FDIC State Profile

Fall 2004

Utah

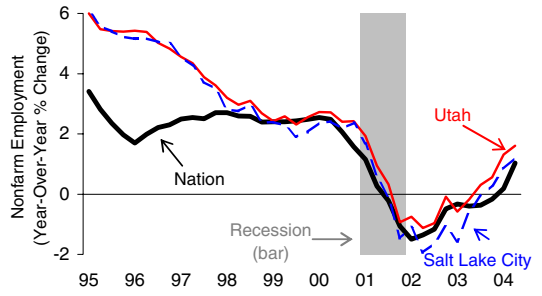
Economic growth in Utah continued to pick up in second quarter 2004.

- The state's nonfarm employment growth outpaced the nation for the fifth consecutive quarter. Job growth in **Salt Lake City** was slightly weaker, approximating the performance of the nation (See Chart 1). Leading annual growth were the professional and business services, educational and health services, and retail sectors, each of which added at least 2,400 jobs.
- Employment in the manufacturing sector also continued to grow, in part because of strength in the nondurable goods sub-sector, particularly the food processing industry. The manufacturing sector is also expected to benefit from an increase in federal defense spending. Alliant Techsystems, for instance, recently moved 100 jobs from California to Salt Lake City to produce Minuteman III missiles.[1]
- In contrast, the finance, insurance and real estate industries sector, and the information sector experienced modest job declines.

Utah's business growth was high, which may give impetus to future loan demand.

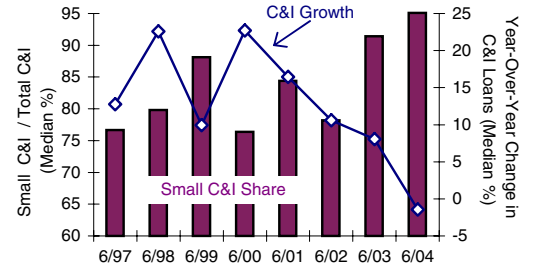
- Consistent with the state's improved economic conditions in 2003, Utah business formation growth rate was the second highest in the nation at 3.8 percent.
- Although new business growth boomed, the median year-over-year growth rate in small business loans (commercial loans with original balances under $1 million) as of June 2004 slowed to 1.7 percent among the state's established institutions.[2] In addition, loan growth was very weak in the larger commercial and industrial (C&I) loan segment. As a result, the overall median C&I loan growth rate was slightly negative and smaller business loans increased as a share of total C&I lending (See Chart 2).

Chart 1: Utah Has Recently Outperformed the Nation in Job Growth



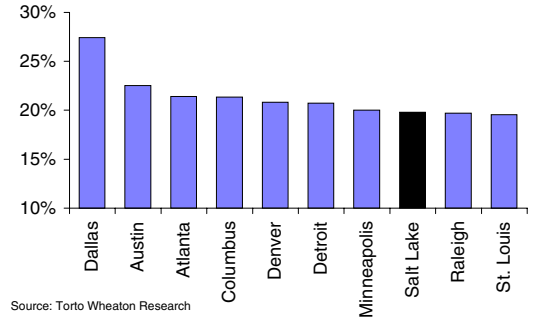
Source: Bureau of Labor Statistics and National Bureau of Economic Research

Chart 2: C&I Portfolios Shrank Modestly in Utah, but the Share Held in Small C&I Loans Grew



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

Chart 3: The Office Vacancy Rate in Salt Lake City Was the Eighth Highest in the Nation as of 2Q04



Source: Torto Wheaton Research

[1] Mark McMullen, Utah, Précis State, Economy.com, April 2004.
[2] Established institutions are those institutions that have been open for at least three years.

Commercial real estate (CRE) conditions in Salt Lake City showed little improvement.

- Moderate employment growth in Salt Lake City continues to affect CRE properties. Office vacancy rates in the Salt Lake City metropolitan statistical area (MSA) remained relatively unchanged at 19.8 percent, the eighth highest rate in the nation (See Chart 3). The second quarter 2004 level is near the record-high vacancy rate of 21.4 percent that was set in the 1990s.

- Industrial vacancy rates in the Salt Lake City MSA also remain high but are faring better, dropping from a year-ago level of 12.4 percent to 10.3 percent for second quarter 2004.

- Despite weak CRE fundamentals, established community institutions headquartered within the Salt Lake City MSA increased their CRE loan concentrations.[3,4] The median CRE loan-to-Tier 1 capital ratio was 448 percent as of March 31, 2004, up from 395 percent one year earlier. In comparison, the nationwide median CRE loan-to-Tier 1 capital ratio for established community institutions based in an MSA was 293 percent.

- Although improving, CRE credit quality problems remain elevated among established community institutions headquartered in the Salt Lake City MSA. The second quarter 2004 median past-due CRE loan ratio was 1.43 percent, down from 1.95 percent one-year earlier, but significantly higher than the national median of 0.49 percent.

