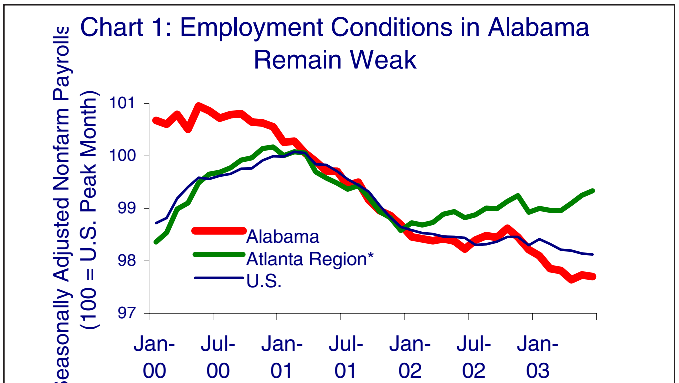
FDIC State Profile

FALL 2003

Alabama

The Alabama state economy showed some signs of improvement in early 2003. However, during second quarter 2003 payroll employment declined.

- After two consecutive years of declining payrolls, year-ago employment growth inched into positive territory during the first few months of 2003. Job gains were reported in key sectors of the economy, including construction, professional and business services, government, finance, educational and health services, and leisure and hospitality.
- However, payrolls once again declined through mid-year 2003. Additionally, initial unemployment insurance claims trended upward after falling during 2002 and early 2003.
- Alabama entered the recession before the nation. State payrolls peaked in mid-2000 (see Chart 1), more than six months before the cyclical peak in national employment. The recent recession in Alabama resulted in more significant job losses than during the 1990/1991 downturn.
- The pace of erosion in Alabama's manufacturing sector accelerated during the first half of 2003. Manufacturing losses have disproportionately affected Alabama's non-metropolitan counties, where manufacturing accounts for over one-quarter of all jobs, compared to roughly 16 percent of jobs in metropolitan areas. The textiles and apparel industries have been hit hardest by the recent recession, with layoffs concentrated in ***Florence*** and rural counties to the south. In contrast, transportation equipment manufacturing employment has continued to expand, particularly in larger metropolitan areas. Continued growth in this industry is likely, given the new Hyundai plant slated to open in ***Montgomery*** and the expansion of the Honda facility in ***Lincoln***.



*FDIC Atlanta Region: AL, FL, GA, NC, SC, VA, and WV.
Source: Bureau of Labor Statistics/Haver Analytics

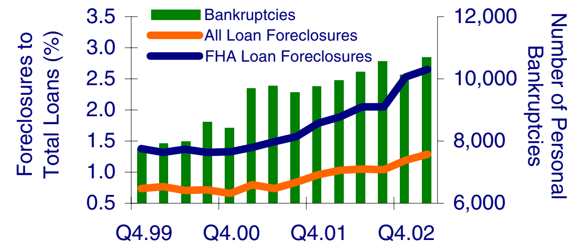
- The easing in the severity of Alabama's downturn early this year may be reflected in tax revenue collections. June 2003 fiscal year-to-date (FYTD) gross tax collections were up 2.3 percent from the same period a year earlier when the gain was a more anemic 0.8 percent. However, collections continue to fail to keep pace with inflation. On a real basis, June FYTD collections were down 0.1 percent.

Earnings growth among community banks headquartered in Alabama has started to wane as asset quality pressures intensify.

- Despite maintaining stable earnings performance, net income among community banks[1] based in the state was flat for the 12-month period ending March 31, 2003. Overall, the growth in net income slowed year-over-year as the loan portfolio, which has been the primary driver of revenue during the past decade, began to slow in 2001. On a merger adjusted basis net income grew just over 5 percent during the 12-month period ending March 2003, down from over 13 percent in March 2000. Subsequently, the loan-to-asset ratio at these institutions declined to the lowest level in the past four years at 64.9 percent, down 156 basis points from a year earlier. After solid performance in 2002, both margins and profitability suffered setbacks as historically low interest rates have limited banks' ability to lower funding costs as loan rates continued to reprice downward. In addition, economic weakness has noticeably affected loan performance throughout the state as past-due loan levels continued to increase.

