

# FDIC State Profile

WINTER 2003

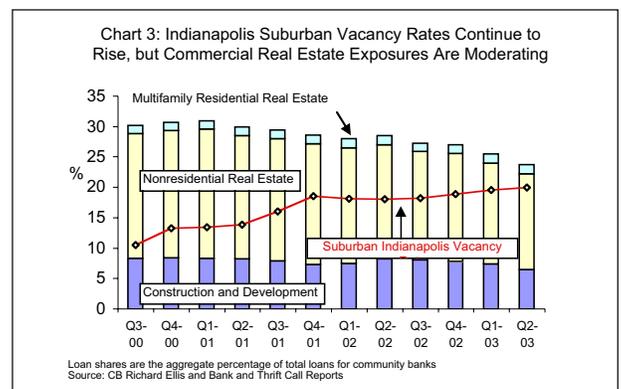
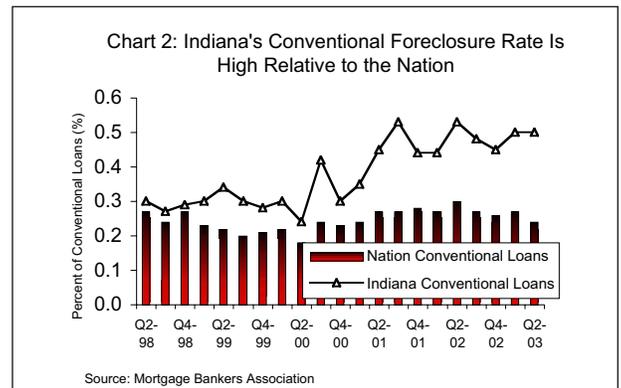
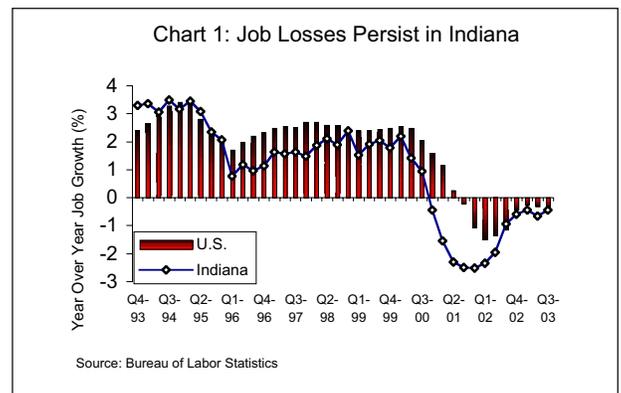
## Indiana

Indiana's economy has yet to fully recover as employment trends remain weak.

- Indiana continued to lose jobs faster than the nation, although the rate of decline has lessened over the last three quarters (see Chart 1).
- Educational and health services and government employment were among the few sectors posting year-over-year job growth.
- Manufacturing represented one-fifth of total employment in Indiana; consequently, job losses of 3.3 percent during the year ending third quarter 2003 significantly affected the state's labor markets.
- Strong exports (primarily in vehicles, chemicals, and pharmaceuticals) may temper the extent of weakness in Indiana's manufacturing employment base until domestic demand picks up.
- Home price appreciation remained low relative to the rest of the nation, providing consumers with less potential equity growth to strengthen their financial condition.
- Relatively lower home prices have also contributed to a high home ownership rate in Indiana.<sup>1</sup>
- Currently, the conventional mortgage loan foreclosure rate in Indiana remains much higher than the rest of the nation (see Chart 2). The higher foreclosure rate indicates that Indiana homeowners are experiencing more economic stress.
- Weak employment trends and a high home ownership rate contributed to Indianapolis' 10.6 percent apartment vacancy rate, the highest on record for Indianapolis.<sup>2</sup>

**Weak CRE market fundamentals prompt community banks<sup>3</sup> to reduce exposure.**

- Office vacancy rates continued to rise in Indianapolis, while rental rates continued to fall.
- Community banks in Indianapolis moderated their total commercial real estate exposure, as a result of weakening fundamentals (see Chart 3).
- Community banks in Indianapolis are most exposed to the suburban office market, as opposed to downtown properties. The city of *Carmel*, north of *Indianapolis*, has been a stronger mar-



<sup>1</sup> Recently, the home ownership rate was 71 percent in Indiana, compared with 66 percent nationwide.

