

FDIC State Profile

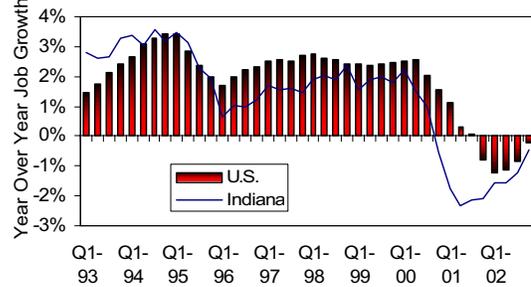
SPRING 2003

Indiana

Although Indiana's economy is improving, strong growth is not expected in the near term.

- Indiana continues to lose jobs (see **Chart 1**); however, the rate of job loss since early 2001 narrowed relative to the nation. In spite of Indiana's relative underperformance in recent years, the unemployment rate is less than the nation.
- Indiana's high concentration of employment in the manufacturing sector (see **Chart 2**), which has been shedding jobs for a prolonged period of time, may hamper growth prospects. Indiana's economy has a relatively high exposure to durable goods manufacturers, particularly primary metals, steelmaking, and transportation equipment, and consequently these industries are important to Indiana's economic health. Fortunately, Indiana's manufacturing jobs were not concentrated in high-tech or telecommunications, some of the hardest-hit manufacturing sectors. As a
- The foreclosure rate on conventional 1-4 family residential mortgages in Indiana is the highest in the nation (see **Chart 3**).
- Bankruptcy levels in Indiana are relatively high and growing. In the third quarter of 2002, personal bankruptcy filings were 19 percent higher than the year earlier quarter, an increase similar to the rest of the nation. Greater asset protection provided in Indiana for bankrupt households may be causing the higher bankruptcy rate.
- Indianapolis office vacancy rates are relatively high, but seem to have stabilized in recent quarters. Absent a near-term improvement, office vacancy rates are at levels that could pressure leasing rates, which may be beneficial for some lessees, but challenging for property owners and developers. However, according to Property & Portfolio Research, leasing activity is beginning to pick up, which could be a sign that the worst of vacancy rates have peaked.
- State fiscal conditions may continue to deteriorate, even as the recovery unfolds. According to the Center on Budget and Policy Priorities, Indiana's deficit is expected to reach between 8 and 9 percent of the state budget for fiscal 2004.
- Economic conditions in the Indianapolis Metropolitan Statistical Area (MSA) are generally favorable. Indianapolis is the most diverse MSA in the state, which has helped it to weather economic weakness. Nevertheless, employment has yet to reach pre-recession levels, and activity has been

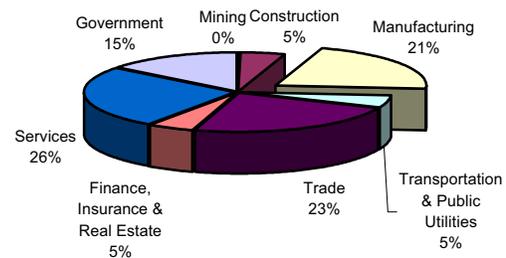
Chart 1: Although Job Losses Continue, Relative Employment Trends Have Improved



Source: Bureau of Labor Statistics

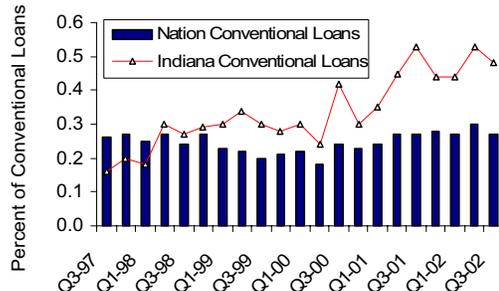
result, the rate of manufacturing job losses in Indiana is less than nationally.

