FDIC State Profile

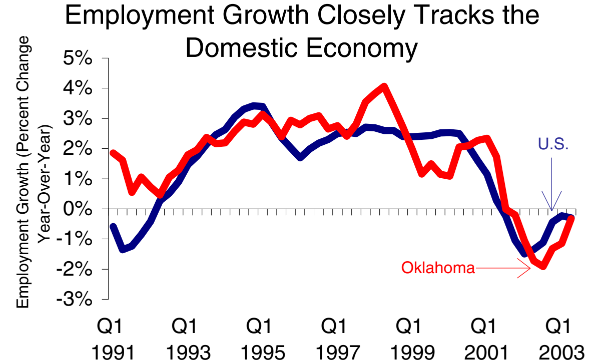
FALL 2003

Oklahoma

Significant exposure to manufacturing and the volatile energy industry, as well as a growing state budget deficit, suggest mixed performance for the state economy in 2003.

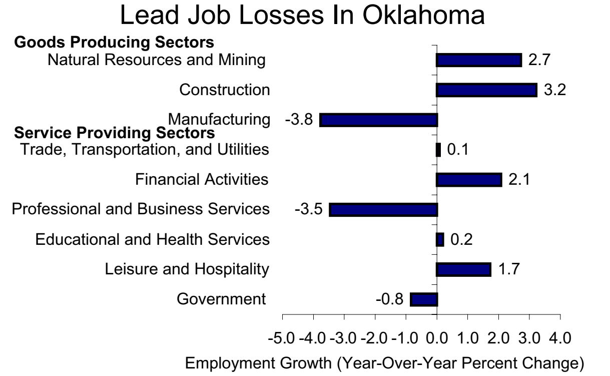
- The trend of Oklahoma employment growth improved on a year-over-year basis in second quarter 2003; however, growth remains negative (see Chart 1). While Oklahoma's unemployment rate climbed to 5.5 percent as of second quarter 2003, this still compares favorably to the U.S. rate of 6.2 percent.
- The most significant employment losses occurred in manufacturing and business services, partially offset by gains in construction and mining. Manufacturing and business services lost jobs on a year-over-year basis, 3.8 percent and 3.5 percent respectively (see Chart 2). While Oklahoma's manufacturing industry eliminated 7,800 jobs during the 2001 recession, job losses have continued with an additional 17,800 jobs have been lost since December 2001.
- The rising unemployment rate and soaring health care costs are having a significant impact upon government expenditures and tax revenues, contributing to Oklahoma's growing state budget deficit. The fiscal year 2003 budget deficit is estimated to be $291.7 million; additionally, the Oklahoma teacher's retirement pension fund is severely underfunded, with negative implications for future state budgets.[1] In response, the governor has called for a 6.5 percent reduction in all government programs. The government sector posted job losses of 0.8 percent on a year-over-year in second quarter 2003, primarily because of reductions to state and local budgets.
- Crude oil prices initially plunged in April based on the expectation that crude oil supplies would surge after the end of the conflict in Iraq. However, inventories still remain lean and crude oil prices have once again begun to climb. West Texas Intermediate crude oil averaged approximately $25 per barrel in late April, but has averaged above $30 a barrel since June. Additionally, natural gas supplies are running below their five-year historical average and have contributed to rising gas prices (over 63 percent higher as of June 2003 on a year ago basis). Renewed drilling activity associated with the higher energy prices has resulted in an increase in mining sector employment of 5.1 percent in second quarter 2003 on a year-over-year basis. Higher crude oil and natural gas prices affect the Oklahoma economy in two different ways: 1) boosting industry revenues, profits, and capital spending; and 2) causing oil and gas users, including manufacturers, farmers, and households, to reduce spending, production, or employment.

Chart 1: After Lagging the Nation, Oklahoma Employment Growth Closely Tracks the Domestic Economy



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Manufacturing and Business Services Lead Job Losses In Oklahoma



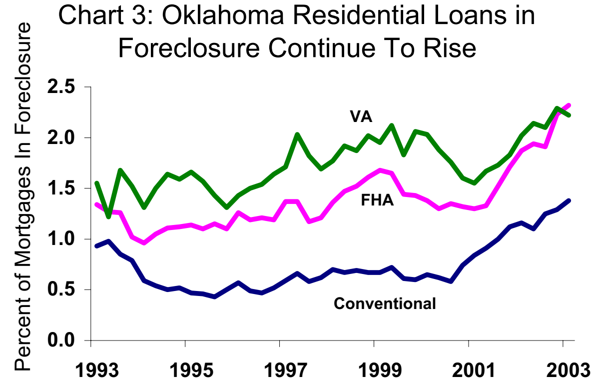
Source: Bureau of Labor Statistics (Haver Analytics) Note: Manufacturing Not Seasonally Adjusted

[1] Cauchon, Dennis. "Pension Peril Hits West Virginia Hardest: Similar Woes Likely In Other States, Cities" *USA Today.* August 4, 2003.