<sup>2</sup> PPR Fundamentals (2Q2003), Property & Portfolio Research, Inc.

<sup>3</sup> Community banks are insured institutions with less than \$1 billion in assets, excluding new (< 3 years old) and specialty banks, such as credit card lenders.

## State Profile

ket and has seen much of recent suburban office construction.

- According to PPR, many new projects have obtained tenants from previously occupied multi-tenant space in the metro area.

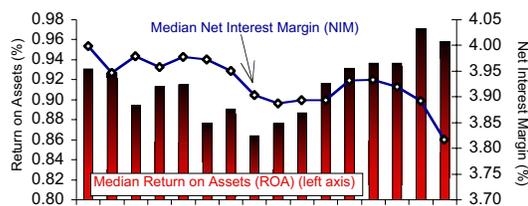
### Overall profitability trends in Indiana remain favorable.

- Median profitability levels held up well for Indiana's community banks in spite of ongoing margin compression (see Chart 4). Margin compression was due to a combination of lower yields on loans and securities, higher mortgage prepayments that followed a modest flattening of the yield curve and low long-term interest rates.
- Community banks offset margin declines with increased noninterest income and securities gains through mid-year 2003.
- Meaningful improvement in margins is unlikely without growth in commercial loan demand, a trend that normally occurs after business activity improves subsequent to a recession.

### Credit quality concerns linger.

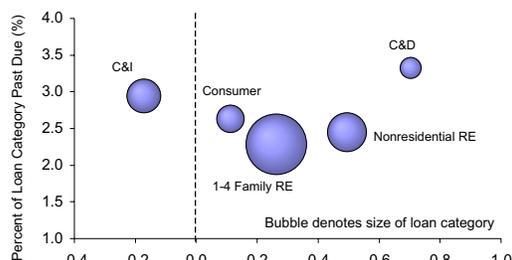
- The aggregate past-due rate for Indiana's community institutions was 2.48 percent at mid-year, slightly off the recent year's high of 2.53 percent experienced two quarters earlier.
- Most loan categories experienced elevated past-due rates compared with two years earlier (see Chart 5).
- One-to-four family residential lending continued to represent the largest share of total loans. Delinquencies continued to rise, a result partially related to the state's relatively high home ownership rate.
- Commercial and industrial (C&I) and construction and development (C&D) lending reported relatively higher past-due rates. C&I delinquencies declined, while C&D past-due rates spiked upward.
- Median past-due rates remained relatively high in the Indianapolis market, rising considerably during the past year (see Table 1).
- Rising delinquencies in the nonresidential real estate lending category was the biggest contributor to Indianapolis' adverse delinquency trends.
- Although overall 1-4 family delinquency trends remained favorable in Indianapolis, serious delinquencies (90+ and nonaccrual) have been rising.

Chart 4: Margin Declines Threaten Future Profitability Levels at Indiana's Community Banks



ROA and NIM calculations are for the trailing 12-months.  
Source: Bank and Thrift Call Reports for Indiana's Community Institutions.

Chart 5: Past-Due Rates Are Higher Across Most Lending Categories



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

Table 1: Median Past-Due Rates Have Risen Substantially in Indianapolis

MSA	2Q02	2Q03	Change
Detroit, MI	1.99	2.60	0.61
Louisville, KY	1.88	2.27	0.39
<b>Indianapolis, IN</b>	<b>1.72</b>	<b>2.27</b>	<b>0.55</b>
Milwaukee, WI	2.44	2.18	-0.26
Grand Rapids, MI	1.95	2.15	0.20
Columbus, OH	1.77	2.01	0.24
Lexington, KY	1.47	1.67	0.20
Cincinnati, OH	1.67	1.65	-0.02
Cleveland, OH	1.95	1.53	-0.42
Peoria, IL	1.67	1.46	-0.21
Chicago, IL	1.29	1.35	0.06
Madison, WI	1.37	1.29	-0.08

Source: Bank and Thrift Call Reports for Community Institutions

According to Loan Performance<sup>4</sup>, Indianapolis ranked sixth in the nation in the percentage of seriously delinquent prime mortgages.

