FDIC State Profile

Fall 2005

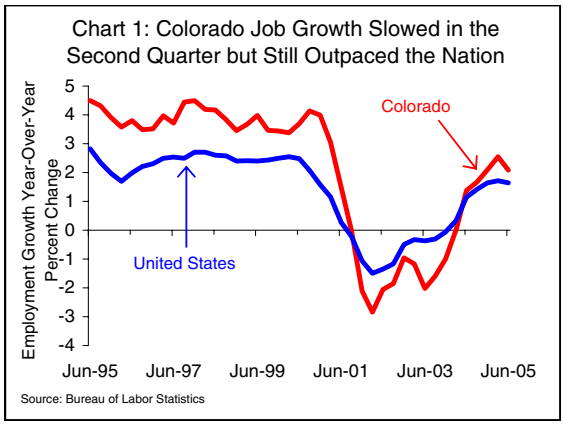
Colorado

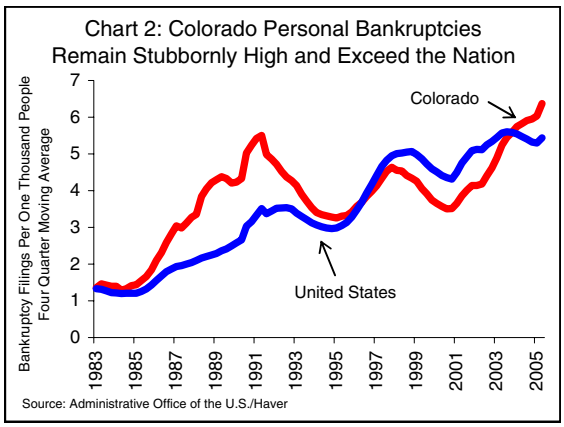
Colorado's employment growth rate tapered off in second quarter 2005.

- Colorado nonfarm employment, non-seasonally adjusted, grew 2.1 percent in second quarter 2005 (year-over-year), down from 2.6 percent in the first quarter. Nevertheless, the state continues to outperform the nation, which grew at a rate of 1.6 percent (see Chart 1).
- Strength in Colorado's second quarter nonfarm employment growth was broad-based with contributions from the sectors of construction, retail trade, local government, education and health services, professional and business services, leisure and hospitality services, and mining.
- The concentration and importance of energy and shipping facilities affected by the recent hurricanes will have an indirect effect on the Colorado economy through the transmission of higher energy prices and slower U.S. and global economic growth. Still, the price increases appear unlikely to significantly weaken the Colorado economy.

Energy remains a top concern for businesses across the state.

- Colorado is a major producer of crude oil and natural gas. Producers have already benefited from rising energy prices over the past year and are likely to continue doing so in future quarters.
- Increases in gasoline prices resulting from the recent hurricanes have the potential to restrain consumer and business spending growth as well as dampen job growth for selected industries such as transportation and retail trade.
- Nearly half of Colorado business leaders surveyed named energy as the second most important cost concern after health care. About 44 percent of business leaders said their businesses were being negatively affected by rising energy prices, while 70 percent said they were unable to pass along the higher costs to their customers.[1]





[1] Colorado Business Leaders Confidence Index, prepared by the Business Research Division, Leeds School of Business, University of Colorado at Boulder. Expectations for the state economy fell

Housing activity remains at healthy levels.

- Colorado has slowly climbed out of its overbuilt situation of just a few years ago, receiving a lift from low mortgage rates and the growing use of non-traditional mortgage loans. Housing activity is advancing at a healthy, albeit slower, pace from a year ago.
- However, the clean-up efforts and rebuilding of the Gulf Coast in the aftermath of recent hurricanes will likely tighten the supply for critical construction materials and skilled laborers. This may raise construction costs and potentially dampen home affordability.
- While house price appreciation and talk of housing "froth" across the nation have caught the attention of many policymakers and economists, Colorado housing markets have generally not shared in the discussion. Colorado ranked 43rd in the nation in home price appreciation as recently as second quarter 2005. An improving state economy should translate to stronger housing demand and higher home prices in future quarters, thus the prospect of declining home prices appears unlikely. However, at least one study cites current housing prices in all seven of Colorado's metropolitan areas—**Boulder**, **Colorado Springs**, **Denver**, **Fort Collins**, **Grand Junction**, **Greeley,** and **Pueblo**—as being potentially overvalued anywhere from 7 to 27 percent.[2]

Colorado insured institution financial results show improvement for the first half of 2005…

- Colorado headquartered banks and thrifts posted a median return on assets of 1.17 percent for the six months ending June 30, 2005, slightly above the same period for the past two years and higher than the national median of 1.06 percent.
- Many community financial institutions, whose earnings are driven in large part by the net interest margin, have benefited from the recent increase in short-term interest rates.
- However, long-term interest rates have remained stubbornly flat. This flattened yield curve has the potential to squeeze margins for some institutions and may compel some institutions to become more aggressive in lending or to seek cost saving alternatives to offset the effect of margin compression.

… however, area institutions continue to face risks.

