

# FDIC State Profile

Summer 2004

## Tennessee

Employment trends in Tennessee remain generally positive.

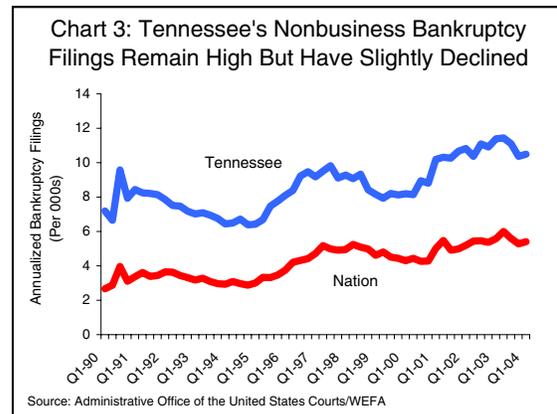
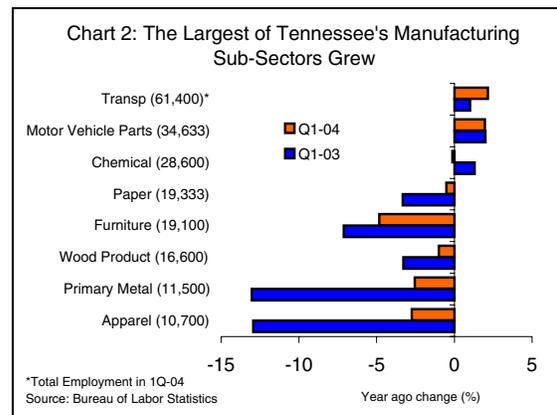
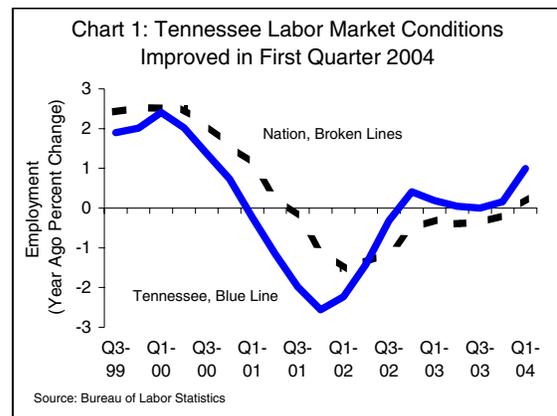
- Employment levels in Tennessee grew 1.0 percent in first quarter 2004, compared with 0.2 percent in first quarter 2003. (See Chart 1.)
- During the quarter, employment growth was strongest in the areas of business services, education and health, leisure and hospitality, and state and local government.
- Tennessee's manufacturing sector lost fewer jobs during the first quarter than in any other quarter during the past three years, as the state's two major manufacturing sub-sectors added jobs.<sup>1</sup> (See Chart 2.)
- Tennessee experienced a slight decline in bankruptcy filings but, continued to register the highest per capita filings rate in the nation.<sup>2</sup> (See Chart 3.)

Consumer credit quality improved, but past-due levels remained relatively high.

- High bankruptcy rates are one indicator of consumer financial distress. Additionally, the state ranked third highest nationally for reported past-due consumer loan levels. (See Table 1.)

Commercial real estate (CRE) exposure reached an all time high in first quarter 2004.<sup>3</sup>

- Median CRE exposure was 202 percent of capital in first quarter 2004, up 9-basis points and 7-basis points from one-quarter and one-year earlier, respectively. Furthermore, the number of institutions with CRE concentrations of 500 percent or more of capital increased. (See Chart 4.)
- CRE past-due rates remained relatively unchanged.<sup>4</sup> Significant CRE-related lending problems have failed to develop in recent years, because of a favorable low interest



<sup>1</sup>The state manufacturing sector shed an average of 22,000 jobs during each quarter since the recent recession began in April 2001, but lost only 2,100 jobs in first quarter 2004.

<sup>2</sup>Per capita bankruptcy filings in Tennessee have been higher than the nation since the early 1960's.

<sup>3</sup>Commercial real estate loans to tier 1 capital reached the highest level since 1984.

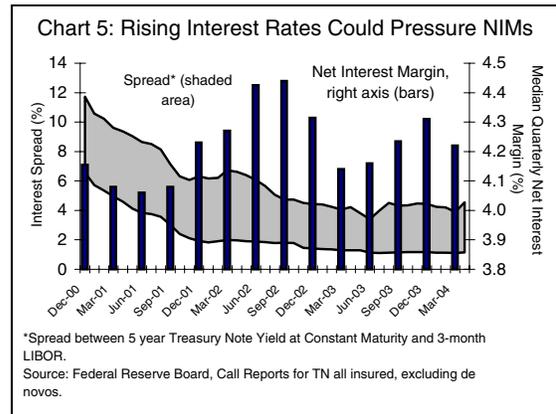
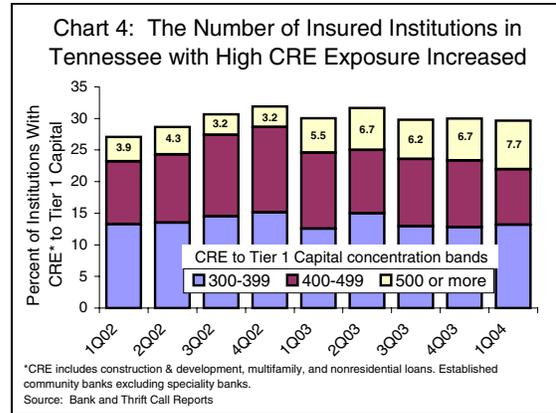
<sup>4</sup>The median CRE past-due ratio was 1.21 percent in first quarter 2004, relatively unchanged from one-quarter earlier and slightly down from 1.25 percent one-year earlier.

