FDIC State Profile

WINTER 2003

Minnesota

Minnesota economy continues to shed jobs, but some sectors experience a turnaround.

- The Minnesota economy continued to lose jobs in the third quarter of 2003, a trend that has continued since July of 2001 (see Chart 1).
- Job losses in the third quarter were most significant in the manufacturing of durable goods, finance, insurance and real estate, and the government sector. Jobs were added in the wholesale and retail sectors for the first time in more than a year, and the non-durable manufacturing sector also reported growth for the quarter.
- Unemployment has fluctuated between 4.3 percent and 4.4 percent for more than a year despite job losses. This suggests that many Minnesota workers are leaving the labor force after they lose their jobs.

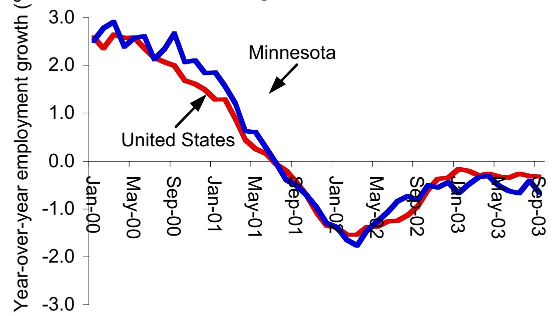


Chart 1: Minnesota Continues to Lose Jobs Throughout 2003

Source: Bureau of Labor Statistics/Haver Analytics

Commercial real estate markets in the Minneapolis MSA have been weakened by the economic downturn.

- A general softening of real estate markets occurred in the ***Minneapolis*** metropolitan area, most notably in office markets, where vacancy rates have increased substantially during the past three years (see Chart 2).
- Office vacancy rates in the metropolitan area increased from 18.6 percent at third quarter 2002 to 18.7 percent in third quarter 2003, reflecting weak absorption trends and an abundance of sublease space.
- Vacancy rates in the area's industrial real estate market also have increased, but considerably less than that observed in comparably sized markets throughout the country.

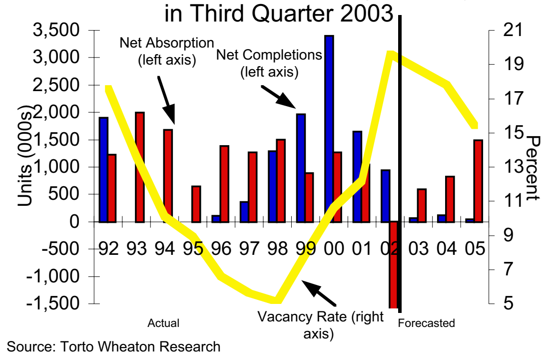


Chart 2:The Minneapolis Office Experiences Positive Absorption and Declining Vacancy Rates in Third Quarter 2003

Source: Torto Wheaton Research

Higher prices for Minnesota's major agricultural commodities point to improved farm income in 2003.

- Near ideal growing conditions in the summer of 2003 imply record harvests of both corn and soybeans.
- If expected harvests are realized, corn and soybean prices will likely decline from the heights of 2003, but still be higher than the 2000-2003 period.
- Results for cattle and hogs improved moderately in 2003, and are expected to improve substantially in both sectors as declining supplies support higher prices. The dairy sector will continue to suffer the lowest prices experienced in more than 20 years, the result of continuing overproduction (see Chart 3).

Chart 3: Farm Incomes Improve in 2003 Outlook Varied for 2004

	2001	2002	Est 2003	Proj 2004	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.32	2.10	18%
Soybeans	4.54	4.25	5.53	6.50	18%
Wheat	2.62	2.78	3.56	3.25	3%
Cattle	72.71	67.50	81.35	82.50	12%
Hogs	45.81	33.50	39.73	40.00	14%
Milk	14.97	12.10	12.45	12.00	14%

Note: Grain prices are for marketing year of each crop.
Crop quantities are per bushel; livestock and milk are per hundredweight

Source: USDA July 2003

Softening commercial real estate markets challenge the state's metropolitan commercial lenders.

- Many insured institutions in the Minneapolis-St. Paul metropolitan area have increased reliance on commercial real estate (CRE) loans during the past two years (see Chart 4).
- This increased exposure has occurred as the area's 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 March 2003 median loan delinquency ratio was a relatively low 1.6 percent, unchanged from two years ago. Moreover, the proportion of insured institutions reporting delinquency ratios exceeding 5 percent has risen from 7.14 percent to 9.20 percent over the same period.

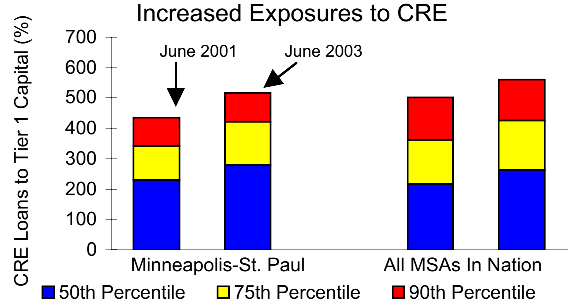
Community banks headquartered in Minnesota continue to report sound asset quality, despite the economic slowdown.

