

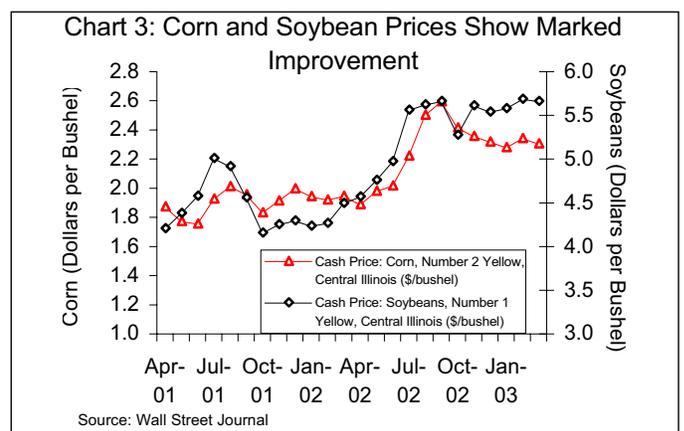
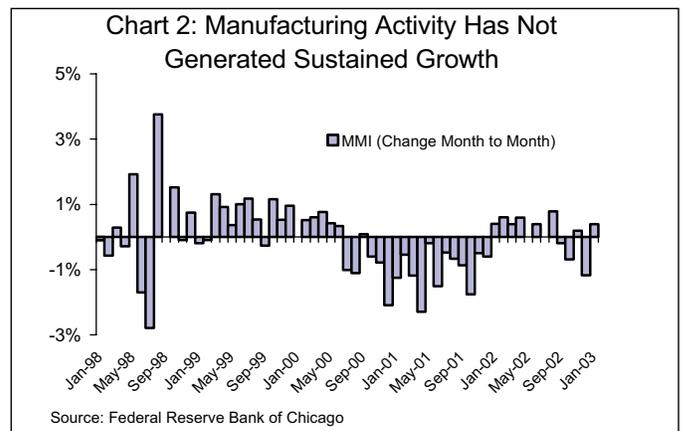
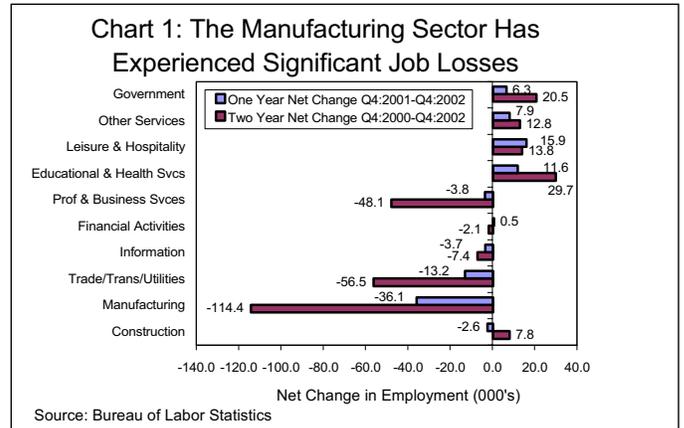
FDIC State Profile

SUMMER 2003

Illinois

Job losses and deteriorating state fiscal conditions top the list of Illinois' economic concerns.

- Illinois' economy is very diverse and mirrors the industrial composition of the nation. Illinois' broad industrial base helps to make it one of the major exporters in the country.
- Manufacturing accounts for 13 percent of employment in Illinois and for the largest share of job losses during the two years ending December 2002 (see **Chart 1**). In recent years, productivity gains resulted in fewer jobs, a trend exacerbated by the recent recession. The rate of manufacturing job losses in Illinois is higher than the national rate.
- Growth in the Midwest Manufacturing Index (MMI), which recovered somewhat early in 2002, has been uneven in the six months ending January 2003 (see **Chart 2**). The MMI also indicates that manufacturing activity has not reached pre-recession levels.
- In spite of the modest national recovery, job losses persist in Illinois. In fourth quarter 2002, there were 0.3 percent fewer jobs than a year earlier, an improvement from the trough of -2.4 percent seen in first quarter 2002. During most of 2002, job losses were much higher in Illinois than nationally, but that gap disappeared by late 2002 as conditions improved.
- Despite job losses, real income growth in Illinois started to improve modestly, although still lagging the nation. This lag reflects a higher unemployment rate in Illinois than the U.S. Also, many workers with jobs in formerly fast growing sectors such as technology are making significantly less than a few years ago.
- Most metropolitan statistical areas (MSAs) are seeing job losses. Decatur experienced the largest percentage loss among larger MSAs in Illinois, owing largely to weakness in construction and manufacturing industries.
- Government employment, traditionally more stable, has held up well. However, state fiscal conditions have deteriorated. Potential state budget cutbacks present a concern, particularly in the state capital of Springfield, where the share of government employment is high.
- The agricultural sector has improved slightly. Corn and soybean prices are off recent lows (see **Chart 3**), and the passage of the Farm Bill may lend support to many farmers.



