

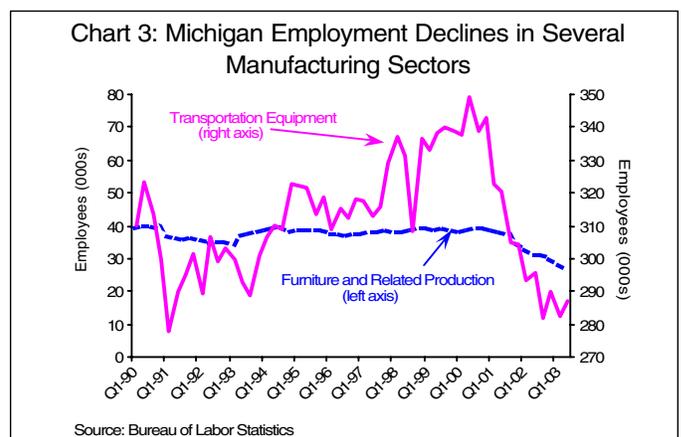
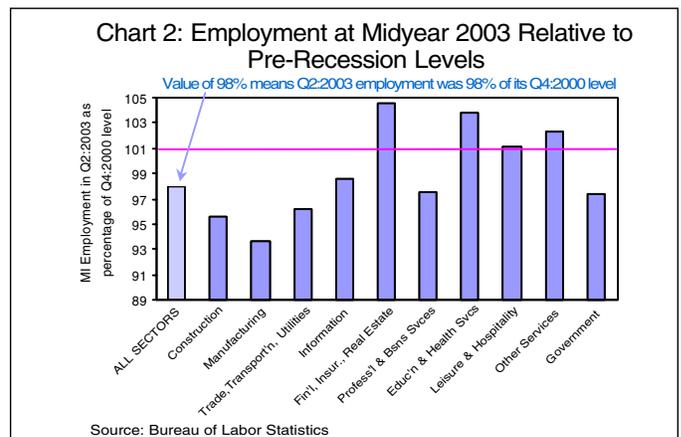
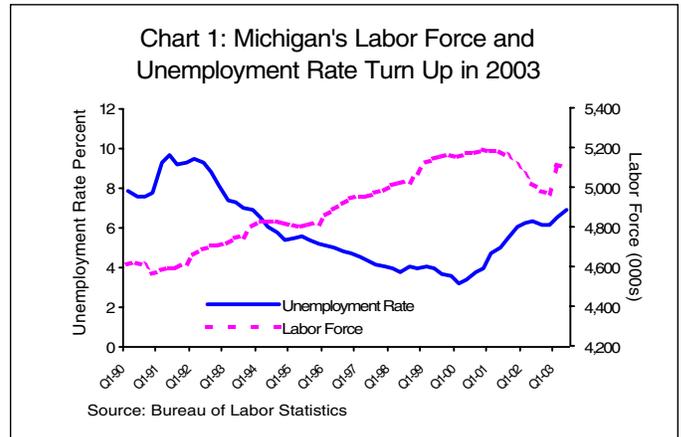
FDIC State Profile

FALL 2003

Michigan

Several major sectors in Michigan face challenges in 2003.

- After holding in the 6.0 percent to 6.3 percent range in 2002, Michigan's unemployment rate rose to 6.5 percent in first quarter 2003, 6.9 percent in second quarter, and 7.4 percent in July. Expansion of the state's labor force, after two years of shrinkage, contributed to the rise (see Chart 1).
- Manufacturing as well as the trade, transportation, and utilities sectors continued laying off workers, albeit more slowly than during the recession. Recent employment levels relative to late 2000 levels were quite uneven among sectors, as shown in Chart 2.
- Michigan remains heavily exposed to transportation equipment production, which accounts for 6.4 percent of statewide jobs, substantially above the 1.4 percent national share of employment. The sector's near-term growth may be limited, as vehicle sales slowed modestly in the first half of 2003, despite incentives that reportedly rose to near \$4,000 per vehicle.
- In addition to substantial incentives, profits of motor-vehicle firms suffer from ongoing pressures via labor contracts, pension obligations, and competition. Firms' consequent plans to cut salary-related expenses follow production-line job losses in recent years (see Chart 3). United Auto Workers negotiations with GM and Ford began in July, as union contracts with major producers of vehicles and parts were scheduled to expire in mid-September.
- Major Michigan-based manufacturers of office furniture reported significant losses recently. Herman Miller, Inc. plans to relocate an out-of-state operation to Spring Lake (MI), which could provide 370 jobs in the area. However, this modest employment gain pales in comparison with the loss of 5,700 jobs, or 25 percent of employment in the state's office-furniture sector, in the year ending second quarter 2003 (see Chart 3).