- Moderating loan growth among community banks in the state has not curbed the shift to a riskier loan mix as commercial real estate loans[2] now comprise 36 percent of the loan portfolio, up from 33 percent a year earlier. On a merger adjusted basis, growth in construction and development (C&D) loans was the most robust, surging 21 percent during the year ending March 31, 2003. Banks in the state have continued to increase concentrations in traditionally higher risk loan types, despite ongoing economic weakness. Although C&D loan delinquencies were manageable at period end, both charge-offs and noncurrent C&D loans have trended higher. Given that these loans have historically been used to fund residential real estate construction at the community bank level, a noticeable amount of layoffs throughout the state may have adversely affected inventory turnover of newly constructed homes. Nevertheless, thirteen banks reported that at least 10 percent of the assets were held in C&D loans; the majority of these institutions reported increasing levels in this asset category during the past year. Four of these institutions are headquartered in the **Birmingham** MSA.

Chart 2: Rising Level of Personal Bankruptcies in Alabama Is Contributing to the Increase in FHA Foreclosures



Source: Mortgage Bankers Association, US Administrative Courts (Haver Analytics)

- Deteriorating asset quality has been fairly widespread, however, as the total past-due and nonaccrual loan level rose 19 basis points to 3.28 percent as of the end of first quarter 2003. An increase in the noncurrent loan portion was the primary catalyst as this ratio jumped 29 basis points to 1.47 percent during the past year. One-to-four family mortgages experienced the most deterioration during this time as noncurrent loans grew 61 basis points to just less than 1.5 percent. A weak manufacturing sector continued to impede job growth, which may undermine consumers' ability to meet debt service obligations. Record personal bankruptcy filings and mortgage foreclosures have also contributed to higher levels of loan delinquencies in the state (see Chart 2).

[1] Community banks have assets less than $1 billion and exclude denovos, specialty institutions and thrifts.

[2] Commercial real estate loans consist of construction and development, nonresidential real estate, and multifamily loans.

Alabama at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	161	168	170	169	171
Total Assets (in thousands)	207,330,934	190,352,662	187,055,606	181,330,103	144,511,594
New Institutions (# < 3 years)	7	9	7	6	2
New Institutions (# < 9 years)	15	13	10	9	6

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.76	9.44	9.48	9.73	9.29

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.99%	2.74%	2.74%	2.67%	2.94%
Past-Due and Nonaccrual >= 5%	34	25	33	34	35
ALLL/Total Loans (median %)	1.36%	1.32%	1.28%	1.25%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.42	1.36	1.49	1.43	1.61
Net Loan Losses/Loans (aggregate)	0.39%	0.43%	0.36%	0.28%	0.24%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	9	10	12	9	6
Percent Unprofitable	5.59%	5.95%	7.06%	5.33%	3.51%
Return on Assets (median %)	1.10	1.17	1.06	1.19	1.14
25th Percentile	0.81	0.78	0.68	0.84	0.87
Net Interest Margin (median %)	4.07%	4.17%	3.99%	4.28%	4.16%
Yield on Earning Assets (median)	6.11%	6.99%	8.37%	8.24%	7.94%
Cost of Funding Earning Assets (median)	2.08%	2.82%	4.40%	4.05%	3.83%
Provisions to Avg. Assets (median)	0.20%	0.20%	0.16%	0.16%	0.16%
Noninterest Income to Avg. Assets (median)	0.69%	0.69%	0.69%	0.68%	0.66%
Overhead to Avg. Assets (median)	2.78%	2.73%	2.80%	2.76%	2.78%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	70.62%	73.35%	72.65%	71.05%	67.99%
Loans to Assets (median %)	60.82%	60.97%	61.14%	58.63%	57.45%
Brokered Deposits (# of institutions)	43	37	39	33	29
Bro. Deps./Assets (median for above inst.)	3.65%	3.47%	2.22%	2.48%	1.17%
Noncore Funding to Assets (median)	24.01%	23.82%	23.85%	22.32%	18.36%
Core Funding to Assets (median)	64.27%	65.00%	64.37%	66.58%	69.84%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	104	108	110	109	110
National	20	22	23	24	28
State Member	26	27	25	24	21
S&L	4	5	5	5	5
Savings Bank	7	6	7	7	7
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	101	13,188,837	62.73%	6.36%
Birmingham AL	19	171,425,027	11.80%	82.68%
Mobile AL	8	834,459	4.97%	0.40%
Dothan AL	7	970,017	4.35%	0.47%
Montgomery AL	4	16,162,575	2.48%	7.80%
Florence AL	4	782,725	2.48%	0.38%
Decatur AL	4	1,600,466	2.48%	0.77%
Tuscaloosa AL	3	514,066	1.86%	0.25%
Huntsville AL	3	561,105	1.86%	0.27%
Anniston AL	3	210,638	1.86%	0.10%
Gadsden AL	2	284,943	1.24%	0.14%
Columbus GA-AL	2	288,848	1.24%	0.14%
Auburn-Opelika AL	1	507,228	0.62%	0.24%