FDIC State Profile

SUMMER 2003

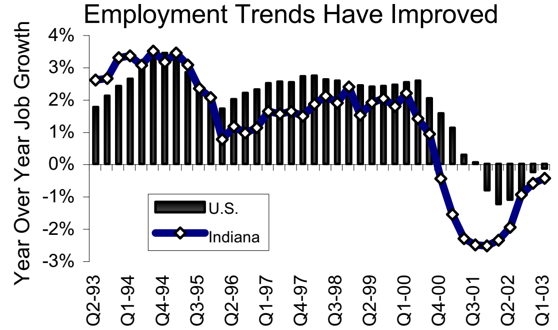
Indiana

Indiana's economy is improving; however, strong near-term growth appears unlikely.

- Indiana continues to lose jobs (see **Chart 1**); however, the rate of job loss since early 2001 narrowed relative to the nation. In spite of Indiana's relative underperformance in recent years, the unemployment rate is less than the nation and has actually improved in recent quarters.
- Indiana's high concentration of employment in the manufacturing sector (see **Chart 2**), which has been shedding jobs for a prolonged period, may hamper growth prospects. Indiana's economy has a relatively high exposure to durable-goods manufacturers, particularly primary metals, steelmaking, and transportation equipment, and consequently these industries are important to Indiana's economic health. Fortunately, Indiana's manufacturing jobs were not concentrated in high-tech or telecommunications, some of the hardest-hit manufacturing sectors nationally. As a result, the rate of manufacturing job losses in Indiana is less than nationally.
- The foreclosure rate on conventional 1–4 family residential mortgages in Indiana is the second highest in the nation (see **Chart 3**). A recent study[1] cited manufacturing job losses, a high homeownership rate, and higher debt-to-equity positions as contributing factors to the high foreclosure statistic.
- Bankruptcy growth rates in Indiana mildly tapered off in the fourth quarter of 2002. Personal bankruptcy filings were 8 percent higher than the year earlier quarter, an increase similar to the rest of the nation.
- Indianapolis office vacancy rates are relatively high, but seem to have stabilized in recent quarters. Absent a near-term improvement, office vacancy rates are at levels that could pressure leasing rates, which may be beneficial for some lessees, but challenging for property owners and developers.
- State fiscal conditions have been weakening. Based on estimates provided by the American Legislative Exchange Council, Indiana's deficit will reach approximately 8 percent of the state budget for fiscal 2004. Budget cutbacks could adversely affect the state economy in the future.
- Economic conditions in the Indianapolis Metropolitan Statistical Area (MSA) are generally favorable. Indianapolis is the most diverse MSA in the state, which has helped it to weather economic weakness. Nevertheless, employment has

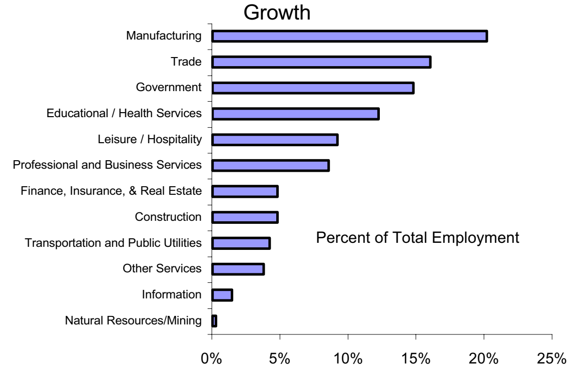
[1] "Rising Foreclosure Rates in Indiana: An Explanatory Analysis of Contributing Factors," March 2003, Research Division of the National Association of Realtors.

Chart 1: Although Job Losses Continue, Relative Employment Trends Have Improved



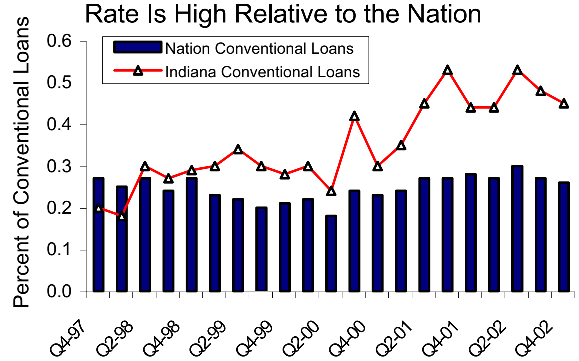
Source: Bureau of Labor Statistics

Chart 2: Substantial Manufacturing Employment May Inhibit Growth



Source: Bureau of Labor Statistics

Chart 3: Indiana's Conventional Foreclosure Rate Is High Relative to the Nation



Source: Mortgage Bankers Association

yet to reach pre-recession levels, and activity has been somewhat strained in the financial services industry.