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rate environment, improved borrower equity positions, more stringent lending standards, and tremendous growth in publicly held CRE debt with related availability of market information.

**Net interest margins improved in 2003, but may be pressured by rising interest rates and increased competition in 2004.**

- The quarterly median net interest margin (NIM) reported by established insured institutions headquartered in Tennessee steadily grew during 2003. The margin improvement primarily resulted from an increase in loan levels, which typically offer higher rates of return than alternative investments.<sup>5</sup> However, at 4.22 percent in first quarter 2004, the NIM fell below the recent peak in 2002. (See Chart 5.)
- As the national economy gains momentum, interest rates are expected to rise. An increase in interest rates, particularly if accompanied by a shrinking of currently high spreads between short- and long-term rates, could place significant downward pressure on NIMs.<sup>6</sup>
- Four Memphis metropolitan area headquartered institutions announced sales to banks headquartered outside the state of Tennessee during the first half of 2004. These four institutions collectively controlled approximately 33 percent of metro area deposits and 14 percent of deposits in the state.<sup>7</sup> The affect of these mergers for the remaining institutions could be an increase in opportunities and competition for loans and deposits, at least in the near term.<sup>8</sup>



**Table 1: Consumer Credit Quality Improved, But Past-dues Remain Relatively High Among Banks in Tennessee**

State	Total consumer past-due loans to total consumer loans (median, %)			1Q04 National Rank
	1Q03	4Q03	1Q04	
Arkansas	3.18	3.21	2.73	2
Mississippi	3.81	3.64	2.93	1
Tennessee	3.29	3.31	2.62	3
Nation	2.10	2.05	1.76	

Source: Bank and Thrift Call Reports

<sup>5</sup>Median loan to asset levels steadily increased throughout 2003 and reached 66.6 percent in the first quarter 2004, the highest level since first quarter 2001.

<sup>6</sup>Thirty-seven percent of bankers recently surveyed by the American Banker cited rising interest rates as one of the biggest concerns facing their institution.

<sup>7</sup>Federal Deposit Insurance Corporation-Summary of Deposits data, as of June 30, 2003.

<sup>8</sup>Thompson, Laura, "Where \$600M-Plus of Runoff Would Go," American Banker May 13, 2004.

**Tennessee 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 (#)	210	210	213	220	222
Total Assets (in thousands)	120,592,590	117,897,385	105,365,676	93,258,983	90,494,849
New Institutions (# < 3 years)	13	15	20	23	20
New Institutions (# < 9 years)	49	45	45	46	38
<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)	9.40	9.33	9.13	9.33	9.27
<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 %)	2.18%	2.67%	2.84%	2.86%	2.18%
Past-Due and Nonaccrual >= 5%	20	49	51	36	28
ALLL/Total Loans (median %)	1.34%	1.36%	1.32%	1.29%	1.27%
ALLL/Noncurrent Loans (median multiple)	2.37	1.74	1.60	1.53	2.10
Net Loan Losses/Loans (aggregate)	0.60%	0.51%	0.48%	0.35%	0.30%
<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 (#)	14	23	17	17	16
Percent Unprofitable	6.67%	10.95%	7.98%	7.73%	7.21%
Return on Assets (median %)	0.99	1.06	1.09	0.91	1.08
25th Percentile	0.68	0.66	0.66	0.61	0.79
Net Interest Margin (median %)	4.16%	4.14%	4.26%	4.08%	4.43%
Yield on Earning Assets (median)	5.72%	6.23%	7.05%	8.56%	8.39%
Cost of Funding Earning Assets (median)	1.54%	2.05%	2.74%	4.54%	4.02%
Provisions to Avg. Assets (median)	0.16%	0.20%	0.21%	0.16%	0.18%
Noninterest Income to Avg. Assets (median)	0.78%	0.79%	0.72%	0.74%	0.67%
Overhead to Avg. Assets (median)	3.10%	3.10%	3.04%	3.04%	2.95%
<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 %)	78.32%	76.02%	76.72%	78.16%	78.79%
Loans to Assets (median %)	66.68%	65.22%	65.85%	66.51%	66.90%
Brokered Deposits (# of Institutions)	51	36	32	24	20
Bro. Deps./Assets (median for above inst.)	1.86%	3.29%	3.34%	1.98%	1.70%
Noncore Funding to Assets (median)	21.16%	20.88%	20.49%	20.56%	19.15%
Core Funding to Assets (median)	66.68%	67.72%	68.44%	67.36%	69.68%
<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	143	146	151	156	159
National	28	28	28	29	28
State Member	18	15	11	11	10
S&L	6	6	6	6	6
Savings Bank	14	14	16	17	18
Stock and Mutual SB	1	1	1	1	1
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	131	20,415,317	62.38%	16.93%	
Memphis TN-AR-MS	23	85,185,575	10.95%	70.64%	
Nashville TN	22	5,974,982	10.48%	4.95%	
Knoxville TN	12	4,019,688	5.71%	3.33%	
Johnson City-Kingsport-Bristol TN-VA	10	2,391,897	4.76%	1.98%	
Chattanooga TN-GA	5	1,406,415	2.38%	1.17%	
Clarksville-Hopkinsville TN-KY	4	921,088	1.90%	0.76%	
Jackson TS	3	277,628	1.43%	0.23%	