FDIC State Profile

FALL 2003

Arizona

Nonfarm employment in Arizona rebounded through the second quarter of 2003, albeit at a slower pace.

- As of mid-2003, payroll jobs increased 0.6 percent compared to year-ago figures, in contrast to the 0.3 percent decline nationally (see Chart 1).
- Employment growth in private education and health services, and in construction, offset losses in the manufacturing and information sectors.
- Computer and electronic products manufacturing jobs declined 9.1 percent year-over-year in second quarter 2003. Aerospace manufacturing jobs fell 4.9 percent over the same period.
- State and local government employment growth slowed significantly to 0.2 percent during the year ending June 2003, after registering 3.7 percent growth in the prior year. A projected $1.5 billion state budget deficit for fiscal year 2004 may curtail state and local government employment further during the coming year.

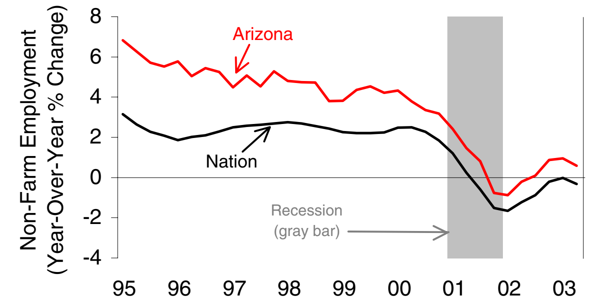
The state's high-tech and aerospace sectors have been negatively affected by declining international and domestic demand for their products.

- Rapid growth in computer and electronic product production through 2000 was an important factor in the expansion of Arizona jobs in this category. However, significant declines in demand and output beginning in 2001 depressed Arizona's employment in high-tech manufacturing (see Chart 2).
- Although high-tech manufacturing in the ***Tucson*** metropolitan statistical area (MSA) tends to be defense-related, the recent increase in national security spending has not yet resulted in high-tech manufacturing job growth.

Office, industrial, and multifamily vacancy rates have risen in both the Phoenix and Tucson MSAs.

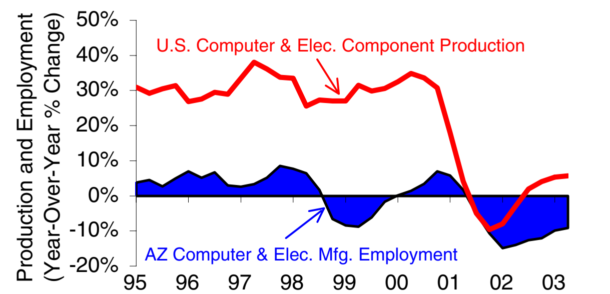
- According to Torto Wheaton Research (TWR), office and industrial vacancy rates in the ***Phoenix*** and Tucson MSAs have increased noticeably over the past 3 years (see Chart 3). TWR also reported rental rate declines of at least 8 percent among Phoenix-area office and industrial properties and Tucson-area industrial buildings over the period.
- Low home mortgage rates and subdued job growth softened demand for apartment units. Between first quarter 2001 and first quarter 2003, TWR estimates that multifamily vacancy rates increased from 4.2 percent to 9.3 percent in Phoenix and from 5.2 percent to 9.7 percent in Tucson.

