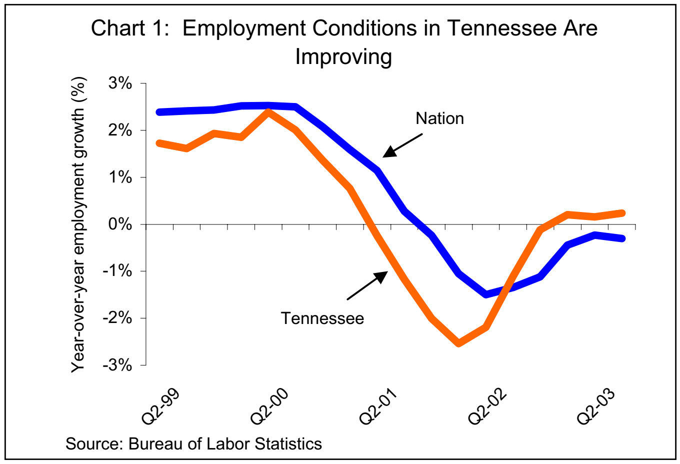
FDIC State Profile

FALL 2003

Tennessee

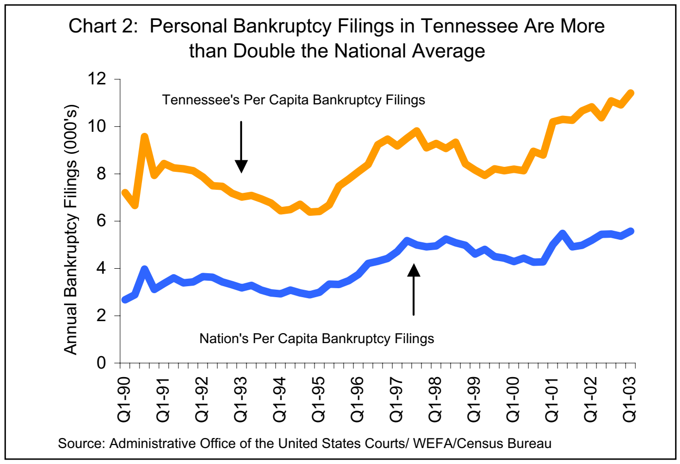
Employment conditions in Tennessee are improving.

- Labor market conditions in Tennessee are improving; the number of jobs increased for the year ending June 2003, after a period of considerable weakness (see Chart 1).
- Employment has steadily declined in the state's manufacturing sector since the peak in 1995. More than 105,000 jobs were shed during this period, and jobs continue to be lost in every major manufacturing sector.[1]
- The near term prospects for the manufacturing sector are uncertain. On a positive note, recent readings of the Institute for Supply Management manufacturing index indicates that orders appear to be on an increasing trend. However, job growth typically lags increases in orders and may be insufficient to recover the number of jobs already lost.



Bankruptcy filings are rising.

- The weak state economy has contributed to an increase in personal bankruptcy filings in the state (see Chart 2). In fact, Tennessee ranked first in the nation in per capita bankruptcy filings as of first quarter 2003. Median consumer loan loss rates reported by insured institutions headquartered in the state during 2001 and 2002 were significantly higher than rates reported for any other year since 1992, suggesting that banks and thrifts were challenged by the weak economy and its impact on the financial condition of borrowers.



State budget pressures may slow economic improvement.

- State tax revenues have declined due to the sluggish economy. In response, the Tennessee legislature increased the sales tax rate during the summer of 2002. However, as of March 2003, this strategy had not balanced the budget. The state government has mandated 9 percent spending cuts, and these[2] cuts could result in layoffs of state and local government employees. However, further tax increases or spending cuts may be necessary.[3] State and local government employment, the third largest employment sector in Tennessee, represented 13.6 percent of total employment in second quarter 2003.

[1] Manufacturing still is relatively more important in Tennessee than the nation, with the share of manufacturing jobs as a percentage of total employment at 16 percent, compared with 11 percent for the nation in second quarter 2003.

[2] The Tennessee state constitution mandates a balanced budget.

[3] A number of local governments increased property taxes in July 2003.

More insured institutions based in Tennessee are reporting heightened levels of past-due loans.

- After deteriorating during 2001 to levels not reported since 1992, the median past-due loan ratio improved through first quarter 2003.
- However, the number of insured institutions reporting relatively high past-dues of 4 percent or more of total loans increased in first quarter 2003 from year-end 2002[4] (see Chart 3).

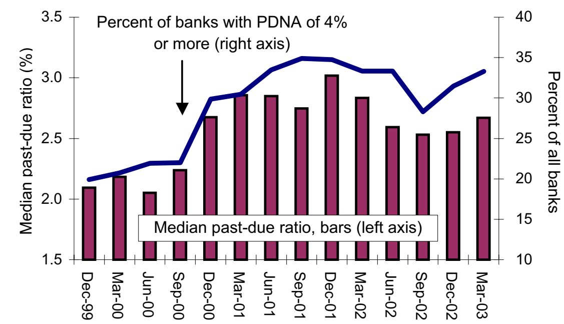
Coverage levels of nonperforming loans continue to increase.

- Insured institutions headquartered in Tennessee responded to rising delinquencies in 2001 by increasing provisions for loan loss reserves; institutions continued to add to provisions through first quarter 2003.[5]
- After declining steadily from the mid-1990s through 2001, coverage levels increased to 1.74 percent in first quarter 2003 (see Chart 4).

Net interest margins compressed in first quarter 2003.

