

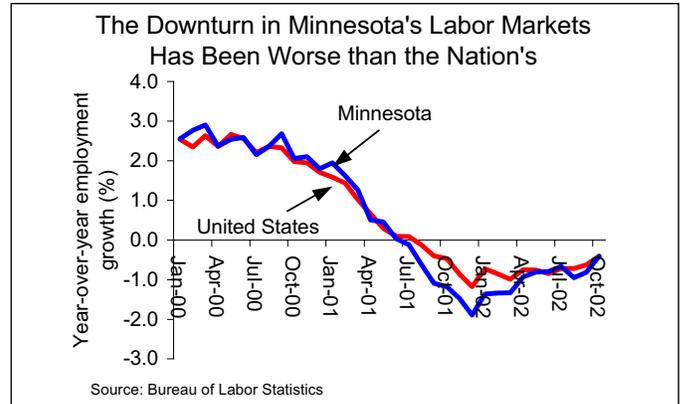
FDIC State Profile

WINTER 2002

Minnesota

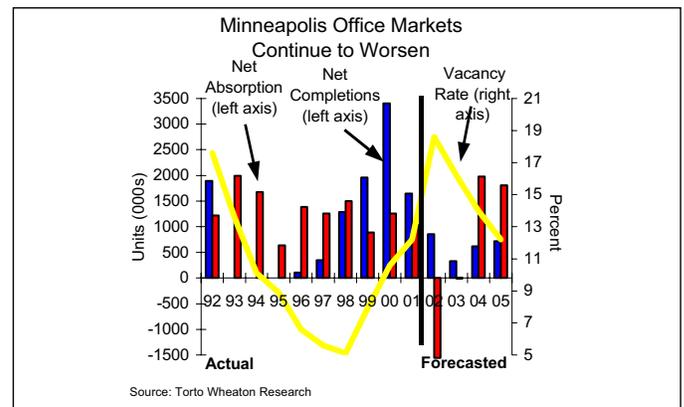
Employment trends continue to be weak in Minnesota.

- Employment in Minnesota declined more rapidly than the nation for most of 2002 (see **chart**). The national downturn of 2001–2002 was led by weakness in the manufacturing, information technology, and airline sectors, all industries that employ a large share of workers in the state.
- Despite the more severe job losses in the state, the duration of unemployment typically has been less than the national average.
- October 2002 data suggest that a recovery may be underway, with unemployment declining below 4 percent for the first time since November 2001 and total employment declining by the least amount since July 2001.



Commercial real estate markets in the Minneapolis MSA have been weakened by the economic downturn.

- A general softening of real estate markets has occurred in the Minneapolis metro area. This softening has occurred most notably in office markets, where vacancy rates have increased substantially during the past three years (see **chart**).
- Office vacancy rates increased 4.1 percent in third quarter 2002, reflecting the addition of 842,000 square feet of space and continued weak absorption trends.
- Industrial Vacancy rates in the metro area's industrial real estate market also have increased, but considerably less than that observed in comparably sized markets throughout the country.



The state's agricultural sector performed well during 2002, and commodity prices are expected to increase in 2003.

- Minnesota escaped drought conditions during 2002, and corn and soybean harvests were large.
- Minnesota growers also benefited from higher corn and soybean prices because of production shortfalls in regions affected by the drought. As shown in the chart, prices are expected to continue to improve in 2003.
- Results for livestock producers were less favorable, as depressed prices in the hog sector led more small producers to leave the industry during 2002. Hog prices are expected to increase to break-even levels by early 2003 as producers adjust breeding inventories.

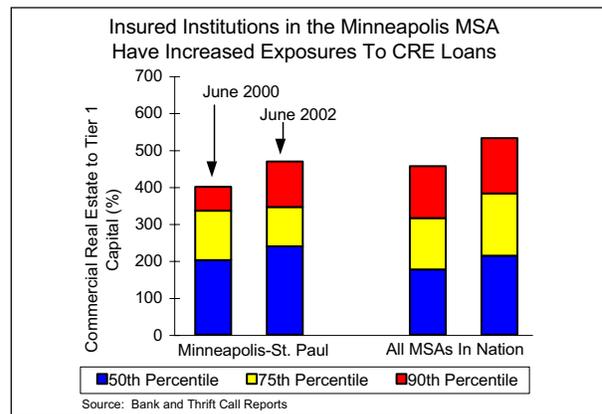
Minnesota Crop Prices Have Improved Significantly

	2001	Est 2002	Proj. 2003	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.40	18%
Soybeans	4.54	4.25	5.40	16%
Wheat	2.62	2.78	3.80	3%
Cattle	72.71	67.50	74.00	11%
Hogs	45.81	33.50	36.50	17%
Milk	14.97	12.10	12.35	16%

Note: Grain prices are for marketing year of each crop.
 Crop quantities are per bushel; livestock and milk are per hundredweight
 Source: USDA November 2002

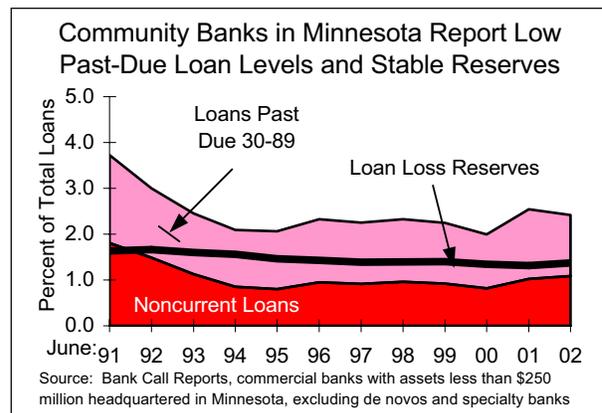
Softening commercial real estate markets challenge the state's metropolitan commercial lenders.

