

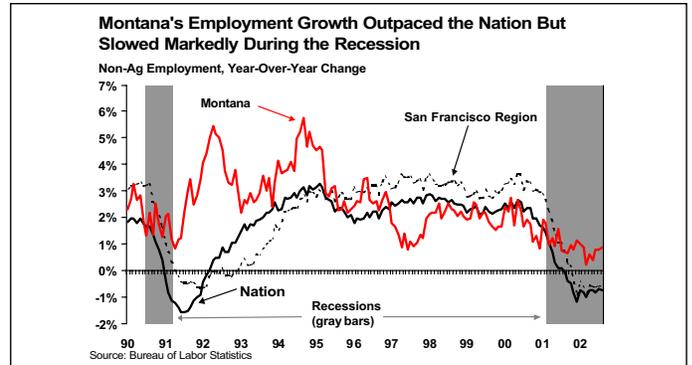
FDIC State Profile

WINTER 2002

Montana

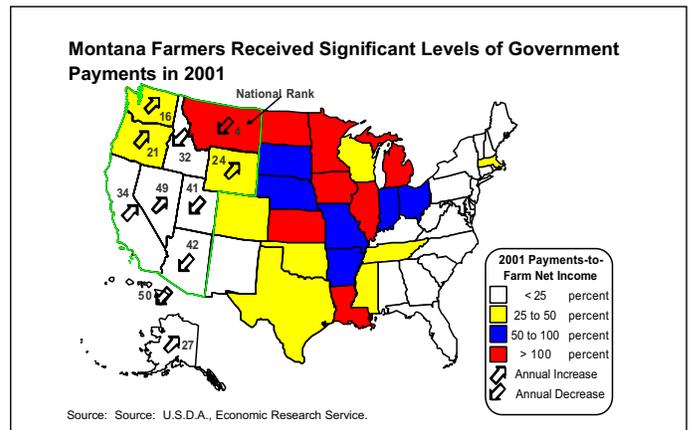
Non-farm job growth in Montana outperformed the nation as of August 2002, led by strong growth in the construction sector.

- Non-agricultural employment in Montana grew by 0.9 percent year-over-year as of August 2002, surpassing the nation (see **chart**).
- Employment in most sectors improved during this period, with the construction sector growing 2.4 percent; finance, insurance, and real estate growing 2.8 percent; and services growing 1.7 percent.
- Employment in the manufacturing, trade, and transportation and utilities sectors declined moderately.



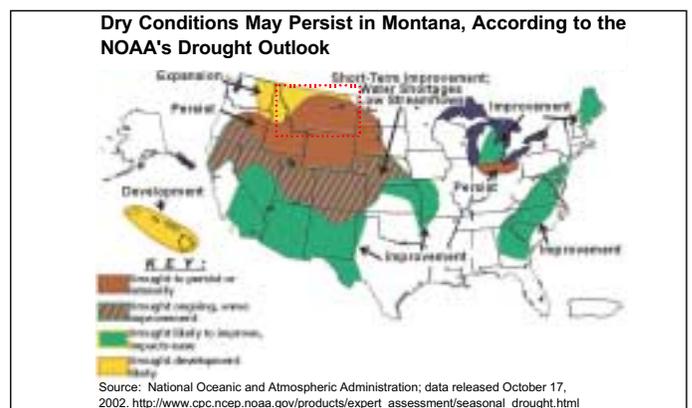
Montana's economy continues to rely heavily on the stressed agricultural sector.

- Lower-than-average snow and rainfall during the winter of 2001 hurt the state's agricultural sector. Wheat crop yields dropped to levels not seen since 1988.
- Government subsidy payments to agricultural producers in Montana were fourth highest in the nation, accounting for 157 percent of net farm income in 2001 (see **map**). Net farm income would have been negative without the subsidies.
- Cattle producers, which generate more than half of Montana's agricultural revenues, are feeling the effects of the drought more severely than are crop producers. Dry conditions have severely reduced the supply and quality of hay and grazing pastureland.
- Cattle prices and exports declined during the past year and a half, pressuring ranchers' incomes.



Persistent drought and a weakened agricultural sector could pressure Montana's farm lenders.

