FDIC State Profile

SUMMER 2003

Michigan

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

- The strength of the economic recovery remains dependent upon motor vehicle sales and production. A high concentration of motor vehicle suppliers and manufacturers makes Michigan one of the leading manufacturing states in the country, reflecting its heavy reliance on motor vehicles.
- Michigan's unemployment rate increased to 6.5 percent in first quarter 2003, up 40 basis points from a year ago. The state's unemployment rate is the highest in the Chicago Region[1] and the fourth highest in the nation. However, the extent of unemployment varied among counties across the state (see **Map 1**).
- Michigan's employment declined by 0.9 percent in the year ending first quarter 2003, and manufacturing employment declined 2.9 percent. The manufacturing sector accounted for 17 percent of the total payrolls, but 55 percent of its job losses in the year ending first quarter 2003 (see **Chart 1**).
- Motor vehicle sales declined 3.1 percent in the first quarter of 2003 from a year earlier, to the slowest pace since third quarter 1998. Manufacturers of motor vehicles and related equipment continue facing profitability issues, as the sector saw operating losses for the 11th consecutive quarter in fourth quarter 2002 (see **Chart 2**).
- The commercial real estate markets in the Detroit metropolitan area remain weak. The downtown office vacancy rate increased to 25.9 percent in fourth quarter 2002, the highest in the Region, while the suburban office vacancy rate rose to 18.8 percent. The industrial vacancy rate increased to 9.7 percent and is among the lowest in the Region.
- Low interest rates continue to sustain home sales, which increased 7 percent in 2002. Home price appreciation continued to subside in Michigan, posting a 2.9 percent rise from a year earlier ending first quarter 2003, substantially below the 6.5 percent national average.

Michigan's insured institutions performed well despite the slow economic recovery in the state.

- Michigan is headquarters to 180 insured financial institutions, with assets totaling near $167 billion. Community institutions—those with less than $1 billion in assets,

Map 1: County Unemployment Rates in Michigan Vary Considerably

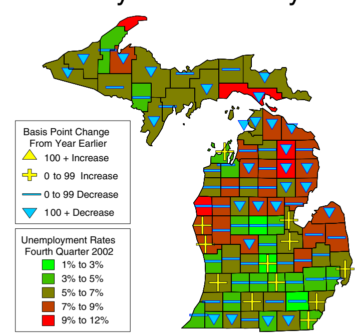
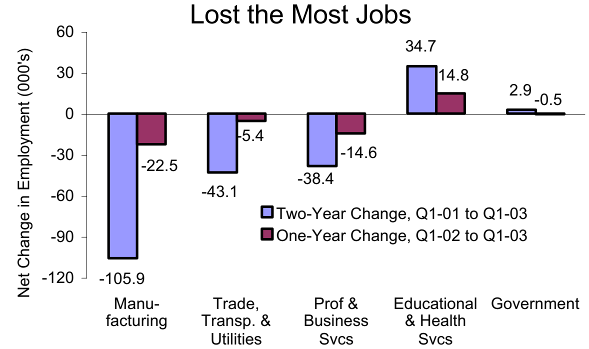
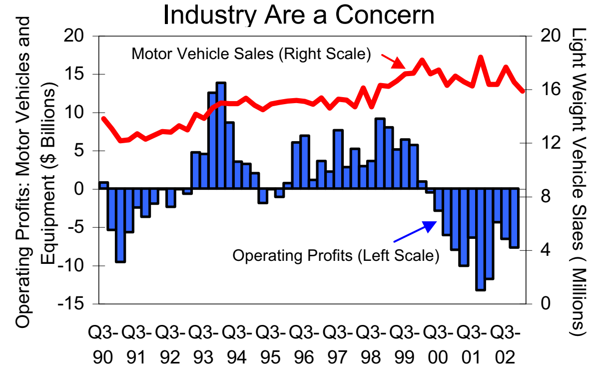


