FDIC State Profile

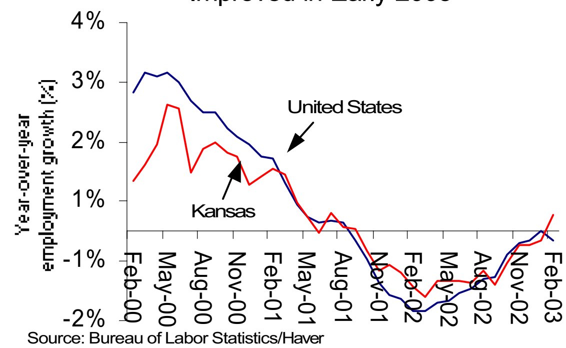
SUMMER 2003

Kansas

The Kansas labor picture is beginning to show improvement.

- In February 2003, the Kansas economy achieved positive growth in employment for the first time in 15 months (see Chart 1).
- Several rounds of layoffs occurred in the Wichita aircraft manufacturing industry, contributing to continuing weakness in the manufacturing sector. However, continuing expansion in the services and government sectors have helped to achieve net job growth in the state. In 2004, however, expected budget deficits may lead to reductions in the government workforce.
- Unemployment has declined to 4.6 percent, the lowest level in 15 months.

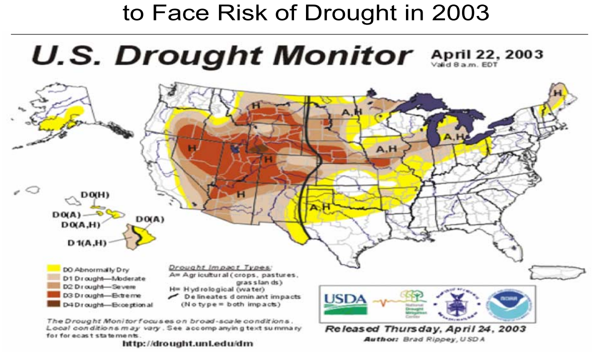
Chart 1: Kansas Employment Improved in Early 2003



The Kansas agricultural sector will continue to be stressed by drought in 2003.

- Drought conditions have persisted during the winter of 2002-2003, increasing the likelihood of continuing difficulties for farmers in the upcoming growing season. While spring rains have alleviated conditions in the southern half of the state, the situation remains critical in northern counties.(see Map 1).
- Lack of rainfall during 2002 significantly affected yields. Wheat production was 19 percent below the previous year's level; corn production was down 26 percent; and soybean production was down 29 percent.
- In April 2003, the United States Department of Agriculture rated 49 percent of Kansas pastureland as "poor" or "very poor." Poor pastureland could continue to pose difficulties for the state's cattle producers, who generate 61 percent of the state's agricultural revenues.

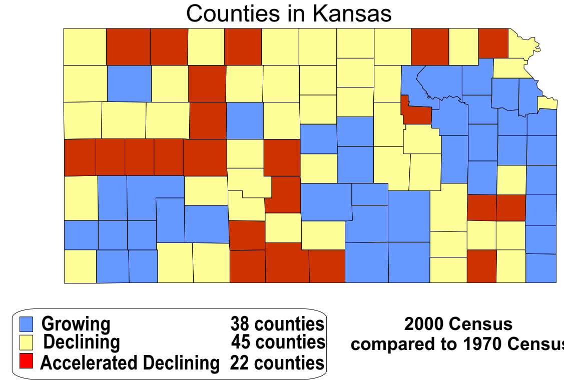
Map 1: Kansas Agriculture Sector Continues to Face Risk of Drought in 2003



Depopulation in rural areas continues to be a challenge.

- Sixty-seven of 105 counties in Kansas have lost population since 1970, and in 22 of those counties at an increasing rate during 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, seeking better employment opportunities.

Map 2: Depopulation Affects Most Rural Counties in Kansas



Severe drought conditions are contributing to weakening asset quality among many of the state's farm banks.

- Northern Kansas remains in "moderate" drought, following "moderate" to "severe" drought conditions in 2001 and 2002. These weather problems follow four years of very low crop prices that left many farm banks holding substantial levels of carryover debt.
- Chart 2 shows that farm banks in areas of prolonged drought (predominantly in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by drought.
- On a positive note, the year-end 2002 median capital ratio of 10.2 percent reported by farm banks headquartered in Kansas remains high by historical standards and well above levels during the 1980s farm crisis and 1988 drought.

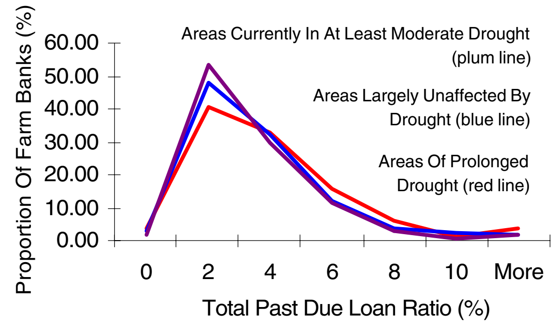
Softening commercial real estate markets are a concern to metropolitan commercial lenders headquartered in Kansas.