- Just under half of Montana's banks hold agricultural loan¹ concentrations in excess of 100 percent of Tier 1 capital. As of second quarter 2002, these institutions reported a median return on average assets (ROA) ratio of 1.1 percent, the lowest in at least 12 years. Narrower net interest margins (NIMs) and higher provisions expense ratios contributed to this trend.
- Loan delinquencies, which have increased among this group of lenders, could weaken further as a result of job losses or drought conditions. Currently, loan loss reserves barely cover severely delinquent loans among many of these insured institutions.

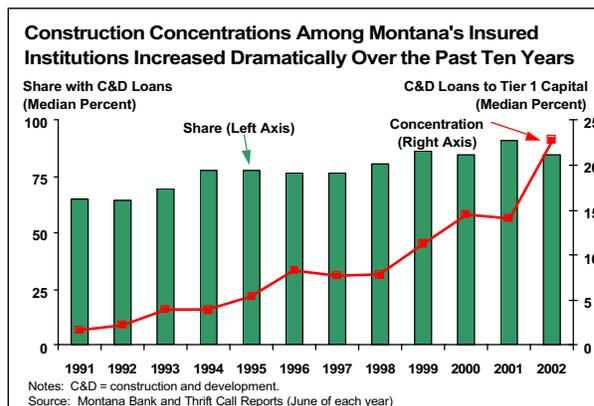


¹ Agricultural loans include agricultural lines and farm real estate loans.

State Profile

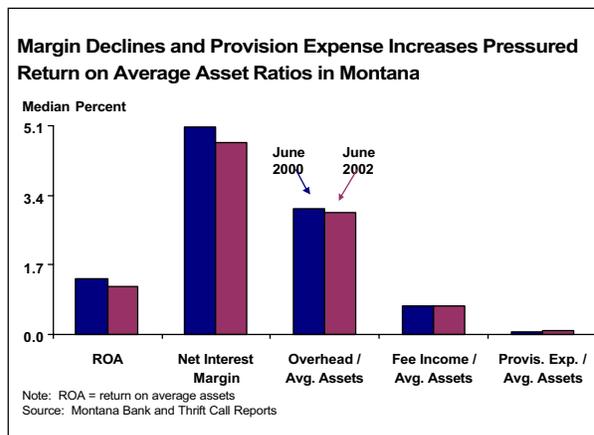
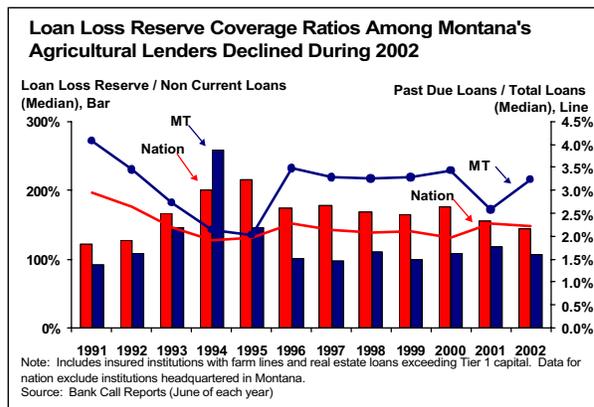
Strong growth in Montana's construction sector may be driving some insured institutions to increase lending on construction and development (C&D) projects.

- Construction activity increased considerably in Montana during 2002, especially housing construction. Residential permits were up 35 percent year-over-year in second quarter. Construction sector employment increased more than 5 percent during the twelve months ending September 2002.
- As a result, C&D lending has grown among insured institutions headquartered in Montana. As of mid-2002, the median C&D loan-to-Tier 1 capital ratio among the state's insured institutions was 23 percent, up from 14 percent a year earlier and up nearly ten-fold from 2 percent in June 1992 (see **chart**).
- At the same time construction activity has been on the increase, Montana has experienced low or negative population migration. If this trend continues, housing units under construction might not generate the cash flows needed to repay construction loans, contributing to weakening asset quality.



Earnings performance among Montana's insured institutions suffered in the wake of declining interest rates in 2001 and 2002.

