FDIC State Profile

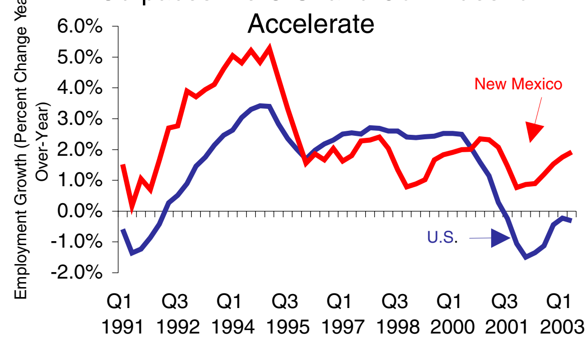
FALL 2003

New Mexico

Employment growth in New Mexico outpaces the U.S. and is accelerating.

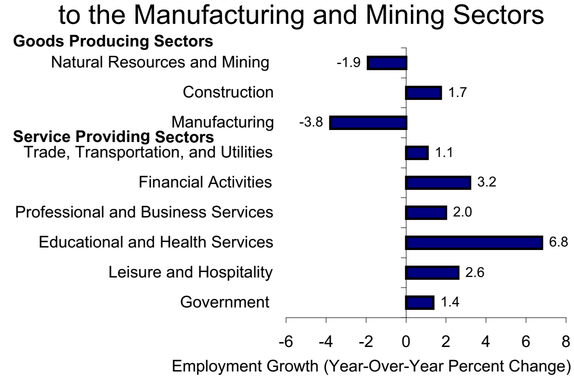
- Unlike the nation, the New Mexico economy has avoided job losses in absolute terms for the past two recessions (see Chart 1). New Mexico has sustained job growth because of the large and stable government sector, (25 percent of total employment), robust growth in educational and health services, and a relatively small manufacturing sector. Moreover, the strength of the New Mexico economy has been increasing over the past six quarters, resulting in the creation of 20,600 new jobs. Employment increased by 1.92 percent for the year ending second quarter 2003, an impressive performance in the context of a national economy with continuing job losses.
- In contrast to many other states, New Mexico does not have a budget deficit. This has helped the state's overall economic stability since 25 percent of state employment is in the government sector.
- Despite overall employment growth, New Mexico's manufacturing sector has experienced significant job losses (see Chart 2) losing 1,500 jobs, or 3.79 percent of its employment base, between second quarter 2002 and second quarter 2003. In particular, New Mexico's high-tech sector, especially semiconductor fabrication, has been disproportionately affected by the weak economic recovery following the business-led 2001 recession. Since peaking in 2001, New Mexico has lost 17 percent of its workforce in this sector. Economic conditions for the sector are improving, but its near-term outlook will depend upon the strength of the U.S. recovery.
- The mining sector (primarily metal) in New Mexico has been adversely affected by the recent recession, losing 15 percent of its workforce since the recession began in March 2001. The majority of those job losses have occurred in small, rural communities. Recently, Phelps Dodge closed its

Chart 1: Employment Growth in New Mexico Outpaces the U.S. and Continues to Accelerate



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Job Losses in New Mexico Are Limited to the Manufacturing and Mining Sectors



Source: Bureau of Labor Statistics (Haver Analytics)

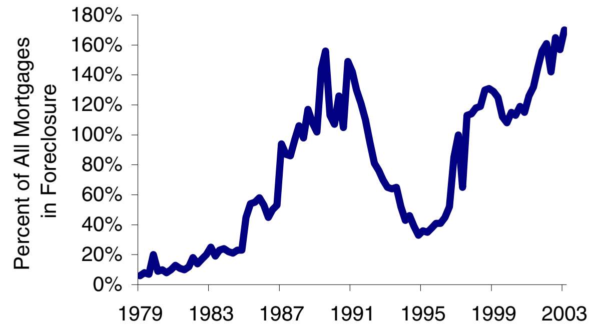
Chino mine and smelters in ***Hurley*** and ***Santa Rita,*** facilities representing dominant sources of employment for these two communities. However, higher natural gas prices are leading to increased drilling activity.

A generally positive economic environment benefits banks, but risks remain.

- The 60 insured institutions headquartered in New Mexico reported generally favorable results for the quarter ending March 31, 2003. Despite falling net interest margins, the lowest margin in ten years, New Mexico insured institutions reported a pretax return on asset ratio of 1.48 percent for the first quarter which is only slightly less from the prior year.[1] Asset quality improved as evidenced by the lowest past-due and charge-off rates in the past ten years. Improved asset quality allowed the provision expense to decrease 9 basis points from first quarter 2002 benefiting net income. Equity capital remained steady at 10.07 percent for the first quarter.

