

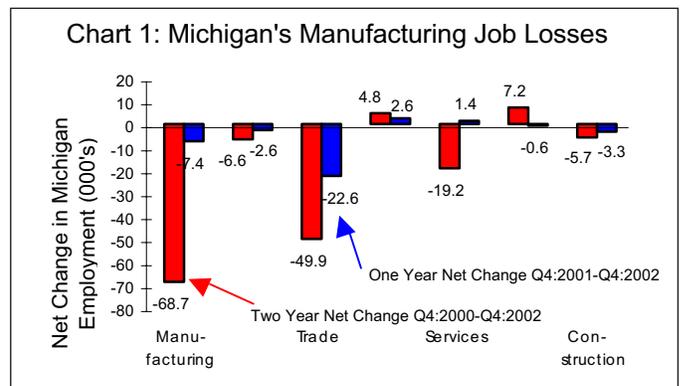
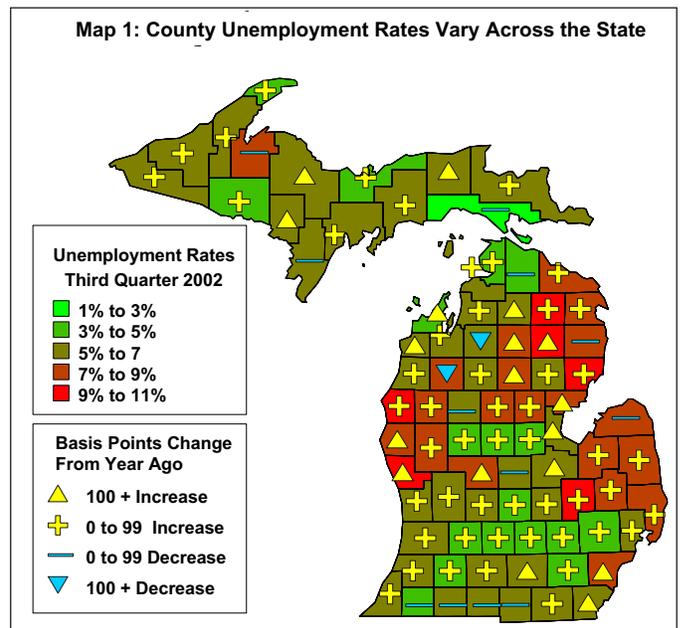
# FDIC State Profile

SPRING 2003

## Michigan

Michigan lags the national economy and is not expected to recover in the short term. Michigan's service-producing industries will drive job growth while the manufacturing industry continues to restructure.

- Michigan, the ninth largest economy based on gross state product, is a leading manufacturing state with a high concentration of motor vehicle suppliers and manufacturers.
- Michigan's unemployment rate decreased to 5.8 percent in fourth quarter of 2002, falling below the national rate for the first time since fourth quarter 2000. However, conditions in counties vary considerably in terms of employment levels and trends (see **Map**).
- Despite the drop in its unemployment rate, the number of people employed in Michigan during fourth quarter 2002 was lower than the previous quarter and a year earlier. Durable-goods manufacturing industries accounted for 43 percent of the job losses over the last two years. During 2002, the manufacturing sector showed improvement as the rate of job losses slowed (see **Chart 1**). Over the past two years, Michigan's retail trade employment fell faster than the national average, accounting for 58 percent of job losses in the state during 2002. Retail trade had a net loss of 19,000 jobs from a year earlier, while manufacturing employment had a net loss of 7,400 jobs.
- Kmart, headquartered in Detroit, is working to emerge from bankruptcy. Corporate restructuring involves reviewing staffing at headquarters, distribution centers, and stores.
- The commercial and industrial real estate markets in Detroit remain weak. Downtown and suburban vacancy rates increased to 25.5 percent and 17.3 percent in the fourth quarter of 2002, respectively. Industrial vacancy leveled out around 8.6 percent, improving from a year ago.
- Payrolls in Michigan's office furniture industry declined 11 percent in 2002, a result of high office vacancy rates nationwide and low business investment.
- A low interest rate environment favored Michigan's existing home sales, which were up 5.8 percent in 2002. Nevertheless, annual home price appreciation fell below 4 percent for the first time since late 1998 and remained below the national average.
- The weak economy led to more bankruptcies. Non-business bankruptcies increased 26 percent in 2002, modestly above



the Chicago Region<sup>1</sup> (14 percent) and considerably above the nation (9 percent).

