FDIC State Profile

Fall 2004

Oregon

In second quarter 2004, Oregon added jobs at a 2.1 percent rate, surpassing the nation and ranking seventh among the states.

- The **Portland** metropolitan statistical area (MSA), which accounts for about 60 percent of the state's labor force, reported 0 percent job growth for the quarter. While this pace ranks in the bottom half of all MSAs, it represents a significant improvement for the Portland MSA, which is recovering from 11 consecutive quarters of job losses prior to this quarter. Oregon's favorable job growth, therefore, is being driven by other metro areas within the state, particularly **Medford.** Medford offers a lower cost of doing business that has proven attractive to migrants, especially those from California (See Chart 1).

- During the quarter, Oregon's construction sector reported year-over-year employment growth of 7 percent, adding 5,200 new jobs. The professional and business services, manufacturing, construction, and leisure and hospitality sectors also posted healthy job gains for the state.

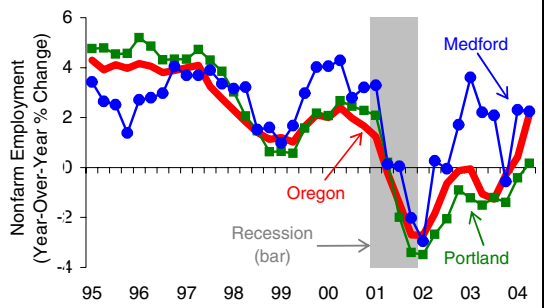
- Perhaps most encouraging, however, were the state's gains in manufacturing employment. After 12 consecutive quarters of employment declines in this sector, amounting to nearly 30,000 lost jobs, the state reported 3 percent growth in the sector. Several high-tech companies, including Intel and Sun Microsystems, have either announced plans to hire new employees or shift existing staff to Oregon from other locations.

Growth in the number of Oregon businesses continued to outpace the national rate.

- The number of firms in Oregon grew 2.1 percent during 2003, ranking eighth nationally. Although growth has moderated from the state's high of more than 5 percent growth in the mid 1990s, it nevertheless represents the improving economy in the state. Despite strong growth, the number of business bankruptcies may warrant concern. After spiking in 1999 to nearly 3000, the number of firms that declared bankruptcy in 2003 remained relatively unchanged from 2002 levels.

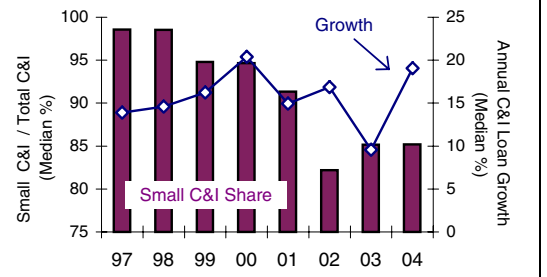
- Consistent with the strength in new business growth, median year-over-year commercial and industrial (C&I) loan growth climbed to 19 percent among the state's

Chart 1: Oregon's Job Growth Is Occurring Outside the Portland Metro Area



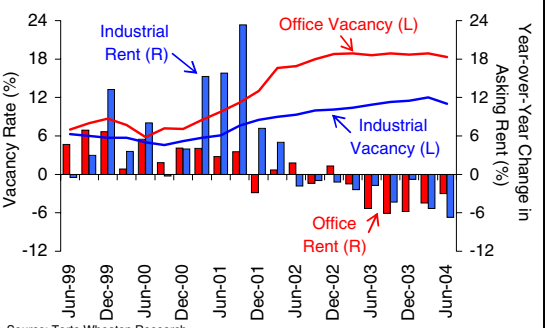
Source: Bureau of Labor Statistics & National Bureau of Economic Research

Chart 2: C&I Loan Growth Accelerated and Small C&I Loans Held Steady as a Share of Total



Note: Includes all insured institutions based in Oregon opened at least three years. Small commercial and industrial (C&I) loans have original balances of under $1 million.
Source: FDIC (June of each year)

Chart 3: Portland's Office and Industrial Markets Continue to Face Rent Declines



Source: Torto Wheaton Research

established institutions. Small business loans (commercial loans with original balances under $1 million) held steady at 85 percent of C&I loan portfolios on a median basis (See Chart 2).

Commercial real estate (CRE) market conditions in Oregon remained relatively unchanged, but still warrant monitoring.

- Torto Wheaton Research (TWR) reported relatively steady vacancy rates for office and industrial markets in the Portland MSA, at 18.3 percent and 11 percent, respectively (See Chart 3). Compared to other markets in the West, Portland's vacancy rate is high in both market sectors. Additionally, asking rental rates continue to fall in both markets. Going forward, TWR expects that the vacancy rate for industrial space will tick up slightly in 2005 because of additional completions and lower absorption. In the office market, TWR expects that the vacancy rate will moderate slightly as there are no completions expected during the next year.

- Asset quality at Oregon-based established institutions in the Portland MSA[1] remained strong despite weak office fundamentals and high exposures. The reported median past-due CRE loan ratio fell from 0.88 percent as of second quarter 2003 to 0.49 percent as of second quarter 2004. However, market conditions warrant monitoring as 61 percent of established institutions headquartered in the state held CRE loan exposures exceeding 300 percent of Tier 1 capital, well above the national rate of 29 percent. An increase in interest rates has the potential to pressure debt service for some CRE borrowers.

