

FDIC State Profile

Fall 2004

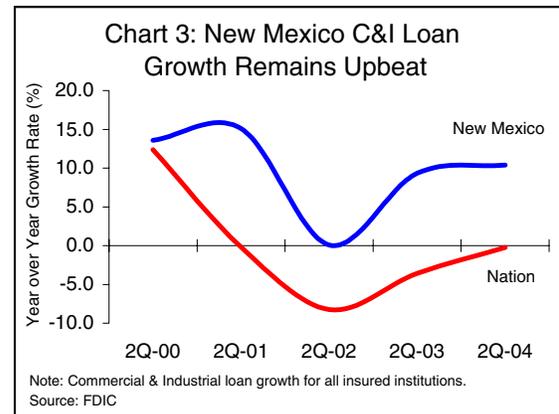
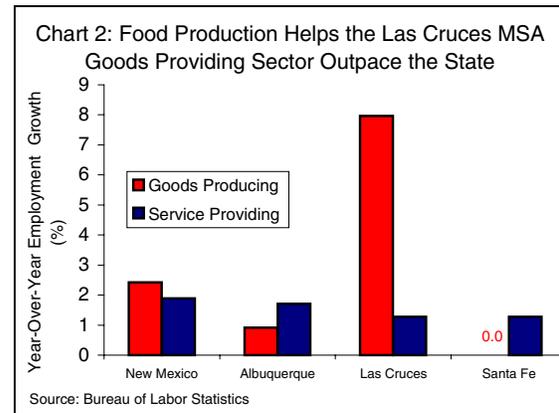
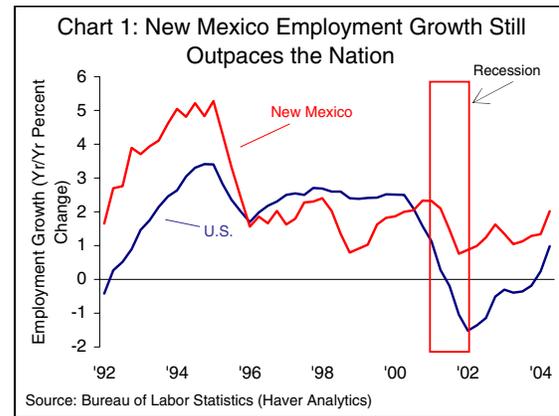
New Mexico

Will summer slowdown cool New Mexico's economy?

- New Mexico employment continued to accelerate. By mid-year 2004, New Mexico ranked eighth in the country for employment growth (See Chart 1).
- Modest job losses in July suggest the state's economy was mildly affected by a broader U.S. summer slowdown.
- New Mexico is a driving destination for many tourists; the summer slowdown decreased the amount of consumer spending as high gas prices discouraged many people from traveling to the state.
- A favorable climate and relatively low living costs have attracted an influx of retirees, which will continue to increase demand for residential construction, public infrastructure, and health services.

New Mexico metropolitan statistical areas (MSAs) are performing well.

- The goods producing sector in **Santa Fe** performed significantly below the rest of the state. However, the Los Alamos National Laboratory recently secured additional funding from the Department of Defense for a major three-year project. Current geopolitical tensions indicate a steady level of defense funding for the foreseeable future which should allow Santa Fe to attract high paying jobs that will potentially bolster the local economy (See Chart 2).
- A fortunate mix of manufacturing industries in the **Las Cruces** MSA, in particular food product manufacturing, has helped the metro area outperform the nation since 2000. Additionally, with an influx of retirees, the Las Cruces metro area is evolving into a more services-oriented economy. This population shift is causing a growth in the demand for health and financial services. With the U.S. population trending older Las Cruces is well positioned for future growth in the service sector.



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Will water limit New Mexico's ability to sustain economic growth?

- Research at the U.S. Geological Survey on the drought cycles of the American West suggests that the relatively wet weather of the 20th century may have been a historical aberration, and not the norm on which land development decisions were based.¹ If this evidence is correct, an escalation of legal, financial, and economic issues related to water resources can be expected.
- New Mexico ranked 12th in the country for population growth according to the 2000 Census and, therefore, has increased demand for drinking water as well as water for recreational and industrial uses. Current drought conditions and concerns about future water availability could mean the future rate of expansion may be slower than previously experienced.

World Trade Organization agreement could affect agriculture subsidies.

- After a prolonged stalemate, world trade talks held at the end of July 2004 produced a new framework that would eventually eliminate billions of dollars of farm subsidies for rich nations by reducing or eliminating import barriers, export subsidies, and domestic support programs.
- In a recent Federal Reserve survey of bankers, the majority of respondents (74.1 percent) indicated a decrease (or removal) of subsidies would be detrimental. Numerous bankers commented that a reduction in subsidies would adversely affect land values, specifically in cotton producing areas.²

Hispanic immigration is key to future growth.

- According to the 2000 Census, New Mexico's Hispanic population, which is ranked the highest in the nation, increased from 38 to 42 percent of the total population since the 1990 Census.
- A rapidly growing Hispanic population and their faster than average U.S. income growth is motivating banks to focus on this demographic group for growth opportunities.

