FDIC State Profile

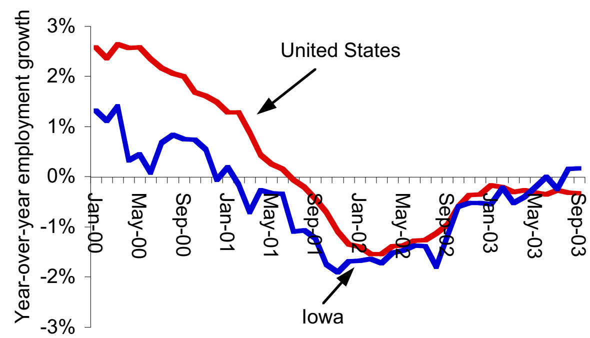
WINTER 2003

Iowa

Employment performance remains mixed in third quarter of 2003.

- The Iowa economy experienced growth in nonfarm employment in both August and September, the first reported since January 2001.
- Job losses continue in the manufacturing sector in the third quarter of 2003, but have begun to be offset by gains in the retail sector, finance, insurance and real estate, and the government sector (see Chart 1).
- Despite increase in total employment, Iowa's unemployment rate increased to 4.6 percent in the third quarter, the highest level experienced since 1992, as the number of workers in the labor force declined in 2002.

Chart 1: Iowa Experiences Job Growth in Third Quarter 2003 After 30 Months of Contraction



Source: Bureau of Labor Statistics/Haver Analytics

Prices are improved for all major commodities in 2003; prospects mixed in 2004.

- Iowa will lead the United States in corn production again in 2003, with record harvests accounting for 18.3 percent of the nation's crop. Iowa will rank second in soybean production, accounting for 14.5 percent of the nation's crop.
- With expected record corn harvest in 2003, corn prices are forecasted to decline in 2004. Soybean prices are forecasted to increase substantially due to a 2003 harvest that is expected to be 10 percent smaller than previous year's (see Chart 2).
- Hog prices will continue to improve in late 2003 and 2004, leading to profits for most hog producers after 14 months of losses. Improving demand and declining cattle numbers will lead to substantially improved prices in that sector.

Chart 2: Corn Prices in Iowa Fare Better in 2003
Expected Large Harvest Implies Lower Prices in 2004

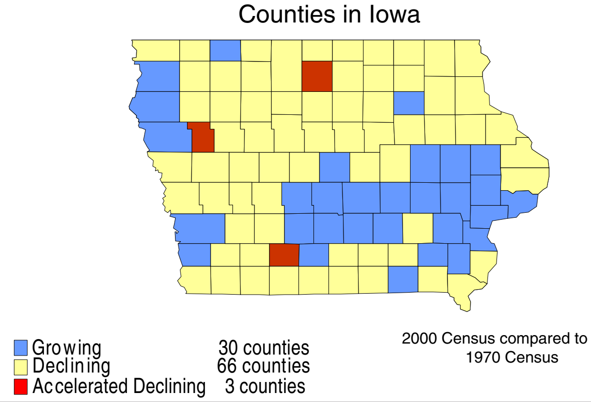
	2001	2002	Est 2003	Proj 2004	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.32	2.10	24%
Soybeans	4.54	4.25	5.53	6.50	18%
Wheat	2.62	2.78	3.56	3.25	0%
Cattle	72.71	67.50	81.35	82.50	17%
Hogs	45.81	33.50	39.73	40.00	29%
Milk	14.97	12.10	12.45	12.00	5%

Note: Grain prices are for marketing year of each crop.
Crop quantities are per bushel; livestock and milk are per hundred weight.
Source: USDA WASDE Oct 10, 2003

Depopulation will continue to affect rural areas in Iowa.

- As shown in Map 1, 69 of Iowa's 99 counties have lost population since 1970, and in three of those counties at an increasing rate during the 1990s.
- 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 may be in danger of losing economic viability, as shrinking tax rolls

Map 1: Depopulation Affects Most Rural Counties in Iowa



may make essential infrastructure, such as utilities and school systems, difficult to maintain.

Community banks headquartered in Iowa continue to report sound asset quality, despite the economic slowdown.

- Relatively moderate levels of noncurrent and past-due loans remain well below levels reported by insured institutions headquartered in other Midwest states. Charge-off rates also remain low.
- Loan loss reserve levels have declined in proportion to total loans, but appear stable relative to the coverage of problem loans (see Chart 3).

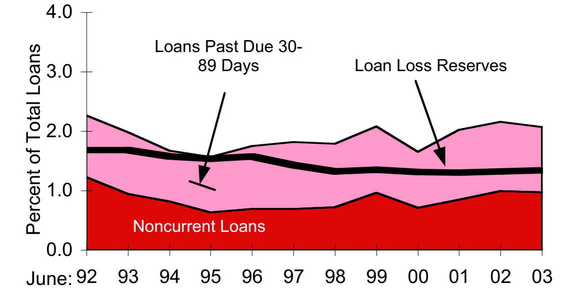
Community banks continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined steadily during the 1990s among community banks headquartered in Iowa, because of strong and increasing loan and funding competition as well as depopulation trends in rural areas (see Chart 4).
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest-rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite dramatic increases in loan-to-asset (LTA) levels.
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels return to historically normal levels.