Chart 1: Michigan's Manufacturing Sector Has Lost the Most Jobs



Source: Bureau of Labor Statistics

Chart 2: Declining Sales and Profits for the Auto Industry Are a Concern



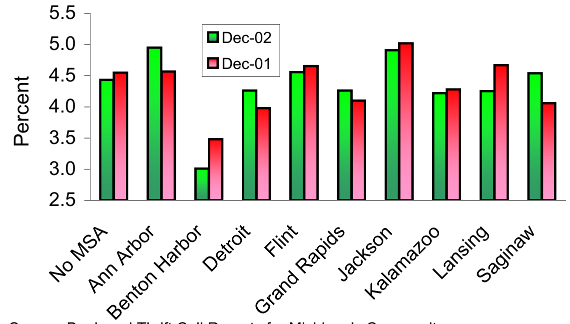
Source: Bureau of Economic Analysis

[1] Chicago Region includes Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin

excluding de novo or specialty banks—account for 86 percent of the state's institutions, but larger institutions hold 80 percent of the state's assets.

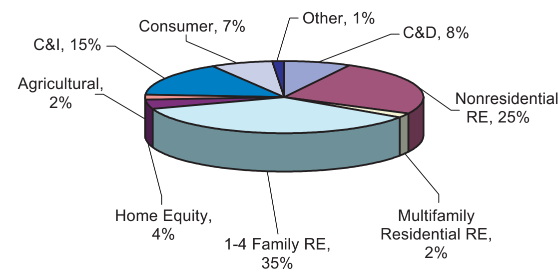
- Earnings for community institutions in December 2002 declined marginally from a year earlier. The aggregate annualized return on equity decreased by 13 basis points to 10.78 percent, remaining under the regional average of 11.11 percent. The median annualized return on assets increased two basis points to 1.15 percent remaining among the highest in the Region.
- The median net interest margin (NIM) for community institutions fell four basis points to 4.38 percent at year-end 2002. Despite the decrease, Michigan's median NIM is the highest in the Region, but varies across the state (see **Chart 3**).
- Michigan's large institutions, those with assets over $1 billion, performed fairly well in 2002, as they experienced lower median past-due and noncurrent loans compared with the prior year. Their median NIM decreased to 3.85 percent, below the 3.98 percent margin at year-end 2001.
- One-to-four family and commercial real estate (CRE) loans comprise a large share of the loan portfolio of Michigan's community institutions (see **Chart 4**). High shares of commercial and industrial (C&I) and CRE loans may be contributing factors to high NIMs at Michigan's community institutions.
- Community institutions' concentration in CRE loans increased by 15 percent to 263 percent of Tier 1 capital at year-end 2002. Construction and development (C&D) concentrations increased 3 percentage points to 62 percent during the same period. Michigan's CRE and C&D concentrations are the highest in the Region.
- Although community institutions increased reserves relative to total loans, growth in noncurrent loans (90+ days past due or on nonaccrual status) outpaced the growth in reserves. However, the share of loans 30- to 89-days past due has begun to fall—they decreased 38 basis points from a year earlier—suggesting that noncurrent rates may not increase much further.
- Credit quality for community institutions deteriorated somewhat as the median noncurrent loan rate increased to 93 basis points from 62 basis points at year-end 2001. Michigan's noncurrent loan rates are the highest in the Region (see **Chart 5**).

Chart 3: Median Net Interest Margins Vary Across Michigan's MSA's



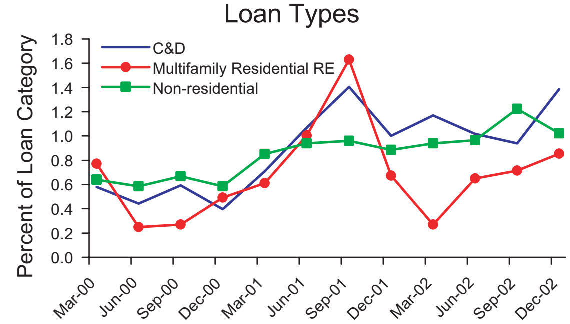
Source: Bank and Thrift Call Reports for Michigan's Community