State Profile

Illinois' insured institutions report profitability gains, yet asset quality concerns remain.

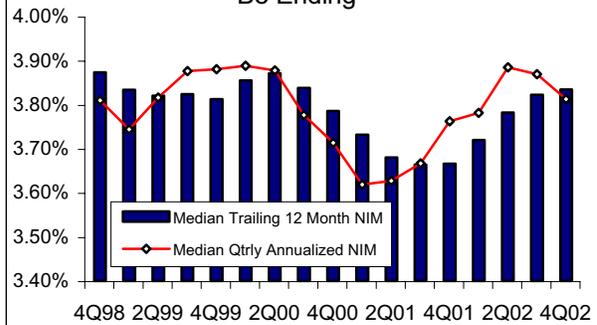
- With 787 institutions headquartered in Illinois as of year-end 2002, the state is home to a substantial and diverse group of banks and thrifts. The Chicago MSA banking market is one of the nation's largest, with 281 insured institutions headquartered there. Outside of Chicago, the state is home to many smaller institutions, including nearly 200 primarily agricultural institutions.
- Illinois' largest institutions (over \$1 billion in assets) exhibited improved performance during the twelve months ending December 31, 2002. Median annualized return on assets increased from 1.12 percent to 1.14 percent. Median delinquency rates were also much improved, falling from 2.25 percent to 1.71 percent.
- Margin improvements (see **Chart 4**) also drove profitability gains among community banks¹ during 2002. Return on assets for Illinois' community banks improved as net interest margins increased, largely because institutions benefited from the steep yield curve environment.
- Asset quality concerns have moderated for community institutions. Total median past-due levels improved from 2.11 percent a year ago, to 1.93 percent on December 31, 2002. However, institutions specializing in mortgage lending actually saw delinquencies increase 35 basis points during the fourth quarter of 2002, climbing to 2.2 percent overall (see **Chart 5**).
- Community institutions increased aggregate reserves relative to total loans and reserve coverage of non-performing loans. As of December 31, 2002, reserve coverage represented 112 percent of non-performing loans, well below the 134 percent level seen just prior to the recent recession, but up sharply from the third quarter 2002 level of 96 percent.
- Illinois' agricultural banks are performing well. Ag banks have participated in the improvements in margins and profitability seen among the state's institutions. Median agricultural loan concentrations among agricultural banks recently stood at 217 percent of Tier 1 capital, a slight increase from previous years.

Issues to Watch

- Lackluster employment trends may be an indication that asset quality trends, particularly in consumer

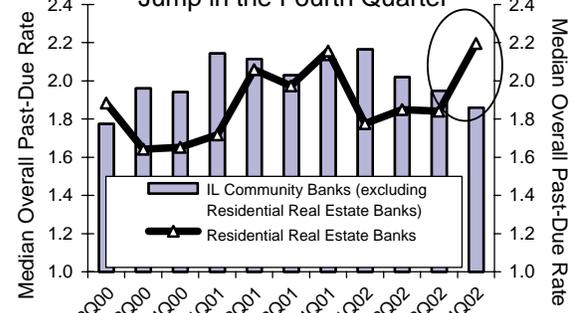
¹ "Community banks," as used here, refers to insured institutions with less than \$1 billion in assets, excluding new institutions (those established within the last three years) and specialty banks, such as credit card or niche lenders.

