

FDIC State Profile

WINTER 2003

New Mexico

Strong government employment has helped New Mexico sustain steady job growth and stable economic performance.

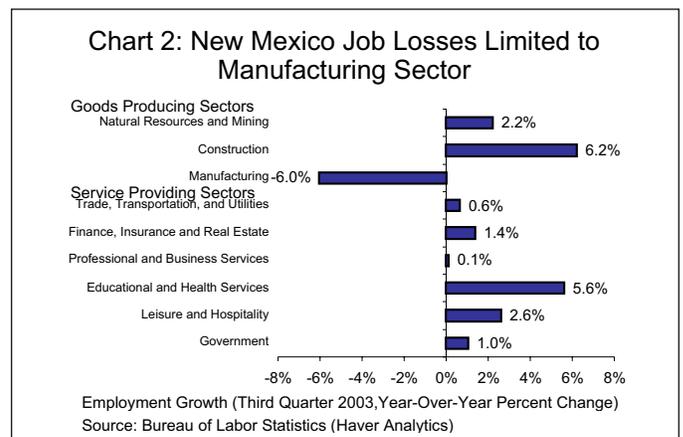
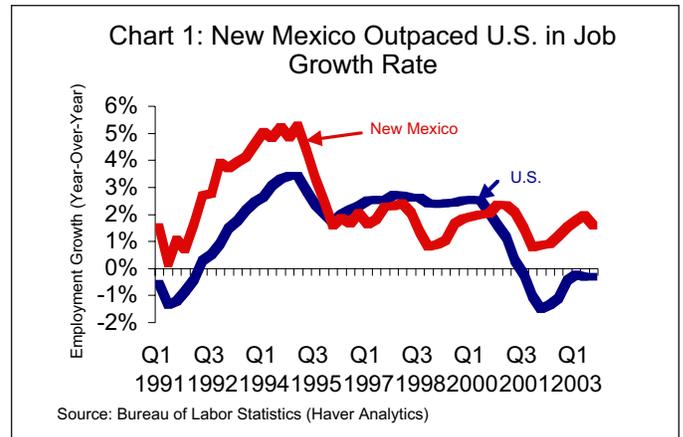
- New Mexico has maintained a 1 percent to 2 percent year-to-year annual job growth rate since the recession began (see Chart 1), one of only a handful of states that avoided outright job losses.
- New Mexico ranked among the top five fastest growing states as measured by job growth rates since 2002.

Several of New Mexico's employment sectors highlight the robust quality of this state's diverse economy, and even the lagging manufacturing sector will show signs of improvement in 2004.

- The educational and health sector remained New Mexico's strongest in third quarter 2003, creating 5,300 jobs in the past year; approximately 44 percent of new jobs created statewide.
- The construction sector became the fastest expanding job sector in third quarter 2003 (see Chart 2), aided by the state's rising levels of population in-migration and relatively inexpensive housing costs.
- Government job growth slowed in New Mexico during third quarter 2003, a significant development since government accounts for almost 25 percent of the state's total nonfarm employment. New Mexico remains a major beneficiary of military spending, federal research, and development procurement contracts with the state leading the nation in federal expenditures per capita in 2002.
- Manufacturing employment declined 6 percent in the last year. Still, manufacturing employment represented less than 5 percent of total employment statewide, significantly below the 11 percent share of the national economy.
- Intel, the largest manufacturing employer in the state, has planned a \$2.2 billion expansion in its New Mexico semiconductor production facilities, citing improved prospects for personal computer sales.

Recent infrastructure spending combined with bustling tourism and the in-migration of retirees places New Mexico on a firm footing for the near future.

- A recent \$1.6 billion transportation package passed by the New Mexico Senate, but awaiting reconciliation with a similar bill sent forward by the New Mexico House, should



improve several major highways in New Mexico and provide more than 50,000 new jobs in the next seven years.

- A favorable climate and relatively low living costs have attracted retirees, which will stimulate employment in the construction, health, and financial sectors.
- Recent tourism figures showed more than a one million person increase in tourist visitations during 2002, fueled by gains in real disposable personal income and a shift in travelers' preferences for shorter vacation trips.

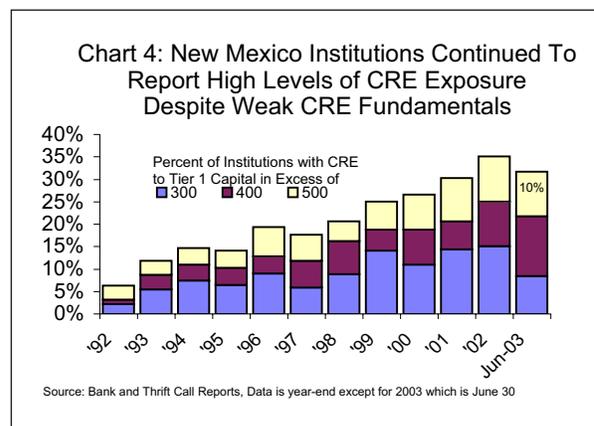
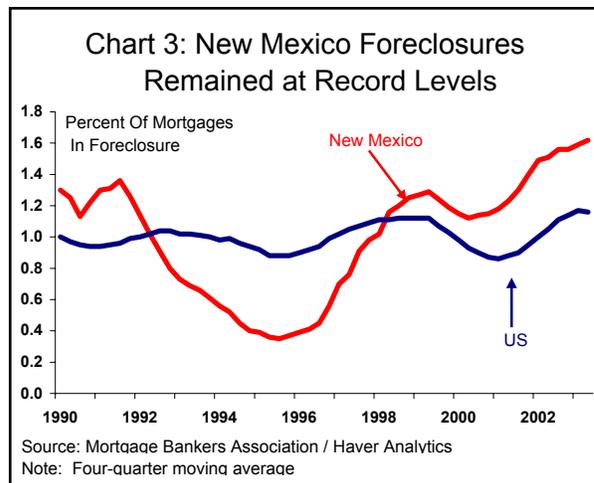
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A generally positive economic environment benefits banks and thrifts.

