

FDIC State Profile

Fall 2004

Alabama

Economic growth in Alabama was weak compared to the nation.

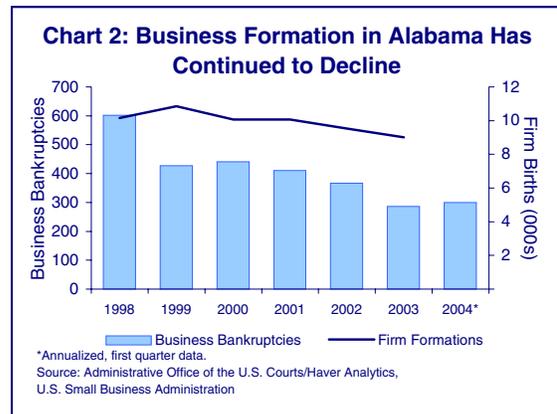
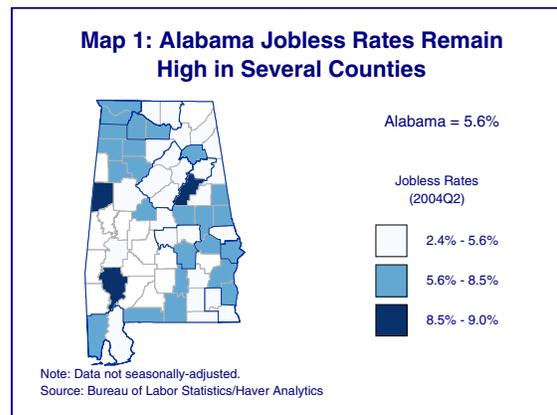
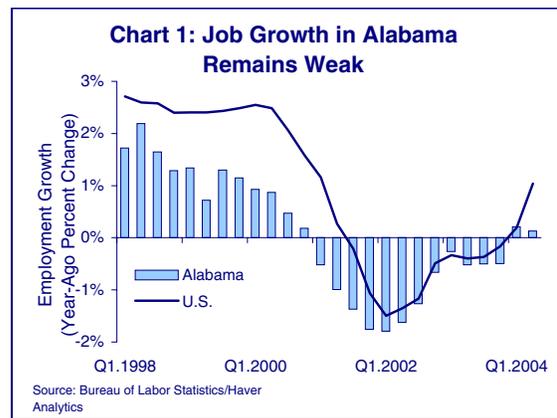
- While the nation experienced rising levels of employment during the first half of 2004, Alabama's job growth remained weak and ranked among the worst in the nation (See Chart 1). Similarly, jobless rates in the state were above the national average while bankruptcy rates were second highest among all states. However, initial third quarter 2004 data show unemployment insurance claims have retreated and point toward a modest increase in employment growth.
- Economic conditions varied widely across the state with many rural areas and northwest portions of the state seeing the highest levels of unemployment (See Map 1). In July 2004, year-ago employment gains were posted in all metropolitan areas except **Florence**, **Decatur**, and the Alabama portion of **Columbus (Russell County)**. Employment in rural counties was flat during the same time period.

Motor vehicle production employment continued to grow in an otherwise weak manufacturing sector.

- Alabama's manufacturing sector continued to post job losses through the first half of 2004, although the pace of erosion has moderated substantially. Motor vehicle and parts production has been one of the few bright spots in the state's manufacturing sector, however. Over the past year ending second quarter 2004, employment surged by more than 20 percent. Though still small compared to total manufacturing, jobs in motor vehicle production have a greater impact on the state's economy given the average annual salary is much higher than the average for all manufacturing.

A weak economy has not dampened activity in the state's residential real estate markets.

- Weakening job growth and rising mortgage rates in second quarter 2004 failed to dampen the state's housing market. Home sales in the first half of 2004 increased 24 percent from a year earlier, while average days on the market fell. The average selling price level remained highest in **Baldwin County** along the Gulf Coast where residential development has spilled over from the Florida Panhandle



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and appreciation has been in the double digits. The buoyancy of the state's residential market may have been due partly to the anticipation of further rate increases, which motivated buyers to bring purchases forward. If job creation remains weak and long term interest rates rise further, however, the state's housing market could soften.

- Insured institutions have been active supporters of homebuilding in the state. Construction and development (C&D) lending growth has increased for the past several years, and the **Birmingham** MSA now ranks 22nd nationally among all insured institutions for its level of C&D exposure relative to capital.

Slow improvement in the economic environment may be helping boost lending to small businesses.

- Because of the weak economic conditions in recent years, Alabama new business formation, which peaked in 1999, continued to decline through 2003 (See Chart 2). Reflecting the lackluster economic climate, lending to small businesses likewise has languished in recent years, declining during the year ending second quarter 2002 and remaining flat in 2003. Job gains, albeit modest, and rising proprietor income growth during the first half of 2004, however, may point toward an improving business operating climate. Similarly, small business lending has seen a revival over the past four quarters, increasing by 13 percent—the seventh highest rise nationwide.

The active hurricane season could negatively affect the state's economy.

- The 2004 hurricane season has been very active and may have disparate effects across the southeast and gulf coast. By early September, cumulative storm damages have been estimated in excess of \$30 billion. Potentially, a number of jobs and businesses could be permanently destroyed. Industry sectors, such as agriculture, transportation, and tourism will likely be the most affected. Repairing storm damage may be hampered by shortages in manpower and construction material. Insurance reforms may lead to greater loss sharing by homeowners and businesses and insurance coverage gaps could surprise some policy and collateral lien holders.

Earnings growth returned to Alabama community banks.