Chart 1: Arizona's Employment Growth Barely Remains Positive



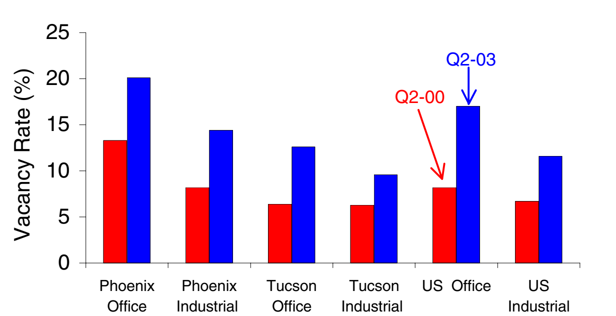
Source: Bureau of Labor Statistics

Chart 2: U.S. Computer & Electronic Production Affects Arizona Jobs



Source: Bureau of Labor Statistics, Federal Reserve Board

Chart 3: Arizona's Slowing Economy Weakened Office and Industrial Markets

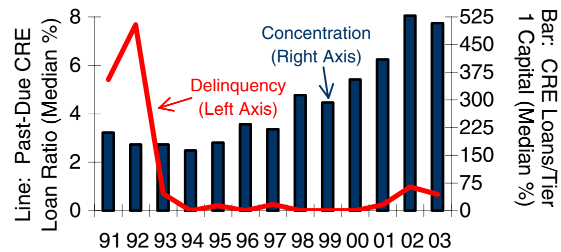


Source: Torto Wheaton Research

Weakening local CRE market conditions could adversely affect institutions headquartered in the Phoenix and Tucson MSAs that hold CRE[1] loans.

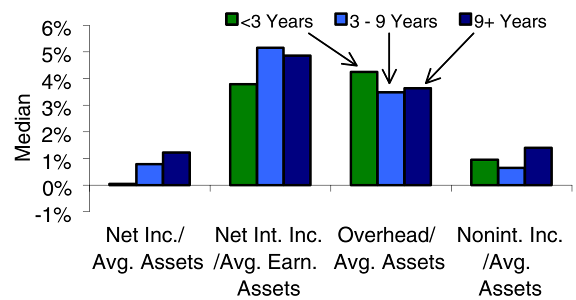
- As of first quarter 2003, the median CRE loan-to-Tier 1 capital ratio among established community institutions[2] based in the Phoenix and Tucson MSAs was 507 percent, nearly three times the median concentration reported ten years earlier (see Chart 4). The group's median construction and development (C&D) loan-to-Tier 1 capital ratio increased more than six-fold over the past decade to 173 percent. Respectively, median CRE and C&D concentration ratios were double and quadruple the levels reported by MSA-based institutions nationwide.
- Increasing CRE vacancy rates over the past few years have only mildly affected past-due CRE loan ratios among Phoenix and Tucson-based established community institutions (see Chart 4). Although delinquencies are far below levels of the early 1990s, additional softening could occur should market fundamentals remain weak.

Chart 4: Community Institutions in Phoenix and Tucson Report High CRE Loan Exposures



Notes: Includes insured institutions based in the Phoenix or Tucson metropolitan areas, open at least three years, with less than $1 billion in assets, and excludes specialty institutions. CRE = commercial real estate.
Source: Phoenix and Tucson Bank and Thrift Call Reports (March of each year)

Chart 5: Earnings Performance Was Strongest among Arizona's Oldest Insured Institutions

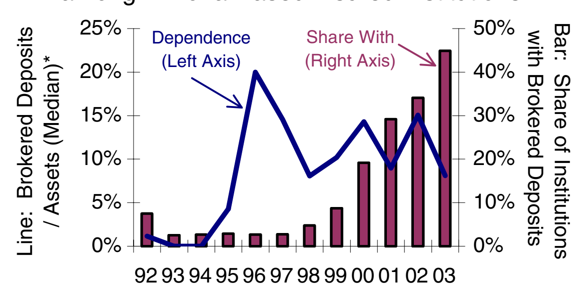


Source: Arizona Bank and Thrift Call Reports (March 31, 2003)

Earnings among Arizona's insured institutions remained relatively weak in early 2003.

- The median return-on-assets (ROA) ratio increased to 0.82 percent in March 2003, up from 0.75 percent in first quarter 2002, but still below the 1.05 percent national median. Despite net interest margin compression, the median ROA improved, prompted by improved noninterest income and reduced overhead.
- ROA ratios were weaker among institutions less than nine years old, which accounted for 63 percent of the state's insured institutions (see Chart 5). Older insured institutions reported strong ROA ratios, in part as a result of the high proportion of credit-card lenders in the group.

