

FDIC State Profile

WINTER 2003

Michigan

Signs of economic weakness continue in Michigan.

- Michigan employment in third quarter 2003 was 5.7 percent below its pre-recession level, with 60 percent of the loss occurring in the manufacturing sector. Most sectors continued to experience net job losses, although the rate of loss slowed (see Chart 1).
- The **Grand Rapids** metropolitan statistical area (MSA) remains highly dependent on manufacturing. This sector represented 23 percent of employment in the Grand Rapids MSA at mid-year 2003, compared with 16 percent in the **Detroit** MSA and almost 17 percent statewide.
- Home price appreciation slowed noticeably throughout the state in the past two years (see Table 1). Slower appreciation and decreased refinancing activity due to the recent rise in interest rates may constrain consumer spending growth.
- Detroit's commercial real estate market remains weak even though construction across property types has slowed. Net absorption in the retail and warehouse sectors was modestly positive, but job losses contributed to office and apartment space being vacated.
- Office vacancy rates in Detroit remain relatively high because of continued job losses in office-related occupations (see Chart 2).

Autoworker employment losses may accelerate.

- The recent contract between the United Auto Workers union (UAW), the Big Three auto companies, and two large suppliers provided for modest benefit increases and closure or sale of up to 20 facilities, which employ 17,000 workers.¹ The contract reflects that the unionized segment of vehicle manufacturing is grappling with weak profitability, decreasing market share, and large unfunded pension liabilities.
- In addition, nearly half of the 307,000 UAW members at the five companies are eligible to retire within five years, and analysts predict that up to 50,000 positions lost to retirement and resignation will not be filled.² Thus, unionized employment in Michigan likely will decline in the future, and many of these relatively high paying jobs may not be replaced.

¹ "UAW to Face Loss of 50,000 Positions," by Jamie Butters, *Detroit Free Press*, September 23, 2003.

² *Ibid.*

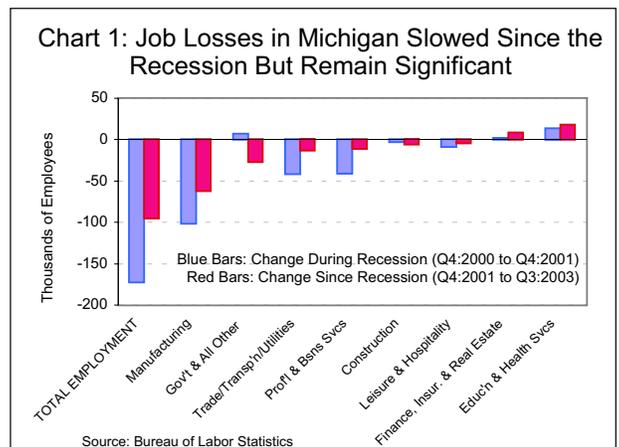
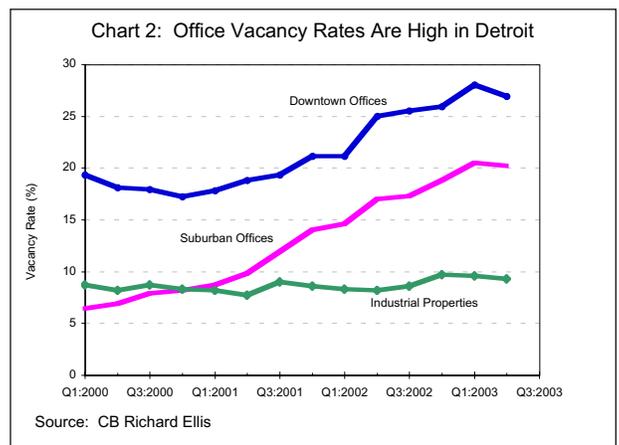