Overall, Indiana's banks are performing well, in spite of some economic concerns.

- There are 211 insured institutions headquartered in Indiana, down from 256 five years ago. Indiana has a diverse community of banks, mostly small, with most institutions focused on commercial or residential real estate lending. Indiana has had a moderate number of new banks, with 19 insured institutions established within the last nine years.
- One-to-four family loans are a very large share of Indiana institutions' loan holdings (see **Chart 4**). As a result, Indiana's institutions may have slightly less credit exposure than other states with higher exposures in traditionally riskier lending segments.
- Overall delinquencies in the state jumped significantly in the fourth quarter of 2002, climbing to 2.44 percent at year-end 2002 (see **Chart 5**). Delinquencies among community banks[2] in Indiana are relatively high, compared to other states in the Chicago Region.[3]
- Profitability among Indiana's community banks rose slightly in 2002, because of net interest margin improvements (see **Chart 6**). As of December 31, 2002, the median full-year return on assets was .95 percent, up from .91 percent a year earlier. Margin gains resulting from a steeper yield curve have helped boost profitability.
- Community banks' total allowance coverage of noncurrent loans trended slightly higher in 2002, reversing several years of decline. As of year-end 2002, the aggregate coverage ratio was 107 percent, up from 99 percent in the third quarter, and 105 percent a year earlier. Nevertheless, the coverage ratio in Indiana is low relative to other states.
- Indiana's largest insured institutions, those with over $1 billion in assets, are generally performing well. The median return on assets was 1.12 percent at year-end 2002, unchanged from one-year earlier. Asset quality among large banks has improved as well, with median delinquency rates improving in 2002 and aggregate loss rates improving considerably.

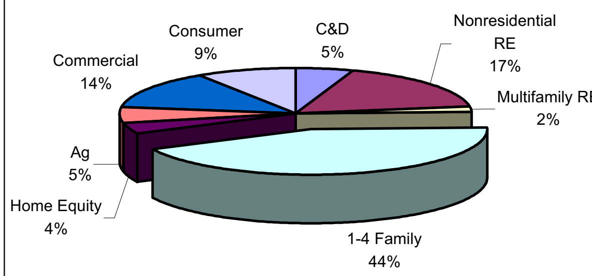
Issues to Watch

- Profitability pressure could result if the yield curve flattens, particularly if short-term rates were to rise sharply. Higher rates could lead to a drop in mortgage activity, extended maturities on mortgage loans and investments, and higher funding costs.
- Rising foreclosures and higher bankruptcy rates illustrate a portion of Indiana's consumers are feeling strains. If the recovery stalls, and job losses grow, further deterioration is likely and could affect mortgage and consumer loan portfolios in Indiana.
- Potential budget cutbacks in Indiana pose a risk to Indiana banks with direct or indirect exposure to borrowers or businesses closely linked to state spending.

[2] "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.

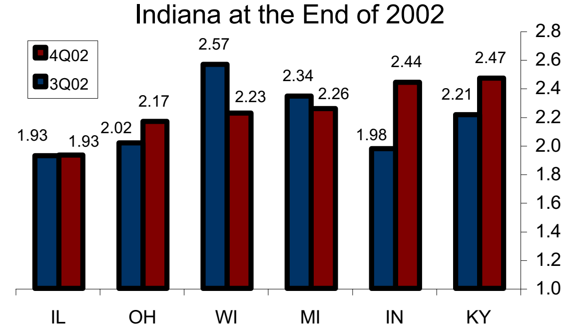
[3] The Chicago Region includes Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

