FDIC State Profile

FALL 2003

Washington

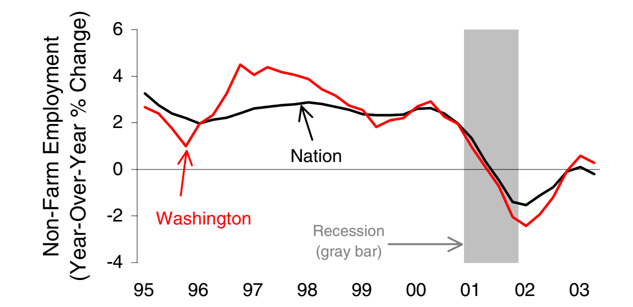
Washington experienced minimal economic growth during the 12 months ending second quarter 2003 and reported one of the highest unemployment rates in the nation.

- The 0.2 percent increase in payroll employment during the year ending second quarter 2003, while a significant improvement from one year ago, was well below the average growth rate of 2.4 percent during the 1990s (see Chart 1). Growth in the government, services, and construction sectors balanced sharp declines in the manufacturing sector, which were led by continued layoffs at Boeing, the largest private employer in the state.
- Although Washington's weak economic conditions have adversely affected sales tax collections, which declined 1.1 percent during 2002, employment in state and local government increased year-over-year by 1.8 percent. Continued sluggishness in tax collections may adversely affect job growth in these sub-sectors going forward.
- As of June 2003, the state's unemployment rate was 7.7 percent, the third highest rate in the nation, behind Alaska and Oregon.
- Civilian aerospace and high-tech sector weaknesses pushed up average unemployment rates, particularly in the ***Seattle, Tacoma,*** and ***Portland*** metropolitan statistical areas (MSAs). Despite recent large jet orders and signs of recovery in airline travel, Boeing intends to lay off 5,000 workers by the end of this year. Average unemployment rates within MSAs elsewhere in the state remained relatively stable or improved during the year ending second quarter 2003 (see Chart 2).

Softening demand for commercial real estate (CRE) in Seattle could adversely affect credit quality among insured institutions with relatively high CRE loan concentrations.[1]

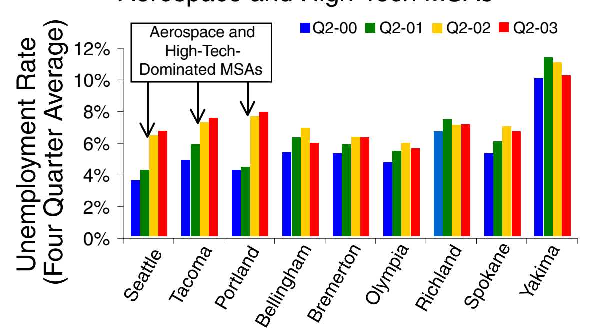
- Demand for commercial properties in the Seattle MSA continues to mirror the state's weak economic conditions. Office vacancy rates have risen over the three-year period ending second quarter 2003 from 2.5 percent to 15.6 percent; while industrial vacancies have increased from 6.0 percent to 10.8 percent over the period (see Chart 3). According to Torto

