

FDIC State Profile

WINTER 2003

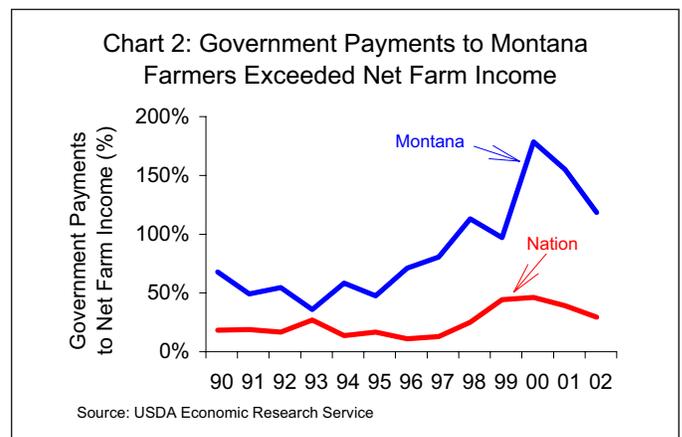
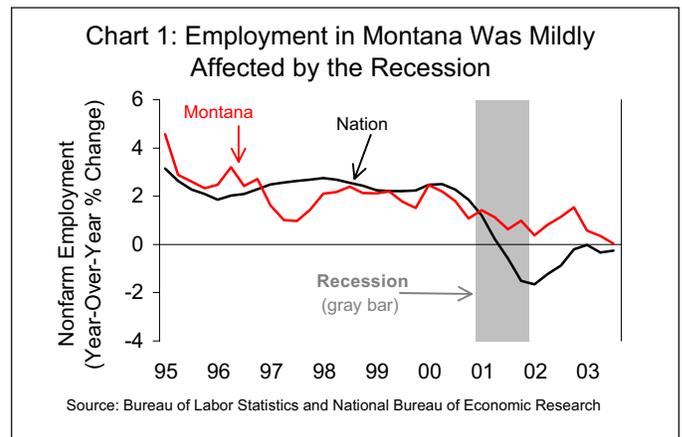
Montana

Nonfarm employment growth continued to slow in Montana.

- Nonagricultural employment grew a scant 0.07 percent year-over-year as of the third quarter, surpassing the 0.36 percent employment decline at the national level, but significantly less than the 1.18 percent employment growth rate posted for third quarter 2001 to third quarter 2002. (see Chart 1).
- Employment growth was centered in the educational and health services, financial, and government sectors, which exceeded the number of jobs lost in the manufacturing sector.
- The manufacturing sector decreased by 7.3 percent year-over-year as of third quarter 2003, primarily because of weakness in forest products. Production workers accounted for about 40 percent of the workers in Montana's forest product industry, with the remaining workforce in logging, trucking and other related jobs.¹ Montana's forest products industry was adversely affected by low timber prices related to weak foreign demand. Mill closures were announced in *Libby* and *Belgrade*, resulting in the loss of more than 400 jobs.

The Montana economy relies heavily on the agricultural sector.²

- Although Montana continued to suffer from a drought, 2003 crop reports were largely positive. Wheat production was 25 percent above 2002 levels, attributed to a bumper winter wheat crop.³ However, much of the state will continue to suffer from a hydrological drought, even if fourth quarter 2003 precipitation is average.
- Cattle prices soared 25 percent year-over-year as of third quarter 2003. The cessation of beef imports from Canada coupled with strong domestic demand for beef forced prices higher.⁴ Cattle and wheat accounted for 72 percent of Montana's 2002 farm receipts.



- Government subsidy payments to agricultural producers in Montana dramatically increased over the last decade and approximated or exceeded net farm income from 1998 through 2002. In 2002, government payments accounted for 120 percent of net farm income, almost 4 times the national average (see Chart 2).

¹ "Report: Cutbacks Spur Jump in Lumber Industry," *The Missoulian*, June 20, 2003

² Agriculture represented 3.8 percent of Montana's 2001 Gross State Product.

