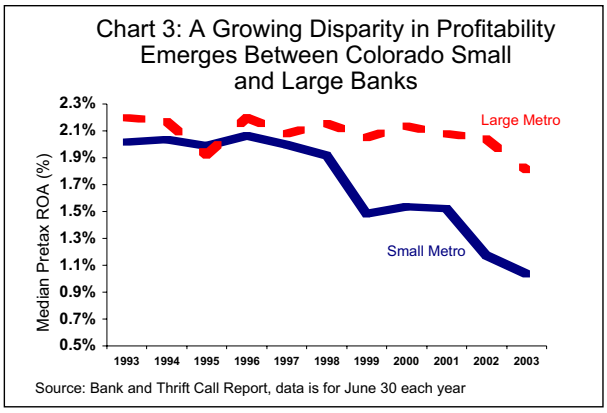
- A sluggish state economy resulted in mixed results for the 179 insured institutions headquartered in Colorado. The

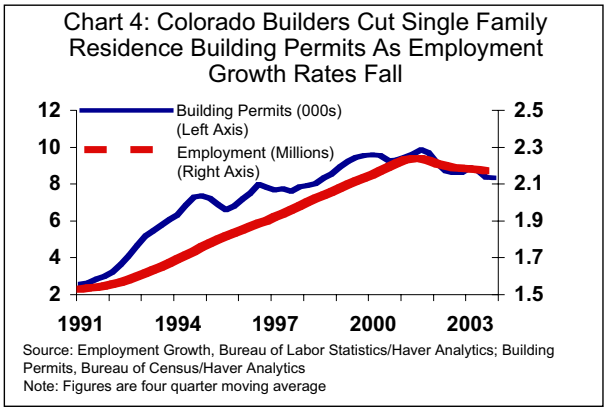
median pretax return on assets ratio[1] was 1.61 percent for the six months ending June 30, 2003, the lowest level in 10 years.

- A disparity is growing between small banks (less than $100 million in assets) and larger banks (more than $100 million in assets), especially in metro areas (see Chart 3). Larger metro banks have been more successful in developing other sources of non-interest income and have more actively realized securities gains than small metro banks.

Commercial and residential real estate markets show signs of stress; however, problems have yet to permeate financial institution balance sheets.

- Residential real estate in Colorado showed some signs of weakness as evidenced by rising home foreclosure rates. On a positive note, residential builders responded to employment slowdowns by reducing new construction (see Chart 4).
- Residential housing markets in ***Denver, Boulder,*** and ***Colorado Springs*** experienced negative job growth and overbuilding, causing home price growth to slow considerably in recent quarters, particularly at the high end of the housing market. Although past-due rates increased only slightly from a year ago, they are now above the national averages for all insured institutions for the first time in 10 years.
- According to PPR Fundamentals, Denver apartment vacancies climbed to record levels during second quarter 2003. Despite a slight improvement in net absorption, new supply deliveries continue to outpace demand, creating an environment that should be monitored until employment growth resumes.
- Office vacancy rates in the Denver MSA decreased slightly to 20.8 percent as of third quarter 2003, up 6.2 percentage points from two years earlier (compared to a 4.0 percentage point increase nationwide for the same period). Denver area industrial vacancy rates rose to the highest level in a decade, but remained just 1 percentage point higher than the nation.
- Although commercial real estate (CRE) vacancy rates in metropolitan areas of Colorado continued to rise, insured institutions headquartered in the state have increased CRE exposures[2] to the highest level on record. As of June 30, 2003, 40 percent of Colorado banks and thrifts have CRE to tier 1 capital in excess of 300 percent, a 10-year high. Despite this high exposure, Colorado bank and thrift CRE loan past-due and charge-off rates were within their recent five-year ranges and below national levels. While most of the banks and thrifts headquartered in Colorado are not lenders for the largest CRE projects, rising vacancies and increasing unemployment may still have negative implications for community bank CRE loan portfolios.





Higher cattle prices have helped ranchers but agriculture bank profits have still declined.

- Cattle and calves represented almost 60 percent of Colorado agricultural cash receipts. Cattle prices are currently at a seven-year-high, providing strong support for Colorado ranchers. While this may bode well for credit quality and loan demand going forward, Colorado agricultural banks reported the lowest return on assets in 10 years, primarily a result of net interest margin compression.

[1] Pretax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S status. Twenty-three percent of Colorado's insured institutions have elected Subchapter S status, which eliminates income tax at the bank level.

[2] Commercial real estate is defined as non residential real estate, multifamily, plus construction and development.

Colorado at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	179	185	190	197	203
Total Assets (in thousands)	49,366,260	53,825,259	48,508,800	45,402,227	40,223,778
New Institutions (# < 3 years)	9	10	8	11	15
New Institutions (# < 9 years)	26	26	24	26	26

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.33	8.29	8.45	8.45	8.66

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.48%	1.48%	1.51%	1.29%	1.37%
Past-Due and Nonaccrual > = 5%	23	14	15	13	22
ALLL/Total Loans (median %)	1.20%	1.27%	1.13%	1.11%	1.23%
ALLL/Noncurrent Loans (median multiple)	1.88	1.98	2.95	2.95	2.34
Net Loan Losses/Loans (aggregate)	0.24%	0.31%	0.28%	0.28%	0.51%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	13	11	10	11	12
Percent Unprofitable	7.26%	5.95%	5.26%	5.58%	5.91%
Return on Assets (median %)	1.15	1.25	1.27	1.35	1.23
25th Percentile	0.68	0.82	0.90	0.95	0.83
Net Interest Margin (median %)	4.36%	4.72%	4.85%	5.05%	4.94%
Yield on Earning Assets (median)	6.00%	6.84%	8.45%	8.48%	8.09%
Cost of Funding Earning Assets (median)	1.51%	1.98%	3.44%	3.43%	3.06%
Provisions to Avg. Assets (median)	0.12%	0.14%	0.10%	0.11%	0.11%
Noninterest Income to Avg. Assets (median)	0.86%	0.81%	0.85%	0.89%	0.86%
Overhead to Avg. Assets (median)	3.28%	3.38%	3.42%	3.46%	3.42%

/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	72.28%	72.42%	77.75%	74.43%	71.32%
Loans to Assets (median %)	62.36%	63.78%	65.41%	64.11%	60.86%
Brokered Deposits (# of Institutions)	30	24	25	21	24
Bro. Deps./Assets (median for above inst.)	3.66%	4.68%	4.70%	2.18%	2.24%
Noncore Funding to Assets (median)	15.87%	14.92%	15.48%	13.96%	12.08%
Core Funding to Assets (median)	73.80%	73.56%	73.60%	74.69%	77.04%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	92	96	97	101	106
National	49	52	55	58	61
State Member	28	27	28	28	25
S&L	9	9	9	9	9
Savings Bank	1	1	1	1	2
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	87	9,196,390	48.60%	18.63%
Denver CO PMSA	52	30,404,456	29.05%	61.59%
Colorado Springs CO	16	2,201,433	8.94%	4.46%
Greeley CO PMSA	7	1,115,936	3.91%	2.26%
Ft Collins-Loveland CO	7	3,626,956	3.91%	7.35%
Boulder-Longmont CO PMSA	7	2,425,339	3.91%	4.91%
Pueblo CO	3	395,750	1.68%	0.80%