

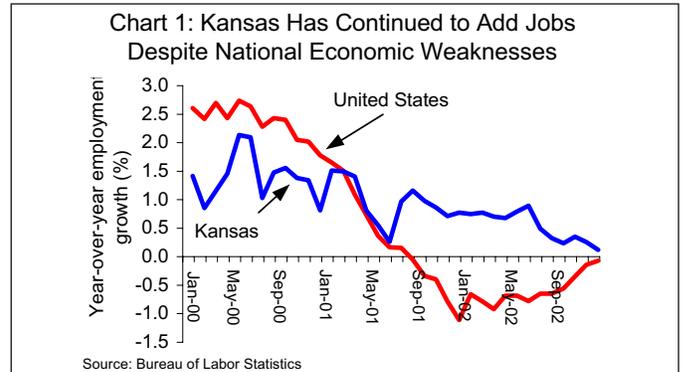
FDIC State Profile

SPRING 2003

Kansas

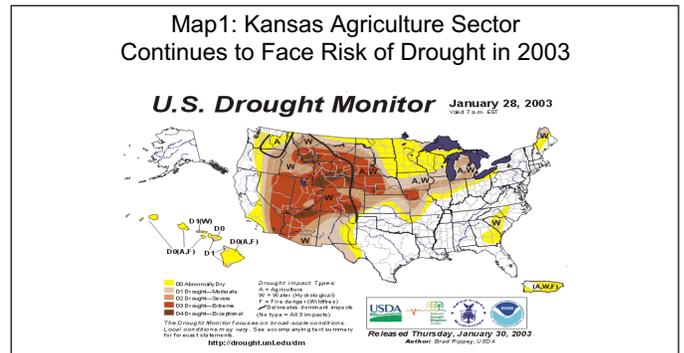
The Kansas labor force faces mixed prospects during the slowdown.

- Unlike the other states in the Kansas City Region, the Kansas economy added jobs every month during the recent national downturn (see **Chart 1**).
- Several rounds of layoffs occurred in the Wichita aircraft manufacturing industry. However, continuing expansion in the services and government sectors helped maintain job growth in the state.
- Despite the ongoing addition of jobs, unemployment remained relatively high at 4.6 percent in December 2002, exceeding the Kansas City Region average of 4.2 percent.



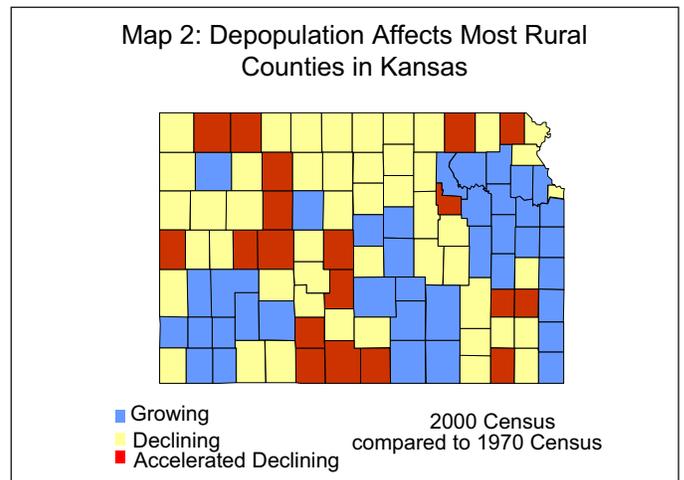
The Kansas agricultural sector was stressed by drought in 2002.

- Drought conditions have persisted during the winter of 2002-2003, increasing the likelihood of continuing difficulties for farmers in the upcoming growing season (see **Map 1**).
- Lack of rainfall during 2002 significantly affected yields. Wheat production was 19 percent below the previous year's level; corn production was down 26 percent; and soybean production was down 29 percent.
- Cattle production in Kansas was also disrupted as shortages of hay and pasture forced ranchers to sell cattle at low prices and liquidate breeding stock.



Depopulation in rural areas continues to be a challenge.

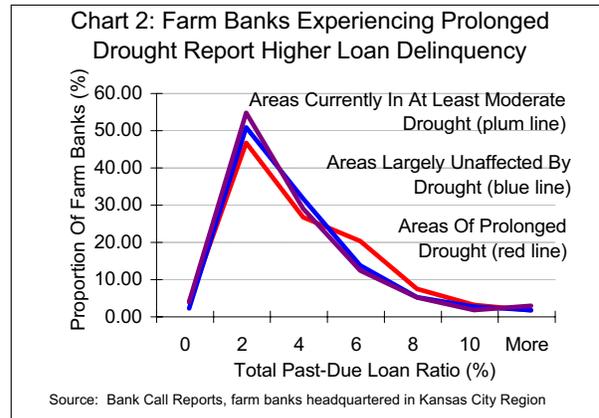
- Sixty-seven of 105 counties in Kansas have lost population since 1970, and 19 of those counties also lost population at an increasing rate in the 1990s (see **Map 2**).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become 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 lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



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Severe drought conditions are contributing to weakening asset quality among many of the state's farm banks.