State Profile

Michigan's banks and thrifts perform well.

- Michigan is headquarters to 179 insured financial institutions with assets totaling near \$172 billion. Community institutions¹ account for 84 percent of the state's institutions, but only 18 percent of total assets.
- Profitability of community institutions remained fairly steady. As of March 31, 2003, the median return on assets was 1.14 percent, the high end of the past five years' range (see bars in Chart 4), and second highest among states in the Chicago Region.²
- The median net interest margin (NIM) among Michigan's community banks continued its declining trend, but at 4.16 percent in first quarter 2003, sustained a positive gap relative to other community institutions in the region (see lines in Chart 4).
- Higher NIMs of Michigan community institutions may partly stem from their relatively large share of commercial real estate³ (CRE) loans. CRE represents 36 percent of loans in Michigan's community institutions (see Chart 5), compared with 32 percent in the Chicago Region.
- Michigan banks' median loan-to-asset ratio of 73 percent, compared with the regional median of 66 percent (as of March 2003), also contributed to higher profitability.
- Community banks' allowance for loan and lease loss (ALLL) levels increased slightly to a median 1.34 percent in first quarter. However, growth in nonperforming loans has outpaced ALLL growth in recent years.
- The 2001 recession and the subsequent moderate economic growth contributed to rising loan delinquencies at institutions of all sizes. Large banks in MI (those with assets over \$1 billion) reported lower rates of past-due and nonaccrual loans on March 31, 2003, than established community banks for all loan categories (see Chart 6). To some extent, this current comparison reflects that large institutions charged off a higher percentage of loans and leases in recent years.

Chart 4: MI Community Institutions Show Higher NIM and ROA than Regional Counterparts

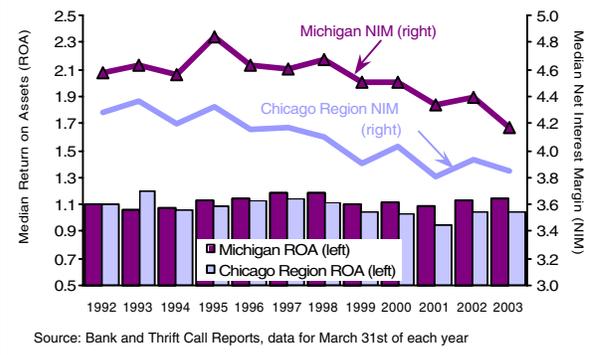


Chart 5: Commercial Real Estate Loans Dominate Loan Portfolios of MI Community Institutions

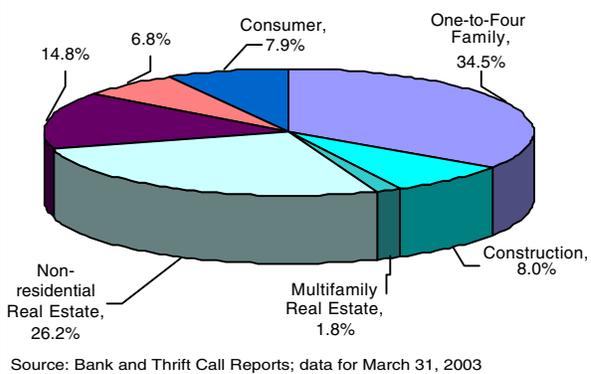
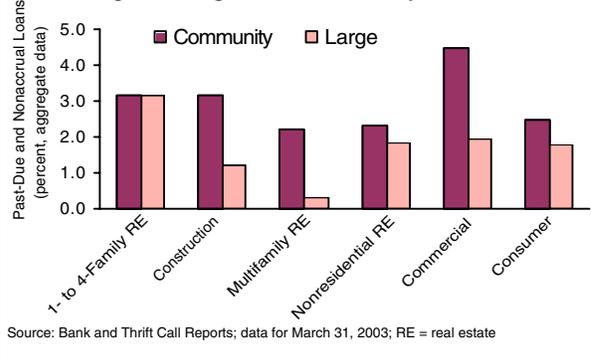