³ "Total Wheat Production up in Montana This Year," *Billings Gazette*, September 30, 2003

⁴ Gransbery, Jim, "Drought Effects Haven't Been Brutal on Ag Producers," *Billings Gazette*, October 26, 2003

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Montana's insured institutions, especially farm lenders, have high levels of delinquent loans.

- Loan delinquency levels among Montana's forty agricultural lenders have been climbing since 2001, and stand at a relatively high level of 3.46 percent, compared to a nationwide median ratio of 2.33 percent for banks holding agricultural loans in excess of 100 percent of Tier 1 Capital as of June 30, 2003 (see Chart 3).
- The second quarter 2003 median past-due and nonaccrual to total loans ratio was 2.71 percent for Montana's 82 insured institutions, substantially above the corresponding 1.83 percent ratio for insured institutions nationwide.

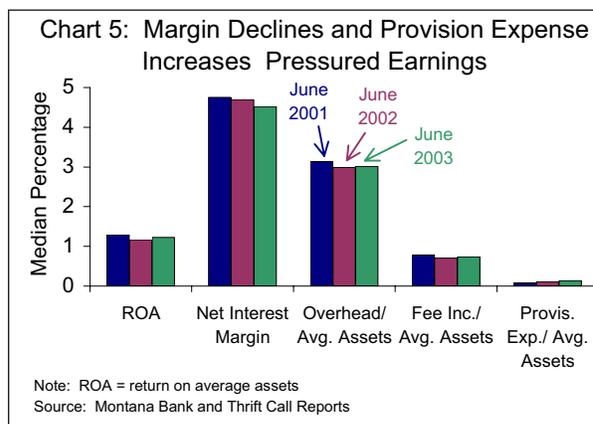
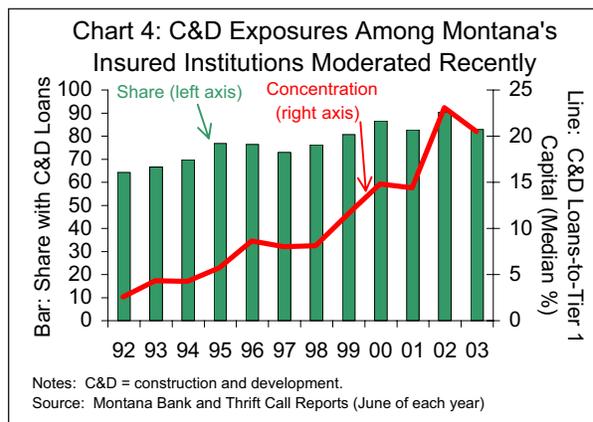
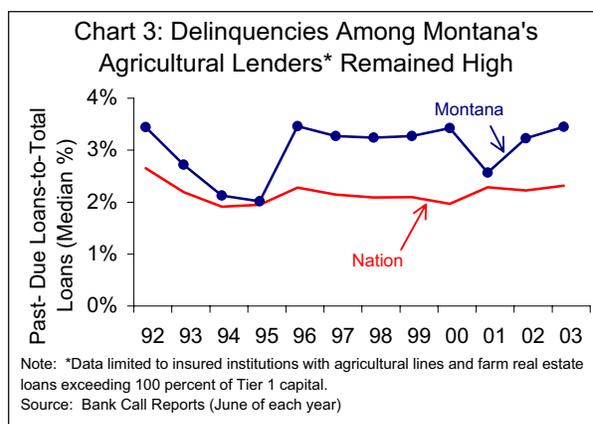
Slower growth in construction activity may have contributed to a decrease in construction and development (C&D) lending reported by insured institutions headquartered in Montana.

- Construction activity, especially housing construction, continued to grow, albeit at a slower rate. As of second quarter 2003, single family home permits grew 9 percent year-over-year, down from the 16 percent year-over-year growth rate experienced in second quarter 2002.
- After more than a decade of steady increase, C&D lending moderated among insured institutions headquartered in Montana in the past year, perhaps related to slower growth in residential construction (see Chart 4). As of second quarter 2003, the median C&D loan-to-Tier 1 capital ratio was 20.2 percent, down from 22.8 percent one year earlier.