Chart 1: Job Losses in Washington Were Severe during the Recent Recession



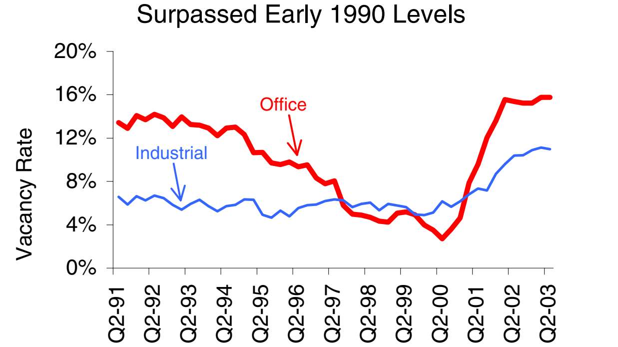
Source: Bureau of Labor Statistics

Chart 2: Unemployment Rates Increased Most in Aerospace and High-Tech MSAs



Source: Bureau of Labor Statistics

Chart 3: Office and Industrial Vacancy Rates Have Surpassed Early 1990 Levels



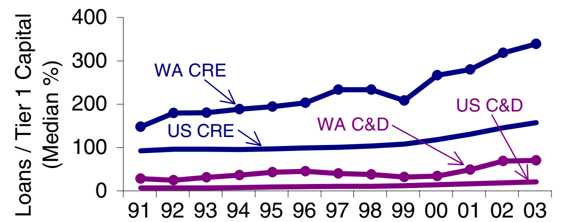
Source: Torto Wheaton Research

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

Wheaton Research data, second quarter 2003 Seattle office rents have declined 25 percent from their peak in fourth quarter 2000, and industrial rents have declined 31 percent since their first quarter 2000 peak; both markets are expected to remain soft.

- Insured institutions headquartered in Washington are exposed to deterioration in the CRE and construction and development (C&D) markets. During the year ending March 31, 2003, the median CRE loan-to-Tier 1 capital ratio among established community institutions[2] increased from 319 percent to 340 percent, more than double the national ratio. The median C&D-to-Tier 1 capital ratio was nearly four times the national ratio at the end of first quarter 2003, while the ratio increased from 70 percent to 72 percent during the same period (see Chart 4). Concentrations among insured institutions based in the Seattle MSA are even higher, with the CRE loan-to-Tier 1 capital ratio at 406 percent, and the C&D-to-Tier 1 capital ratio at 115 percent.
- Despite increased vacancy rates and exposures to CRE and construction loans, the median CRE loan-delinquency ratio reported by Washington's established community institutions dropped from 1.53 percent to 0.86 percent from March 2002 to March 2003. During the same period, median CRE loan growth rates declined.
- Lower interest rates may have enabled property owners to reduce financing costs, thereby offsetting the effects of lower rental income. In addition, low interest rates appear to be keeping capitalization rates low and property values stable, despite deteriorating fundamentals.

Chart 4: Washington Institutions Report High Exposures to Construction and CRE Lending

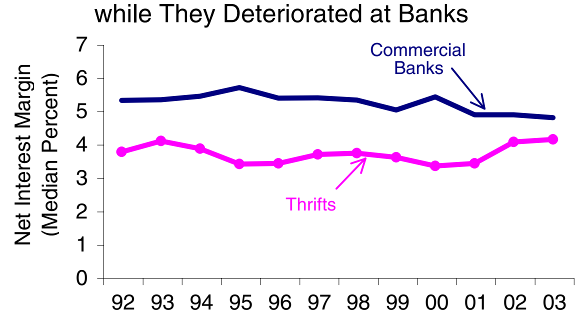


Notes: Excludes institutions less than 3 years old, over $1 billion in assets, and specialty institutions. CRE = commercial real estate; C&D = construction and development.
Source: Bank and Thrift Call Reports (March of each year)

Earnings and asset quality improved among insured institutions headquartered in Washington during 2002.

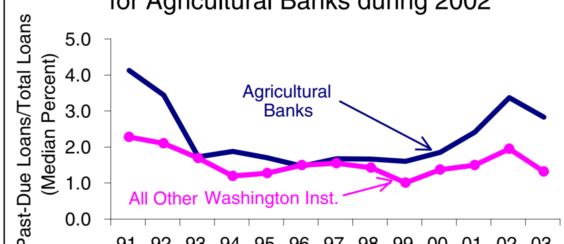
- The median return on assets (ROA) among insured institutions headquartered in Washington as of March 31, 2003, increased from 0.95 percent in 2002 to 1.07 percent at the end of first quarter 2003, slightly above the national median of 1.05 percent.
- Earnings trends continued to be a reflection of the high proportion of savings institutions headquartered within the state. Approximately 22 percent of Washington-based insured institutions were savings institutions, compared with 16 percent nationally. In general, thrifts benefited more than commercial banks from declining interest rates during 2001, 2002, and first quarter 2003 (see Chart 5).
- Despite weak economic conditions, the median past-due ratio among established community institutions headquartered in Washington decreased from 2.03 percent to 1.48 percent during the 12-month period ending March 2003. However, the 12 agricultural banks headquartered in the state reported a median past-due ratio of 2.77 percent, an improvement from 3.31 percent in March 2002 (Chart 6).[3]

