Banking and Finance

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Stability prevails in Alaska's financial industry

Several types of institutions make up Alaska's financial community. Among them are 24 depository-credit institutions, which include banks, credit unions, and savings and loans. These are the financial institutions customers deal with on a regular basis.

There are also 52 non-depository intermediation institutions that provide diverse services in the fields of credit intermediation and related activities involving long and short term lending. Long-term lenders are primarily involved in the finance of real estate and consumer goods sales. Short-term lenders respond to an immediate need for cash. They may provide working capital for industry or advance cash to consumers based on expected paychecks or personal assets. Data for both depository and non-depository institutions are published under Financial Activities in *Alaska Economic Trends* and Bureau of Labor Statistics publications.

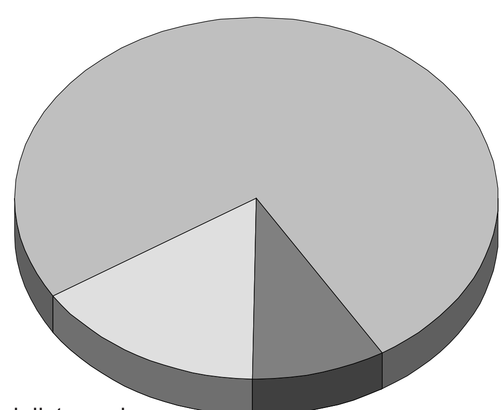
Another 60 Alaska firms are engaged in securities, commodity contracts and other financial investments, and related activities.

Insurance carriers, funds, trusts and related businesses are also part of the financial world but are not included in this discussion.

Depository institutions are the nucleus of the banking industry

Three Alaska state banks, one mutual savings bank, four national banks, one federal savings association, one state credit union, and 13 federal credit unions currently comprise Alaska's depository institutions. There is one national bank that no longer maintains a depository facility in the state but retains an office with a few employees. State chartered institutions follow state banking rules and report compliance to the Division of Banking, Securities and Corporations within the Department of Community and Economic Development. The Comptroller of the Currency oversees the conduct of national banks; the National Credit Union Administration supervises federal credit unions; and the Office of Thrift Supervision sets standards for federal

Most are Employed in Banking 1
Wage and salary employment 2003



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

savings and loan associations. Most institutions insure customer deposits with the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. Both entities require compliance under additional rules.

Financial institutions are the backbone of all economies, but often account for a relatively small share of total employment. In the United States, wage and salary workers in financial institutions handle a tremendous volume of daily transactions but made up only 2.7 percent of all U.S. employment in 2003. In Alaska the finance and banking industry is even smaller, employing just 1.6 percent of the state's workforce. Alaska's depository (banking) institutions are the largest group; they accounted for 3,640 average monthly jobs in 2003. (See Exhibit 1.) Non-depository institutions (credit specialists) and credit or banking support institutions averaged nearly 760 jobs. Other investment firms, those engaged in securities, commodity contracts, and other financial investments and related activities, posted a monthly average of 430 jobs last year.

The blue days of Alaska's banking industry have become a faint memory

The most recent *Alaska Economic Trends* article to analyze the state's banking sector appeared in November 1988. It described the turbulent decade of the 1980s that began with a boom that turned into a bust followed by gradual recovery. The recession of the mid-1980s sent strong tremors through Alaska's financial community, causing a major shake-out of players and impelling a few of the survivors to form new alliances. Between 1986 and 1990 there were nine closures, five mergers and two formations of financial institutions, indicative of the turbulence that swept through the industry. Mergers and acquisitions continued throughout the 1990s, but a stable climate returned. In 2000, Alaska's oldest and largest commercial bank, National Bank of Alaska (NBA), was sold and became part of Wells Fargo, a large national bank. Since then, only a few organizational changes and one recent merger have been recorded. Still, the remaining financial institutions are changing their ways of doing business and several institutions are expanding their presence, especially in the Anchorage to Fairbanks railbelt area.