Montana's insured institutions exhibited strong earnings performance, despite lower interest rates over the last 18 months.

- Insured institutions headquartered in Montana reported a median after-tax return on average assets (ROA) ratio of 1.23 percent through June 30, 2003, 16 percent above the 1.06 percent median ROA for insured institutions nationwide.
- Montana's strong earnings performance relative to the nation resulted from higher yields on assets, lower funding costs, and above average fee income. In addition, 28 percent of Montana institutions have elected Subchapter S status. The median pre-tax ROA, which is more comparable with institutions that have elected Subchapter S tax status,⁵

⁵ Pre-tax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S status. Twenty-three of Montana's 82 insured institutions have elected Subchapter S status, which eliminates income tax at the bank level.



was 1.96 percent, comparing favorably to a national median of 1.45 percent.

- Although Montana's insured institutions reported strong earnings performance relative to the nation, lower interest rates have pressured earnings. The net interest margin decreased from 4.70 percent to 4.52 percent year-over-year as of June 30, 2003, but remained well above the median net interest margin of 4.00 percent for insured institutions nationwide (see Chart 5).

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Montana at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	82	84	87	90	93
Total Assets (in thousands)	14,545,382	13,461,467	12,603,429	11,996,342	11,421,111
New Institutions (# < 3 years)	4	2	3	1	2
New Institutions (# < 9 years)	7	5	5	3	4
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.54	9.47	9.72	9.87	9.74
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	2.71%	2.71%	2.58%	2.25%	2.57%
Past-Due and Nonaccrual ≥ 5%	15	18	19	13	19
ALLL/Total Loans (median %)	1.44%	1.46%	1.39%	1.44%	1.53%
ALLL/Noncurrent Loans (median multiple)	1.18	1.30	1.23	1.51	1.44
Net Loan Losses/Loans (aggregate)	0.17%	0.19%	0.13%	0.17%	0.21%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	3	2	1	1	3
Percent Unprofitable	3.66%	2.38%	1.15%	1.11%	3.23%
Return on Assets (median %)	1.23	1.17	1.29	1.37	1.19
25th Percentile	0.92	0.87	0.98	1.04	0.95
Net Interest Margin (median %)	4.52%	4.70%	4.75%	5.08%	4.91%
Yield on Earning Assets (median)	6.29%	7.10%	8.50%	8.67%	8.24%
Cost of Funding Earning Assets (median)	1.68%	2.36%	3.72%	3.52%	3.42%
Provisions to Avg. Assets (median)	0.14%	0.12%	0.08%	0.06%	0.08%
Noninterest Income to Avg. Assets (median)	0.74%	0.70%	0.79%	0.71%	0.73%
Overhead to Avg. Assets (median)	3.02%	2.99%	3.14%	3.09%	3.15%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	78.34%	76.95%	77.82%	78.10%	74.77%
Loans to Assets (median %)	64.16%	65.40%	65.82%	66.49%	63.20%
Brokered Deposits (# of institutions)	9	10	8	10	10
Bro. Deps./Assets (median for above inst.)	5.59%	3.59%	1.28%	0.67%	1.02%
Noncore Funding to Assets (median)	14.29%	14.93%	15.47%	16.54%	12.56%
Core Funding to Assets (median)	73.39%	73.40%	73.68%	73.39%	75.99%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	31	31	32	35	35
National	15	16	17	18	18
State Member	33	33	34	32	35
S&L	2	2	2	2	2
Savings Bank	1	2	2	3	3
Mutually Insured	0	0	0	0	0
MSA Distribution		# of Inst.	Assets	% Inst.	% Assets
No MSA		67	6,801,793	81.71%	46.76%
Billings MT		6	6,582,359	7.32%	45.25%
Great Falls MT		5	400,572	6.10%	2.75%
Missoula MT		4	760,658	4.88%	5.23%