Chart 6: Loan Delinquency Rates Vary Between Michigan's Large and Community Institutions



¹ Insured institutions with less than \$1 billion in assets, excluding new (<3 years old) and specialty banks.

² Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

³ Construction, Multifamily, and Nonresidential Real Estate Loans.

State Profile

Michigan at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	179	181	186	198	192
Total Assets (in thousands)	172,435,265	173,233,717	178,471,462	161,493,810	147,784,309
New Institutions (# < 3 years)	10	13	22	23	22
New Institutions (# < 9 years)	39	38	39	37	32
Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.01	8.89	8.94	9.16	9.34
Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.39%	2.21%	1.90%	1.69%	1.66%
Past-Due and Nonaccrual > = 5%	27	25	18	14	13
ALLL/Total Loans (median %)	1.34%	1.31%	1.28%	1.31%	1.31%
ALLL/Noncurrent Loans (median multiple)	1.44	1.56	1.77	2.34	2.24
Net Loan Losses/Loans (aggregate)	0.49%	0.57%	0.45%	0.20%	0.26%
Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	15	18	18	21	20
Percent Unprofitable	8.38%	9.94%	9.68%	10.61%	10.42%
Return on Assets (median %)	1.13	1.11	0.97	1.08	1.09
25th Percentile	0.70	0.81	0.68	0.72	0.75
Net Interest Margin (median %)	4.09%	4.33%	4.23%	4.44%	4.38%
Yield on Earning Assets (median)	6.24%	6.99%	8.39%	8.08%	7.81%
Cost of Funding Earning Assets (median)	2.18%	2.76%	4.14%	3.72%	3.51%
Provisions to Avg. Assets (median)	0.18%	0.17%	0.14%	0.13%	0.13%
Noninterest Income to Avg. Assets (median)	0.86%	0.71%	0.66%	0.59%	0.64%
Overhead to Avg. Assets (median)	3.10%	3.09%	3.11%	3.05%	3.16%
Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	88.08%	88.65%	90.72%	88.01%	81.18%
Loans to Assets (median %)	72.16%	72.74%	74.70%	73.14%	69.07%
Brokered Deposits (# of institutions)	63	61	56	54	40
Bro. Deps./Assets (median for above inst.)	8.49%	6.55%	4.91%	5.34%	4.04%
Noncore Funding to Assets (median)	18.77%	20.38%	21.56%	19.52%	15.07%
Core Funding to Assets (median)	70.21%	68.44%	66.29%	69.50%	72.49%
Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	102	101	102	102	96
National	26	27	28	36	36
State Member	31	33	35	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	13,057,167	43.58%	7.57%	
Detroit MI PMSA	39	108,752,972	21.79%	63.07%	
Grand Rapids-Muskegon-Holland MI	19	30,609,056	10.61%	17.75%	
Ann Arbor MI PMSA	12	2,417,245	6.70%	1.40%	
Lansing-East Lansing MI	10	6,502,503	5.59%	3.77%	
Kalamazoo-Battle Creek MI	7	579,133	3.91%	0.34%	
Saginaw-Bay City-Midland MI	5	3,002,105	2.79%	1.74%	
Flint MI PMSA	4	5,772,751	2.23%	3.35%	
Benton Harbor MI	4	1,682,393	2.23%	0.98%	
Jackson MI	1	59,940	0.56%	0.03%	