

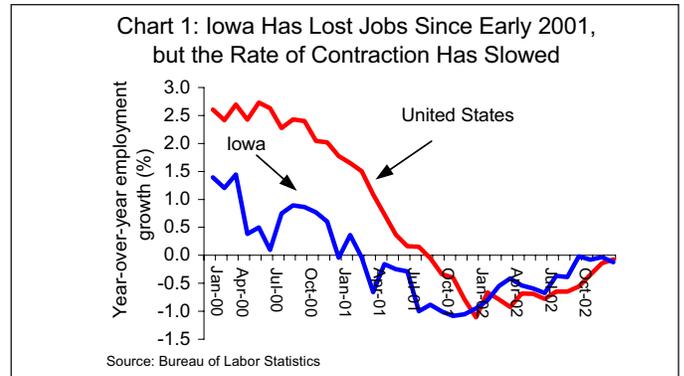
FDIC State Profile

SPRING 2003

Iowa

Iowa's economy continued to lose jobs in 2002, but improved modestly by year-end.

- Employment began to slow in 2000 and began to contract in November 2000, well in advance of the national employment decline (see **Chart 1**). Employment growth has been negative during the past two years, but monthly declines have not been as severe in fourth quarter 2002.
- Employment weakness was centered in durable goods manufacturing, particularly in Iowa's industrial machinery industry.
- Seasonally adjusted unemployment in Iowa peaked at 4.4 percent in January 2002, the highest level since February 1997. However, year-end data showed some signs of recovery, with unemployment declining to 3.9 percent.



Performance of the state's agricultural sector was positive during 2002, and commodity prices are expected to increase in 2003.

- Corn and soybean harvests were relatively large as the state's farmers escaped drought conditions that prevailed in other states during 2002.
- Iowa growers benefited from higher corn and soybean prices because of production shortfalls in regions affected by drought. As shown in **Chart 2**, prices are expected to remain high in 2003, reflecting depleted stocks.
- Results for livestock producers are also expected to improve in 2003. Hog prices will likely increase above break-even levels for most producers as breeding inventories are adjusted. Similarly, a declining supply of beef cattle will likely support higher prices in that sector.

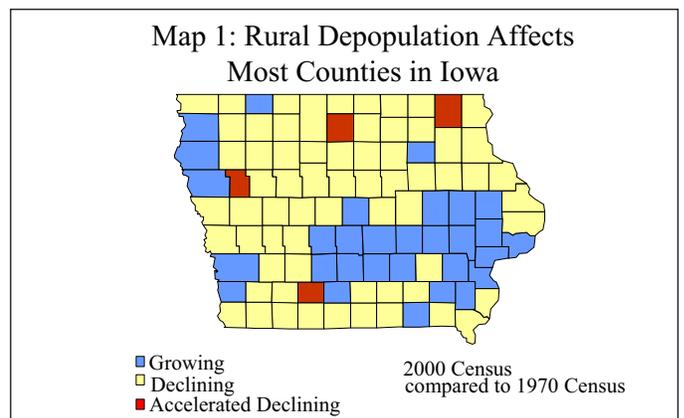
Chart 2: Iowa Crop Prices Have Improved Significantly

	2001	Est 2002	Proj. 2003	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.35	27%
Soybeans	4.54	4.25	5.45	19%
Wheat	2.62	2.78	3.65	0%
Cattle	72.71	67.50	74.50	16%
Hogs	45.81	33.50	38.50	27%
Milk	14.97	12.10	11.80	5%

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock and milk are per hundredweight.
Source: USDA January 2003

Depopulation will continue to affect rural areas in Iowa.

- As shown in **Map 1**, 65 of Iowa's 99 counties have lost population since 1970, and four of those counties also lost population at an increasing rate in the 1990s.
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural to metropolitan areas to seek better employment opportunities.
- Counties that are losing population more rapidly may be in danger of losing economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



State Profile

Community banks headquartered in Iowa continue to report sound asset quality, despite the economic slowdown.

- Relatively moderate levels of noncurrent and past-due loans remain well below levels reported by insured institutions headquartered in other Midwest states (see **Chart 3**). Charge-off rates also remain low.
- Loan loss reserve levels have declined in proportion to total loans, but appear stable relative to the coverage of problem loans.

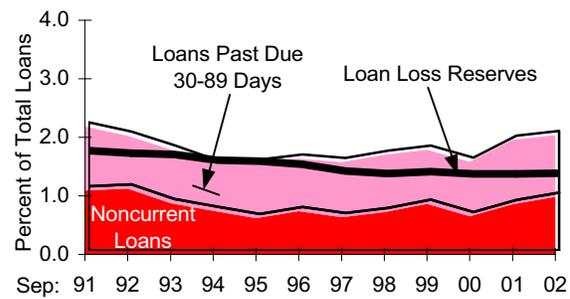
Community banks continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined steadily during the 1990s among community banks headquartered in Iowa because of strong and increasing loan and funding competition, as well as depopulation trends in rural areas (see **Chart 4**).
- 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 dramatic increases in loan-to-asset (LTA) levels.
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels return to historically normal levels.

Community banks headquartered in Iowa continue to face funding challenges.

