State Profile

Fall 2004

Georgia

Georgia's economy continues to grow slowly.

- Employment in Georgia continues to grow modestly. At 1.1 percent, the state's rate of expansion in second quarter 2004 was on par with the national average (See Chart 1). This contrasts with the late 1990s when the state ranked among the highest in terms of job growth. Layoffs continue to restrain the state's recovery as initial unemployment claims, though down from their peaks, remain at historically high levels.

- Second quarter 2004 performance was mixed as jobless rates ranged from a low of 1.5 percent in **Oconee County** to nearly 10 percent in **Atkinson County** (See Map 1). Jobless rates in several other rural counties may have been much higher were it not for continued labor force declines in these areas. Some metropolitan areas also remain at risk. **Macon**, for example, must face the implications of several hundred layoffs recently announced in the tobacco industry, while **Atlanta** may be at risk from the financial troubles at Delta Airlines.

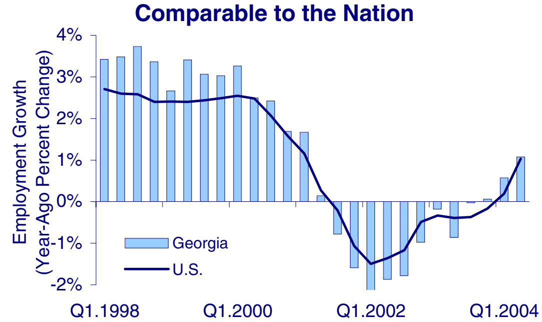
Accelerating tax revenue signals a resumption in economic growth.

- Further evidence of Georgia's budding recovery is reflected by recent gains in state tax revenue collections. Following declines in both fiscal years 2002 and 2003, revenues rose 7.1 percent during the fiscal year ending June 2004. However, increases in collections may not be enough to avert spending cuts as health care, education and employee payroll costs continue to rise.

An improving economic climate may result in increased business formations and greater lending activity.

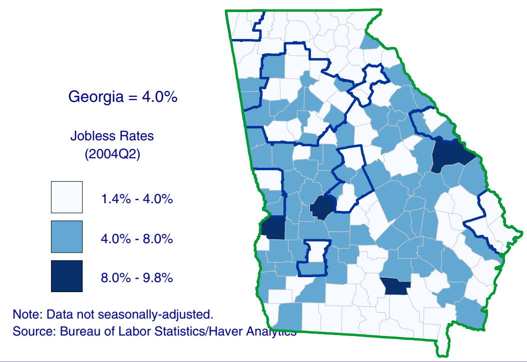
- Georgia new business formations have been limited, and business bankruptcies have risen in recent years due to weak economic conditions (See Chart 2). The unfavorable business climate also may have constrained lending to small businesses. Although still above the national average, growth in small loans to business (<$1 million) over the past year was just under 5 percent, matching the pace in 2003 but well below pre-recession gains. Re-emergent job growth since late last year, however, has coincided with a 7.7 year-ago percent increase in new

Chart 1: Job Growth in Georgia Is Comparable to the Nation



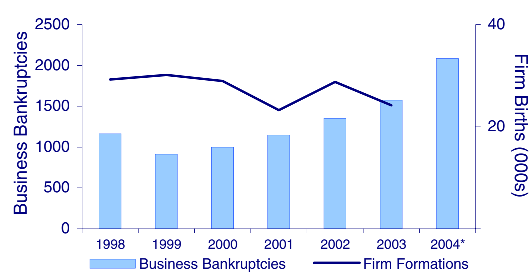
Source: Bureau of Labor Statistics/Haver Analytics

Map 1: Georgia Jobless Rates Vary Widely



Note: Data not seasonally-adjusted.
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Georgia Business Formations Have Been Constrained in Recent Years



*Annualized, first quarter data.
Source: Administrative Office of the U.S. Courts/Haver Analytics, U.S. Small Business Administration

business incorporations during the first half of 2004. Further improvement in the state's economy also may foster rising demand for small business lending.

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. Insurance reforms may lead to greater loss sharing by homeowners and businesses and insurance coverage gaps could surprise some policy and collateral lien holders.

Atlanta's commercial real estate (CRE) markets display mixed performance.

- CRE market conditions in the Atlanta MSA are varied. Modest economic growth and a weak recovery in high-tech industries have resulted in some improvement in office properties. However, vacancy rates in second quarter 2004 are stubbornly high and match year-ago levels. Despite high vacancies, developers are showing renewed building interest in some metro area submarkets, such as Buckhead. Retail market vacancy rates are stable from a year earlier, while warehouse vacancies have risen slightly. The apartment market improved slightly, but vacancies are comparatively high. One bright spot is the hotel sector where occupancy rates and revenue per available room have posted increases.

Residential construction and lending remain at high levels.

- Residential construction in many markets of the state is booming. Led by Atlanta, construction is the fastest growing segment of the state's economy through midyear. Large additions to supply may be constraining home price appreciation in Atlanta, which, at 3.5 percent in first quarter 2004, remained less than half the national average.

- Many insured institutions are vigorously financing the housing boom. Matching the most actively growing areas, lending exposures are greatest in the Atlanta, **Athens**, and Macon MSAs (See Chart 3).[1] Residential housing construction & development (C&D) lending volumes in Atlanta and Macon rank among the highest in the nation.

Banking conditions in Georgia are good.