- Many insured institutions operating in the state's largest metropolitan markets have increased reliance on commercial real estate (CRE) loans during the past two years (see Chart 3).
- This increased exposure has come as metropolitan CRE markets, most notably office and industrial, softened significantly during the past two years. Office vacancy rates have risen to the highest levels in nearly a decade.
- Weakness in CRE markets is not evident in total past-due figures. The December 2002 median loan delinquency ratio was a relatively low 1.6 percent, similar to two years ago, and the proportion of insured institutions reporting delinquency ratios exceeding 5 percent remains relatively low at 3.8 percent.

Community institutions in Kansas continue to face funding challenges.

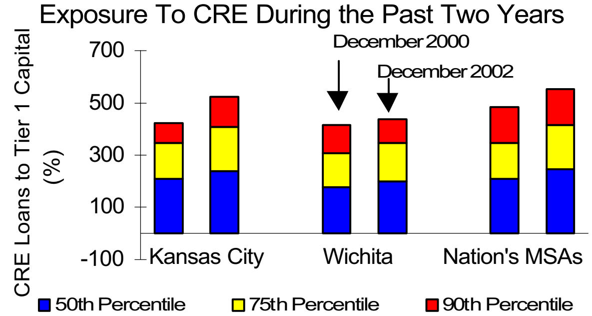
- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 82 percent to 73 percent between year-end 1992 and year-end 2002.
- To counter declining deposits, community institutions headquartered in Kansas increased reliance on noncore funds, such as large time deposits and borrowings.

Chart 2: Farm Banks Experiencing Prolonged Drought Report Higher Loan Delinquency Levels



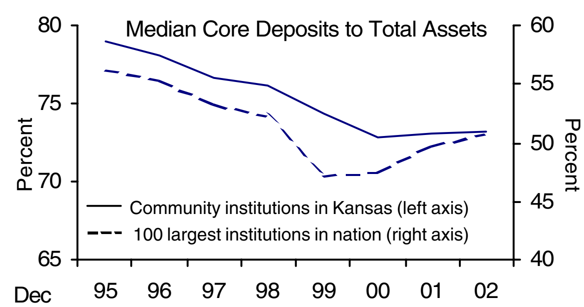
Source: Bank and Thrift Call Reports, farm banks in Kansas City Region

Chart 3: Institutions in Kansas Have Increased Exposure To CRE During the Past Two Years



CRE loans are loans made for construction or development, multifamily housing or nonresidential real estate.
Source: Bank and Thrift Call Reports, excluding new and specialty banks

Chart 4: Core Funding Has Increased at Larger Institutions More Than Smaller Institutions



Source: Bank and Thrift Call Reports. Community institutions are FDIC-insured institutions with total assets under $250 million headquartered in Kansas.

- The weak economy and significant declines in the stock market have prompted a great shift of deposit funds into the banking system. However, as seen in Chart 4, most of the benefit has accrued to the nation's larger banks.
- See *"Kansas City Regional Perspectives - Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenge,"* FDIC Outlook, Spring 2003, for further discussion about funding.

Kansas at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	380	390	393	404	411
Total Assets (in thousands)	51,365,195	48,449,720	49,333,694	45,045,827	42,359,304
New Institutions (# < 3 years)	8	10	8	6	4
New Institutions (# < 9 years)	17	18	14	12	10

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.40	9.49	9.60	9.47	9.26

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.90%	1.82%	1.74%	1.51%	1.72%
Past-Due and Nonaccrual >= 5%	48	44	30	24	39
ALLL/Total Loans (median %)	1.38%	1.39%	1.38%	1.43%	1.46%
ALLL/Noncurrent Loans (median multiple)	1.74	1.88	2.15	2.38	2.35
Net Loan Losses/Loans (aggregate)	0.36%	0.38%	0.28%	0.30%	0.37%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	16	29	16	9	10
Percent Unprofitable	4.21%	7.44%	4.07%	2.23%	2.43%
Return on Assets (median %)	1.07	1.04	1.12	1.07	1.10
25th Percentile	0.69	0.63	0.78	0.74	0.78
Net Interest Margin (median %)	4.15%	4.17%	4.29%	4.19%	4.28%
Yield on Earning Assets (median)	6.60%	7.81%	8.24%	7.80%	8.06%
Cost of Funding Earning Assets (median)	2.44%	3.65%	3.94%	3.57%	3.76%
Provisions to Avg. Assets (median)	0.14%	0.12%	0.09%	0.06%	0.07%
Noninterest Income to Avg. Assets (median)	0.60%	0.60%	0.58%	0.56%	0.56%
Overhead to Avg. Assets (median)	3.03%	3.06%	3.05%	3.01%	3.01%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	72.39%	73.48%	74.79%	70.45%	67.65%
Loans to Assets (median %)	60.19%	61.55%	62.47%	60.08%	58.35%
Brokered Deposits (# of Institutions)	42	42	32	28	24
Bro. Deps./Assets (median for above inst.)	3.10%	2.72%	2.24%	1.80%	1.56%
Noncore Funding to Assets (median)	15.71%	15.56%	15.50%	14.13%	12.11%
Core Funding to Assets (median)	72.49%	72.54%	72.28%	74.19%	76.02%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	235	244	248	255	259
National	101	104	106	108	112
State Member	27	25	22	24	22
S&L	10	10	10	10	12
Savings Bank	7	7	7	7	6
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	294	20,522,778	77.37%	39.95%
Kansas City MO-KS	43	12,173,531	11.32%	23.70%
Wichita KS	27	7,143,794	7.11%	13.91%
Topeka KS	9	10,789,648	2.37%	21.01%
Lawrence KS	7	735,444	1.84%	1.43%