

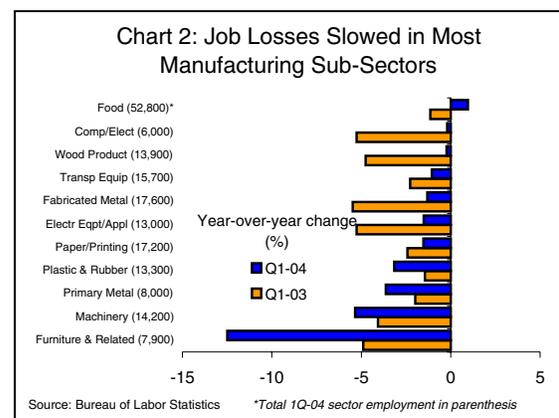
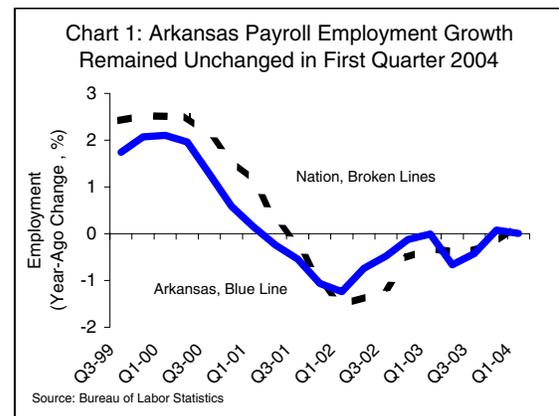
# FDIC State Profile

Summer 2004

## Arkansas

Employment conditions in Arkansas weakened slightly in first quarter 2004.

- Payroll employment growth remained flat in first quarter 2004, unchanged from one-year earlier. (See Chart 1.)
- The manufacturing, business services, and construction sectors experienced job losses during the quarter. However, growth in education and health services, FIRE, and government helped offset these losses.
- Approximately 4,900 manufacturing jobs were lost in the year ending first quarter 2004. The most significant manufacturing job losses occurred in the areas of furniture, machinery, primary and fabricated metal, and electronic equipment. The food sector, which accounts for 30 percent of all state manufacturing jobs, was the only area to experience year over year job growth. (See Chart 2.)
- A recent national monthly survey of manufacturing conditions suggests overall improvement is underway.<sup>1</sup> However, employment conditions typically lag production trends; as such it may take more time for job gains occurring at the national level to spread.
- Employment growth in metro areas generally exceeded the state average, primarily because of less exposure to the weak manufacturing sector. (See Table 1.)
- The *Fayetteville* MSA continues to be a bright spot in an otherwise sluggish employment situation. This MSA accounts for just 14 percent of employment in the state's metropolitan areas, as of first quarter 2004. However, since fourth quarter 2000, two of every three jobs created in these metropolitan areas occurred within the *Fayetteville* area.
- State and local government is the third largest employment sector in the state, accounting for 17 percent of total jobs; this sector has played a significant role in job creation for over 24 years. However, Arkansas faces an estimated \$45 million state budget shortfall for the fiscal year beginning July 1<sup>st</sup>, with ongoing deficits



**Table 1: The Fayetteville MSA Continues to Outperform Other Metro Areas in the State**

MSA	Unemployment Rate Q1-04 (%)	Employment Growth 1Q-03 - 1Q-04 (%)
Fayetteville	3.0	2.6
Fort Smith	5.2	0.1
Little Rock	4.9	0.2
Pine Bluff	8.7	2.0
Texarkana	4.9	1.3
Arkansas	5.4	0.3

Source: Bureau of Labor Statistics

<sup>1</sup>The Institute for Supply Management monthly ISM index rose in April 2004 to 62.4, the twelfth consecutive monthly increase above 50, which signals an expansion.

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projected. Many reports forecast that the state legislature will ultimately be forced to cut services, raise taxes, or both.

### Building upon the general success of 2003, farm income could improve in 2004.

- Farm income for many crops could improve in 2004, as a result of rising commodity prices and a favorable exchange rate for the U.S. dollar.
- Catfish producers, who have suffered from sub-breakeven prices for much of the past two- and-a-half years, should benefit from a positive price trend; prices in March 2004 averaged \$0.72 per pound.<sup>2</sup>

### Potential World Trade Organization (WTO) ruling could affect cotton industry.

- A June 18, 2004 WTO ruling indicated that U.S. cotton subsidies were anti-competitive. Changes or reductions to cotton subsidies as a result of the ruling may adversely impact local cotton producers and lenders and have far reaching implications for other agricultural commodities and future trade agreements.

### Although asset quality remains a concern, past-due loan levels have declined.

- The median past-due and nonaccrual loan ratio was 2.50 percent in the first quarter 2004, down 30 basis points and 84 basis points from the previous quarter and one-year ago, respectively.<sup>3</sup>
- Despite the overall positive trend, nearly one in five insured institutions reported a past-due ratio of at least twice the median level.
- The 2.73 percent median consumer past-due loan ratio ranked second highest in the nation, although this ratio has declined in recent quarters. (See Table 2.)
- Personal bankruptcy filings, which reached a new record in first quarter 2004, indicate that state consumers remain under financial stress. (See Chart 3.)

