FDIC **State Profile**

**FALL 2003**

# Iowa

### Iowa's employment remains weak in 2003.

- Iowa's economy has continued to shed jobs in the first six months of 2003, perpetuating a trend of decline that began in February 2001 (see Chart 1).
- Job losses continue to be most significant in the manufacturing and wholesale sectors. In both areas, the year-over-year declines in employment worsened in the second quarter compared to the first.
- Unemployment in the second quarter 2003 rose to 4.3 percent, compared to 3.0 percent in the first quarter.

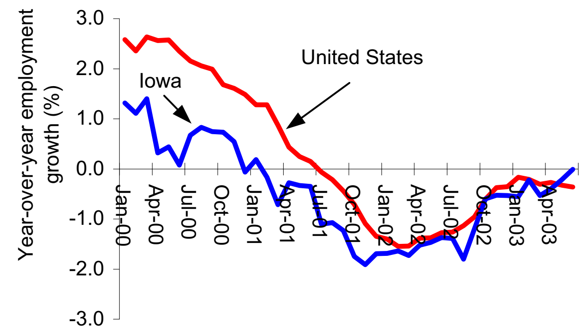
### Prices are improved for all major commodities in 2003, while prospects are mixed in 2004.

- Iowa will lead the United States in corn and soybean acreage again in 2003, with record harvests possible in both commodities, a result of nearly ideal growing conditions (see Chart 2).
- If expected harvests are realized, corn and soybean prices should decline from the heights of 2003, but should still be higher than the 2000-2003 period.
- Hog prices are expected to 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 should lead to substantially improved prices in that sector.

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

Chart 1: Iowa Has Lost Jobs Since Early 2001, but the Rate of Contraction Has Slowed



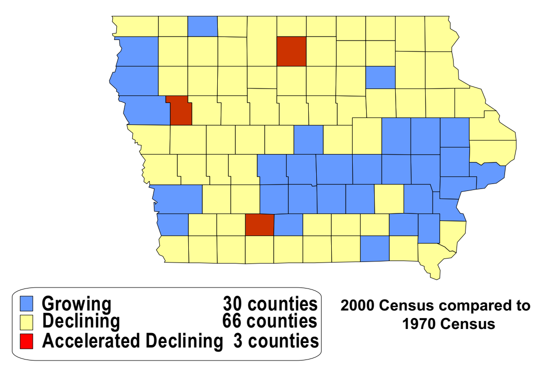

Source: Bureau of Labor Statistics

**Chart 2: Crop Prices 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 | 2.30 | 2.10 | 18% |
| Soybeans | 4.54 | 4.25 | 5.50 | 4.85 | 16% |
| Wheat | 2.62 | 2.78 | 3.56 | 3.10 | 3% |
| Cattle | 72.71 | 67.50 | 76.00 | 80.00 | 11% |
| Hogs | 45.81 | 33.50 | 39.50 | 42.50 | 17% |
| Milk | 14.97 | 12.10 | 11.75 | 11.65 | 16% |

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

Map 1: Depopulation Affects Most Rural Counties in Iowa



**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).

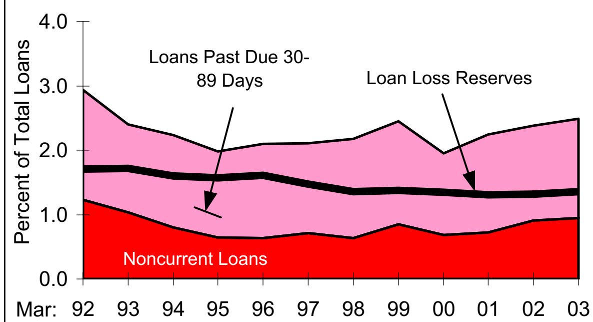
**Community banks continue to face challenges in maintaining net interest margins.**

- 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.**

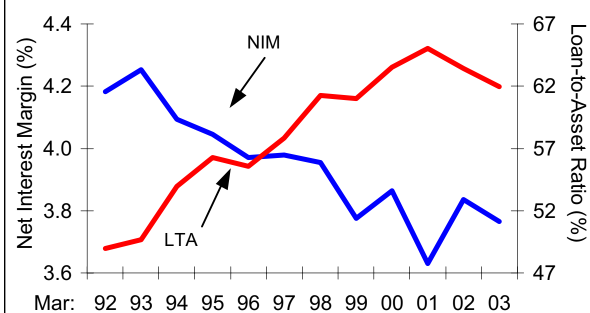
- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 85 percent to 75 percent between March 1993 and March 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 March 1998 and March 2003, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 10.8 percent to 26.0 percent.
- The weak economy and significant declines in the stock market have prompted a substantial shift of 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