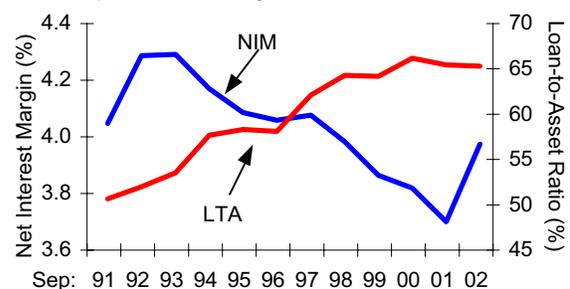
- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive forces from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets.
- To counter declining deposits, community banks headquartered in Iowa increased reliance on noncore funds, such as large time deposits and borrowings (see **Chart 5**).
- The use of borrowings, primarily Federal Home Loan Bank advances, increased dramatically in the 1990s. In five years, the proportion of banks with borrowings making up at least 10 percent of total funds increased from 6 percent in September 1997 to 29 percent in September 2002.
- Although banks have benefited from inflows of deposits because of the recent recession and large stock market losses, growth of noncore funds con-

Chart 3: Past-Due Loans Remain Relatively Low and Reserves Remain Stable



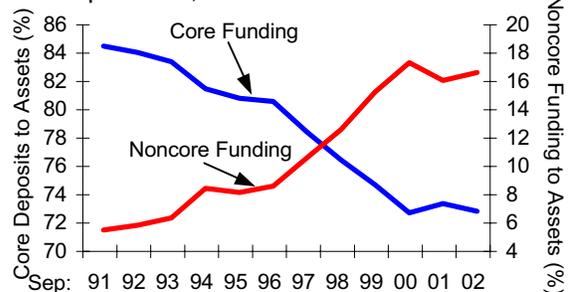
Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in Iowa, excluding de novos and specialty banks

Chart 4: Net Interest Margins Have Eroded Despite Increasing Loan-to-Asset Ratios



Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in Iowa, excluding de novos and specialty banks

Chart 5: Noncore Funds Have Increased in Importance, But the Trend Has Stalled



Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in Iowa, excluding de novos and specialty banks

tinues to outpace increases in core deposits among community banks headquartered in the Kansas City Region.

State Profile

Iowa at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	435	447	459	461	466
Total Assets (in thousands)	53,425,177	50,860,925	47,399,253	47,616,742	47,711,245
New Institutions (# < 3 years)	13	20	22	19	16
New Institutions (# < 9 years)	39	42	42	33	24
Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.10	9.08	9.14	9.38	9.49
Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.58%	1.55%	1.28%	1.40%	1.40%
Past-Due and Nonaccrual ≥ 5%	30	35	17	24	21
ALLL/Total Loans (median %)	1.26%	1.22%	1.21%	1.26%	1.24%
ALLL/Noncurrent Loans (median multiple)	1.80	1.96	2.61	2.17	2.53
Net Loan Losses/Loans (aggregate)	0.23%	0.22%	0.16%	0.16%	0.26%
Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	15	14	18	25	17
Percent Unprofitable	3.45%	3.13%	3.92%	5.42%	3.65%
Return on Assets (median %)	1.24	1.06	1.11	1.09	1.21
25th Percentile	0.90	0.76	0.80	0.81	0.95
Net Interest Margin (median %)	3.97%	3.69%	3.81%	3.83%	3.95%
Yield on Earning Assets (median)	6.77%	7.75%	7.94%	7.61%	7.97%
Cost of Funding Earning Assets (median)	2.77%	4.05%	4.10%	3.77%	4.00%
Provisions to Avg. Assets (median)	0.10%	0.08%	0.08%	0.09%	0.06%
Noninterest Income to Avg. Assets (median)	0.53%	0.52%	0.49%	0.49%	0.49%
Overhead to Avg. Assets (median)	2.54%	2.51%	2.50%	2.47%	2.48%
Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	79.20%	80.23%	80.30%	76.96%	76.56%
Loans to Assets (median %)	64.58%	65.71%	66.20%	64.04%	64.31%
Brokered Deposits (# of Institutions)	68	60	58	59	63
Bro. Deps./Assets (median for above inst.)	2.11%	1.52%	1.56%	1.06%	1.47%
Noncore Funding to Assets (median)	14.98%	14.91%	15.76%	13.37%	10.98%
Core Funding to Assets (median)	73.24%	73.11%	72.57%	74.79%	77.02%
Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	307	316	327	329	331
National	50	46	46	45	52
State Member	56	61	61	63	59
S&L	5	5	5	5	5
Savings Bank	17	19	20	19	19
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	345	28,999,078	79.31%	54.28%	
Des Moines IA	26	14,029,108	5.98%	26.26%	
Cedar Rapids IA	17	1,517,223	3.91%	2.84%	
Davenport-Moline-Rock Island IA-IL	11	2,352,005	2.53%	4.40%	
Sioux City IA-NE	8	1,588,080	1.84%	2.97%	
Iowa City IA	8	1,991,085	1.84%	3.73%	
Waterloo-Cedar Falls IA	7	885,810	1.61%	1.66%	
Dubuque IA	7	1,545,866	1.61%	2.89%	
Omaha NE-IA	6	516,922	1.38%	0.97%	