- Insured institutions headquartered in Montana reported a median after-tax ROA ratio of 1.17 percent in mid-2002. Although this ratio compared favorably to a median ratio of 1.08 percent reported by institutions elsewhere in the nation, it represented a decline from a year earlier.
- Earnings trends were driven largely by margin compression (see **chart**). The mid-2002 annualized NIM reported by Montana's insured institutions declined year-over-year to 4.7 percent. Asset yields generally fell faster than funding costs, explaining this compression.



State Profile

Montana Insured Institutions At a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	84	87	90	93	97	107
Total Assets (in thousands)	13,461,362	12,603,429	11,996,342	11,421,111	11,054,967	10,569,213
New Institutions (# <3 years)	2	3	1	2	2	10
Capital						
Tier 1 Leverage (median)	9.47%	9.72%	9.87%	9.74%	9.93%	9.69%
Asset Quality						
Past-Due and Nonaccrual (median)	2.71%	2.58%	2.25%	2.57%	2.93%	2.53%
Loan Loss Reserves/Total Loans (median)	1.46%	1.39%	1.44%	1.53%	1.55%	1.50%
Loan Loss Reserves/ Noncurrent Loans (median multiple)	1.30	1.23	1.51	1.44	1.21	1.39
Earnings						
Percent Unprofitable	2.38%	1.15%	1.11%	3.23%	2.06%	6.54%
Return on Assets (median)	1.17%	1.29%	1.37%	1.19%	1.38%	1.36%
Net Interest Margin (median)	4.70%	4.75%	5.08%	4.91%	5.12%	5.02%
Yield on Earning Assets (median)	7.10%	8.50%	8.67%	8.24%	8.87%	8.78%
Cost of Funding Earning Assets (median)	2.36%	3.72%	3.52%	3.42%	3.69%	3.59%
Provisions to Avg. Assets (median)	0.12%	0.08%	0.06%	0.08%	0.06%	0.08%
Noninterest Income to Avg. Assets (median)	0.70%	0.79%	0.71%	0.73%	0.71%	0.80%
Overhead to Avg. Assets (median)	2.99%	3.14%	3.09%	3.15%	3.33%	3.29%
Liquidity/Sensitivity						
Loans to Assets (median)	65.40%	65.82%	66.49%	63.20%	63.32%	64.86%
Brokered Deposits (# of Institutions)	10	8	10	10	12	11
Brokered Deps./Assets (median for above inst.)	3.59%	1.28%	0.67%	1.02%	1.97%	1.80%
Noncore Funding to Assets (median)	14.93%	15.47%	16.54%	12.56%	12.73%	12.23%
Loan Concentrations						
Median Commercial RE to Tier 1	117.86%	111.79%	126.93%	100.94%	77.91%	76.58%
Commercial RE = Construction, Multifamily, and Nonres.						
Median Commercial & Industrial to Tier 1	114.98%	129.03%	115.60%	114.09%	118.93%	112.02%
Median Agricultural to Tier 1	112.44%	127.14%	127.76%	130.84%	157.43%	158.11%
Median Residential RE to Tier 1	95.02%	110.56%	103.01%	107.63%	119.39%	122.72%
Median Consumer to Tier 1	70.50%	76.73%	71.34%	62.28%	69.97%	72.44%
Consumer = Credit Card and other non-RE secured						
Median Construction to Tier 1	22.81%	14.12%	14.52%	11.26%	7.82%	7.72%
Primary Regulator						
FDIC	31	32	35	35	37	39
OCC	16	17	18	18	17	22
FRB	33	34	32	35	37	36
OTS	4	4	5	5	6	10
Asset Distribution						
\$0 to \$100 million	58	64	69	72	77	89
\$100 to \$250 million	15	13	13	14	13	12
\$250 to \$500 million	8	5	3	3	3	2
\$500 million to \$1 billion	1	2	2	0	0	1
\$1 to \$3 billion	1	3	3	4	4	3
\$3 to \$10 billion	1	0	0	0	0	0
Over \$10 billion	0	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets		
Not in an MSA	71	6,947,030	84.52%	51.61%		
Billings MT	6	5,947,579	7.14%	44.18%		
Great Falls MT	4	374,305	4.76%	2.78%		
Missoula MT	3	192,448	3.57%	1.43%		