FDIC State Profile

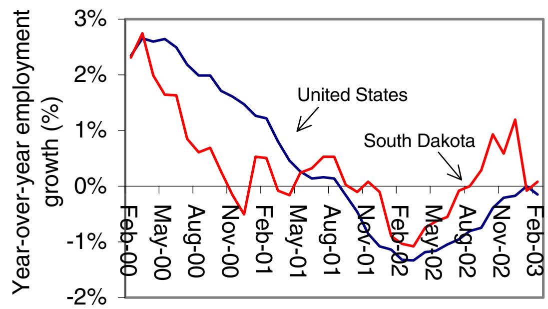
SUMMER 2003

South Dakota

The South Dakota economy was less severely affected by the recession than other states in the Kansas City Region.

- In 2000, job growth declined in South Dakota before it did nationwide, but the state gained jobs in 2001. Despite job growth in the last half of 2002, early 2003 data show growth as flat. (See Chart 1).
- Continuing layoffs in the state's manufacturing and mining sectors contributed to the weak job growth in early 2003.
- Because of job losses, the unemployment rate increased to 3.3 percent in February 2003, the highest level in 19 months.

Chart 1: Job Growth Flattens in Early 2003

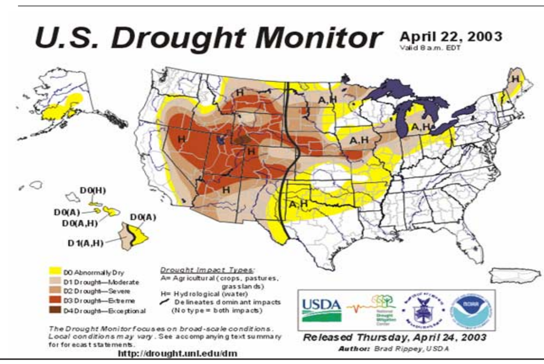


Source: Bureau of Labor Statistics/Haver Analytics

Drought conditions may continue to stress the South Dakota agricultural sector in 2003.

- Drought conditions in South Dakota have persisted into 2003, increasing the likelihood of another below-average growing season in 2003 (see Map 1).
- In 2002 corn production was 10 percent below 2001's level, and soybean production was down 6 percent.
- In April, the United States Department of Agriculture rated 55 percent of South Dakota's pastureland as "poor" or "very poor." Pastureland problems could pose continued difficulties for the state's cattle producers, who generate 38 percent of the state's agricultural revenues.

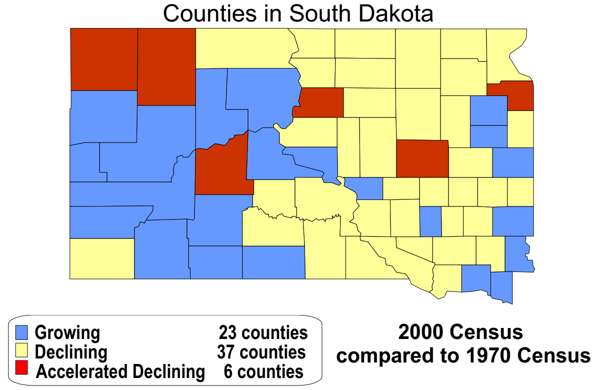
Map 1: South Dakota Agriculture Sector Continues to Face Risk of Drought in 2003



Depopulation in rural areas is a continuing challenge.

- Population declined in forty-three of South Dakota's 66 counties since 1970; population in 6 of those counties declined 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, seeking 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 Counties in South Dakota



Severe drought conditions threaten asset quality among many of the state's farm banks.

- Much of South Dakota remains in "severe" drought, following "extreme" to "exceptional" drought conditions in

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 do insured institutions in less affected areas. Continued drought in South Dakota could put its institutions into a similar situation.
- Positively, the December 2002 median capital ratio of 11.3 percent reported by South Dakota farm banks remains high by historical standards and is well above levels reached during the 1980s farm crisis and 1988 drought.

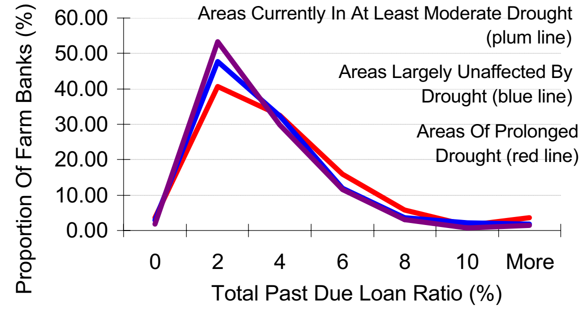
Some South Dakota's community banks reported high net charge-off rates during the economic slowdown.

