FDIC State Profile

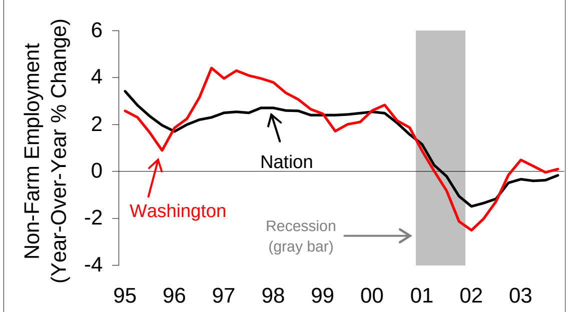
Spring 2004

Washington

Washington experienced minimal year-over-year employment growth as of December 2003, while reporting the fourth highest unemployment rate in the nation

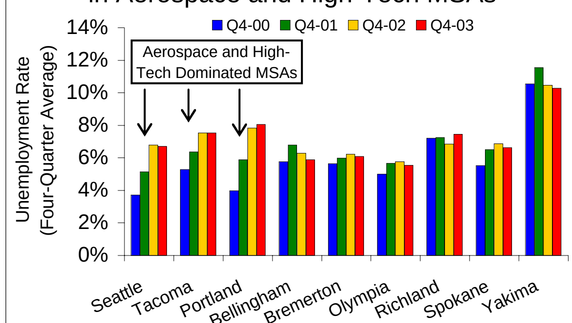
- The 0.10 percent increase in payroll employment during 2003; while an improvement from the previous year, remained well below the average growth rate of 2.4 percent during the 1990s (See Chart 1).
- Employment growth in the education and health, construction, and professional and business services sectors offset sharp declines in the manufacturing sector, particularly in the aerospace and electronic manufacturing sectors.
- As of December 2003, the state's unemployment rate increased 20 basis points to 6.8 percent, the fourth highest rate in the nation, exceeded only by Alaska, Oregon, and South Carolina.
- Sustained civilian aerospace and high-tech sector weaknesses pushed up the average unemployment rate, particularly in Seattle, Tacoma, and Portland metropolitan statistical areas (MSA), while layoffs at the nuclear cleanup company, Fluor Hanford, forced the average unemployment rate higher in Richland (See Chart 2).
- Employment weakness may adversely affect home prices in some areas. According to the Office of Federal Housing Enterprise Oversight, Washington ranked 36 out of the 50 states and the District of Columbia in home price appreciation, with a one-year appreciation rate of 3.72 percent, compared to 5.88 percent for the nation. A PMI Mortgage Insurance Co. report ranked the Seattle MSA fifth out of fifty metropolitan areas, for having a "high risk" of a housing price decline.

Chart 1: Washington Employment Grew at a Modest Pace



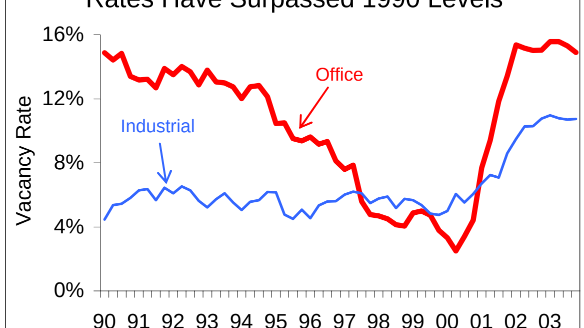
Source: Bureau of Labor Statistics and National Bureau of Economic

Chart 2: Unemployment Rates Increased Most in Aerospace and High-Tech MSAs



Source: Bureau of Labor Statistics

Chart 3: Seattle Office and Industrial Vacancy Rates Have Surpassed 1990 Levels



Source: Torto Wheaton Research

Softening demand for commercial real estate (CRE) in Seattle could adversely affect credit quality among insured institutions with relatively high CRE loan concentrations1

- Demand for commercial properties in the Seattle MSA continued to be weak. Office vacancy rates increased to 14.9 percent at the end of fourth quarter 2003, up from 4.4 percent three-years earlier, while industrial vacancies increased from 6.1 percent to 10.7 percent over the same period (See Chart 3). According to Torto Wheaton Research data, Seattle office rents declined 25.6 percent, when comparing the 2003 average with 2000, whereas industrial rents have risen 14.1 percent during the same period.

- During 2003, the median CRE loan-to-Tier 1 capital ratio among established community institutions based in Washington increased from 324 percent to 364 percent, more than double the national ratio.[2] The median construction and development (C&D)-to-Tier 1 capital ratio was 70.5 percent at the end of the third quarter, nearly triple the 23.8 percent national ratio (See Chart 4). Accentuating the state trend, concentrations among established community institutions based in the Seattle MSA were even higher, with the CRE loan-to-Tier 1 capital ratio at 414 percent, and the C&D-to-Tier 1 capital ratio at 140 percent.

- Increased vacancy rates contributed to an increase in the median CRE loan-delinquency ratio reported by Washington's established community institutions, going from 0.35 percent to 0.39 percent from December 2002 to December 2003. Higher vacancy rates are a concern, because of the relatively high exposures to CRE and C&D loans. The increase is especially significant since the median total loan-delinquency ratio fell from 1.25 percent to 0.90 percent year-over-year as of December 31, 2003.

- Lower interest rates have enabled property owners to reduce financing costs, and offset the effects of lower rental income. In addition, low interest rates appear to be keeping capitalization rates low and property values stable, despite deteriorating fundamentals. Going forward, an increase in interest rates may further challenge insured institutions holding CRE loans in Washington.