Deregulation changes the ways banks operate

The way financial institutions conduct business has changed dramatically. Most institutions were able to broaden their presence and service repertoire when several phases of deregulation lifted most of the restrictions set by the Glass-Steagall Act of 1933. The Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 permitted interstate banking for the first time and set off a nationwide tidal wave of mergers and acquisitions. This consolidation movement created mega banks connecting webs of branches. A more recent change came in 1999 when legislation aimed at financial service

2 Alaska's Depository Institutions
Employment trends

	Avg Monthly Employment 1990	Avg Monthly Employment 2000	Change 1990-2000	Percent Change 1990-2000	Avg Monthly Employment 2003	Change 2000-2003	Percent Change 2000-2003
Depostitory Institutions:							
Commercial Banks	2,655	2,526	-129	-4.9%	2,111	-415	-16.4%
Savings Institutions	98	113	15	15.3%	142	29	25.7%
Credit Unitons	944	1,305	361	38.2%	1,386	81	6.2%
Total	3,697	3,944	247	6.7%	3,639	-305	-7.7%

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

modernization removed most of the restrictions placed on product differentiation. Lifting these constraints liberalized the market for financial products and made it highly competitive. As a result, depository institutions can engage in the sale of investments, insurance and other products.

The institutions have become finance retailers and their blending of services reduces the differences among them. But a few differences remain. Credit unions, for example, cannot issue stock and limitations remain on their commercial and real estate lending activities. They are unique in the financial world because of their tax-exempt status as not-for-profit entities. Commercial banks no longer face restrictions regarding financial products and they now offer a vast array. Their forte, however, remains commercial lending. Competition for customers has intensified among financial institutions because their product lines and customer bases have become very similar. While deregulation has opened many new markets for individual financial institutions, regulators insist on high standards of conduct aimed at consumer protection and the functioning of the overall economy. Banking remains one of the most heavily regulated industries in the United States.

Innovation and mergers set the direction of national employment trends

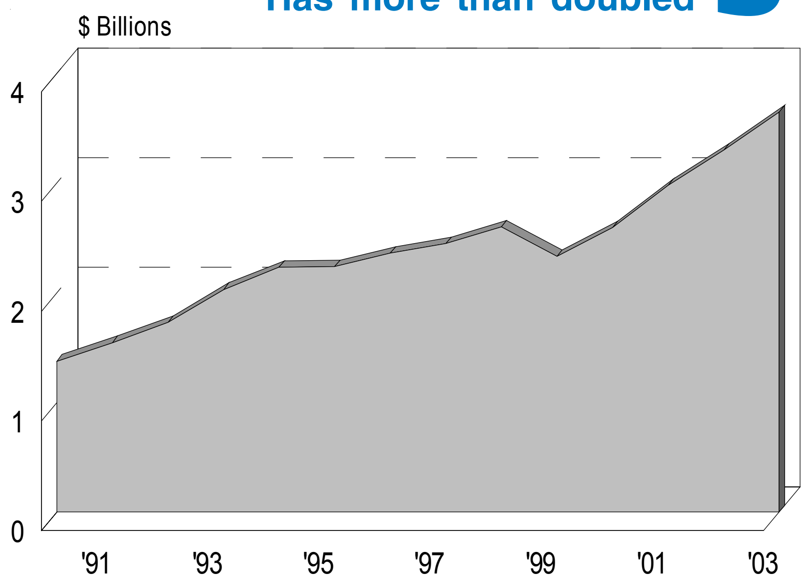
During the 1990s national employment declined by 12 percent in depository institutions, involving job losses of more than 227,000. Mergers contributed to these losses, but technological advances led to significant job displacement as well. The wave of technological innovation that began in the late 1980s dramatically transformed business conduct in the banking world. Automated Teller Machines (ATM) took over most cash transactions because they fulfilled nearly all teller functions. Electronic transfers replaced check writing to a large degree. When electronic banking started to include loans, bank customers had even less reason to visit a financial institution.

Nationally, employment during the 1990s fell the most in savings and loan institutions. The late 1980s turmoil in savings institutions harmed their reputation and consumer confidence has never fully recovered. Employment in commercial banking trended downwards as well and has fallen more than eight percent in the past decade. The wave of merger activity, acquisitions, and technological advancement in commercial banking consolidated the industry, which resulted in declines in employment. The big gainers among depository institutions were the credit unions. Nationally, their employment increased by over 36 percent. Credit unions were able to broaden their membership base by offering higher interest rates on deposits and lower interest rates on loans. Their status as not-for-profit entities gives them a comparative advantage over other financial institutions because they can pass on tax savings to their clientele.

Depository banking unfazed by 2001 recession

Employment in savings and loan institutions and commercial banks started to recover in 2001 and has been making steady gains. Credit unions

Credit Unions' Asset Base 3
Has more than doubled



Source: Credit Union National Association, Inc.