- Noncurrent and past-due loan levels remain moderate and have not risen noticeably among most insured institutions (see Chart 5). Charge-off rates also remain low.
- Loan-loss reserve levels have declined in proportion to total loans, but are stable relative to the level of problem loans.

Community institutions in Minnesota 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 77 percent between June 1993 and June 2003.
- To counter declining deposits, community institutions headquartered in Minnesota 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 7.8 percent to 15.4 percent.

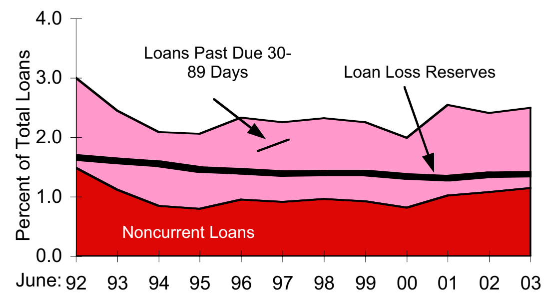
Chart 4: Institutions in the Minneapolis MSA Have Increased Exposures to CRE



CRE loans are loans made for construction or development, multifamily housing or nonresidential real estate.

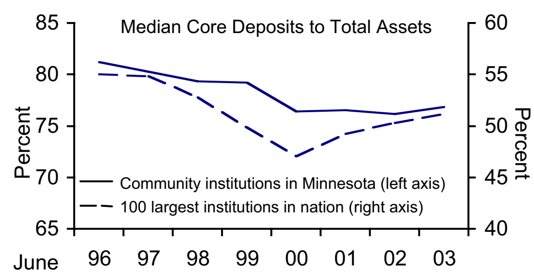
Source: Bank and Thrift Call Reports, excluding new and specialty banks

Chart 5: Past-Due Loans Remain Relatively Low and Reserves Remain Stable



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

Chart 6: 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 Minnesota.

- 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 6, 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.

Minnesota at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	486	494	509	522	529
Total Assets (in thousands)	114,063,998	110,610,592	176,229,619	182,794,627	151,851,451
New Institutions (# < 3 years)	10	16	21	20	18
New Institutions (# < 9 years)	35	33	36	32	31

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.01	9.00	8.88	8.91	8.93

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	2.05%	1.91%	2.10%	1.57%	1.77%
Past-Due and Nonaccrual > = 5%	59	63	57	37	48
ALLL/Total Loans (median %)	1.28%	1.26%	1.23%	1.27%	1.33%
ALLL/Noncurrent Loans (median multiple)	1.62	1.78	1.58	2.19	2.09
Net Loan Losses/Loans (aggregate)	0.14%	0.30%	1.09%	0.53%	0.57%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	18	24	28	23	22
Percent Unprofitable	3.70%	4.86%	5.50%	4.41%	4.16%
Return on Assets (median %)	1.29	1.24	1.15	1.22	1.12
25th Percentile	0.85	0.84	0.76	0.85	0.79
Net Interest Margin (median %)	4.30%	4.48%	4.38%	4.53%	4.37%
Yield on Earning Assets (median)	6.23%	6.99%	8.33%	8.35%	7.94%
Cost of Funding Earning Assets (median)	1.90%	2.55%	3.98%	3.80%	3.55%
Provisions to Avg. Assets (median)	0.12%	0.12%	0.11%	0.09%	0.08%
Noninterest Income to Avg. Assets (median)	0.65%	0.60%	0.63%	0.62%	0.61%
Overhead to Avg. Assets (median)	2.97%	2.96%	2.98%	2.93%	2.96%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	79.07%	80.46%	79.96%	79.76%	75.41%
Loans to Assets (median %)	67.08%	67.18%	68.29%	67.30%	63.93%
Brokered Deposits (# of institutions)	133	132	136	137	120
Bro. Deps./Assets (median for above inst.)	3.12%	2.77%	2.65%	3.86%	3.16%
Noncore Funding to Assets (median)	12.64%	13.02%	12.86%	13.18%	10.18%
Core Funding to Assets (median)	75.67%	75.06%	75.54%	75.53%	78.28%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	319	323	332	337	342
National	118	123	126	135	137
State Member	27	26	28	28	28
S&L	10	10	10	10	10
Savings Bank	12	12	13	12	12
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	310	22,402,595	63.79%	19.64%
Minneapolis-St Paul MN-WI	116	85,733,041	23.87%	75.16%
St Cloud MN	21	2,396,740	4.32%	2.10%
Duluth-Superior MN-WI	17	1,134,280	3.50%	0.99%
Rochester MN	6	1,039,189	1.23%	0.91%
Grand Forks ND-MN	6	264,101	1.23%	0.23%
La Crosse WI-MN	5	232,901	1.03%	0.20%
Fargo-Moorhead ND-MN	5	861,151	1.03%	0.75%