Chart 2: Substantial Manufacturing Employment May Inhibit Growth



Source: Bureau of Labor Statistics

Chart 3: Indiana's Conventional Mortgage Foreclosure Rate is High Relative to the Nation



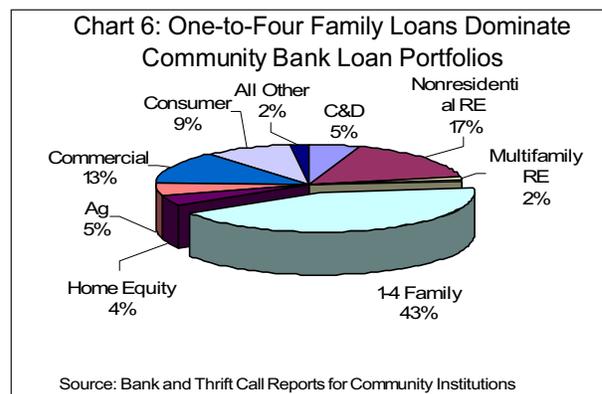
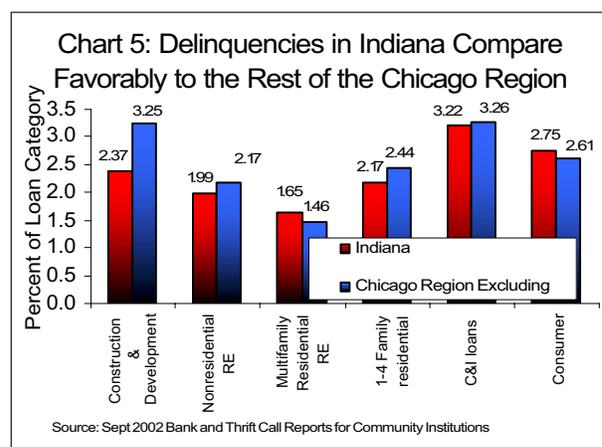
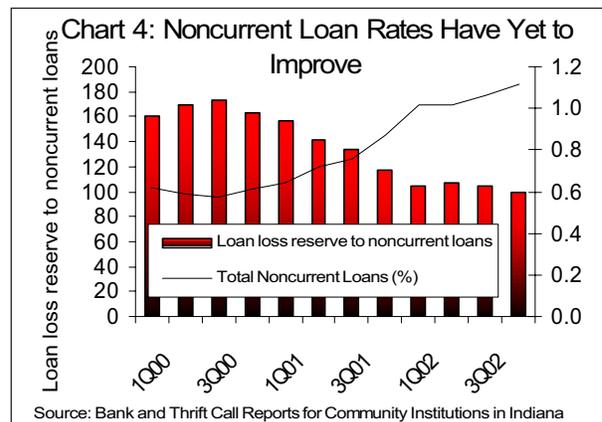
Source: Mortgage Bankers Association

somewhat strained in the financial services industry, in part because of financial troubles at Consec.

State Profile

Overall, Indiana's banks are performing well, in spite of some economic concerns.

- There are 214 insured institutions headquartered in Indiana, down from 264 five years ago. Indiana has a diverse community of banks, mostly small, with most institutions focused on commercial or residential real estate lending. Indiana has had a moderate amount of new bank activity as well, with 20 insured institutions established within the last nine years.
- Delinquencies among community banks¹ in Indiana compare favorably to the rest of the Chicago Region². Although noncurrent³ loan rates continue to increase (see **Chart 4**), a review of total delinquencies by loan category shows that Indiana's delinquency rates compare favorably to the rest of the Region (see **Chart 5**).
- One-to-four family loans are a very large share of Indiana institutions' loan holdings (see **Chart 6**). This relatively conservative loan segment bodes well for asset quality at Indiana's banks, especially given the relatively better performance of this loan segment relative to the rest of the Chicago Region.
- Profitability among Indiana's community banks rose slightly in the last year because of net interest margin improvements. As of September 30, 2002, year-to-date return on assets was 1.02 percent, up from 1.00 percent a year earlier. Margin gains resulting from a steeper yield curve have helped boost profitability.
- Community banks' total allowance coverage of noncurrent loans continues to fall, and the median level now ranks among the six states with the lowest coverage ratios.
- Indiana's largest insured institutions, those with over \$1 billion in assets, are generally performing well, seeing improvements in profitability and margins as well as lower delinquencies compared to the prior year.