- Many insured institutions in the **Minneapolis-St. Paul** metropolitan area have increased reliance on commercial real estate (CRE) loans during the past two years.
- This increased exposure has come as the metro area's CRE markets, most notably office and industrial, softened significantly during the past 18 months.
- Weakening in CRE has not significantly affected credit quality. As of June 2002, the median loan delinquency ratio was 1.6 percent, and less than 7 percent of insured institutions headquartered in Minnesota reported delinquency ratios exceeding 5 percent.



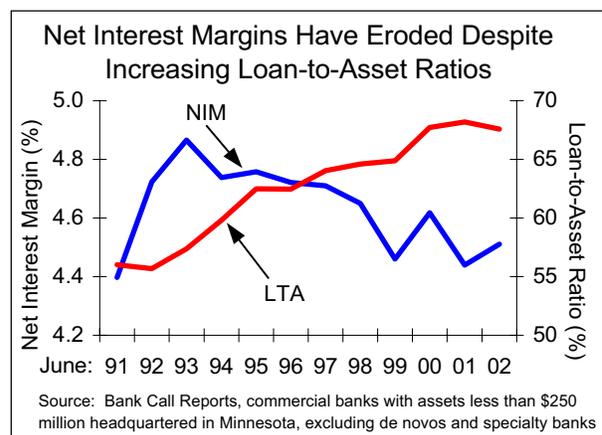
Community banks headquartered in Minnesota report sound asset quality, despite the economic slowdown.

- Despite the economic slowdown that affected the nation and Minnesota in 2001, asset quality remains relatively strong among community banks headquartered in the state.
- Noncurrent and past-due loan levels remain moderate and have not risen notably among most insured institutions.
- Loan loss reserve levels have declined in proportion to total loans, but are stable relative to the level of problem loans.



Community banks continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined steadily in the 1990s because of strong and increasing loan and funding competition, as well as depopulation trends in rural areas.
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite the dramatic increases in loan-to-asset (LTA) levels (see **chart**).
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels revert to historically normal levels.



State Profile

Minnesota at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	494	509	522	529	543
Total Assets (in thousands)	110,611,191	176,229,619	182,794,627	151,851,451	136,317,474
New Institutions (# < 3 years)	16	21	20	18	16
New Institutions (# < 9 years)	33	36	32	31	27
Capital					
Tier 1 Leverage (median)	9.00	8.88	8.91	8.93	9.07
Asset Quality					
Past-Due and Nonaccrual (median %)	1.90%	2.10%	1.57%	1.77%	1.92%
Past-Due and Nonaccrual ≥ 5%	62	57	37	48	58
ALLL/Total Loans (median %)	1.26%	1.23%	1.27%	1.33%	1.30%
ALLL/Noncurrent Loans (median multiple)	1.78	1.58	2.19	2.09	2.02
Net Loan Losses/Loans (aggregate)	0.30%	1.09%	0.53%	0.57%	0.44%
Earnings					
Unprofitable Institutions (#)	24	28	23	22	12
Percent Unprofitable	4.86%	5.50%	4.41%	4.16%	2.21%
Return on Assets (median %)	1.24	1.15	1.22	1.12	1.24
25th Percentile	0.84	0.76	0.85	0.79	0.92
Net Interest Margin (median %)	4.48%	4.38%	4.53%	4.37%	4.61%
Yield on Earning Assets (median)	6.99%	8.33%	8.35%	7.94%	8.38%
Cost of Funding Earning Assets (median)	2.55%	3.98%	3.80%	3.55%	3.82%
Provisions to Avg. Assets (median)	0.12%	0.11%	0.09%	0.08%	0.10%
Noninterest Income to Avg. Assets (median)	0.60%	0.63%	0.62%	0.61%	0.64%
Overhead to Avg. Assets (median)	2.96%	2.98%	2.93%	2.96%	3.00%
Liquidity/Sensitivity					
Loans to Deposits (median %)	80.46%	79.96%	79.76%	75.41%	76.02%
Loans to Assets (median %)	67.18%	68.29%	67.30%	63.93%	65.14%
Brokered Deposits (# of Institutions)	132	136	137	120	131
Bro. Deps./Assets (median for above inst.)	2.77%	2.65%	3.86%	3.16%	3.58%
Noncore Funding to Assets (median)	13.01%	12.86%	13.18%	10.18%	10.09%
Core Funding to Assets (median)	75.06%	75.54%	75.53%	78.28%	78.20%
Bank Class					
State Nonmember	323	332	337	342	350
National	123	126	135	137	142
State Member	26	28	28	28	28
S&L	10	10	10	10	10
Savings Bank	12	13	12	12	13
Mutually Insured	0	0	0	0	0
MSA Distribution					
	# of Inst.	Assets	% Inst.	% Assets	
No MSA	313	21,087,456	63.36%	19.06%	
Minneapolis-St Paul MN-WI	118	84,150,837	23.89%	76.08%	
St Cloud MN	21	2,124,818	4.25%	1.92%	
Duluth-Superior MN-WI	18	1,090,984	3.64%	0.99%	
Rochester MN	7	923,473	1.42%	0.83%	
La Crosse WI-MN	6	227,437	1.21%	0.21%	
Grand Forks ND-MN	6	261,209	1.21%	0.24%	
Fargo-Moorhead ND-MN	5	744,977	1.01%	0.67%	

Source: Bank and Thrift Call Reports