<sup>4</sup> *The Market Pulse*, 2003, Volume IX, Issue 3.

## Indiana at a Glance

<b>General Information</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>	<b>Jun-99</b>
Institutions (#)	208	214	221	224	233
Total Assets (in thousands)	136,096,545	125,239,827	116,633,202	86,115,989	84,943,833
New Institutions (# < 3 years)	7	9	11	9	7
New Institutions (# < 9 years)	19	19	20	15	11
<b>Capital</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>	<b>Jun-99</b>
Tier 1 Leverage (median)	9.44	9.36	9.26	9.23	9.41
<b>Asset Quality</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>	<b>Jun-99</b>
Past-Due and Nonaccrual (median %)	2.52%	2.10%	2.10%	1.58%	1.70%
Past-Due and Nonaccrual >= 5%	24	21	13	12	13
ALLL/Total Loans (median %)	1.19%	1.14%	1.09%	1.10%	1.15%
ALLL/Noncurrent Loans (median multiple)	1.36	1.30	1.50	1.90	1.96
Net Loan Losses/Loans (aggregate)	0.38%	0.50%	0.41%	0.23%	0.24%
<b>Earnings</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>	<b>Jun-99</b>
Unprofitable Institutions (#)	8	11	14	11	6
Percent Unprofitable	3.8%	5.1%	6.3%	4.9%	2.6%
Return on Assets (median %)	0.94	0.99	0.91	0.93	0.96
25th Percentile	0.66	0.66	0.61	0.64	0.66
Net Interest Margin (median %)	3.81%	3.95%	3.84%	3.98%	3.95%
Yield on Earning Assets (median)	6.02%	6.79%	7.94%	7.91%	7.60%
Cost of Funding Earning Assets (median)	2.19%	2.84%	4.21%	4.04%	3.69%
Provisions to Avg. Assets (median)	0.16%	0.13%	0.11%	0.10%	0.11%
Noninterest Income to Avg. Assets (median)	0.73%	0.65%	0.63%	0.54%	0.53%
Overhead to Avg. Assets (median)	2.76%	2.68%	2.66%	2.69%	2.60%
<b>Liquidity/Sensitivity</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>	<b>Jun-99</b>
Loans to Deposits (median %)	85.88%	87.11%	89.72%	89.02%	83.12%
Loans to Assets (median %)	68.08%	68.58%	71.24%	70.55%	66.87%
Brokered Deposits (# of institutions)	48	44	39	31	33
Bro. Deps./Assets (median for above inst.)	3.21%	2.62%	2.79%	1.48%	1.36%
Noncore Funding to Assets (median)	21.82%	21.46%	21.79%	21.06%	16.64%
Core Funding to Assets (median)	66.24%	67.07%	67.07%	67.21%	70.90%
<b>Bank Class</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>	<b>Jun-99</b>
State Nonmember	92	94	97	97	104
National	28	32	31	32	36
State Member	29	28	27	25	25
S&L	15	14	15	16	16
Savings Bank	37	39	44	48	46
Mutually Insured	7	7	7	6	6
<b>MSA Distribution</b>		<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>
No MSA		100	22,438,883	48.1%	16.5%
Indianapolis IN		26	72,855,716	12.5%	53.5%
Gary IN PMSA		15	7,516,953	7.2%	5.5%
Ft Wayne IN		13	4,804,344	6.3%	3.5%
Louisville KY-IN		12	2,470,415	5.8%	1.8%
Evansville-Henderson IN-KY		10	13,287,878	4.8%	9.8%
Terre Haute IN		7	1,867,363	3.4%	1.4%
Cincinnati OH-KY-IN PMSA		5	649,828	2.4%	0.5%
South Bend IN		4	4,035,263	1.9%	3.0%
Lafayette IN		4	1,735,599	1.9%	1.3%
Elkhart-Goshen IN		4	367,526	1.9%	0.3%
Kokomo IN		3	1,639,662	1.44%	1.20%
Bloomington IN		3	853,848	1.44%	0.63%
Muncie IN		2	1,573,267	0.96%	1.16%