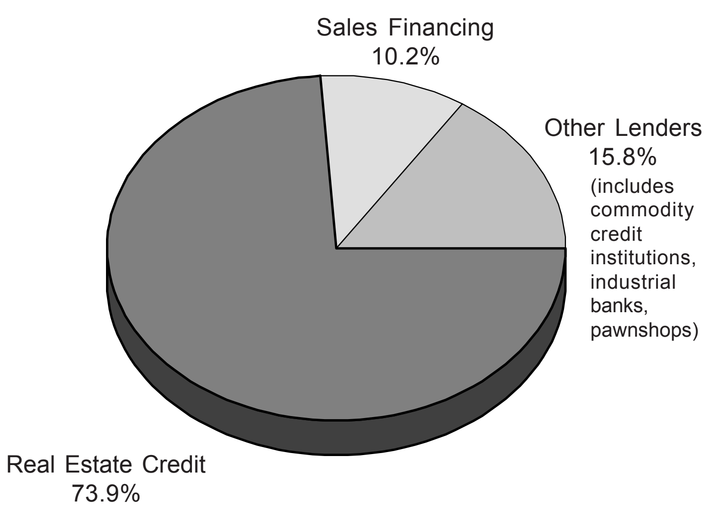
have continued on their steady path of growth. It is interesting to note that all three types of depository institutions were unaffected by the recession that took hold of the U.S. economy in March of 2001. Low interest rates, which stimulated financing activity, helped the institutions avoid the usual consequences of such an economic downturn.

4 Ten Largest Finance Employers
2003

Rank	Name	Average Monthly Employment
1	Alaska USA Federal Credit Union	774
2	First National Bank of Alaska	736
3	Wells Fargo Bank	712
4	Northrim Bank	266
5	Denali Alaskan Federal Credit Union	173
5	Credit Union One	173
7	Wells Fargo Home Mortgage	169
8	Keybank National Association	162
9	Residential Mortgage	131
10	First Bank	130

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

5 Mortgage Lenders are Largest
Non-depository employers–2003



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Depository banking employment in Alaska follows a slightly different trend

During the 1990s, employment in Alaska's depository institutions grew by 250 jobs, a 6.7 percent growth rate for the decade. Although commercial banking suffered job losses, local credit unions with a little help from the savings institutions made up for the decline. (See Exhibit 2.) Since 2000, commercial banking has lost more than 400 jobs, exceeding all the recent gains posted by credit unions and savings institutions. The combined job loss in banking amounted to 305, a decline of 7.7 percent. The sale of NBA to Wells Fargo and the resulting consolidation was a major contributor to these losses. The acquisition turned NBA into a Wells Fargo branch bank and it lost its role as a headquarters and loan service center. Most positions associated with these functions fell off the local job roster as they were moved out of state. Advances in technology, however, have also exerted significant influence over Alaska's employment growth trends in banking. In spite of the job losses, commercial banks in Alaska are still the largest employer in the financial industry.

Credit unions in Alaska have followed the growth trend in other states. Locally, deposits have grown by 165 percent in the past 13 years and reached nearly $3.65 billion in 2003. (See Exhibit 3.) Their increase in membership (27 percent since 1990) and product line has worked to their advantage. Several new credit union branches were built in the past few years and a few are under construction. The commercial side of banking is meeting the competition and also is building branches. The brick and mortar expansion of financial institutions is fairly recent because the vogue in the 1990s was mini branch banking. This expansion took place on leased property in shopping malls and retail space in large stores and made banking ubiquitous.

The largest employers in the banking and financial industry

Five banks, three credit unions and two mortgage companies form the list of Alaska's ten largest employers in the arena of finance. In 2002, Alaska's largest credit union, Alaska USA Federal Credit Union, took over the top spot from Wells Fargo (formerly NBA) as the state's largest financial institution and retained this ranking in 2003. (See Exhibit 4.) However, if the commercial banking of Wells Fargo were combined with its mortgage division, the bank would still be Alaska's largest financial industry employer.

Lender only institutions are a mixed group

In addition to banking, another group of credit intermediators exists. These establishments specialize in extending credit or lending funds. The type of credit that is being extended reveals their specialty. Credit card issuing, sales, international trade, consumer, real estate and commodity financing, and all activities that lead to lending are considered non-depository finance activities. In Alaska this group had 52 employers and averaged 683 employees in 2003.