- Operating profitability in the motor vehicle sector continued to decrease throughout 2002, even as the Big Three<sup>2</sup> spurred sales with incentives (see **chart 2**).

<sup>1</sup> Chicago Region includes Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

<sup>2</sup> Big Three include General Motors, Ford, and DaimlerChrysler

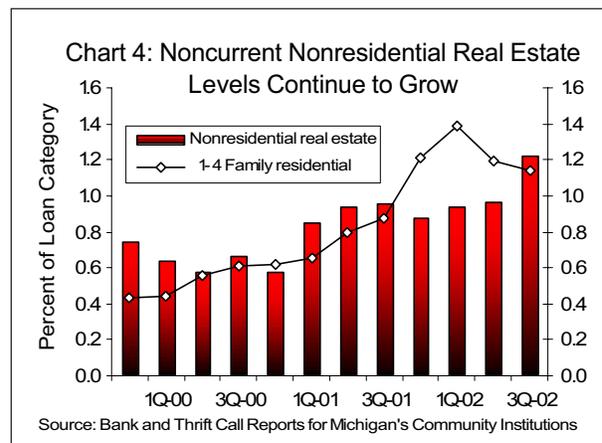
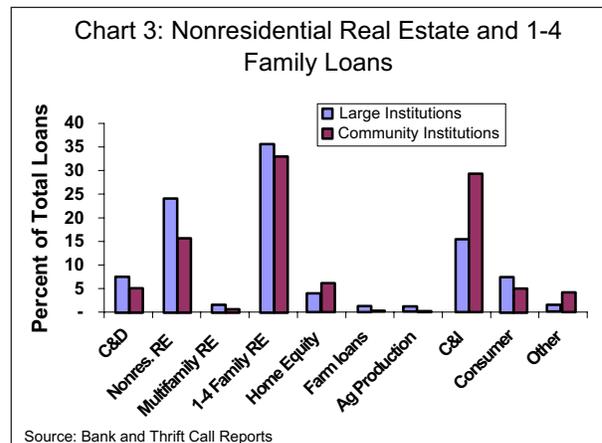
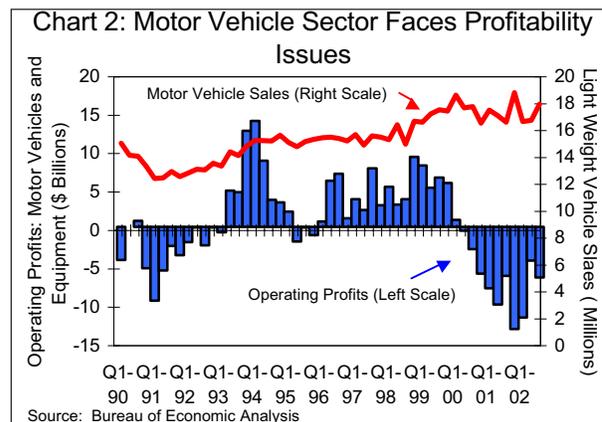
## State Profile

In the aggregate, Michigan insured institutions have performed relatively well, but face asset quality concerns.

- Michigan is headquarters to 180 insured institutions, with assets totaling near \$167 billion. Institutions with less than \$1 billion in assets account for 86 percent of the state's institutions, but larger institutions hold 80 percent of the state's assets.
- Earnings for community institutions<sup>3</sup> in Michigan declined marginally from a year ago. Their median return on assets dropped five basis points to 1.08 percent and return on equity (ROE) declined by 62 basis points to 10.86 percent.
- Community banks net interest margins (NIMs) are relatively high, largely because of higher loan levels, particularly commercial and industrial (C&I) and commercial real estate (CRE) lending relative to other states in the Chicago region.
- The year to date annualized NIM as of September 2002 was 4.32 percent, down seven basis points from a year ago because asset yields declined more rapidly than funding costs. Michigan's higher relative share of C&I and CRE lending may be one reason margins are declining, as many of these loans are short-term or variable rate.
- Community banks' noncurrent loan rates<sup>4</sup> continued to grow. Not surprisingly, a large share of the noncurrent loans are 1-4 family and nonresidential real estate (NRRE), as these loan types constitute a substantial portion of total loans (see **Chart 3**). Noncurrent NRRE loans increased to 1.22 percent of total NRRE loans as of September 30, 2002, up 26 basis points from a year ago. Noncurrent 1-4 family loans increased to 1.14 percent, up 27 basis points from a year ago (see **Chart 4**). However, the share of loans 30-89 days past due has begun to fall, a situation suggesting noncurrent rates may not deteriorate much further.
- Community banks saw an increase in net charge-offs as a percentage of total loans. Real estate loans saw the greatest increase in net charge-offs as they rose to 18 basis points from five basis points a year ago. Net C&I charge-offs increased to 72 basis points, up from 37 basis points one year ago.