### Earnings measures are stable.

- The median quarterly return on assets was 1.11 percent for the first quarter of 2004, essentially unchanged from the prior quarter and one-year ago.
- The median quarterly net interest margin (NIM) was 4.03 percent in first quarter 2004, down 11-basis points from the prior quarter, but relatively unchanged from one-year

ago. The primary cause for the recent decline in the NIM was a 39-basis point drop in earning asset yields; in contrast, the cost of funds declined by only 28-basis points.

### Allowances for Loan and Leases Losses (ALLL) have increased.

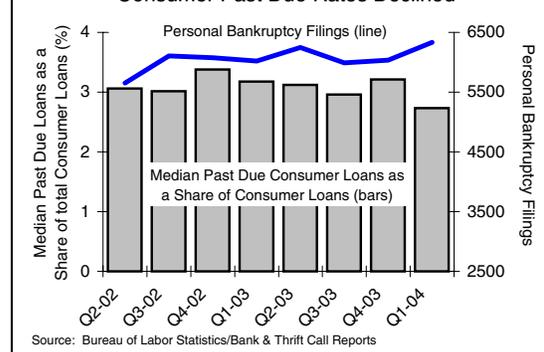
- The median ALLL represented 1.47 percent of total loans in first quarter 2004, a 10-basis point increase from one-year earlier.<sup>4</sup>

**Table 2: Consumer Credit Quality Remains a Concern for Banks and Thrifts in Arkansas**

State	Consumer past-due loans to total consumer loans (median, %)				1Q-04 National Rank
	2Q-03	3Q-03	4Q-03	1Q-04	
Mississippi	3.48	3.50	3.64	2.93	1
Arkansas	3.12	2.96	3.21	2.73	2
Tennessee	3.25	2.99	3.31	2.62	3
Louisiana	2.37	2.75	2.77	2.30	10
Nation	1.84	1.82	1.93	1.64	

Source: Bank and Thrift Call Reports, Established community bank only

**Chart 3: Personal Bankruptcy Filings Increased as Consumer Past Due Rates Declined**



<sup>2</sup>Although below the 10-year average of \$0.74 per pound, the current price is \$0.14 above the one-year ago price.

<sup>3</sup>Unless otherwise indicated, all median ratios referenced are based on reports submitted by insured institutions headquartered in the state.

<sup>4</sup>With over 24,000 personal bankruptcy filings, Arkansas reported the 6th highest bankruptcy rate among all states in 2003.

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### Arkansas at a Glance

<b>General Information</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Institutions (#)	168	176	182	194	204
Total Assets (in thousands)	38,451,424	36,102,675	31,915,205	29,611,632	29,004,501
New Institutions (# < 3 years)	0	3	5	8	10
New Institutions (# < 9 years)	14	16	17	19	23
<b>Capital</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Tier 1 Leverage (median)	10.02	9.50	9.16	9.40	9.43
<b>Asset Quality</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Past-Due and Nonaccrual (median %)	2.50%	3.34%	2.84%	2.64%	2.41%
Past-Due and Nonaccrual >= 5%	31	42	46	36	27
ALLL/Total Loans (median %)	1.47%	1.37%	1.28%	1.18%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.33	1.26	1.17	1.41	1.56
Net Loan Losses/Loans (aggregate)	0.26%	0.39%	0.35%	0.24%	0.15%
<b>Earnings</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Unprofitable Institutions (#)	5	9	7	13	12
Percent Unprofitable	2.98%	5.11%	3.85%	6.70%	5.88%
Return on Assets (median %)	1.11	1.13	1.10	1.01	1.13
25th Percentile	0.87	0.78	0.74	0.65	0.78
Net Interest Margin (median %)	4.03%	4.04%	4.05%	3.77%	4.06%
Yield on Earning Assets (median)	5.61%	6.16%	6.85%	8.23%	7.82%
Cost of Funding Earning Assets (median)	1.56%	2.07%	2.79%	4.39%	3.82%
Provisions to Avg. Assets (median)	0.16%	0.19%	0.20%	0.16%	0.11%
Noninterest Income to Avg. Assets (median)	0.72%	0.71%	0.69%	0.69%	0.64%
Overhead to Avg. Assets (median)	2.73%	2.77%	2.64%	2.74%	2.66%
<b>Liquidity/Sensitivity</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Loans to Deposits (median %)	70.40%	74.55%	74.09%	74.87%	71.71%
Loans to Assets (median %)	59.47%	60.46%	61.50%	62.31%	60.59%
Brokered Deposits (# of Institutions)	38	42	38	51	31
Bro. Deps./Assets (median for above inst.)	4.01%	5.04%	2.59%	3.16%	2.75%
Noncore Funding to Assets (median)	24.59%	23.75%	23.28%	24.06%	20.98%
Core Funding to Assets (median)	63.15%	64.71%	65.19%	65.11%	67.26%
<b>Bank Class</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
State Nonmember	100	104	110	115	119
National	41	42	40	40	47
State Member	20	22	23	30	28
S&L	3	3	3	3	4
Savings Bank	4	5	6	6	6
Stock and Mutual SB	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	123	17,910,099	73.21%	46.58%	
Little Rock-N Little Rock AR	18	6,039,408	10.71%	15.71%	
Fayetteville-Springdale-Rogers AR	11	9,231,159	6.55%	24.01%	
Ft Smith AR-OK	6	1,394,819	3.57%	3.63%	
Jonesboro AR	5	2,182,175	2.98%	5.68%	
Pine Bluff AR	3	1,437,073	1.79%	3.74%	
Memphis TN-AR-MS	2	256,691	1.19%	0.67%	