Chart 4: One-to Four-Family and Commercial Real Estate Loans Dominate Community Banks' Portfolios



Source: Bank and Thrift Call Reports (Michigan Community Institutions)

Chart 5: Noncurrent Loan Rates Vary Among Loan Types



Source: Bank and Thrift Call Reports for Michigan's Community Institutions

Issues to Watch

- Detroit's commercial real estate loan sector may face additional credit quality pressure because of increasing vacancy rates and weaker job growth than elsewhere in the state.
- High inventories of unsold vehicles in April could reflect a deliberate build-up ahead of labor negotiations this summer. If not, more incentives or sharper-than-planned production cutbacks likely will be needed to bring inventories in line with sales.

Michigan at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	180	181	190	195	189
Total Assets (in thousands)	166,413,318	175,090,466	170,013,441	154,753,436	148,042,827
New Institutions (# < 3 years)	13	18	21	23	20
New Institutions (# < 9 years)	40	39	36	34	28

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.83	8.85	8.97	9.12	9.27

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.22%	2.06%	1.84%	1.58%	1.70%
Past-Due and Nonaccrual > = 5%	26	29	23	12	15
ALLL/Total Loans (median %)	1.32%	1.26%	1.28%	1.29%	1.32%
ALLL/Noncurrent Loans (median multiple)	1.38	1.77	2.15	2.82	2.09
Net Loan Losses/Loans (aggregate)	0.58%	0.53%	0.25%	0.24%	0.24%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	14	18	15	21	16
Percent Unprofitable	7.78%	9.94%	7.89%	10.77%	8.47%
Return on Assets (median %)	1.13	1.09	1.14	1.14	1.18
25th Percentile	0.78	0.75	0.81	0.72	0.89
Net Interest Margin (median %)	4.29%	4.33%	4.49%	4.46%	4.59%
Yield on Earning Assets (median)	6.84%	7.99%	8.44%	8.00%	8.27%
Cost of Funding Earning Assets (median)	2.57%	3.66%	3.96%	3.52%	3.76%
Provisions to Avg. Assets (median)	0.23%	0.20%	0.16%	0.14%	0.15%
Noninterest Income to Avg. Assets (median)	0.80%	0.73%	0.65%	0.66%	0.73%
Overhead to Avg. Assets (median)	3.11%	3.14%	3.09%	3.26%	3.24%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	89.81%	90.70%	91.01%	87.18%	79.70%
Loans to Assets (median %)	73.17%	74.42%	74.14%	72.75%	68.64%
Brokered Deposits (# of Institutions)	62	56	53	45	37
Bro. Deps./Assets (median for above inst.)	6.84%	3.26%	8.46%	6.07%	3.71%
Noncore Funding to Assets (median)	20.13%	20.05%	21.30%	18.29%	14.79%
Core Funding to Assets (median)	69.18%	68.53%	67.85%	70.94%	74.10%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	103	101	104	99	93
National	26	27	28	36	36
State Member	31	34	37	37	36
S&L	2	2	2	2	2
Savings Bank	13	13	14	14	17
Mutually Insured	5	4	5	7	5

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	78	12,921,430	43.33%	7.76%
Detroit MI PMSA	39	103,284,191	21.67%	62.06%
Grand Rapids-Muskegon-Holland MI	20	30,478,527	11.11%	18.31%
Ann Arbor MI PMSA	12	2,382,848	6.67%	1.43%
Lansing-East Lansing MI	10	6,563,595	5.56%	3.94%
Kalamazoo-Battle Creek MI	7	569,280	3.89%	0.34%
Saginaw-Bay City-Midland MI	5	2,982,212	2.78%	1.79%
Flint MI PMSA	4	5,515,798	2.22%	3.31%
Benton Harbor MI	4	1,657,447	2.22%	1.00%
Jackson MI	1	57,990	0.56%	0.03%