Table 1: Home Price Appreciation Slows Across Michigan

Metropolitan Statistical Area:	Price Index (1995 Q1=100)	Percent change for four quarters ending		
		2001:Q2	2002:Q2	2003:Q2
Benton Harbor	154.3	6.8	5.5	4.9
Lansing-East Lansing	156.8	5.7	5.7	3.6
Kalamazoo-Battle Creek	153.6	6.4	4.9	3.1
Saginaw	154.7	7.0	4.4	2.9
Ann Arbor	166.5	6.8	5.6	2.8
Detroit	171.0	6.6	4.7	2.8
Flint	159.6	5.4	4.5	2.8
Grand Rapids-Muskegon-Holland	153.0	7.0	3.7	2.6
Jackson	167.8	6.5	5.9	2.1
State of Michigan	165.5	6.5	4.8	2.9

Source: Office of Federal Housing Enterprise Oversight



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Profitability rose at Michigan banks.

- Insured institutions headquartered in Michigan, as a group, reported a 1.57 percent return on average assets (ROA) for second quarter 2003, above the 1.32 percent ROA a year earlier (see Table 2). A decline in noninterest expenses and securities gains more than offset the decline in net interest income and negative impact from other components of ROA.
- Noninterest income declined relative to a year earlier because of slightly lower fee income and a drop in other noninterest income. Half the decline in noninterest expenses, a major contributor to the second-quarter rise in ROA, came from lower compensation costs.
- Yields on assets declined faster than the cost of funds, pushing down the net interest income.

Credit quality and charge-off patterns differed between large and small institutions.

- While aggregate past-due and nonaccrual loans decreased for large banks³ to 2.0 percent in June 2003 from 2.4 percent a year earlier, delinquencies increased for community banks⁴ to 3.1 percent from 2.8 percent. The differences in delinquency rates across loan types at community banks, as well as the direction of change in recent years, are shown in Chart 3.
- Net charge-offs by large banks increased to 0.6 percent of total loans as of June 2003 from 0.4 percent a year earlier. Net charge-offs for community banks of 0.3 percent were nearly unchanged.
- The median allowance for loan and lease losses (ALLL) increased slightly from one year ago but has not kept pace with increases in noncurrent loans (see Chart 4).

New charter activity continues in Michigan.

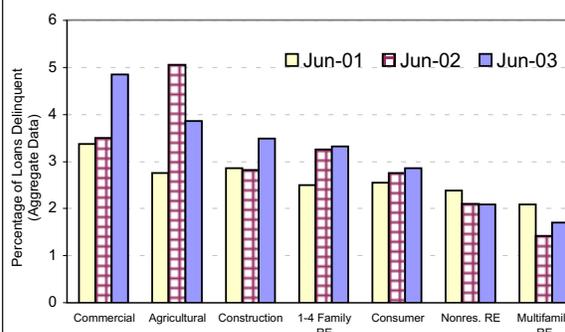
- Largely as a result of past mergers and consolidations in the industry, Michigan is home to nine financial institutions open less than three years and an additional 30 institutions open three to nine years.
- Southeast Michigan continues to see significant new bank activity, with a considerable amount of interest expressed recently by parties about starting new banks or obtaining deposit insurance for existing entities. In contrast, new bank activity slowed in western Michigan in recent years.

Table 2: Net Income (ROA) Rose in Past Year as Components' Contributions Were Mixed

Income statement contribution (as a percentage of average assets)	3 months ended June 30		Basis Point Change
	2002	2003	
Net Interest Income	3.34	3.10	-0.24
Noninterest Income	1.74	1.61	-0.13
Noninterest Expense	-2.92	-2.37	0.55
Provision Expense	-0.32	-0.45	-0.13
Security Gains & Losses	0.19	0.51	0.32
Income Taxes	-0.70	-0.82	-0.12
Net Income (ROA)	1.32	1.57	0.25

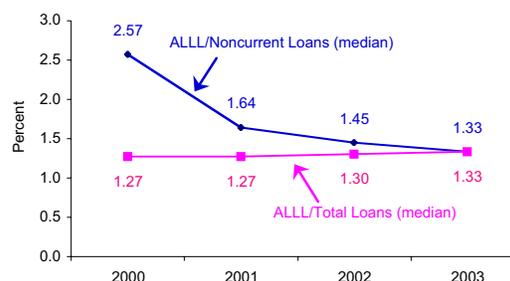
Source: Bank and Thrift Call Reports; aggregate data, all institutions