Community institutions in Iowa continue to face funding challenges.

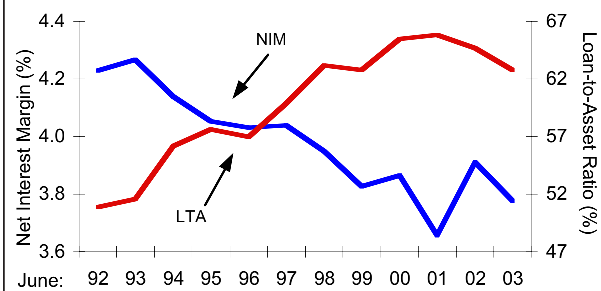
- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 84 percent to 74 percent between June 1993 and June 2003.
- To counter declining deposits, community institutions headquartered in Iowa 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 June 1998 and June 2003, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 13.5 percent to 29.0 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 5, 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 3: Past-Due Loans Remain Relatively Low and Reserves Remain Stable



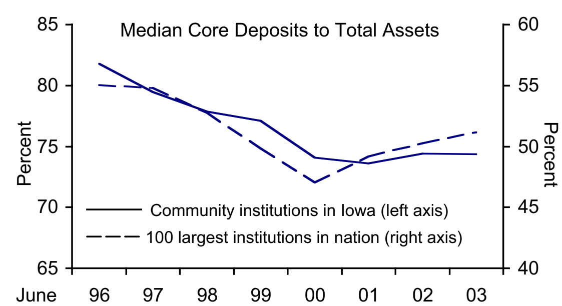
Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in Iowa, excluding de novos and specialty banks

Chart 4: Net Interest Margins Have Eroded Despite Increasing Loan-to-Asset Ratios



Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in Iowa, excluding de novos and specialty banks

Chart 5: 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 Iowa.

Iowa at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	428	436	450	467	465
Total Assets (in thousands)	56,813,951	51,444,908	49,977,728	47,148,260	47,000,509
New Institutions (# < 3 years)	6	13	20	25	24
New Institutions (# < 9 years)	38	40	42	42	33

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.93	8.96	9.14	9.13	9.34

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.70%	1.78%	1.66%	1.34%	1.57%
Past-Due and Nonaccrual > = 5%	35	39	27	22	30
ALLL/Total Loans (median %)	1.28%	1.24%	1.21%	1.22%	1.28%
ALLL/Noncurrent Loans (median multiple)	1.75	1.64	1.97	2.51	2.02
Net Loan Losses/Loans (aggregate)	0.18%	0.25%	0.24%	0.15%	0.13%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	13	19	14	20	27
Percent Unprofitable	3.04%	4.36%	3.11%	4.28%	5.81%
Return on Assets (median %)	1.18	1.21	1.05	1.13	1.10
25th Percentile	0.85	0.82	0.73	0.82	0.79
Net Interest Margin (median %)	3.77%	3.94%	3.66%	3.85%	3.77%
Yield on Earning Assets (median)	5.96%	6.78%	7.84%	7.86%	7.54%
Cost of Funding Earning Assets (median)	2.16%	2.83%	4.17%	3.97%	3.75%
Provisions to Avg. Assets (median)	0.07%	0.09%	0.07%	0.07%	0.07%
Noninterest Income to Avg. Assets (median)	0.56%	0.52%	0.52%	0.49%	0.48%
Overhead to Avg. Assets (median)	2.54%	2.52%	2.53%	2.49%	2.47%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	76.11%	78.59%	80.80%	79.67%	74.67%
Loans to Assets (median %)	61.85%	64.74%	65.89%	65.62%	62.71%
Brokered Deposits (# of institutions)	74	64	52	54	56
Bro. Deps./Assets (median for above inst.)	1.66%	2.23%	1.40%	1.19%	1.40%
Noncore Funding to Assets (median)	14.93%	14.95%	15.15%	15.27%	11.54%
Core Funding to Assets (median)	73.56%	73.75%	73.05%	73.40%	76.47%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	300	309	319	331	329
National	52	49	47	48	46
State Member	54	56	60	63	66
S&L	5	5	5	5	5
Savings Bank	17	17	19	20	19
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	336	29,703,212	78.50%	52.28%
Des Moines IA	27	16,163,050	6.31%	28.45%
Cedar Rapids IA	19	1,700,134	4.44%	2.99%
Davenport-Moline-Rock Island IA-IL	11	2,567,628	2.57%	4.52%
Sioux City IA-NE	9	1,620,478	2.10%	2.85%
Iowa City IA	8	2,098,388	1.87%	3.69%
Dubuque IA	7	1,650,658	1.64%	2.91%
Omaha NE-IA	6	530,585	1.40%	0.93%
Waterloo-Cedar Falls IA	5	779,818	1.17%	1.37%