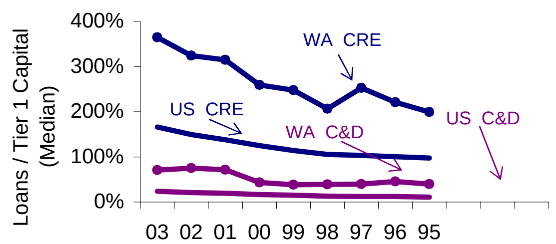
Earnings and asset quality improved among insured institutions headquartered in Washington during 2003.

- Among insured institutions headquartered in Washington, the median return on assets (ROA) increased to 1.06 percent at year-end 2003, up from 1.02 percent one-year earlier, and just above the national median of 1.02 percent.

- Earnings trends continued to be buoyed by the performance of the state's thrifts. Washington-based thrifts posted a median ROA of 1.19 percent through December 31, 2003, compared to 0.76 percent for thrifts nationally. Conversely, commercial banks headquartered in Washington reported a median ROA of 1.00 percent for 2003, modestly below the 1.06 percent return earned by commercial banks nationwide. As interest rates declined during 2001, 2002 and 2003, thrift net interest margins (NIMs) benefited while commercial institutions saw margins narrow (See Chart 5).

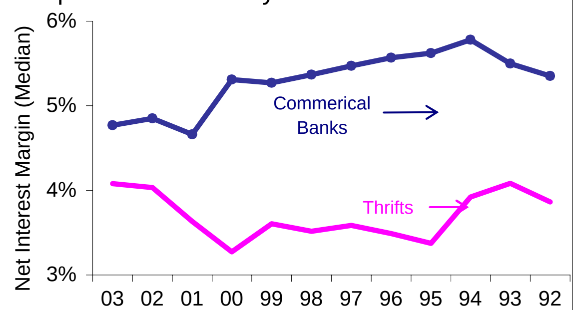
- Nearly one-third of institutions headquartered in the state have been in operation less than nine years. These "young" institutions are not yet as profitable as more established Washington-based insured institutions, and reported a median ROA of 0.90 percent for 2003. Compared to older institutions, profitability was held back by higher overhead and provision expenses.

Chart 4: Washington Institutions Reported High Exposures to C&D and CRE Lending



Notes: Excludes institutions less than 3 years old, over $1 billion in assets, and specialty institutions. CRE = commercial real estate; C&D = construction and development.
Source: Bank and Thrift Call Reports (December of each year)

Chart 5: In Washington, NIMs at Thrifts Improved While They Deteriorated at Banks



Source: Washington Bank Call Reports (December of each year)

[2] Defined as insured institutions open more than three years, with assets of less than $1 billion, and excludes specialty institutions.

Washington at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	100	102	98	102	103
Total Assets (in thousands)	78,395,703	72,235,362	72,539,442	72,116,259	68,265,774
New Institutions (# < 3 years)	6	11	14	18	19
New Institutions (# < 9 years)	32	35	33	35	32

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.69	9.45	9.30	10.29	10.52

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	0.86%	1.05%	1.40%	1.04%	0.72%
Past-Due and Nonaccrual >= 5%	6	5	5	2	3
ALLL/Total Loans (median %)	1.37%	1.31%	1.20%	1.14%	1.10%
ALLL/Noncurrent Loans (median multiple)	1.95	1.69	1.32	1.90	2.51
Net Loan Losses/Loans (aggregate)	0.22%	0.29%	0.24%	0.13%	0.12%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	4	11	13	16	17
Percent Unprofitable	4.00%	10.78%	13.27%	15.69%	16.50%
Return on Assets (median %)	1.06	1.02	0.94	0.98	1.04
25th Percentile	0.62	0.57	0.50	0.41	0.44
Net Interest Margin (median %)	4.59%	4.67%	4.49%	5.09%	5.02%
Yield on Earning Assets (median)	6.31%	7.17%	8.24%	8.91%	8.23%
Cost of Funding Earning Assets (median)	1.72%	2.32%	3.65%	4.03%	3.29%
Provisions to Avg. Assets (median)	0.24%	0.32%	0.28%	0.28%	0.21%
Noninterest Income to Avg. Assets (median)	0.65%	0.62%	0.61%	0.50%	0.49%
Overhead to Avg. Assets (median)	3.52%	3.55%	3.59%	3.67%	3.92%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	90.56%	90.97%	92.26%	89.96%	87.37%
Loans to Assets (median %)	72.79%	72.79%	76.52%	75.77%	72.28%
Brokered Deposits (# of Institutions)	34	33	27	21	13
Bro. Deps./Assets (median for above inst.)	2.83%	3.04%	3.19%	3.52%	0.41%
Noncore Funding to Assets (median)	21.62%	22.27%	21.89%	21.46%	17.73%
Core Funding to Assets (median)	66.40%	65.61%	65.52%	66.82%	68.51%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	61	63	60	63	62
National	13	14	14	15	16
State Member	4	3	2	2	2
S&L	6	7	7	7	7
Savings Bank	2	1	1	2	2
Stock and Mutual SB	14	14	14	13	14

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Seattle-Bellevue-Everett WA PMSA	38	51,959,424	38.00%	66.28%
No MSA	29	8,556,096	29.00%	10.91%
Tacoma WA PMSA	8	2,914,161	8.00%	3.72%
Spokane WA	6	8,126,091	6.00%	10.37%
Olympia WA PMSA	5	1,543,721	5.00%	1.97%
Yakima WA	3	1,333,100	3.00%	1.70%
Portland-Vancouver OR-WA PMSA	3	1,361,745	3.00%	1.74%
Bremerton WA PMSA	3	895,386	3.00%	1.14%
Bellingham WA	3	1,472,523	3.00%	1.88%
Richland-Kennewick-Pasco WA	2	233,456	2.00%	0.30%