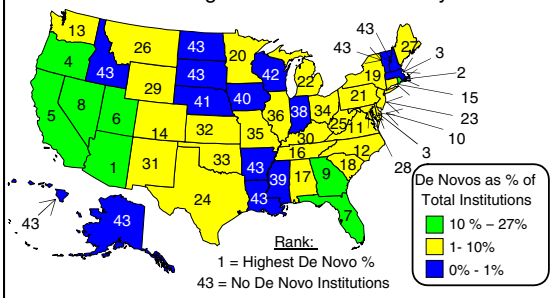
Earnings remained robust at established institutions.

- Earnings, although well below second quarter 2003 returns, remained solid. Lower profits are primarily attributed to the cumulative impact of six new bank charters, three in the most recent quarter. De novo institutions, those less than the three years old, represent 15.8 percent of all insured institutions headquartered in the state (See Map 1).[2]

- Excluding de novo institutions, profits at Oregon-based established institutions declined slightly but continued to significantly outperform peer institutions nationally. Established institutions reported a median quarterly return on average assets (ROA) ratio of 1.31 percent as of June 30, 2004, down slightly from 1.36 percent one year earlier but well above the 1.05 percent median ROA reported by all established institutions in the nation. Lower median levels of overhead and provision expenses helped offset reductions in the median level of noninterest income.

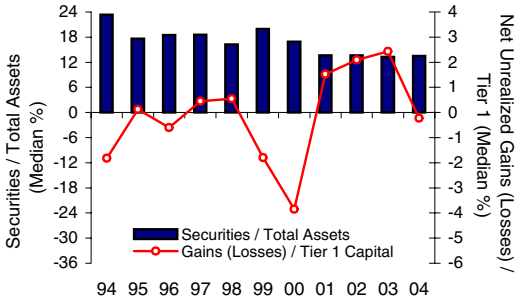
- Consistent with national trends, the second quarter up tick in interest rates had an adverse affect on security portfolio values at insured financial institutions throughout the state. After several years of positive unrealized portfolio gains, Oregon-based banks reported a median net unrealized securities *losses*-to-Tier 1 capital ratio of 0.23 percent in second quarter 2004 (See Chart 4). The effects of interest rates on debt securities valuations will warrant monitoring as 50 percent of the commercial banks based in Oregon used securities gains to boost income during the first half of 2004. Recent and anticipated interest rate increases may dissipate future gains-taking opportunities.

Map 1: Oregon's Improved Economy Attracted the 4th Strongest New Charter Activity



Note: De Novo = less than 3 years old.
Source: FDIC (June 30, 2004)

Chart 4: Unrealized Gains in Securities Portfolios Turned to Losses by Mid 2004



Note: Includes Call Report filers based in Oregon.
Source: FDIC (June of each year)

[1]Established institutions are those institutions in existence for at least three years.
[2]De novo institutions typically operate at a loss during their first few years of operations as they build their loan portfolios and deposit bases, and absorb organizational costs.

Oregon at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	38	38	37	47	49
Total Assets (in thousands)	20,504,309	20,989,626	20,970,270	19,124,020	17,361,890
New Institutions (# < 3 years)	6	4	3	8	10
New Institutions (# < 9 years)	15	13	11	16	16

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	10.67	10.25	8.79	9.08	9.74

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	0.55%	0.91%	0.94%	0.98%	0.83%
Past-Due and Nonaccrual >= 5%	1	1	2	5	6
ALLL/Total Loans (median %)	1.17%	1.20%	1.23%	1.12%	1.10%
ALLL/Noncurrent Loans (median multiple)	3.01	2.17	4.34	2.61	2.23
Net Loan Losses/Loans (aggregate)	0.09%	0.16%	0.30%	0.14%	0.15%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	4	3	2	2	5
Percent Unprofitable	10.53%	7.89%	5.41%	4.26%	10.20%
Return on Assets (median %)	1.06	1.32	1.20	1.18	1.02
25th Percentile	0.58	0.85	0.94	0.87	0.59
Net Interest Margin (median %)	4.95%	5.00%	4.98%	4.69%	5.30%
Yield on Earning Assets (median)	6.06%	6.62%	7.49%	8.64%	8.88%
Cost of Funding Earning Assets (median)	1.22%	1.63%	2.31%	3.88%	3.60%
Provisions to Avg. Assets (median)	0.16%	0.22%	0.19%	0.20%	0.20%
Noninterest Income to Avg. Assets (median)	0.80%	1.05%	0.90%	0.82%	0.76%
Overhead to Avg. Assets (median)	3.48%	3.64%	3.40%	3.62%	3.93%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	87.41%	84.65%	90.90%	85.37%	85.63%
Loans to Assets (median %)	70.48%	71.20%	75.76%	72.22%	69.62%
Brokered Deposits (# of Institutions)	13	11	12	8	9
Bro. Deps./Assets (median for above inst.)	2.31%	3.74%	4.08%	4.05%	2.39%
Noncore Funding to Assets (median)	14.91%	15.97%	17.23%	16.44%	16.29%
Core Funding to Assets (median)	69.97%	70.56%	71.84%	70.52%	71.66%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	30	28	26	29	31
National	3	3	3	4	4
State Member	3	3	3	9	9
S&L	2	3	3	3	3
Savings Bank	0	1	2	2	2
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Portland-Vancouver OR-WA PMSA	12	11,096,731	31.58%	54.12%
No MSA	12	6,273,643	31.58%	30.60%
Eugene-Springfield OR	6	1,426,139	15.79%	6.96%
Salem OR PMSA	5	539,850	13.16%	2.63%
Medford-Ashland OR	2	832,764	5.26%	4.06%
Corvallis OR	1	335,182	2.63%	1.63%