Chart 4: One-to-Four Family Loans Dominate Community Bank Loan Portfolios



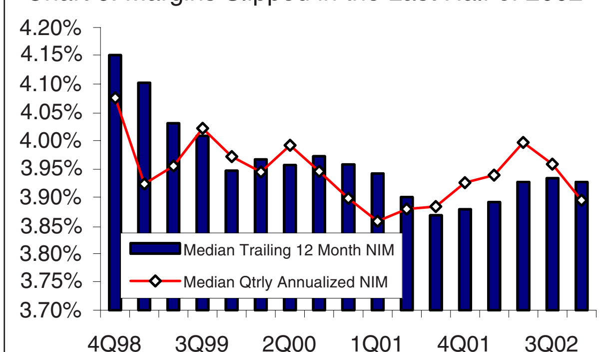
Source: Bank and Thrift Call Reports for Community Institutions

Chart 5: Median Past-Due Rates Jumped in Indiana at the End of 2002



Source: Bank and Thrift Call Reports for Community Institutions

Chart 6: Margins Slipped in the Last Half of 2002



Source: Bank and Thrift Call Reports for Indiana Community Institutions

Indiana at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	211	217	219	226	238
Total Assets (in thousands)	129,257,848	127,749,223	101,484,345	81,008,946	88,918,326
New Institutions (# < 3 years)	8	10	10	9	7
New Institutions (# < 9 years)	19	20	17	13	11

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.15	9.38	9.24	9.38	9.27

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.47%	2.34%	1.90%	1.71%	1.92%
Past-Due and Nonaccrual > = 5%	26	24	17	13	16
ALLL/Total Loans (median %)	1.17%	1.12%	1.10%	1.13%	1.16%
ALLL/Noncurrent Loans (median multiple)	1.30	1.27	1.72	1.95	1.98
Net Loan Losses/Loans (aggregate)	0.39%	0.57%	0.37%	0.27%	0.32%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	11	13	11	12	13
Percent Unprofitable	5.21%	5.99%	5.02%	5.31%	5.46%
Return on Assets (median %)	0.95	0.91	0.89	0.94	0.99
25th Percentile	0.62	0.63	0.59	0.64	0.66
Net Interest Margin (median %)	3.93%	3.88%	3.95%	3.94%	4.12%
Yield on Earning Assets (median)	6.66%	7.63%	8.04%	7.69%	8.02%
Cost of Funding Earning Assets (median)	2.68%	3.93%	4.23%	3.79%	3.98%
Provisions to Avg. Assets (median)	0.16%	0.14%	0.11%	0.12%	0.12%
Noninterest Income to Avg. Assets (median)	0.70%	0.67%	0.57%	0.56%	0.52%
Overhead to Avg. Assets (median)	2.73%	2.70%	2.70%	2.64%	2.66%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	85.37%	87.50%	88.82%	86.12%	81.79%
Loans to Assets (median %)	68.17%	69.33%	70.86%	68.85%	67.12%
Brokered Deposits (# of Institutions)	46	41	34	30	38
Bro. Deps./Assets (median for above inst.)	3.01%	2.26%	2.63%	1.95%	1.29%
Noncore Funding to Assets (median)	21.27%	21.37%	20.71%	18.94%	15.17%
Core Funding to Assets (median)	67.73%	68.08%	67.69%	70.51%	73.35%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	93	93	97	99	107
National	30	33	31	33	38
State Member	28	28	25	26	24
S&L	15	16	16	16	17
Savings Bank	38	40	44	46	45
Mutually Insured	7	7	6	6	7

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	101	21,434,965	47.87%	16.58%
Indianapolis IN	27	67,546,325	12.80%	52.26%
Gary IN PMSA	16	7,468,222	7.58%	5.78%
Louisville KY-IN	13	2,415,938	6.16%	1.87%
Ft Wayne IN	13	4,726,383	6.16%	3.66%
Evansville-Henderson IN-KY	10	13,002,083	4.74%	10.06%
Terre Haute IN	7	1,885,583	3.32%	1.46%
Cincinnati OH-KY-IN PMSA	5	618,888	2.37%	0.48%
South Bend IN	4	4,121,835	1.90%	3.19%
Lafayette IN	4	1,763,984	1.90%	1.36%
Elkhart-Goshen IN	4	357,868	1.90%	0.28%
Bloomington IN	3	802,591	1.42%	0.62%
Muncie IN	2	1,572,239	0.95%	1.22%
Kokomo IN	2	1,540,944	0.95%	1.19%