- Net charge-off rates escalated with the onset of the economic slowdown, rising from 0.22 percent in 1998 to 1.22 percent in 2001. The rate dropped sharply to 0.66 percent in 2002 as credit-card portfolios stabilized.
- Much of the net charge-offs involved credit card portfolios centered in a small number of institutions.
- The aggressive charge-offs have caused problem loans to decline significantly. While the charge-offs reduced loan-loss reserves, reserves appear to be stable relative to the level of problem loans (see Chart 3).

Community institutions in South Dakota continue to face funding challenges.

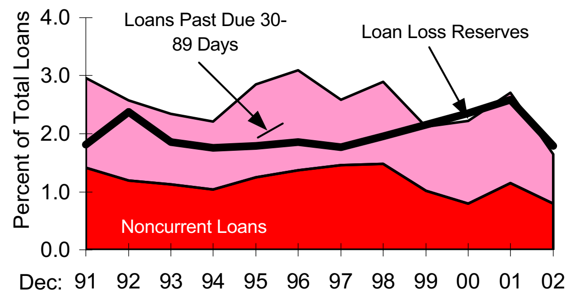
- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 83 percent to 73 percent between year-end 1992 and year-end 2002.
- To counter declining deposits, community institutions headquartered in South Dakota increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, primarily Federal Home Loan Bank advances, has increased dramatically. Between December 1997 and December 2002, the proportion of community institutions with borrowings making up between 5 and 10 percent of total funds increased from 5.2 percent to 12.8 percent.
- 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.

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



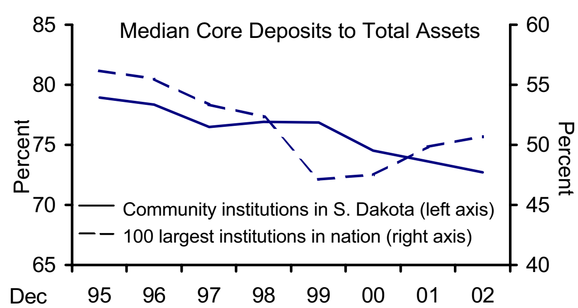
Source: Bank and Thrift Call Reports, farm banks in Kansas City Region

Chart 3: High Net Charge-offs Reduced Noncurrent Loans and Loan Loss Reserves



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

South Dakota at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	97	97	101	106	108
Total Assets (in thousands)	74,361,969	52,180,209	38,308,066	33,002,845	30,612,228
New Institutions (# < 3 years)	1	1	1	2	4
New Institutions (# < 9 years)	6	6	8	7	7

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	11.09	10.95	10.90	10.37	10.16

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.59%	2.03%	1.91%	1.84%	2.56%
Past-Due and Nonaccrual >= 5%	11	13	12	13	23
ALLL/Total Loans (median %)	1.73%	1.78%	1.68%	1.82%	1.89%
ALLL/Noncurrent Loans (median multiple)	2.59	2.13	2.62	2.55	1.88
Net Loan Losses/Loans (aggregate)	4.67%	3.62%	3.68%	3.55%	3.49%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	4	3	5	4	3
Percent Unprofitable	4.12%	3.09%	4.95%	3.77%	2.78%
Return on Assets (median %)	1.17	1.17	1.35	1.29	1.33
25th Percentile	0.76	0.89	0.98	0.86	0.99
Net Interest Margin (median %)	4.40%	4.35%	4.64%	4.52%	4.60%
Yield on Earning Assets (median)	7.09%	8.21%	8.78%	8.26%	8.58%
Cost of Funding Earning Assets (median)	2.61%	3.83%	4.16%	3.78%	3.96%
Provisions to Avg. Assets (median)	0.12%	0.12%	0.13%	0.12%	0.17%
Noninterest Income to Avg. Assets (median)	0.62%	0.61%	0.65%	0.67%	0.65%
Overhead to Avg. Assets (median)	3.27%	3.21%	3.19%	3.06%	3.16%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	79.25%	79.16%	79.17%	77.90%	73.52%
Loans to Assets (median %)	67.44%	66.41%	64.97%	64.36%	62.06%
Brokered Deposits (# of Institutions)	25	26	25	23	26
Bro. Deps./Assets (median for above inst.)	2.96%	2.54%	1.73%	2.98%	1.83%
Noncore Funding to Assets (median)	14.28%	11.98%	12.95%	12.20%	11.73%
Core Funding to Assets (median)	71.87%	72.92%	73.91%	75.70%	76.23%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	60	61	64	65	67
National	19	18	20	23	22
State Member	14	14	13	14	15
S&L	0	0	0	0	0
Savings Bank	4	4	4	4	4
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	78	8,299,557	80.41%	11.16%
Sioux Falls SD	14	65,478,422	14.43%	88.05%
Rapid City SD	5	583,990	5.15%	0.79%