- The 60 insured institutions headquartered in New Mexico reported generally favorable results for the quarter ending June 30, 2003. Despite falling net interest margins, the lowest margin in ten years, New Mexico insured institutions reported a **median pretax return on asset** ratio of 1.62 percent for the second quarter, 12 basis points above the prior year.¹
- Asset quality improved as evidenced by the lowest past-due and charge-off rates in the past 10 years. Improved asset quality allowed the provision expense to decrease eight basis points from second quarter 2002.
- Equity capital remained steady at 10.16 percent for the second quarter.

Despite weakness in the residential and commercial real estate sectors, insured institutions headquartered in New Mexico continue to report stable conditions.

- **Residential real estate** in New Mexico showed some signs of stress as evidenced by rising home foreclosure rates (see Chart 3). Still, New Mexico insured institutions past-due and charge-off rates remained relatively low at 1.67 percent and 0.09 percent, respectively, as of June 30, 2003, suggesting insured banks and thrifts benefited from the established sales and securitization markets as well as vigilant underwriting standards.
- The **commercial real estate (CRE)** sector weakened nationwide as a result of the recent recession. Albuquerque's office vacancy rate was 16.1 percent as of September 30, 2003, up 390 basis points from two-years ago. Despite this weakness, insured institutions headquartered in New Mexico increased their CRE exposure to a relatively high level, compared to prior periods (see Chart 4). The CRE portfolios of banks and thrifts have been insulated from the effects of deteriorating market fundamentals by: 1) low interest rates; 2) the tremendous growth in public, non-governmental mortgage securitization; and 3) greater regulatory oversight and stringent CRE lending standards.² While most banks and



thrifts headquartered in New Mexico are not lenders to the largest CRE projects, rising vacancies and increasing unemployment may have negative implications for community bank loan portfolios.

Although New Mexico per capita bankruptcy rates are at a 30-year high, they are still below the national average.

- Favorably, insured institutions headquartered in the state are reporting consumer past-due and charge-off rates within levels reported during the past several years. However, continued high bankruptcy rates could pressure future consumer credit quality.

¹ Pretax ROA is used to allow better comparability between insured institutions that have elected Subchapter S corporation status and other insured institutions. A Subchapter S corporation is treated as a pass-through entity and is generally not subject to federal income tax at the corporate level. Forty percent of New Mexico's insured institutions have elected Subchapter S status.

² Murray, Thomas, "How Long Can Bank Portfolios Withstand Problems in Commercial Real Estate?" *FDIC FYI*, June 23, 2003.

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New Mexico at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	60	61	62	62	65
Total Assets (in thousands)	19,362,482	17,558,699	18,102,939	19,110,382	18,410,858
New Institutions (# < 3 years)	4	7	7	6	6
New Institutions (# < 9 years)	12	12	12	9	7
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.74	8.82	8.67	8.65	8.63
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.78%	2.10%	2.25%	1.92%	1.84%
Past-Due and Nonaccrual > = 5%	5	9	9	7	5
ALLL/Total Loans (median %)	1.36%	1.28%	1.27%	1.21%	1.28%
ALLL/Noncurrent Loans (median multiple)	1.37	1.18	1.12	1.50	1.75
Net Loan Losses/Loans (aggregate)	0.21%	0.38%	0.54%	0.40%	0.37%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	2	6	7	4	5
Percent Unprofitable	3.33%	9.84%	11.29%	6.45%	7.69%
Return on Assets (median %)	1.26	1.06	1.11	1.24	1.26
25th Percentile	0.79	0.69	0.55	0.73	0.73
Net Interest Margin (median %)	4.47%	4.73%	4.90%	5.29%	5.07%
Yield on Earning Assets (median)	6.24%	6.93%	8.30%	8.47%	8.13%
Cost of Funding Earning Assets (median)	1.52%	1.98%	3.52%	3.45%	3.11%
Provisions to Avg. Assets (median)	0.15%	0.21%	0.22%	0.12%	0.13%
Noninterest Income to Avg. Assets (median)	0.86%	0.79%	0.79%	0.78%	0.83%
Overhead to Avg. Assets (median)	3.42%	3.41%	3.60%	3.54%	3.39%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	72.74%	73.20%	70.79%	75.01%	69.25%
Loans to Assets (median %)	58.79%	61.45%	60.57%	62.39%	60.68%
Brokered Deposits (# of Institutions)	9	9	8	4	6
Bro. Deps./Assets (median for above inst.)	1.64%	2.26%	2.48%	3.17%	3.59%
Noncore Funding to Assets (median)	19.28%	19.71%	21.00%	21.09%	19.66%
Core Funding to Assets (median)	68.39%	69.32%	68.06%	67.67%	70.19%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	32	33	33	32	31
National	15	15	15	17	20
State Member	4	4	4	3	4
S&L	4	4	5	5	5
Savings Bank	5	5	5	5	5
Mutually Insured	0	0	0	0	0
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
No MSA		42	9,689,231	70.00%	50.04%
Albuquerque NM		11	6,842,769	18.33%	35.34%
Santa Fe NM		4	2,499,791	6.67%	12.91%
Las Cruces NM		3	330,691	5.00%	1.71%