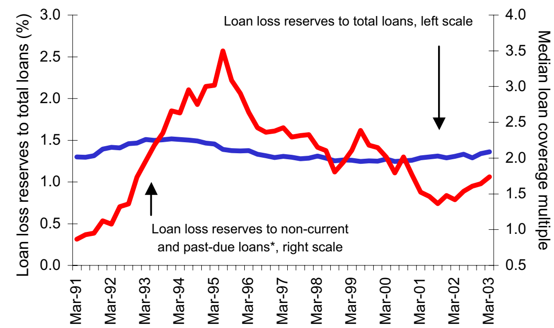
- The quarterly median net interest margin (NIM) reported by established insured institutions headquartered in Tennessee peaked at 4.45 percent in second quarter 2002, but declined to 4.14 percent in first quarter 2003 (see Chart 5). However, spreads recently have widened, suggesting that NIMs could improve in the near term.

Chart 3: Credit Problems Remain a Concern for Insured Institutions in Tennessee



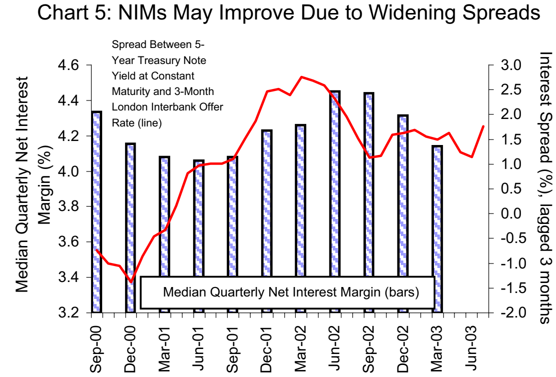
PDNA includes loans 30 days or more past-due and nonaccrual loans.
Source: Bank and Thrift Call Reports

Chart 4: Coverage Levels Slightly Increased in First Quarter 2003



*Median multiple
Source: Bank and Thrift Call Reports

Chart 5: NIMs May Improve Due to Widening Spreads



Median quarterly NIM reported by insured institutions based in TN – excludes de novos
Source: Federal Reserve Board: Bank & Thrift Call Reports

[4] The median past-due ratio (PDNA) was 2.67 percent in first quarter 2003, up from 2.55 percent in fourth quarter 2002, but slightly down from 2.84 percent one year ago. While the percent of institutions with 4 percent or more PDNA is elevated, it remains well below the 60 percent of institutions reached during the 1990-1991 recession.

[5] Loan loss reserves were 1.36 percent of total loans as of March 31, 2003, up from 1.31 percent one year ago.

Tennessee at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	210	213	220	222	228
Total Assets (in thousands)	117,898,643	105,365,676	93,258,983	90,494,849	111,110,386
New Institutions (# < 3 years)	15	20	23	20	19
New Institutions (# < 9 years)	45	45	46	38	32

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.33	9.13	9.33	9.27	9.31

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.67%	2.84%	2.86%	2.18%	2.48%
Past-Due and Nonaccrual >= 5%	49	51	36	28	30
ALLL/Total Loans (median %)	1.36%	1.32%	1.29%	1.27%	1.26%
ALLL/Noncurrent Loans (median multiple)	1.74	1.60	1.53	2.10	2.13
Net Loan Losses/Loans (aggregate)	0.52%	0.48%	0.35%	0.30%	0.31%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	22	17	17	16	9
Percent Unprofitable	10.48%	7.98%	7.73%	7.21%	3.95%
Return on Assets (median %)	1.06	1.09	0.91	1.08	1.11
25th Percentile	0.66	0.66	0.61	0.79	0.78
Net Interest Margin (median %)	4.14%	4.26%	4.08%	4.43%	4.29%
Yield on Earning Assets (median)	6.23%	7.05%	8.56%	8.39%	8.10%
Cost of Funding Earning Assets (median)	2.05%	2.74%	4.54%	4.02%	3.78%
Provisions to Avg. Assets (median)	0.20%	0.21%	0.16%	0.18%	0.17%
Noninterest Income to Avg. Assets (median)	0.79%	0.72%	0.74%	0.67%	0.64%
Overhead to Avg. Assets (median)	3.10%	3.04%	3.04%	2.95%	2.89%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	76.02%	76.72%	78.16%	78.79%	75.52%
Loans to Assets (median %)	65.22%	65.85%	66.51%	66.90%	63.81%
Brokered Deposits (# of institutions)	35	32	24	20	23
Bro. Deps./Assets (median for above inst.)	3.08%	3.34%	1.98%	1.70%	1.69%
Noncore Funding to Assets (median)	20.88%	20.49%	20.56%	19.15%	16.41%
Core Funding to Assets (median)	67.72%	68.44%	67.36%	69.68%	71.98%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	146	151	156	159	160
National	28	28	29	28	34
State Member	15	11	11	10	8
S&L	6	6	6	6	6
Savings Bank	14	16	17	18	19
Mutually Insured	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	129	19,113,568	61.43%	16.21%
Memphis TN-AR-MS	24	84,986,431	11.43%	72.08%
Nashville TN	23	5,495,191	10.95%	4.66%
Knoxville TN	12	3,932,903	5.71%	3.34%
Johnson City-Kingsport-Bristol TN-VA	10	2,312,279	4.76%	1.96%
Chattanooga TN-GA	5	982,406	2.38%	0.83%
Clarksville-Hopkinsville TN-KY	4	807,226	1.90%	0.68%
Jackson TS	3	268,639	1.43%	0.23%