Utah's insured institutions report strong profits despite high levels of delinquent loans.

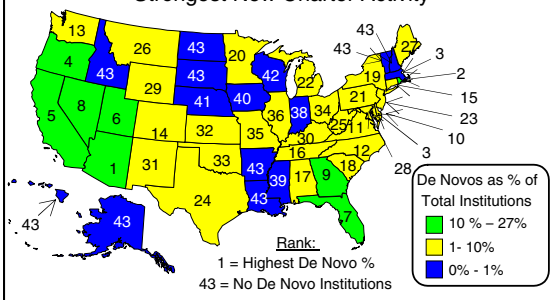
- Utah's insured institutions reported excellent, albeit lower earnings during the second quarter. Utah's industrial loan companies (ILC's), which accounted for more than 40 percent of the institutions in the state and held more than 50 percent of the assets, recorded exceptional, although significantly lower earnings. However, aggregate results were lower primarily due to the cumulative effect of seven new ILC charters. De novo institutions, those less than three years old, represent more than one quarter of all insured ILCs headquartered in the state as of June 30, 2004 (See Map 1).

- Excluding de novo institutions, the median return on assets (ROA) at established, non ILC-chartered institutions headquartered in Utah improved during the second quarter of 2004, as reduced loan-loss provisioning offset narrower net interest margins.

- Improved asset quality enabled institutions to reduce provisions. Although Utah's insured institutions reported the 10th highest median past-due loan ratio of any state in the nation, the ratio decreased significantly year-over-year, falling from 3.06 percent in second quarter 2003 to 2.07 percent in second quarter 2004. Improvement was particularly impressive at non ILC-chartered institutions, where past due loans declined from 2.87 percent of total loans as of June 30, 2003, to 1.91 percent as of June 30, 2004.

- Reserve coverage also benefited from lower levels of noncurrent loans, climbing from 2.21 times to 2.94 times at the state's ILCs. Higher reserve levels at the ILCs were a reflection of their more concentrated, consumer-oriented, higher risk lending activities.

Map 1: Utah's Improved Economy Attracted the 6th Strongest New Charter Activity



Note: New charters or de novos include institutions open for less than three years.
Source: FDIC (June 30, 2004).

[3]CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.
[4]Established community institutions are defined as insured institutions open more than three years, with less than $5 billion in total assets, excluding industrial loan companies and specialty institutions.

Utah at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	63	60	60	62	59
Total Assets (in thousands)	203,384,999	131,751,161	128,527,061	125,842,298	72,791,427
New Institutions (# < 3 years)	8	8	13	13	12
New Institutions (# < 9 years)	30	25	27	29	25

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	13.68	12.10	12.56	13.04	12.43

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	2.07%	3.06%	3.48%	3.64%	2.67%
Past-Due and Nonaccrual >= 5%	13	16	19	19	12
ALLL/Total Loans (median %)	1.56%	1.54%	1.65%	1.65%	1.60%
ALLL/Noncurrent Loans (median multiple)	2.46	1.96	1.55	1.57	1.66
Net Loan Losses/Loans (aggregate)	1.39%	2.64%	2.98%	2.70%	2.24%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	6	4	6	9	9
Percent Unprofitable	9.52%	6.67%	10.00%	14.52%	15.25%
Return on Assets (median %)	1.59	1.66	1.64	1.50	1.69
25th Percentile	1.09	1.01	0.88	0.70	0.97
Net Interest Margin (median %)	5.11%	5.50%	5.59%	5.79%	5.94%
Yield on Earning Assets (median)	6.54%	7.07%	8.00%	9.29%	9.37%
Cost of Funding Earning Assets (median)	1.23%	1.67%	2.26%	3.57%	3.64%
Provisions to Avg. Assets (median)	0.25%	0.39%	0.46%	0.48%	0.24%
Noninterest Income to Avg. Assets (median)	1.19%	1.59%	1.30%	1.37%	1.60%
Overhead to Avg. Assets (median)	3.78%	3.56%	3.89%	4.87%	4.25%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	87.21%	86.81%	90.86%	83.73%	81.21%
Loans to Assets (median %)	70.67%	70.14%	73.75%	67.04%	66.07%
Brokered Deposits (# of Institutions)	33	30	29	25	20
Bro. Deps./Assets (median for above inst.)	25.50%	24.89%	23.85%	24.62%	35.56%
Noncore Funding to Assets (median)	21.84%	21.75%	24.57%	19.86%	20.15%
Core Funding to Assets (median)	37.15%	47.54%	49.46%	56.66%	54.74%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	46	43	43	43	39
National	7	7	7	8	9
State Member	5	6	6	6	6
S&L	1	1	1	1	1
Savings Bank	4	3	3	4	4
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Salt Lake City-Ogden UT	45	200,196,047	71.43%	98.43%
No MSA	11	1,703,143	17.46%	0.84%
Provo-Orem UT	7	1,485,809	11.11%	0.73%