Chart 3: Delinquent Loans at Community Banks Increased in Most Categories



Source: Bank and Thrift Call Reports; RE = real estate

Chart 4: Allowance for Loan Losses (ALLL) Remained Stable While Coverage of Noncurrent Loans Fell



Source: Bank and Thrift Call Reports, second quarter data, all insured institutions in Michigan

³ Large banks are financial institutions with over \$1 billion in total assets.

⁴ Community institutions are banks and thrifts with assets under \$1 billion that are neither de novo nor specialized institutions.

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Michigan at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	179	181	184	197	193
Total Assets (in thousands)	194,510,760	156,868,113	169,171,663	165,718,600	151,157,054
New Institutions (# < 3 years)	9	13	22	24	23
New Institutions (# < 9 years)	39	39	38	37	33
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.98	8.94	8.93	9.15	9.28
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	2.25%	2.11%	2.06%	1.52%	1.54%
Past-Due and Nonaccrual >= 5%	25	24	26	16	11
ALLL/Total Loans (median %)	1.33%	1.30%	1.27%	1.27%	1.29%
ALLL/Noncurrent Loans (median multiple)	1.33	1.45	1.64	2.57	2.32
Net Loan Losses/Loans (aggregate)	0.56%	0.39%	0.44%	0.21%	0.21%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	13	14	17	16	20
Percent Unprofitable	7.3%	7.7%	9.2%	8.1%	10.4%
Return on Assets (median %)	1.13	1.15	1.07	1.12	1.12
25th Percentile	0.71	0.77	0.76	0.79	0.75
Net Interest Margin (median %)	4.08%	4.36%	4.28%	4.48%	4.43%
Yield on Earning Assets (median)	6.18%	6.99%	8.31%	8.22%	7.88%
Cost of Funding Earning Assets (median)	2.11%	2.67%	3.96%	3.78%	3.48%
Provisions to Avg. Assets (median)	0.20%	0.17%	0.16%	0.14%	0.13%
Noninterest Income to Avg. Assets (median)	0.89%	0.70%	0.70%	0.62%	0.66%
Overhead to Avg. Assets (median)	3.10%	3.06%	3.12%	3.05%	3.19%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	88.78%	90.64%	91.76%	90.31%	84.47%
Loans to Assets (median %)	72.63%	74.48%	75.73%	74.10%	71.00%
Brokered Deposits (# of institutions)	62	67	57	54	40
Bro. Deps./Assets (median for above inst.)	7.50%	6.88%	4.37%	7.18%	3.03%
Noncore Funding to Assets (median)	18.33%	20.15%	21.58%	21.16%	16.64%
Core Funding to Assets (median)	70.59%	68.16%	67.58%	68.26%	72.54%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	102	102	102	103	97
National	26	27	27	34	36
State Member	31	32	34	37	36
S&L	2	2	2	2	2
Savings Bank	13	13	14	14	16
Mutually Insured	5	5	5	7	6
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	78	13,164,058	43.6%	6.8%	
Detroit MI PMSA	39	129,112,184	21.8%	66.4%	
Grand Rapids-Muskegon-Holland MI	19	31,489,207	10.6%	16.2%	
Ann Arbor MI PMSA	12	2,506,030	6.7%	1.3%	
Lansing-East Lansing MI	10	6,837,132	5.6%	3.5%	
Kalamazoo-Battle Creek MI	7	588,105	3.9%	0.3%	
Saginaw-Bay City-Midland MI	5	3,146,203	2.8%	1.6%	
Flint MI PMSA	4	5,926,858	2.2%	3.0%	
Benton Harbor MI	4	1,681,103	2.2%	0.9%	
Jackson MI	1	59,880	0.6%	0.0%	