### Issues to Watch

- The consumer loan sector may face pressure going forward because of job losses and continued growth in non-business bankruptcy filings.



- If auto sales cannot maintain their relatively high current levels, auto manufacturers may push for further concessions from auto-parts suppliers located in Michigan.

<sup>3</sup> "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.

<sup>4</sup> Noncurrent loans are 90+ days past-due or in nonaccrual status.

## Michigan at a Glance

<b>General Information</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Institutions (#)	180	182	192	194	186
Total Assets (in thousands)	166,932,229	172,895,338	168,462,657	153,331,806	146,943,330
New Institutions (# < 3 years)	13	21	24	24	16
New Institutions (# < 9 years)	39	38	37	34	25
<b>Capital</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Tier 1 Leverage (median)	8.87	8.76	9.02	9.21	9.47
<b>Asset Quality</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Past-Due and Nonaccrual (median %)	2.10%	2.24%	1.64%	1.61%	1.65%
Past-Due and Nonaccrual ≥ 5%	15	23	18	13	17
ALLL/Total Loans (median %)	1.29%	1.24%	1.27%	1.27%	1.29%
ALLL/Noncurrent Loans (median multiple)	1.37	1.73	2.30	2.34	2.41
Net Loan Losses/Loans (aggregate)	0.62%	0.50%	0.23%	0.20%	0.24%
<b>Earnings</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Unprofitable Institutions (#)	14	20	17	21	9
Percent Unprofitable	7.78%	10.99%	8.85%	10.82%	4.84%
Return on Assets (median %)	1.15	1.09	1.15	1.14	1.20
25th Percentile	0.75	0.73	0.78	0.77	0.94
Net Interest Margin (median %)	4.31%	4.33%	4.48%	4.47%	4.60%
Yield on Earning Assets (median)	6.94%	8.14%	8.36%	7.95%	8.30%
Cost of Funding Earning Assets (median)	2.63%	3.84%	3.91%	3.49%	3.80%
Provisions to Avg. Assets (median)	0.20%	0.17%	0.15%	0.13%	0.13%
Noninterest Income to Avg. Assets (median)	0.72%	0.69%	0.64%	0.64%	0.72%
Overhead to Avg. Assets (median)	3.05%	3.11%	3.14%	3.23%	3.26%
<b>Liquidity/Sensitivity</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Loans to Deposits (median %)	89.63%	90.35%	89.36%	86.60%	82.18%
Loans to Assets (median %)	73.95%	74.08%	74.59%	72.15%	70.20%
Brokered Deposits (# of Institutions)	64	56	54	42	37
Bro. Deps./Assets (median for above inst.)	7.26%	4.02%	7.73%	5.64%	2.36%
Noncore Funding to Assets (median)	20.19%	20.93%	21.43%	17.39%	13.93%
Core Funding to Assets (median)	68.69%	68.30%	67.74%	71.55%	74.45%
<b>Bank Class</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
State Nonmember	102	101	104	99	91
National	27	27	28	36	37
State Member	31	34	37	37	34
S&L	2	2	2	2	2
Savings Bank	13	14	14	13	17
Mutually Insured	5	4	7	7	5
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets (thous)</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	79	13,002,687	43.89%	7.79%	
Detroit MI PMSA	39	103,687,863	21.67%	62.11%	
Grand Rapids-Muskegon-Holland MI	20	30,435,431	11.11%	18.23%	
Ann Arbor MI PMSA	12	2,321,296	6.67%	1.39%	
Lansing-East Lansing MI	9	6,710,993	5.00%	4.02%	
Kalamazoo-Battle Creek MI	7	574,430	3.89%	0.34%	
Saginaw-Bay City-Midland MI	5	2,978,074	2.78%	1.78%	
Flint MI PMSA	4	5,491,999	2.22%	3.29%	
Benton Harbor MI	4	1,671,099	2.22%	1.00%	
Jackson MI	1	58,357	0.56%	0.03%	