Chart 6: Brokered Deposit Usage Increased among Arizona-Based Insured Institutions



Note: *Median is calculated on insured institutions holding brokered deposits.
Source: Arizona Bank and Thrift Call Reports (March of each year)

Arizona-based institutions report elevated brokered deposit and noncore[3] funds dependence.

- The median noncore funds-to-total asset ratio among Arizona's insured institutions increased from 7 percent to 18 percent during the past decade.
- Brokered deposits, traditionally one of the least stable funding components, now represent an important source of funding for many institutions. The share of Arizona-based institutions using brokered funds increased to 45 percent by March 2003, up from 34 percent one year ago (see Chart 6). On a median basis, brokered deposits fund just over 8 percent of these institutions' assets.

[1] CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.

[2] Established community institutions are defined as insured institutions holding less than $1 billion in total assets and open at least three years. The definition excludes specialty institutions.

[3] Noncore funds include brokered deposits, jumbo time deposits, foreign office deposits, and other borrowed funds such as Federal funds purchased and reverse repurchase agreements.

Arizona at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	49	44	48	47	46
Total Assets (in thousands)	49,916,312	42,727,288	63,905,130	53,971,228	41,839,790
New Institutions (# < 3 years)	15	12	16	14	14
New Institutions (# < 9 years)	31	25	26	26	23

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.60	9.41	8.72	9.45	9.69

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	0.54%	1.05%	0.87%	1.09%	0.60%
Past-Due and Nonaccrual >= 5%	1	4	4	2	1
ALLL/Total Loans (median %)	1.21%	1.36%	1.33%	1.19%	1.25%
ALLL/Noncurrent Loans (median multiple)	2.47	2.20	2.83	2.75	5.34
Net Loan Losses/Loans (aggregate)	3.60%	4.35%	2.04%	1.88%	2.65%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	10	13	14	8	10
Percent Unprofitable	20.41%	29.55%	29.17%	17.02%	21.74%
Return on Assets (median %)	0.82	0.75	1.08	0.93	1.04
25th Percentile	0.12	-0.19	-0.18	0.36	0.26
Net Interest Margin (median %)	4.36%	4.99%	5.11%	5.36%	5.10%
Yield on Earning Assets (median)	6.08%	7.14%	8.92%	8.83%	8.18%
Cost of Funding Earning Assets (median)	1.50%	2.05%	4.04%	3.52%	2.97%
Provisions to Avg. Assets (median)	0.20%	0.23%	0.16%	0.22%	0.20%
Noninterest Income to Avg. Assets (median)	0.75%	0.67%	0.68%	0.71%	0.82%
Overhead to Avg. Assets (median)	3.98%	4.09%	4.31%	4.44%	4.10%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	85.61%	81.68%	77.09%	77.79%	67.41%
Loans to Assets (median %)	68.33%	68.55%	65.09%	65.94%	60.86%
Brokered Deposits (# of institutions)	22	15	14	9	4
Bro. Deps./Assets (median for above inst.)	8.09%	15.04%	8.97%	14.32%	10.19%
Noncore Funding to Assets (median)	18.17%	14.00%	16.13%	12.53%	11.52%
Core Funding to Assets (median)	64.13%	64.95%	70.01%	73.47%	74.26%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	25	19	19	21	21
National	17	16	18	16	15
State Member	3	6	7	6	7
S&L	0	0	0	0	0
Savings Bank	4	3	4	4	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets ($000s)	% Inst.	% Assets
Phoenix-Mesa AZ	34	45,463,134	69.39%	91.08%
Tucson AZ	5	3,291,896	10.20%	6.59%
Las Vegas NV-AZ	4	916,420	8.16%	1.84%
Yuma AZ	3	171,317	6.12%	0.34%
No MSA	2	34,266	4.08%	0.07%
Flagstaff AZ	1	39,279	2.04%	0.08%