FDIC State Profile

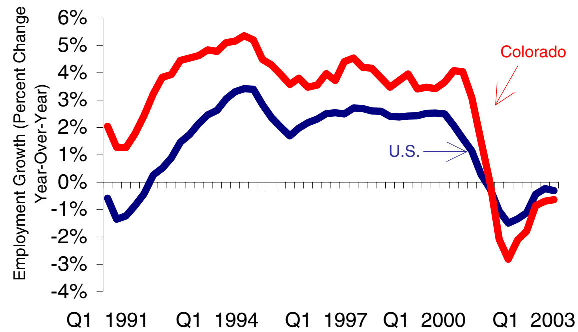
FALL 2003

Colorado

The downturn in the high-tech sector continues to adversely affect the Colorado economy.

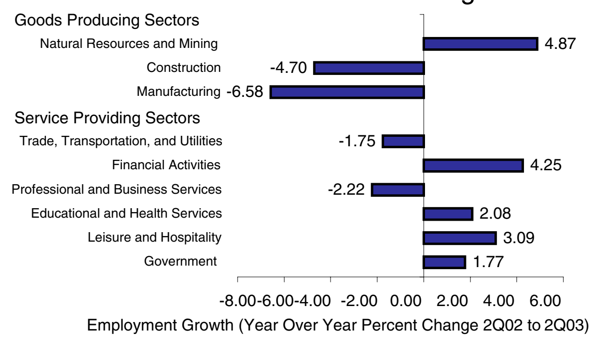
- Following a period of strong employment growth relative to the nation during the 1990s, the 2001 recession resulted in a rate of job loss in Colorado that has exceeded the nation since the fourth quarter of 2001 (see Chart 1). The state's unemployment rate was very low during the high-tech boom, bottoming at 2.6 percent in January 2001, but increased to 5.8 percent in the second quarter of 2003. As of the second quarter of 2003, Colorado was still losing jobs at twice the national rate.
- The manufacturing and construction sectors have suffered the majority of state's job losses (see Chart 2). The manufacturing sector reported year-to-date job losses of 11,100, or 6.6 percent of the manufacturing labor base, as of mid-year 2003, even after losing 9,100 jobs in 2002. Weak demand and a build-up of excess capacity from the late 1990s were the primary contributors to these losses.
- Weak labor markets resulting from the end of the high-tech bubble have affected Colorado's construction industry, which lost 4.7 percent of its workers between the second quarter of 2002 and the second quarter of 2003. Colorado residential building permits (single- and multi-family dwellings), which averaged nearly 51,000 between 1998 and 2002, are currently on a pace to total 37,000 in 2003, a decline of 22 percent from the previous year. The softness in the state's construction sector could undermine the fragile economic recovery, which is supported by modest year-over-year employment gains reported in the financial sector, tourism, education and health services, and government.
- Declining tax revenues, combined with soaring health care costs, have affected the state's budget. The 2002-2003 budget deficit is estimated at a significant 3.7 percent of the state's general budget, although the situation is a vast improvement over the 15 percent shortfall Colorado legislators addressed in 2001-2002. Going forward, more budgetary problems could be caused by recent federal tax cuts, which are forecast by the Colorado Legislative Council to reduce Colorado tax revenues by $90 million for fiscal years 2002/03 through 2004/05. The state and local budget shortfall could slow growth in Colorado, because of reduced government spending.

Chart 1: The Rate of Job Losses in Colorado Continues to Exceed that of the Nation



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Job Losses in Colorado Are Mainly Attributable to the Goods Producing Sectors

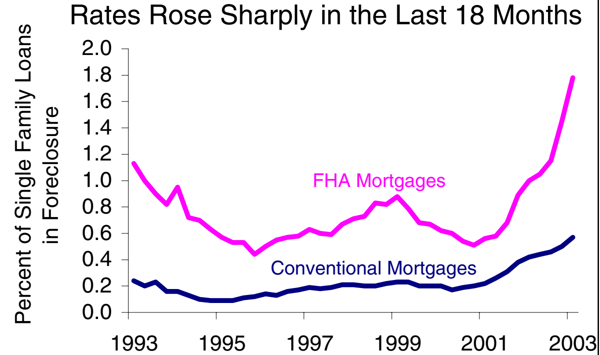


Source: Bureau of Labor Statistics (Haver Analytics)

Despite a sluggish Colorado economy, insured institutions headquartered in the state have performed well during the past year.