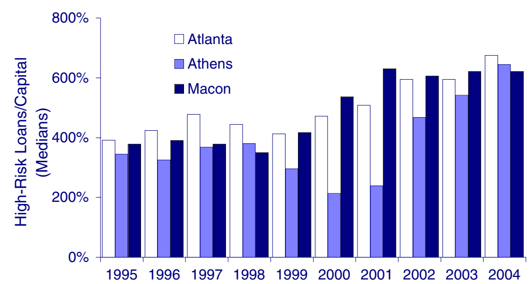
- Georgia's community banks report solid performance numbers.[2] Earnings growth continues to excel as net income eclipsed its previous year's high. For the first half of 2004, net income reached $294 million, up from $258 million in the previous year. Higher fee and margin income more than offset larger noninterest expenses. Profitability measures such as net interest margins (NIM) and return on assets (ROA) improved slightly during the year. The NIM of 4.35 percent and ROA of 1.17 percent compare favorably with the national average of 4.17 percent and 1.22 percent, respectfully.

- A spike in interest rates during the second quarter adversely affected security portfolio market valuation in Georgia banks. Although not reporting outright depreciation that occurred in most other states, appreciation in securities portfolios approximated 3.0 percent—down from 5.6 percent in the prior quarter.

Loan growth is dynamic, and asset quality measures are stable.

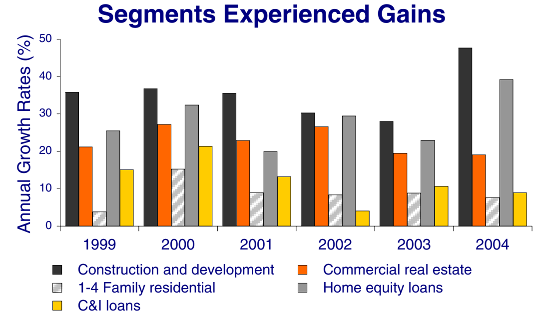
- The pace of overall loan growth has been brisk over the last year. Lending volumes surged by 18 percent, and most loan categories experienced sharp gains (See Chart 4). In particular, C&D lending and home equity lines are growing nearly 40 percent on an annualized basis. Asset quality measures improved markedly during the year. Total past-due and nonaccrual loans fell 58 basis points to 1.59 percent and are at their lowest level in 10 years.

Chart 3: High Risk Loan Exposures Highest in Atlanta, Athens, and Macon MSAs



Source: FDIC, June 30th data.
Note: High-risk loans consist of C&I, C&D, Nonresidential, and Multifamily.

Chart 4: Loan Growth in Most Lending Segments Experienced Gains



Source: FDIC, June 30th data. Commercial Banks with Assets < $1 Billion. Growth rates are merger adjusted.

[1] High-risk loans consist of commercial and industrial, construction and development, nonresidential, and multi-family loans.
[2] Community banks have assets less than $1 billion dollars in assets and exclude thrifts.

Georgia at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	347	340	347	354	368
Total Assets (in thousands)	220,786,960	208,284,690	178,366,341	179,080,871	167,313,649
New Institutions (# < 3 years)	37	31	43	45	49
New Institutions (# < 9 years)	101	91	85	78	72

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.21	9.08	9.04	9.02	9.53

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.43%	1.84%	1.92%	2.33%	1.87%
Past-Due and Nonaccrual >= 5%	29	38	38	44	30
ALLL/Total Loans (median %)	1.33%	1.34%	1.33%	1.34%	1.32%
ALLL/Noncurrent Loans (median multiple)	2.31	1.77	1.99	2.10	2.49
Net Loan Losses/Loans (aggregate)	0.37%	0.42%	0.53%	0.62%	0.38%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	35	28	30	35	30
Percent Unprofitable	10.09%	8.24%	8.65%	9.89%	8.15%
Return on Assets (median %)	1.11	1.06	1.13	1.07	1.26
25th Percentile	0.71	0.69	0.69	0.59	0.88
Net Interest Margin (median %)	4.27%	4.19%	4.39%	4.39%	4.91%
Yield on Earning Assets (median)	5.90%	6.26%	7.15%	8.80%	8.93%
Cost of Funding Earning Assets (median)	1.60%	2.10%	2.69%	4.37%	4.06%
Provisions to Avg. Assets (median)	0.24%	0.23%	0.24%	0.23%	0.21%
Noninterest Income to Avg. Assets (median)	0.77%	0.79%	0.77%	0.77%	0.78%
Overhead to Avg. Assets (median)	3.02%	3.02%	3.12%	3.23%	3.26%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	88.25%	83.33%	84.39%	80.21%	81.19%
Loans to Assets (median %)	73.14%	71.34%	71.65%	68.61%	68.55%
Brokered Deposits (# of Institutions)	136	110	108	79	58
Bro. Deps./Assets (median for above inst.)	6.16%	4.93%	4.73%	3.84%	3.61%
Noncore Funding to Assets (median)	23.25%	22.18%	21.56%	21.76%	19.50%
Core Funding to Assets (median)	65.52%	66.45%	67.32%	66.97%	68.03%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	254	241	247	254	270
National	57	61	62	65	65
State Member	16	16	15	12	8
S&L	5	5	6	7	6
Savings Bank	15	17	17	16	19
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	203	32,191,195	58.50%	14.58%
Atlanta GA	100	169,142,953	28.82%	76.61%
Macon GA	11	1,995,158	3.17%	0.90%
Savannah GA	8	1,349,929	2.31%	0.61%
Chattanooga TN-GA	8	1,223,172	2.31%	0.55%
Athens GA	6	1,775,657	1.73%	0.80%
Columbus GA-AL	4	5,167,636	1.15%	2.34%
Albany GA	4	860,394	1.15%	0.39%
Augusta-Aiken GA-SC	3	7,080,866	0.86%	3.21%