Mortgage lending (real estate credit) is the largest specialty among the financiers, claiming 74 percent of all employment. (See Exhibit 5.) This employment level often waxes and wanes with interest rates. Since 1997 the prevailing low interest rates have given the mortgage businesses big boosts. Refinancing and new real estate loans have kept the industry busy over the past six years. Employment growth averaged 7.8 percent per year.

The second largest group is labeled the all other non-depository group and it contains commodity credit institutions, industrial banks and even pawnshops. In 2003, 13 pawnshops employed on average more than 80 workers. Their inclusion into the finance world is very recent and occurred in 2000 when the North American Industry Classification System was adopted. In former years pawnshops belonged to the retail industry. Sales financing employment represents nearly all of the remaining lending business workforce.

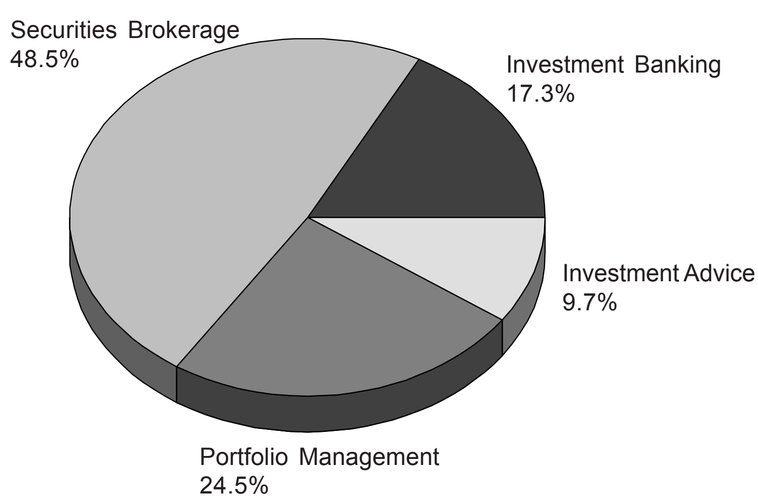
The facilitators of credit form another specialty group

About 17 employers in the state make up the credit facilitator and banking support group with about 75 paid workers. Such personnel arrange loans by bringing lenders and borrowers together. Other activities include servicing loans, check clearing, credit card processing and other related services. Most of these firms are very small; only two employers had average monthly employment of more than 20 employees in 2003.

Securities brokers are the largest employers among investment firms

Alaska's financial investment experts consist of investment bankers and security dealers, securities brokers, commodity contracts dealers/brokers, portfolio managers, and investment consultants. (See Exhibit 6.) On average, this group employed 428 wage and salary workers in 2003. Many firms have only a few employees. Only seven companies employ an average of 20 or more workers. Although this group is small, many prestigious investment firms with Wall Street ties maintain offices in Anchorage.

Securities Brokerage Is investment firms' main specialty 6



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Among the top five employers in securities, commodity contracts dealing, and portfolio management, four are representatives of big national investment firms. McKinley Capital Management Inc. is the only large local investment firm. (See Exhibit 7.)

Employment in Alaska started to grow in 1993, a year after the national industry first began to experience big advances. The dramatic growth of stock values, which initiated heavy trading, became a characteristic of the 1990s and this expansion continued until 2001. Nationally, employment growth averaged 6.2 percent per year during these expansion years. In Alaska, more than 240 new jobs were added in an eight-year period, and employment doubled in the sector. Since then, stock markets have become more volatile and employment has lost some ground, both in Alaska and the nation.

Outlook

The outlook for the financial industry is mixed. Industry employment growth should stay fairly flat in spite of the industry's geographic expansion. Changes in technology, organizational changes and the assimilation of services will probably limit employment growth. Still, the transformation of services into diversified financial product lines in most institutions will likely require a change in staffing patterns for depository institutions. The growing complexity of financial products will require the services of financial experts on an increasing basis.

7 Investment Firms
The top five – 2003

Rank	Name	Average Monthly Employment
1	Edward D. Jones & Company	62
2	Morgan Stanley/Dean Witter	49
3	McKinley Capital Management	48
4	Merrill Lynch/Pierce Fenner	45
5	Citigroup Global Markets Inc. (Smith Barney)	40

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section