New Mexico commercial and industrial (C&I) lending remains upbeat.

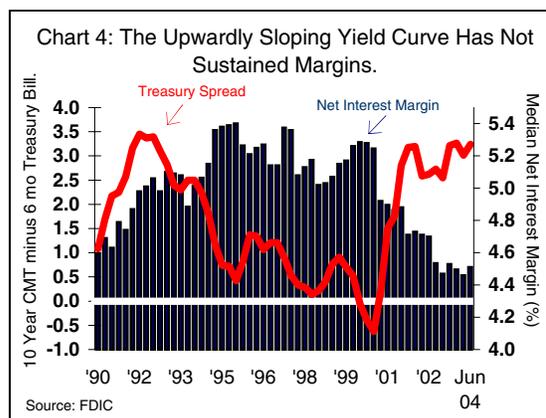
- Unlike most of the nation, C&I lending for New Mexico institutions remained positive throughout the recession. The growth in C&I small business lending, 10.4 percent for the four quarter period ending June 30, 2004,

continued to outpace the nation and ranked New Mexico institutions 16th overall (See Chart 3).

- The number of new New Mexico firms increased 13.1 percent between 2002 and 2003, which explains, in part, the continuing demand for C&I loans.
- Senior lending officers reported that demand for small firm C&I loans was at its highest level in ten years.³

Uncertainty of both the timing and magnitude of interest rate movements presents challenges extending beyond balance sheet rate sensitivity.

- Even with a more favorably shaped yield curve, compression of net interest margins (NIM) continued (See Chart 4). At 4.51 percent, the median NIM for New Mexico banks was in the lowest range since 1990.
- Rising rates signal curtailment of mortgage activity, particularly for the refinance segment. Lower portfolio volume and fee generation will force decisions about loan mix strategy, cost cutting or underwriting standards.
- While many bank balance sheets may benefit from higher interest rates, a rapid rise could adversely affect asset quality. Debt service coverage for borrowers with adjustable rate mortgages could be stressed, and the ability to refinance balloon payments on fixed-rate loans may be compromised by higher interest charges.



¹Johnson, Kirk, and Dean Murphy. "Drought Settles In, Lake Shrinks, and West's Worries Grow." May 2, 2004. New York Times.

²Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District.

³Source: Federal Reserve Senior Lending Survey/Haver Analytics.

State Profile

New Mexico at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	59	60	61	62	62
Total Assets (in thousands)	15,465,546	19,362,482	17,558,699	18,102,939	19,110,382
New Institutions (# < 3 years)	1	4	7	7	6
New Institutions (# < 9 years)	12	12	12	12	9
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	8.60	8.74	8.82	8.67	8.65
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.32%	1.78%	2.10%	2.25%	1.92%
Past-Due and Nonaccrual >= 5%	5	5	9	9	7
ALLL/Total Loans (median %)	1.31%	1.36%	1.28%	1.27%	1.21%
ALLL/Noncurrent Loans (median multiple)	1.78	1.37	1.18	1.12	1.50
Net Loan Losses/Loans (aggregate)	0.26%	0.21%	0.38%	0.54%	0.40%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	4	2	6	7	4
Percent Unprofitable	6.78%	3.33%	9.84%	11.29%	6.45%
Return on Assets (median %)	1.09	1.26	1.06	1.11	1.24
25th Percentile	0.71	0.79	0.69	0.55	0.73
Net Interest Margin (median %)	4.51%	4.47%	4.73%	4.90%	5.29%
Yield on Earning Assets (median)	5.66%	6.24%	6.93%	8.30%	8.47%
Cost of Funding Earning Assets (median)	1.19%	1.52%	1.98%	3.52%	3.45%
Provisions to Avg. Assets (median)	0.11%	0.15%	0.21%	0.22%	0.12%
Noninterest Income to Avg. Assets (median)	0.76%	0.86%	0.79%	0.79%	0.78%
Overhead to Avg. Assets (median)	3.23%	3.42%	3.41%	3.60%	3.54%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	75.56%	72.74%	73.20%	70.79%	75.01%
Loans to Assets (median %)	61.81%	58.79%	61.45%	60.57%	62.39%
Brokered Deposits (# of Institutions)	8	9	9	8	4
Bro. Deps./Assets (median for above inst.)	2.28%	1.64%	2.26%	2.48%	3.17%
Noncore Funding to Assets (median)	20.63%	19.28%	19.71%	21.00%	21.09%
Core Funding to Assets (median)	68.91%	68.39%	69.32%	68.06%	67.67%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	32	32	33	33	32
National	14	15	15	15	17
State Member	4	4	4	4	3
S&L	4	4	4	5	5
Savings Bank	5	5	5	5	5
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	41	9,969,721	69.49%	64.46%	
Albuquerque NM	10	2,295,720	16.95%	14.84%	
Santa Fe NM	5	2,850,629	8.47%	18.43%	
Las Cruces NM	3	349,476	5.08%	2.26%	