FDIC State Profile

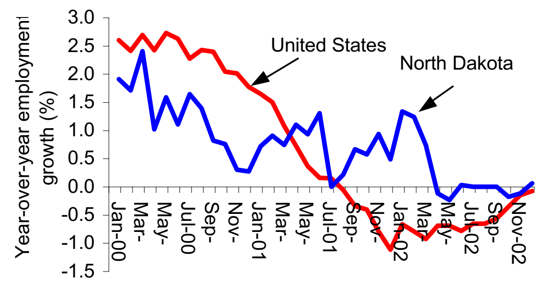
Spring 2003

North Dakota

The North Dakota economy was affected only slightly during the recession.

- Job growth in North Dakota slowed in 2000; however, the state gained jobs during 2001 and first quarter 2002 (see **Chart 1**). During that time the nation lost jobs.
- Layoffs in manufacturing and the mining sector contributed to net job losses in North Dakota during the last half of 2002, but were nearly offset by increases in government employment, a significant sector in the state.
- Employment prospects were improving in the fourth quarter, with seasonally-adjusted unemployment declining sharply from 3.6 percent in October to 3.0 percent in December and total employment remaining unchanged.

Chart 1: North Dakota's Labor Market Has Been Resilient Throughout the Recent Recession

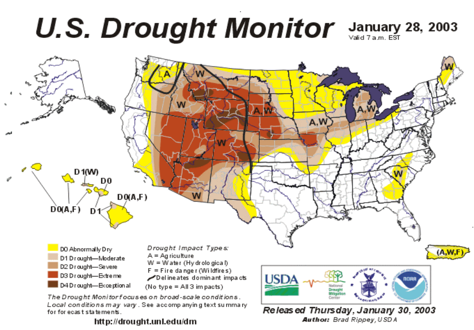


Source: Bureau of Labor Statistics

The North Dakota agricultural sector was moderately affected by drought in 2002.

- Drought conditions worsened in the winter, increasing the likelihood of another below-average growing season in 2003 (see **Map 1**).
- During 2002, wheat production, which represents more than a quarter of the state's total agricultural revenues, was 24 percent below the year-ago level.
- Cattle production was also disrupted, as shortages of hay and pasture forced ranchers to sell cattle at low prices and liquidate breeding stock.

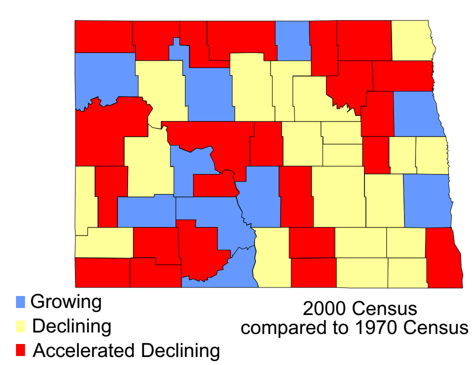
Map 1: North Dakota Agriculture Sector Continues to Face Risk of Drought in 2003



Depopulation in rural areas is a continuing challenge.

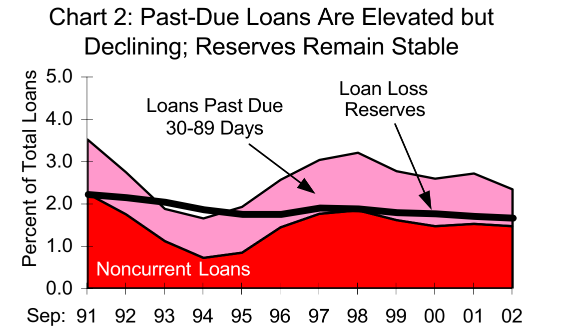
- Forty-three of North Dakota's 53 counties have lost population since 1970, and 23 of those counties also lost population at an increasing rate in the 1990s (see **Map 2**).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have 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.

Map 2: Depopulation Affects Most Rural Counties in North Dakota



Community banks headquartered in North Dakota have reported sound asset quality despite the economic slowdown.

