

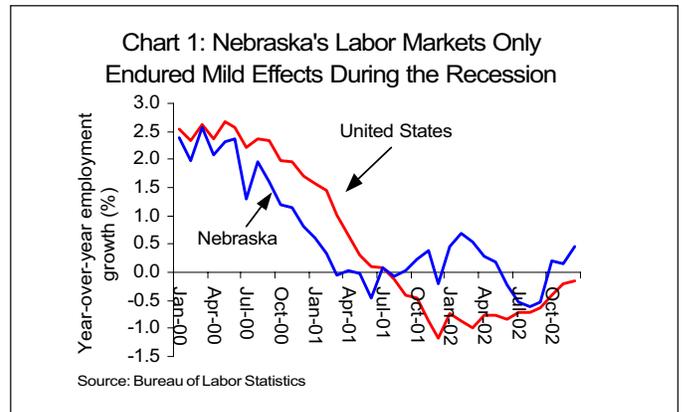
FDIC State Profile

SPRING 2003

Nebraska

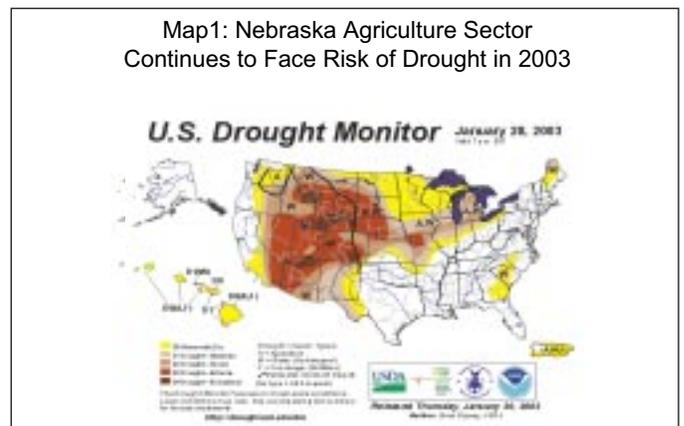
The Nebraska economy was less severely affected by the recession than other states in the Region.

- Employment growth in Nebraska slowed along with the nation during 2000, but the state lost relatively few jobs during 2001 (see **Chart 1**). Declines in manufacturing employment were offset by continued growth in the services and government sectors.
- More significant job losses occurred in mid-2002, however, as government hiring slowed to a near standstill and service sector layoffs began.
- Year-end data provided some signs of improvement, with fourth quarter seasonally-adjusted unemployment at 3.3 percent, down from 3.9 percent in April 2002, and a return to positive job growth.



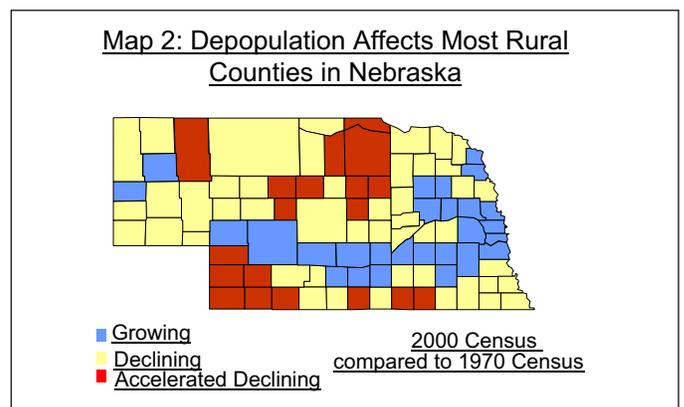
The drought of 2002 significantly stressed the Nebraska agricultural sector.

- Drought conditions persisted during the winter of 2002-2003, increasing the likelihood of continuing difficulties for farmers in the upcoming growing season (see **Map 1**).
- In 2002, cattle production was disrupted, as shortages of hay and pasture forced ranchers to sell cattle at low prices and liquidate breeding stock.
- Long-term water shortages in the western part of the state are now likely.



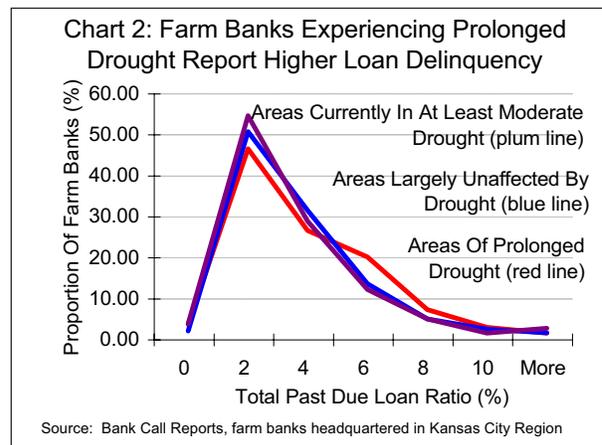
Depopulation in rural areas is a continuing challenge.