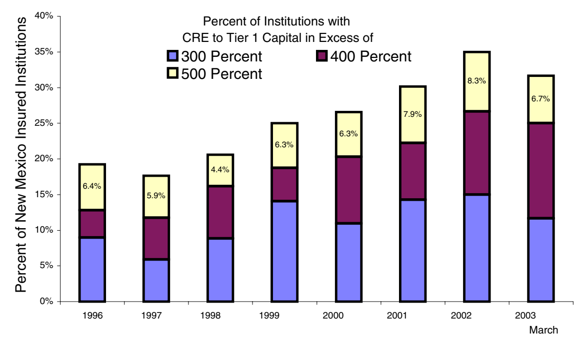
- Residential real estate in New Mexico is showing some signs of stress as evidenced by rising home foreclosure rates (see Chart 3). Still, New Mexico insured institutions past-due and charge-off rates have remained relatively low at 1.86 percent and 0.10 percent, respectively, as of March 31, 2003, suggesting insured banks and thrifts are benefiting from the established sales and securitization markets as well as vigilant underwriting standards.

Chart 3: New Mexico Residential Foreclosures Rise to Record Levels



Source: Mortgage Bankers Association/Haver Analytics

Chart 4: A Significant Number of New Mexico Insured Institutions Still Report High Levels of CRE Exposure



Source: Bank and Thrift Call Report Data

- The commercial real estate (CRE) sector has weakened nationwide as a result of the recent recession. ***Albuquerque's*** office vacancy rate as of June 30, 2003, was 15.7 percent, up 410 basis points from two years ago. Despite this weakness, insured institutions headquartered in New Mexico have increased their CRE exposure to a relatively high level compared to prior periods (see Chart 4). The CRE portfolios of banks and thrifts have been insulated from the effects of deteriorating market fundamentals by: 1) low interest rates; 2) the tremendous growth in public, non-governmental mortgage securitization; and 3) greater regulatory oversight and stringent CRE lending standards.[2] While most banks and thrifts headquartered in New Mexico are not lenders to the largest CRE projects, rising vacancies and increasing unemployment may have negative implications for community bank loan portfolios.

- Although New Mexico per capita bankruptcy rates are at a thirty-year high, they are still below the national average. Favorably, insured institutions headquartered in the state are reporting consumer past-due and charge-off rates within levels reported during the past several years. However, continued high bankruptcy rates could pressure future consumer credit quality.

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

[2] Murray, Thomas, "How Long Can Bank Portfolios Withstand Problems in Commercial Real Estate?" *FDIC FYI,* June 23, 2003.

New Mexico at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	60	63	63	61	65
Total Assets (in thousands)	19,364,226	18,688,656	18,257,776	18,702,299	18,148,727
New Institutions (# < 3 years)	5	7	8	6	6
New Institutions (# < 9 years)	12	12	12	8	7

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.66	8.46	8.66	8.70	8.74

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.65%	2.16%	2.34%	2.03%	2.12%
Past-Due and Nonaccrual >= 5%	7	11	8	7	9
ALLL/Total Loans (median %)	1.38%	1.29%	1.29%	1.26%	1.33%
ALLL/Noncurrent Loans (median multiple)	1.24	1.51	1.45	1.37	1.62
Net Loan Losses/Loans (aggregate)	0.18%	0.29%	0.30%	0.34%	0.37%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	3	4	7	3	7
Percent Unprofitable	5.00%	6.35%	11.11%	4.92%	10.77%
Return on Assets (median %)	1.06	1.03	1.08	1.22	1.23
25th Percentile	0.77	0.61	0.52	0.70	0.66
Net Interest Margin (median %)	4.54%	4.71%	4.92%	5.26%	5.03%
Yield on Earning Assets (median)	6.17%	6.92%	8.49%	8.44%	8.05%
Cost of Funding Earning Assets (median)	1.54%	2.08%	3.62%	3.34%	3.16%
Provisions to Avg. Assets (median)	0.16%	0.17%	0.20%	0.10%	0.11%
Noninterest Income to Avg. Assets (median)	0.88%	0.87%	0.75%	0.77%	0.76%
Overhead to Avg. Assets (median)	3.39%	3.49%	3.53%	3.54%	3.42%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	71.33%	71.29%	68.70%	71.77%	67.05%
Loans to Assets (median %)	58.53%	57.51%	58.58%	62.25%	58.00%
Brokered Deposits (# of institutions)	9	10	8	5	5
Bro. Deps./Assets (median for above inst.)	1.99%	2.16%	3.01%	4.91%	1.76%
Noncore Funding to Assets (median)	18.99%	20.10%	20.22%	20.42%	19.82%
Core Funding to Assets (median)	69.31%	68.28%	67.06%	68.44%	69.60%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	32	33	34	31	31
National	15	16	15	17	20
State Member	4	4	4	3	4
S&L	4	5	5	5	5
Savings Bank	5	5	5	5	5
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	42	9,604,600	70.00%	49.60%
Albuquerque NM	11	7,025,794	18.33%	36.28%
Santa Fe NM	4	2,427,157	6.67%	12.53%
Las Cruces NM	3	306,675	5.00%	1.58%