Chart 5: In Washington, NIMs at Thrifts Improved while They Deteriorated at Banks



Source: Washington Bank Call Reports (March of each year)

Chart 6: Asset Quality Problems Improved for Agricultural Banks during 2002



Note: Excludes insured institutions under 3 years old, over $1 billion in total assets, and specialty institutions. Agricultural banks have agricultural lines and farm real estate loans exceeding 100 percent of Tier 1 Capital.
Source: Washington Bank Call Reports (March of each year)

[2] Defined as insured institutions open more than 3 years, with assets of less than $1 billion, and excludes specialty institutions.

[3] Agricultural banks include insured commercial banks in operation at least three years, holding less than $1 billion in total assets, with agricultural loan-to-Tier 1 capital ratios exceeding 100 percent.

Washington at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	101	99	99	103	101
Total Assets (in thousands)	75,006,208	69,229,702	74,946,729	68,120,153	63,937,920
New Institutions (# < 3 years)	10	11	16	19	18
New Institutions (# < 9 years)	34	33	34	32	32

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.42	9.40	10.09	10.64	10.54

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.42%	1.75%	1.28%	1.05%	0.94%
Past-Due and Nonaccrual >= 5%	8	7	6	4	6
ALLL/Total Loans (median %)	1.37%	1.25%	1.14%	1.10%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.79	1.55	1.87	1.83	2.01
Net Loan Losses/Loans (aggregate)	0.21%	0.26%	0.17%	0.10%	0.10%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	6	8	13	16	14
Percent Unprofitable	5.94%	8.08%	13.13%	15.53%	13.86%
Return on Assets (median %)	1.07	0.95	0.95	1.03	1.01
25th Percentile	0.69	0.64	0.57	0.59	0.56
Net Interest Margin (median %)	4.53%	4.65%	4.61%	5.16%	4.81%
Yield on Earning Assets (median)	6.47%	7.28%	8.70%	8.54%	8.13%
Cost of Funding Earning Assets (median)	1.93%	2.50%	4.24%	3.67%	3.24%
Provisions to Avg. Assets (median)	0.23%	0.22%	0.21%	0.20%	0.16%
Noninterest Income to Avg. Assets (median)	0.62%	0.59%	0.60%	0.48%	0.53%
Overhead to Avg. Assets (median)	3.64%	3.61%	3.66%	3.74%	3.81%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	89.23%	90.93%	89.72%	88.61%	81.05%
Loans to Assets (median %)	72.36%	75.53%	75.63%	72.85%	67.95%
Brokered Deposits (# of institutions)	33	30	21	12	9
Bro. Deps./Assets (median for above inst.)	3.02%	3.36%	2.72%	0.63%	0.25%
Noncore Funding to Assets (median)	21.62%	22.11%	21.94%	17.66%	14.33%
Core Funding to Assets (median)	66.41%	65.93%	65.69%	68.51%	70.09%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	62	61	59	63	60
National	14	14	15	15	17
State Member	3	2	2	2	2
S&L	7	7	7	7	7
Savings Bank	1	1	2	2	2
Mutually Insured	14	14	14	14	13

MSA Distribution	# of Inst.	Assets ($000s)	% Inst.	% Assets
Seattle-Bellevue-Everett WA PMSA	38	50,663,239	37.62%	67.55%
No MSA	29	7,683,418	28.71%	10.24%
Tacoma WA PMSA	8	2,768,872	7.92%	3.69%
Spokane WA	6	7,368,160	5.94%	9.82%
Olympia WA PMSA	5	1,424,703	4.95%	1.90%
Portland-Vancouver OR-WA PMSA	4	1,328,998	3.96%	1.77%
Yakima WA	3	1,291,784	2.97%	1.72%
Bremerton WA PMSA	3	845,535	2.97%	1.13%
Bellingham WA	3	1,411,370	2.97%	1.88%
Richland-Kennewick-Pasco WA	2	220,129	1.98%	0.29%