Chart 4: Recent Net Interest Margin Gains May Be Ending



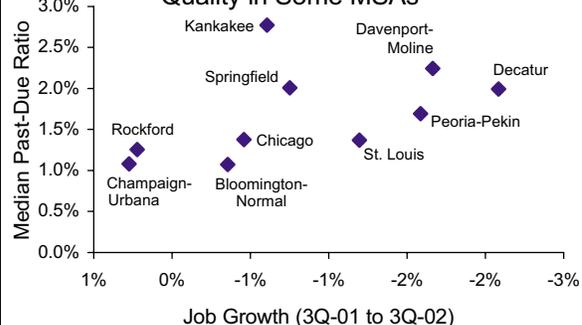
Source: Bank and Thrift Call Reports for Illinois Community Institutions

Chart 5: Mortgage Lender Delinquency Rates Jump in the Fourth Quarter



Source: Bank and Thrift Call Reports

Chart 6: Job Losses May Pressure Credit Quality in Some MSAs



Source: Bank and Thrift Call Reports for Community Institutions, Bureau of Labor Statistics

loan portfolios, may not significantly improve in the near term.

- MSAs that experienced the most job losses during the last year may face additional credit quality concerns in the near term.
- Job losses coupled with higher past-due rates indicate some potential asset quality concerns in MSAs such as Decatur, Davenport-Moline, and Peoria (see **Chart 6**).

Illinois at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	787	806	828	844	869
Total Assets (in thousands)	518,446,236	476,292,870	394,840,261	378,714,458	347,149,494
New Institutions (# < 3 years)	20	39	43	35	24
New Institutions (# < 9 years)	78	82	84	77	61
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.89	8.95	9.23	9.22	9.22
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.92%	2.09%	1.89%	1.74%	2.03%
Past-Due and Nonaccrual > = 5%	94	99	80	71	98
ALLL/Total Loans (median %)	1.14%	1.09%	1.07%	1.08%	1.09%
ALLL/Noncurrent Loans (median multiple)	1.55	1.37	1.49	1.54	1.46
Net Loan Losses/Loans (aggregate)	0.90%	0.95%	0.47%	0.32%	0.30%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	36	64	67	62	36
Percent Unprofitable	4.57%	7.94%	8.09%	7.35%	4.14%
Return on Assets (median %)	1.01	0.91	0.93	0.93	0.99
25th Percentile	0.68	0.54	0.59	0.60	0.66
Net Interest Margin (median %)	3.80%	3.63%	3.76%	3.80%	3.85%
Yield on Earning Assets (median)	6.40%	7.39%	7.80%	7.46%	7.70%
Cost of Funding Earning Assets (median)	2.59%	3.77%	4.08%	3.69%	3.89%
Provisions to Avg. Assets (median)	0.14%	0.13%	0.12%	0.11%	0.10%
Noninterest Income to Avg. Assets (median)	0.54%	0.52%	0.48%	0.47%	0.49%
Overhead to Avg. Assets (median)	2.64%	2.63%	2.66%	2.66%	2.64%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	72.66%	71.87%	71.40%	70.30%	67.09%
Loans to Assets (median %)	61.22%	61.07%	61.11%	59.69%	57.63%
Brokered Deposits (# of Institutions)	158	136	112	96	94
Bro. Deps./Assets (median for above inst.)	3.66%	3.49%	3.09%	2.51%	2.54%
Noncore Funding to Assets (median)	15.93%	15.71%	15.34%	14.11%	12.68%
Core Funding to Assets (median)	72.37%	73.17%	73.34%	74.92%	75.91%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	428	437	450	456	460
National	174	180	193	204	217
State Member	75	75	68	65	68
S&L	28	28	30	31	33
Savings Bank	34	35	37	37	37
Mutually Insured	48	51	50	51	54
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
No MSA		353	31,364,023	44.85%	6.05%
Chicago IL PMSA		281	450,413,858	35.71%	86.88%
St Louis MO-IL		32	4,878,891	4.07%	0.94%
Peoria-Pekin IL		25	4,056,214	3.18%	0.78%
Rockford IL		18	9,199,255	2.29%	1.77%
Springfield IL		16	3,225,430	2.03%	0.62%
Champaign-Urbana IL		16	3,983,529	2.03%	0.77%
Davenport-Moline-Rock Island IA-IL		15	1,971,362	1.91%	0.38%
Decatur IL		11	1,904,886	1.40%	0.37%
Kankakee IL PMSA		10	1,627,897	1.27%	0.31%
Bloomington-Normal IL		10	5,820,891	1.27%	1.12%