Issues to Watch

- The state's mortgage lenders may face some profitability challenges from an anticipated drop-off in mortgage origination activity.
- Profitability pressure could result if short-term interest rates rise, as expected mortgage maturities would lengthen because of fewer prepayments.
- Rising foreclosures and higher bankruptcy rates illustrate that some segments of the consumer market are facing pressure.

¹ "Community banks", as used here, refers to insured institutions with less than \$1 billion in assets, excluding new institutions (those established within the last three years) and specialty banks, such as credit card or niche lenders.

² The Chicago Region includes Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

³ Noncurrent loans are at least 90 days delinquent or in nonaccrual status.

Indiana at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	214	220	221	232	253
Total Assets (in thousands)	118,463,793	117,352,836	97,711,554	84,218,443	87,211,491
New Institutions (# < 3 years)	9	11	10	8	7
New Institutions (# < 9 years)	20	20	16	12	12
Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.29	9.36	9.29	9.41	9.32
Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.97%	2.07%	1.78%	1.68%	1.67%
Past-Due and Nonaccrual ≥ 5%	24	18	8	14	15
ALLL/Total Loans (median %)	1.15%	1.10%	1.10%	1.14%	1.16%
ALLL/Noncurrent Loans (median multiple)	1.28	1.55	1.90	1.88	1.76
Net Loan Losses/Loans (aggregate)	0.38%	0.43%	0.25%	0.25%	0.27%
Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	11	14	10	9	12
Percent Unprofitable	5.1%	6.4%	4.5%	3.9%	4.7%
Return on Assets (median %)	0.97	0.92	0.90	0.97	1.03
25th Percentile	0.70	0.62	0.66	0.66	0.76
Net Interest Margin (median %)	3.94%	3.86%	3.96%	3.96%	4.14%
Yield on Earning Assets (median)	6.72%	7.81%	8.00%	7.66%	8.06%
Cost of Funding Earning Assets (median)	2.77%	4.11%	4.15%	3.72%	4.00%
Provisions to Avg. Assets (median)	0.15%	0.13%	0.11%	0.11%	0.12%
Noninterest Income to Avg. Assets (median)	0.68%	0.64%	0.56%	0.52%	0.51%
Overhead to Avg. Assets (median)	2.70%	2.66%	2.70%	2.62%	2.62%
Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	87.10%	89.31%	90.17%	85.72%	83.70%
Loans to Assets (median %)	69.17%	70.90%	71.77%	68.23%	69.68%
Brokered Deposits (# of Institutions)	49	41	34	31	40
Bro. Deps./Assets (median for above inst.)	2.64%	2.21%	1.69%	2.64%	1.17%
Noncore Funding to Assets (median)	22.35%	21.48%	22.36%	18.86%	15.90%
Core Funding to Assets (median)	66.52%	66.78%	66.61%	70.67%	72.19%
Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	94	96	96	103	116
National	31	33	32	35	43
State Member	28	27	25	26	24
S&L	15	16	16	16	17
Savings Bank	39	41	46	46	46
Mutually Insured	7	7	6	6	7
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No metropolitan statistical area (MSA)	103	20,376,061	48.1%	17.2%	
Indianapolis IN	28	58,547,035	13.1%	49.4%	
Gary IN PMSA	16	7,160,664	7.5%	6.0%	
Louisville KY-IN	13	2,366,501	6.1%	2.0%	
Ft Wayne IN	13	4,678,530	6.1%	3.9%	
Evansville-Henderson IN-KY	10	12,748,904	4.7%	10.8%	
Terre Haute IN	7	1,844,788	3.3%	1.6%	
Cincinnati OH-KY-IN PMSA	5	621,447	2.3%	0.5%	
South Bend IN	4	4,170,689	1.9%	3.5%	
Lafayette IN	4	1,710,992	1.9%	1.4%	
Elkhart-Goshen IN	4	337,494	1.9%	0.3%	
Bloomington IN	3	794,326	1.4%	0.7%	
Muncie IN	2	1,565,665	0.9%	1.3%	
Kokomo IN	2	1,540,697	0.9%	1.3%	