- Personal bankruptcy filings in Colorado increased slightly during first quarter 2005. Moreover, the Colorado four-quarter moving average is now at the highest level in the past 25 years (see Chart 2) and significantly above the nation.[3]
- Colorado mortgage loans in foreclosure remain among the highest levels in a decade, twice the level reported just four years ago. According to Foreclosure.com, there were 6,528 Colorado foreclosed properties available for sale during the month of August 2005, the fifth highest number in the nation. In comparison, California, the most populous state in the nation, reported 796 foreclosed properties available for sale. However, direct comparisons are difficult due to differences in state laws.
- The percentage of Colorado homebuyers using adjustable rate mortgages (ARMs) has dramatically increased over the past several years despite historically low rates offered on long-term fixed-rate mortgages. Colorado ranked second in the nation for the highest percentage of ARMs among newly originated mortgages in 2004.[4] ARMs and certain other mortgage products, such as interest-only loans, may reduce cash flow requirements initially, but can create volatility in mortgage payments if interest rates rise dramatically over a prolonged period of time.
- Moreover, through June 2005 almost 54 percent of all ALT-A (low documentation) and BC mortgages originated in Colorado were either interest-only or option-ARM mortgages, the second highest rate in the country.[5]
- The proliferation of these kinds of mortgage instruments, combined with escalating bankruptcies and foreclosures, suggests a shift in the risk profile for consumer finance. Thus far, Colorado insured institutions, as measured by favorable performance and strong loan portfolios, are proving adept at managing this risk through loan underwriting and securitization.

slightly—from 62.8 in the second quarter to 60.2 in the third quarter. https://www.blci.com/colorado/results.html

[2] "House Prices in America: Valuation Methodology & Findings," National City Bank, July 2005. http://www.nationalcity.com/corporate/EconomicInsight/default.asp then select Housing Valuation Analysis.

[3] Based on a four-quarter moving average per capita bankruptcy rate.

[4] According to the Federal Housing Finance Board.

[5] LoanPerformance ALT-A and BC securities databases.

Colorado at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.1%	2.6%	1.4%	1.3%	-1.4%
Manufacturing (7%)	-0.4%	0.8%	-1.5%	-0.9%	-6.1%
Other (non-manufacturing) Goods-Producing (8%)	6.4%	6.8%	1.6%	1.7%	-5.9%
Private Service-Producing (69%)	1.8%	2.4%	1.9%	1.6%	-0.8%
Government (16%)	2.1%	2.2%	0.6%	0.9%	0.2%
Unemployment Rate (% of labor force)	5.2	4.9	5.5	5.5	6.2

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.9%	7.0%	8.2%	5.8%	2.6%
Single-Family Home Permits	0.1%	10.2%	22.2%	11.9%	-4.4%
Multifamily Building Permits	-46.7%	-27.1%	16.6%	6.7%	-46.1%
Existing Home Sales	2.7%	0.7%	17.7%	12.1%	2.7%
Home Price Index	5.7%	5.0%	3.6%	4.0%	2.8%
Bankruptcy Filings per 1000 people (quarterly annualized level)	8.07	6.02	6.74	6.16	5.74

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	175	176	177	177	180
Total Assets (in millions)	41,764	40,900	37,430	39,393	35,347
New Institutions (# < 3 years)	10	10	12	11	12
Subchapter S Institutions	45	45	42	44	41

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.99	1.41	1.46	1.27	1.44
ALLL/Total Loans (median %)	1.09	1.16	1.20	1.19	1.23
ALLL/Noncurrent Loans (median multiple)	2.66	2.53	2.46	2.08	2.53
Net Loan Losses / Total Loans (median %)	0.02	0.02	0.04	0.09	0.12

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	8.71	8.56	8.48	8.56	8.30
Return on Assets (median %)	1.20	1.14	1.13	1.09	1.05
Pretax Return on Assets (median %)	1.69	1.41	1.54	1.41	1.47
Net Interest Margin (median %)	4.44	4.39	4.30	4.33	4.35
Yield on Earning Assets (median %)	6.25	5.95	5.70	5.70	5.90
Cost of Funding Earning Assets (median %)	1.65	1.39	1.16	1.22	1.41
Provisions to Avg. Assets (median %)	0.09	0.08	0.08	0.10	0.13
Noninterest Income to Avg. Assets (median %)	0.77	0.72	0.84	0.82	0.82
Overhead to Avg. Assets (median %)	3.29	3.30	3.27	3.28	3.27

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	64.6	63.3	62.7	64.7	60.9
Noncore Funding to Assets (median %)	16.0	15.6	16.0	15.9	15.7
Long-term Assets to Assets (median %, call filers)	12.0	12.2	15.0	13.0	15.0
Brokered Deposits (number of institutions)	45	40	34	40	33
Brokered Deposits to Assets (median % for those above)	4.6	6.4	4.4	5.4	4.0

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	68.4	68.9	68.4	64.5	63.1
Commercial Real Estate	230.1	248.0	230.5	249.0	203.9
Construction & Development	63.6	66.5	56.2	59.1	49.5
Multifamily Residential Real Estate	3.9	4.5	5.2	4.7	5.0
Nonresidential Real Estate	133.3	140.9	123.3	144.9	121.2
Residential Real Estate	136.4	135.4	136.3	135.3	138.5
Consumer	17.8	19.2	23.1	19.8	26.8
Agriculture	6.2	5.2	6.0	6.5	5.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Denver-Aurora, CO	96	35,876	< $250 million	127 (72.6%)
Boulder, CO	29	4,895	$250 million to $1 billion	39 (22.3%)
Colorado Springs, CO	42	4,735	$1 billion to $10 billion	9 (5.1%)
Fort Collins-Loveland, CO	27	3,447	> $10 billion	0 (0%)
Greeley, CO	27	2,253		