- Sixty-six of Nebraska's 93 counties have lost population since 1970, and 21 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 could lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



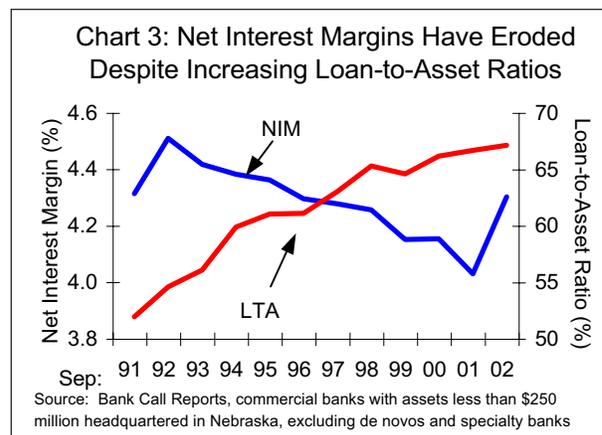
Severe drought conditions threaten asset quality among many of the state's farm banks.

- Much of Nebraska 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.
- Although the drought's effects likely will not be fully evident until 2003, farm banks in areas that are experiencing drought for the second year are reporting higher loan delinquency levels (see **Chart 2**).
- Positively, the September 2002 median capital ratio of 10.5 percent for farm banks headquartered in Nebraska remains high by historical standards and is well above levels during the 1980s farm crisis and 1988 drought.



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

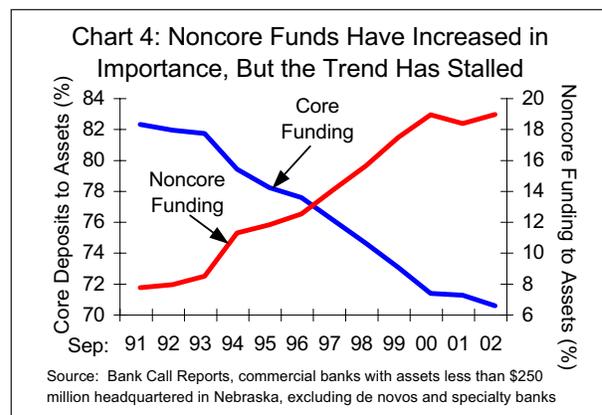
- Net interest margins (NIMs) declined steadily in the 1990s because of strong and increasing loan and funding competition, as well as depopulation trends in rural areas (see **Chart 3**).
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest rate actions, 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.

Nebraska's community banks continue to face funding challenges.

- Utilization of core funds to support assets declined steadily during 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 (see **Chart 4**).
- To counter declining deposits, community banks headquartered in Nebraska increased reliance on noncore funds, such as large time deposits and borrowings.
- 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 11 percent in September 1997 to 28 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 continues to outpace increases in core deposits among the Kansas City Region's community banks.

State Profile

Nebraska at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	284	290	294	318	333
Total Assets (in thousands)	47,980,805	46,023,910	45,503,658	43,202,524	39,876,098
New Institutions (# < 3 years)	6	6	3	6	10
New Institutions (# < 9 years)	19	18	14	17	18
Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.78	9.70	9.89	9.79	9.80
Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.79%	2.09%	1.64%	1.66%	1.88%
Past-Due and Nonaccrual ≥ 5%	31	36	23	27	33
ALLL/Total Loans (median %)	1.54%	1.54%	1.48%	1.53%	1.51%
ALLL/Noncurrent Loans (median multiple)	1.61	1.52	1.92	1.88	1.91
Net Loan Losses/Loans (aggregate)	0.49%	0.62%	0.38%	0.51%	0.60%
Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	9	17	6	6	7
Percent Unprofitable	3.17%	5.86%	2.04%	1.89%	2.10%
Return on Assets (median %)	1.21	1.13	1.23	1.23	1.29
25th Percentile	0.90	0.73	0.90	0.85	0.99
Net Interest Margin (median %)	4.27%	4.05%	4.23%	4.21%	4.27%
Yield on Earning Assets (median)	7.03%	8.14%	8.34%	7.95%	8.30%
Cost of Funding Earning Assets (median)	2.75%	4.09%	4.11%	3.83%	4.07%
Provisions to Avg. Assets (median)	0.09%	0.10%	0.06%	0.08%	0.06%
Noninterest Income to Avg. Assets (median)	0.50%	0.48%	0.47%	0.49%	0.48%
Overhead to Avg. Assets (median)	2.67%	2.66%	2.63%	2.62%	2.59%
Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	82.08%	80.31%	81.09%	78.46%	78.53%
Loans to Assets (median %)	67.14%	66.59%	66.46%	64.88%	65.91%
Brokered Deposits (# of Institutions)	81	79	81	95	111
Bro. Deps./Assets (median for above inst.)	2.32%	2.45%	2.20%	3.02%	3.53%
Noncore Funding to Assets (median)	17.07%	16.13%	16.11%	14.94%	12.08%
Core Funding to Assets (median)	70.29%	71.09%	71.50%	73.33%	74.81%
Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	177	179	184	191	202
National	75	78	78	93	97
State Member	18	18	17	21	21
S&L	5	5	5	5	5
Savings Bank	9	10	10	8	8
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	236	15,319,157	83.10%	31.93%	
Omaha NE-IA	33	28,092,216	11.62%	58.55%	
Lincoln NE	12	4,288,785	4.23%	8.94%	
Sioux City IA-NE	3	280,647	1.06%	0.58%	