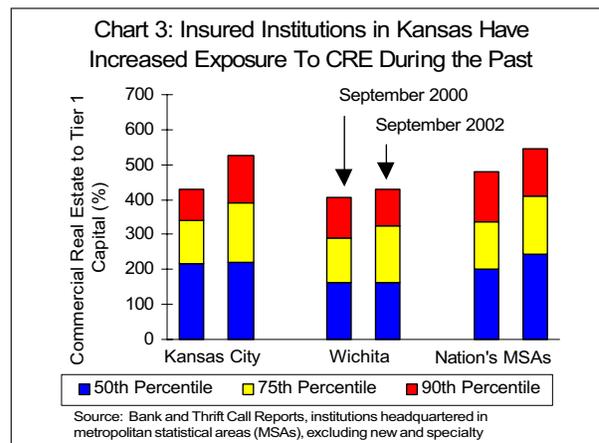
- Much of Kansas currently is in "severe" to "exceptional" drought, following at least moderate drought conditions in 2001. These weather problems follow four years of very low crop prices that left many farm banks holding substantial levels of carryover debt.
- The drought's effects likely will not be fully evident until late 2002 and spring 2003 when operating loans come due. **Chart 2** shows that farm banks in areas of prolonged drought (predominantly in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by drought.
- On a positive note, the September 2002 median capital ratio of 10.3 percent reported by farm banks headquartered in Kansas remains high by historical



standards and is well above levels during the 1980s farm crisis and 1988 drought.

Softening commercial real estate markets are a concern to metropolitan commercial lenders headquartered in Kansas.

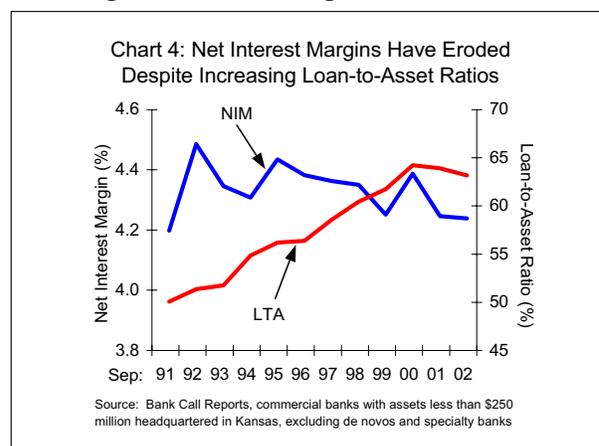
- Many insured institutions operating in the state's largest metropolitan markets have increased reliance on commercial real estate (CRE) loans during the past two years (see **Chart 3**).
- This increased exposure has come as metropolitan CRE markets, most notably office and industrial, softened significantly during the past 18 months. Office vacancy rates have risen to the highest levels in nearly a decade.
- Weakness in CRE markets has exerted minimal effect on credit quality. Although the September 2002, median loan delinquency ratio was a relatively low 1.7 percent, the proportion of insured institutions reporting delinquency ratios exceeding 5



percent has more than quadrupled in the past two years (climbing from 1.3 percent to 6.3 percent).

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

- Net interest margins (NIMs) declined in the 1990s because of strong and increasing loan and funding competition, as well as rural depopulation trends (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.

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Kansas at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	384	389	393	406	416
Total Assets (in thousands)	50,301,736	46,699,856	47,939,379	43,485,665	40,763,997
New Institutions (# < 3 years)	8	7	8	6	5
New Institutions (# < 9 years)	18	15	14	12	11
Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.52	9.62	9.78	9.60	9.62
Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.91%	1.89%	1.69%	1.52%	1.83%
Past-Due and Nonaccrual ≥ 5%	45	39	36	37	43
ALLL/Total Loans (median %)	1.39%	1.38%	1.39%	1.44%	1.51%
ALLL/Noncurrent Loans (median multiple)	1.65	1.87	2.04	2.26	2.44
Net Loan Losses/Loans (aggregate)	0.32%	0.30%	0.26%	0.36%	0.29%
Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	20	21	14	11	7
Percent Unprofitable	5.21%	5.40%	3.56%	2.71%	1.68%
Return on Assets (median %)	1.15	1.12	1.19	1.15	1.17
25th Percentile	0.80	0.75	0.87	0.80	0.89
Net Interest Margin (median %)	4.16%	4.18%	4.34%	4.17%	4.29%
Yield on Earning Assets (median)	6.69%	7.98%	8.17%	7.77%	8.11%
Cost of Funding Earning Assets (median)	2.51%	3.83%	3.89%	3.58%	3.79%
Provisions to Avg. Assets (median)	0.11%	0.08%	0.07%	0.05%	0.05%
Noninterest Income to Avg. Assets (median)	0.60%	0.59%	0.57%	0.56%	0.57%
Overhead to Avg. Assets (median)	2.92%	2.95%	2.94%	2.91%	2.89%
Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	73.72%	74.25%	74.84%	70.36%	70.69%
Loans to Assets (median %)	61.29%	62.98%	62.76%	60.26%	60.94%
Brokered Deposits (# of Institutions)	44	42	33	28	24
Bro. Deps./Assets (median for above inst.)	3.35%	2.72%	2.04%	2.09%	1.51%
Noncore Funding to Assets (median)	15.15%	15.13%	14.90%	13.51%	11.84%
Core Funding to Assets (median)	71.98%	72.13%	73.44%	74.47%	75.61%
Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	236	243	249	256	261
National	105	105	107	109	114
State Member	26	24	20	24	23
S&L	10	10	10	10	12
Savings Bank	7	7	7	7	6
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	299	20,244,695	77.86%	40.25%	
Kansas City MO-KS	43	11,784,755	11.20%	23.43%	
Wichita KS	27	7,051,749	7.03%	14.02%	
Topeka KS	9	10,800,173	2.34%	21.47%	
Lawrence KS	6	420,364	1.56%	0.84%	