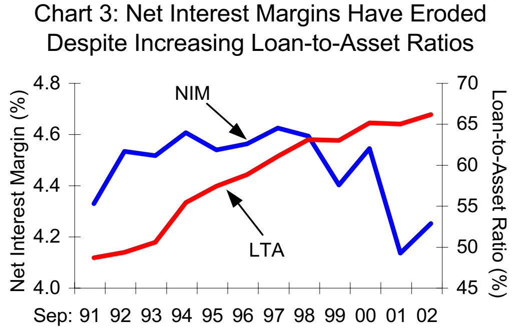
- Four years of historically low crop prices left many farm banks with elevated loan delinquency levels and substantial levels of carryover debt between 1996 and 2000. Significant government support during the past three years helped hold down loan defaults and delinquencies.
- Noncurrent and past-due loan levels among community banks headquartered in North Dakota have moderated during the past two years, and charge-off rates remain low (see **Chart 2**).
- Loan loss reserve levels have declined in proportion to total loans, but appear to have kept pace with the level of problem loans.



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

Community banks headquartered in North Dakota 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.

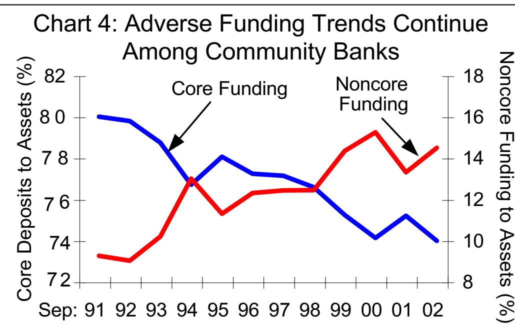


Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in North Dakota, excluding de novo and specialty banks

- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels revert to historically normal levels.

Community banks headquartered in North Dakota 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 (see **Chart 4**).
- To counter declining deposits, community banks headquartered in the state 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. The proportion of banks with borrowings making up at least 10 percent of total funds increased from 10.1 percent in September 1997 to a high 17.3 percent in September 1999 before moderating to 11.8 percent in September 2002.



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

- 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.

North Dakota at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	107	110	115	117	120
Total Assets (in thousands)	19,525,455	18,719,708	18,795,334	12,299,166	11,560,399
New Institutions (# < 3 years)	1	1	1	1	1
New Institutions (# < 9 years)	2	3	3	2	4

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.47	9.62	9.78	10.05	9.93

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.90%	2.09%	1.96%	2.29%	2.43%
Past-Due and Nonaccrual ≥ 5%	12	11	13	12	21
ALLL/Total Loans (median %)	1.61%	1.61%	1.65%	1.69%	1.68%
ALLL/Noncurrent Loans (median multiple)	1.55	1.55	1.74	1.42	1.45
Net Loan Losses/Loans (aggregate)	0.54%	0.84%	0.79%	0.81%	0.80%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	1	4	4	8	
Percent Unprofitable	0.00%	0.91%	3.48%	3.42%	6.67%
Return on Assets (median %)	1.21	1.15	1.21	1.19	1.17
25th Percentile	0.95	0.86	0.98	0.91	0.93
Net Interest Margin (median %)	4.32%	4.20%	4.40%	4.29%	4.44%
Yield on Earning Assets (median)	6.75%	8.07%	8.28%	7.87%	8.34%
Cost of Funding Earning Assets (median)	2.44%	3.92%	3.89%	3.60%	3.87%
Provisions to Avg. Assets (median)	0.13%	0.12%	0.13%	0.13%	0.14%
Noninterest Income to Avg. Assets (median)	0.47%	0.48%	0.45%	0.47%	0.44%
Overhead to Avg. Assets (median)	2.75%	2.71%	2.77%	2.70%	2.68%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	78.70%	78.30%	76.17%	73.91%	73.28%
Loans to Assets (median %)	65.72%	65.78%	62.82%	61.71%	62.76%
Brokered Deposits (# of Institutions)	20	17	18	21	23
Bro. Deps./Assets (median for above inst.)	1.81%	1.13%	2.93%	3.26%	3.66%
Noncore Funding to Assets (median)	13.61%	12.83%	13.87%	11.86%	11.05%
Core Funding to Assets (median)	75.00%	75.08%	74.46%	75.85%	76.26%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	85	88	90	93	95
National	15	15	17	18	19
State Member	4	4	4	3	3
S&L	0	0	0	0	0
Savings Bank	3	3	4	3	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	84	5,713,127	78.50%	29.26%
Fargo-Moorhead ND-MN	14	11,822,955	13.08%	60.55%
Bismarck ND	6	848,367	5.61%	4.34%
Grand Forks ND-MN	3	1,141,006	2.80%	5.84%