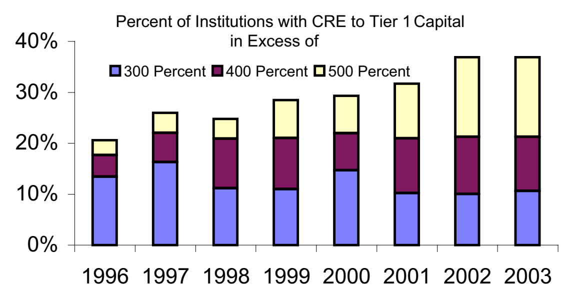
- Colorado insured institutions, in general, are performing well. Despite overall net interest margin compression during the past several years, banks and thrifts headquartered in the state continue to report strong earnings. The pretax[1] return-on-assets (ROA) ratio (four-quarter moving average) was 2.16 percent for the four quarters ending March 31, 2003. While lower than the last several years, it is still at the high end of the ten-year range. Credit quality shows mixed signs. Past-due rates have increased 49 basis points over the past year to 2.51 percent at March 31, 2003, but charge-off rates are at the lowest first quarter rate in ten years. The core capital (leverage) ratio was 7.72 percent at the end of first quarter 2003, slightly below the national average.
- Colorado residential real estate is showing some signs of stress as evidenced by rising conventional and FHA foreclosure rates (see Chart 3). The modest job recovery in many of Colorado's markets may lead to a slowing in home price appreciation, particularly at the high end of the housing market. Despite the residential weaknesses, insured institutions residential charge-off rates have remained relatively low. Although residential loan past-due rates increased 119 basis points to 2.38 percent from one year ago, the Colorado rate still approximates the national average.
- Office vacancy rates in the ***Denver*** MSA increased to 21.1 percent as of second quarter 2003, two-and-one-half times the rate reported in second quarter 1999, and the seventh highest rate for metropolitan areas as reported by Torto Wheaton Research.[2]. Denver's industrial vacancy rate (12.5 percent) rose to its highest level in a decade, but remains just 1 percentage point higher than the nation. Despite rising vacancy rates, insured institutions headquartered in Colorado have increased their commercial real estate (CRE) exposures[3] to the highest level on record (see Chart 4). Thirty-seven percent of Colorado institutions report high CRE levels[4] as of March 31, 2003 compared with 25 percent nationwide. Colorado bank and thrift CRE loan past-due and charge-off rates increased slightly as of March 31, 2003 compared to one year ago, and were still above the national average. Most notably, Colorado construction and development loan past-due rates were 80 basis points higher than the 2.13 percent U.S. averages. While most of the banks and thrifts headquartered in Colorado were not lenders for the largest CRE projects, rising vacancies and increasing unemployment may still have negative implications for community bank CRE loan portfolios.

Chart 3: Colorado Residential Foreclosure Rates Rose Sharply in the Last 18 Months



Source: Mortgage Bankers Association/Haver Analytics

Chart 4: Colorado Commercial Real Estate Loan Exposure Is at Record Levels Despite Weakening Market Fundamentals



Source: Bank and Thrift Call

[1] Pretax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S status; twenty-two percent of Colorado's insured institutions have elected Subchapter S status, which eliminates income tax at the bank level.

[2] Torto Wheaton tracks 54 major metropolitan markets in the U.S.

[3] Commercial real estate (CRE) is defined as non-residential real estate, multifamily, plus construction and development.

[4] High CRE exposure is defined as CRE to tier 1 capital in excess of 300 percent.

Colorado at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	179	185	191	199	204
Total Assets (in thousands)	49,871,823	51,353,918	47,793,872	44,222,451	38,425,296
New Institutions (# < 3 years)	9	10	9	12	14
New Institutions (# < 9 years)	26	26	25	26	25

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.31	8.25	8.56	8.53	8.73

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.06%	1.56%	1.69%	1.50%	1.73%
Past-Due and Nonaccrual >= 5%	28	16	14	15	33
ALLL/Total Loans (median %)	1.28%	1.28%	1.12%	1.12%	1.23%
ALLL/Noncurrent Loans (median multiple)	1.76	2.04	2.18	2.94	2.66
Net Loan Losses/Loans (aggregate)	0.23%	0.28%	0.27%	0.30%	0.60%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	12	15	14	14	13
Percent Unprofitable	6.70%	8.11%	7.33%	7.04%	6.37%
Return on Assets (median %)	1.17	1.19	1.26	1.26	1.20
25th Percentile	0.78	0.84	0.81	0.90	0.76
Net Interest Margin (median %)	4.39%	4.67%	4.84%	5.03%	4.89%
Yield on Earning Assets (median)	6.09%	6.87%	8.49%	8.38%	7.99%
Cost of Funding Earning Assets (median)	1.55%	2.03%	3.62%	3.37%	3.04%
Provisions to Avg. Assets (median)	0.12%	0.11%	0.11%	0.10%	0.09%
Noninterest Income to Avg. Assets (median)	0.83%	0.79%	0.79%	0.79%	0.85%
Overhead to Avg. Assets (median)	3.24%	3.38%	3.37%	3.42%	3.45%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	72.08%	72.33%	75.33%	72.77%	68.53%
Loans to Assets (median %)	61.25%	62.96%	63.81%	63.36%	58.03%
Brokered Deposits (# of institutions)	28	24	25	22	24
Bro. Deps./Assets (median for above inst.)	3.85%	4.11%	4.09%	2.26%	2.57%
Noncore Funding to Assets (median)	15.29%	13.96%	15.49%	13.03%	11.60%
Core Funding to Assets (median)	74.31%	74.37%	73.64%	76.05%	76.98%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	92	95	97	102	105
National	49	52	56	59	62
State Member	28	28	28	27	26
S&L	9	9	9	9	9
Savings Bank	1	1	1	2	2
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	87	8,980,374	48.60%	18.01%
Denver CO PMSA	52	31,286,416	29.05%	62.73%
Colorado Springs CO	16	2,173,487	8.94%	4.36%
Greeley CO PMSA	7	1,076,304	3.91%	2.16%
Ft Collins-Loveland CO	7	3,583,060	3.91%	7.18%
Boulder-Longmont CO PMSA	7	2,367,765	3.91%	4.75%
Pueblo CO	3	404,417	1.68%	0.81%