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

- The 279 insured institutions headquartered in Oklahoma reported generally favorable results for the quarter ending March 31, 2003. Despite falling net interest margins, the lowest margin in ten years, Oklahoma insured institutions reported a pretax return on asset ratio of 1.97 percent for the first quarter, the highest first quarter ratio in ten years.[2] The percentage of unprofitable institutions was 3.23 percent for the first quarter, less than half the level from a year earlier. Past-due and charge-off rates also improved, allowing the provision expense to decline by 8 basis points. Equity capital remained steady at 9.01 percent for the first quarter, in line with the national average.
- Residential real estate continues to show signs of stress as evidenced by the increasing number of home foreclosures in Oklahoma. Notwithstanding recent low mortgage rates, FHA, VA, and conventional mortgage foreclosures have risen to levels not seen since the early 1990s (see Chart 3). Nevertheless, insured institutions headquartered in Oklahoma reported an average residential mortgage charge-off rate of only .06 percent, less than the national average of .10 percent as of March 31, 2003.
- Bankruptcy filings continue to rise in Oklahoma. Oklahoma is the only state in the Southwest Region with a per capita bankruptcy rate above the national average. While consumer past-due and charge-off rates among Oklahoma banks and thrifts have remained stable during the past several years, upward trends in consumer debt and bankruptcy filings suggest that credit quality could weaken going forward.
- ***Oklahoma City*** reported the sixth highest metro office vacancy rate in the country (21.7 percent) in second quarter 2003, unchanged from a year ago. Although new office construction has been nominal, absorption has been negative reflecting rising unemployment and corporate employment moving out of state. Additionally, industrial vacancy rates in Oklahoma City have doubled during the past three years, climbing to 10.1 percent as of June 30, 2003. Despite weakness in the commercial real estate sector, insured institutions headquartered in Oklahoma City have increased their CRE exposure[3] to the highest level on record. Fortunately, even with this heightened exposure and higher vacancy rates, CRE past-due and charge-off rates have remained within their five-year ranges. 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.[4] Although most banks and thrifts headquartered in Oklahoma do not lend to the largest CRE projects, rising vacancies and increasing unemployment may have negative implications for community bank loan portfolios.

Chart 3: Oklahoma Residential Loans in Foreclosure Continue To Rise



Source: Mortgage Bankers Association/Haver Analytics

[2] Pretax return on assets 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-eight percent of Oklahoma's insured institutions have elected Subchapter S status.

[3] Commercial real estate is defined as non residential real estate plus construction and development.

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

Oklahoma at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	279	289	293	307	316
Total Assets (in thousands)	58,006,657	53,295,380	50,899,319	46,810,401	43,771,969
New Institutions (# < 3 years)	3	4	4	6	8
New Institutions (# < 9 years)	13	13	11	13	10

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.52	9.33	9.34	9.13	9.08

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.87%	2.76%	2.82%	2.27%	2.76%
Past-Due and Nonaccrual >= 5%	62	52	57	59	80
ALLL/Total Loans (median %)	1.26%	1.28%	1.27%	1.28%	1.28%
ALLL/Noncurrent Loans (median multiple)	1.25	1.34	1.31	1.50	1.29
Net Loan Losses/Loans (aggregate)	0.27%	0.30%	0.27%	0.30%	0.17%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	9	20	17	24	18
Percent Unprofitable	3.23%	6.92%	5.80%	7.82%	5.70%
Return on Assets (median %)	1.32	1.28	1.20	1.18	1.20
25th Percentile	0.86	0.85	0.80	0.82	0.78
Net Interest Margin (median %)	4.43%	4.58%	4.45%	4.69%	4.47%
Yield on Earning Assets (median)	6.25%	6.93%	8.43%	8.22%	7.84%
Cost of Funding Earning Assets (median)	1.71%	2.39%	3.96%	3.58%	3.40%
Provisions to Avg. Assets (median)	0.15%	0.15%	0.12%	0.15%	0.13%
Noninterest Income to Avg. Assets (median)	0.89%	0.88%	0.90%	0.83%	0.78%
Overhead to Avg. Assets (median)	3.31%	3.28%	3.27%	3.32%	3.16%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	68.94%	67.74%	68.73%	66.66%	63.93%
Loans to Assets (median %)	58.67%	58.55%	59.11%	58.33%	55.49%
Brokered Deposits (# of institutions)	30	25	24	18	20
Bro. Deps./Assets (median for above inst.)	3.03%	3.27%	2.98%	2.82%	2.64%
Noncore Funding to Assets (median)	17.54%	16.40%	16.82%	15.26%	14.41%
Core Funding to Assets (median)	70.98%	72.14%	71.74%	74.14%	74.60%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	126	123	124	130	147
National	91	96	101	112	115
State Member	56	64	60	55	43
S&L	2	2	2	3	2
Savings Bank	4	4	6	7	9
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	182	16,940,738	65.23%	29.20%
Oklahoma City OK	44	22,885,711	15.77%	39.45%
Tulsa OK	41	16,602,277	14.70%	28.62%
Lawton OK	5	544,573	1.79%	0.94%
Enid OK	5	792,713	1.79%	1.37%
Ft Smith AR-OK	2	240,645	0.72%	0.41%