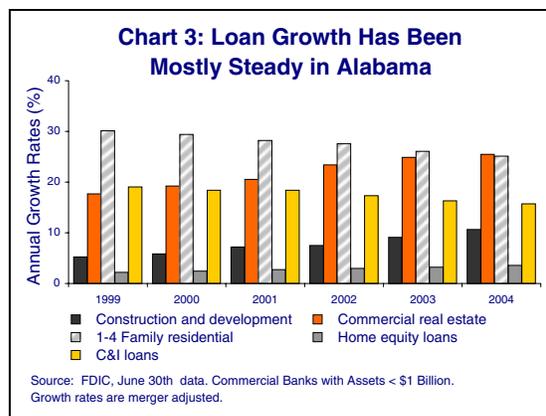
- Earnings growth at Alabama community banks returned to the state as net income rose 16 percent on a merger adjusted basis to \$137 million, up from \$117 million in the year ago period.¹ Funding costs fell more than asset yields, which led to an increase in net interest income for the period. As a result, net interest margins improved slightly over the 12-month period ending June 30, 2004,

to 4.05 percent, but still remained below the national average of 4.17 percent. A noticeable decline in provision expenses helped the return on assets improve to 1.18 percent, 11 basis points higher than in second quarter 2003.

- As in most states, the second quarter spike in interest rates had an adverse effect on security portfolio market appreciation. In second quarter 2004, banks in the state reported *depreciation* of 1.25 percent, compared to the approximate *appreciation* of 1.9 percent during the prior quarter—a negative swing of more than 300 basis points. Security portfolio valuations are likely to fluctuate further due to anticipated changes in the interest rate environment.

Loan growth has been sluggish and quality is improving but remains comparatively high.

- Loan growth continued to underperform the national average. As of June 30, 2004, loans experienced only a 6 percent accretion over last year's period compared to an 11 percent growth rate nationally. Despite a much lower exposure than some other states in the Region at 67 percent of capital, C&D lending remained the fastest growing loan segment among the major lending categories in the state (See Chart 3).
- Asset quality measures in the state continued to improve. Total past due and nonaccrual loans fell 68 basis points over the 12-month period ending June 2004, to 2.14 percent. Nevertheless, Alabama's past due levels remain above the national average of 1.78 percent. The extent of job losses in the state, especially in manufacturing, over the past several years has exacerbated asset quality deterioration relative to the nation. Banks in the Birmingham MSA ranked 65th out of 227 MSAs nationally with a median past due loan ratio of 1.56 percent.



¹Community banks have assets less than \$1 billion dollars and exclude thrifts.

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Alabama at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	163	161	164	169	170
Total Assets (in thousands)	222,684,509	211,769,543	194,138,980	186,947,206	183,451,778
New Institutions (# < 3 years)	8	5	9	7	7
New Institutions (# < 9 years)	17	15	13	10	10
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.40	9.70	9.39	9.66	9.77
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	2.10%	2.73%	2.43%	2.60%	2.42%
Past-Due and Nonaccrual >= 5%	19	27	25	41	32
ALLL/Total Loans (median %)	1.35%	1.36%	1.32%	1.25%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.82	1.30	1.44	1.33	1.42
Net Loan Losses/Loans (aggregate)	0.33%	0.42%	0.46%	0.40%	0.31%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	11	8	8	12	9
Percent Unprofitable	6.75%	4.97%	4.88%	7.10%	5.29%
Return on Assets (median %)	1.13	1.14	1.19	1.05	1.13
25th Percentile	0.78	0.78	0.84	0.66	0.88
Net Interest Margin (median %)	4.09%	4.02%	4.26%	3.99%	4.26%
Yield on Earning Assets (median)	5.66%	6.00%	6.88%	8.30%	8.33%
Cost of Funding Earning Assets (median)	1.58%	2.02%	2.71%	4.29%	4.08%
Provisions to Avg. Assets (median)	0.18%	0.23%	0.22%	0.17%	0.18%
Noninterest Income to Avg. Assets (median)	0.72%	0.74%	0.67%	0.68%	0.69%
Overhead to Avg. Assets (median)	2.82%	2.78%	2.75%	2.76%	2.77%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	75.42%	71.05%	75.16%	74.64%	73.27%
Loans to Assets (median %)	60.73%	60.06%	62.00%	61.81%	60.33%
Brokered Deposits (# of Institutions)	50	42	42	40	35
Bro. Deps./Assets (median for above inst.)	4.29%	3.69%	3.44%	1.84%	2.39%
Noncore Funding to Assets (median)	26.11%	23.81%	24.27%	24.16%	23.34%
Core Funding to Assets (median)	62.77%	63.44%	64.06%	64.49%	65.57%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	106	104	105	109	109
National	22	20	22	23	24
State Member	24	26	26	25	25
S&L	4	4	5	5	5
Savings Bank	7	7	6	7	7
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	101	13,657,144	61.96%	6.13%	
Birmingham AL	21	183,536,493	12.88%	82.42%	
Mobile AL	8	1,371,832	4.91%	0.62%	
Dothan AL	7	946,918	4.29%	0.43%	
Montgomery AL	4	18,025,592	2.45%	8.09%	
Florence AL	4	811,169	2.45%	0.36%	
Decatur AL	4	1,763,189	2.45%	0.79%	
Tuscaloosa AL	3	508,483	1.84%	0.23%	
Huntsville AL	3	605,235	1.84%	0.27%	
Anniston AL	3	237,408	1.84%	0.11%	
Gadsden AL	2	292,293	1.23%	0.13%	
Columbus GA-AL	2	330,890	1.23%	0.15%	
Auburn-Opelika AL	1	597,863	0.61%	0.27%	