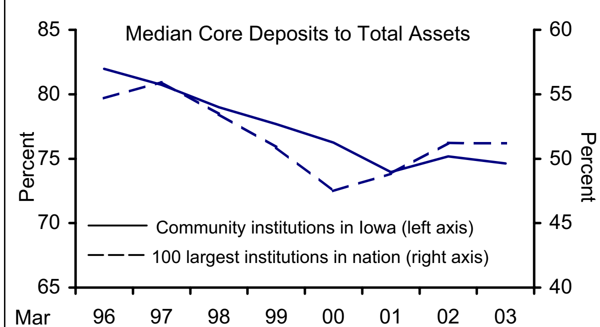

Source: Bank and Thrift Call Reports, commercial banks with assets less than $250 million headquartered in Iowa, excluding de novos and specialty banks

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




Source: Bank and Thrift 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 | Mar-03 | Mar-02 | Mar-01 | Mar-00 | Mar-99 |
|---|---|---|---|---|---|
| Institutions (#) | 431 | 437 | 452 | 468 | 466 |
| Total Assets (in thousands) | 56,188,883 | 51,562,080 | 49,998,762 | 49,466,367 | 49,301,435 |
| New Institutions (# < 3 years) | 7 | 14 | 21 | 25 | 22 |
| New Institutions (# < 9 years) | 40 | 40 | 42 | 41 | 31 |

| Capital | Mar-03 | Mar-02 | Mar-01 | Mar-00 | Mar-99 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median) | 8.96 | 8.90 | 9.14 | 9.27 | 9.16 |

| Asset Quality | Mar-03 | Mar-02 | Mar-01 | Mar-00 | Mar-99 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual (median %) | 2.10% | 1.97% | 1.79% | 1.57% | 1.93% |
| Past-Due and Nonaccrual >= 5% | 53 | 46 | 40 | 33 | 45 |
| ALLL/Total Loans (median %) | 1.29% | 1.25% | 1.21% | 1.25% | 1.32% |
| ALLL/Noncurrent Loans (median multiple) | 1.95 | 1.78 | 2.41 | 2.71 | 2.27 |
| Net Loan Losses/Loans (aggregate) | 0.17% | 0.22% | 0.20% | 0.15% | 0.09% |

| Earnings | Mar-03 | Mar-02 | Mar-01 | Mar-00 | Mar-99 |
|---|---|---|---|---|---|
| Unprofitable Institutions (#) | 14 | 20 | 19 | 28 | 24 |
| Percent Unprofitable | 3.25% | 4.58% | 4.20% | 5.98% | 5.15% |
| Return on Assets (median %) | 1.17 | 1.17 | 1.03 | 1.06 | 1.07 |
| 25th Percentile | 0.81 | 0.80 | 0.71 | 0.75 | 0.71 |
| Net Interest Margin (median %) | 3.75% | 3.87% | 3.63% | 3.85% | 3.72% |
| Yield on Earning Assets (median) | 6.00% | 6.76% | 7.88% | 7.75% | 7.48% |
| Cost of Funding Earning Assets (median) | 2.21% | 2.91% | 4.24% | 3.87% | 3.74% |
| Provisions to Avg. Assets (median) | 0.06% | 0.07% | 0.06% | 0.06% | 0.04% |
| Noninterest Income to Avg. Assets (median) | 0.54% | 0.51% | 0.50% | 0.49% | 0.48% |
| Overhead to Avg. Assets (median) | 2.54% | 2.55% | 2.53% | 2.58% | 2.46% |

| Liquidity/Sensitivity | Mar-03 | Mar-02 | Mar-01 | Mar-00 | Mar-99 |
|---|---|---|---|---|---|
| Loans to Deposits (median %) | 74.80% | 76.50% | 78.94% | 74.64% | 72.68% |
| Loans to Assets (median %) | 62.09% | 63.59% | 64.95% | 63.52% | 61.33% |
| Brokered Deposits (# of Institutions) | 74 | 60 | 51 | 52 | 61 |
| Bro. Deps./Assets (median for above inst.) | 1.48% | 1.59% | 1.20% | 1.34% | 1.16% |
| Noncore Funding to Assets (median) | 14.64% | 14.44% | 15.08% | 12.85% | 10.87% |
| Core Funding to Assets (median) | 73.54% | 74.62% | 73.18% | 75.63% | 77.33% |

| Bank Class | Mar-03 | Mar-02 | Mar-01 | Mar-00 | Mar-99 |
|---|---|---|---|---|---|
| State Nonmember | 302 | 307 | 322 | 332 | 331 |
| National | 51 | 48 | 46 | 47 | 49 |
| State Member | 55 | 58 | 60 | 64 | 61 |
| S&L | 5 | 5 | 5 | 5 | 5 |
| Savings Bank | 18 | 19 | 19 | 20 | 20 |
| Mutually Insured | 0 | 0 | 0 | 0 | 0 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| No MSA | 338 | 29,977,707 | 78.42% | 53.35% |
| Des Moines IA | 26 | 15,387,327 | 6.03% | 27.39% |
| Cedar Rapids IA | 19 | 1,646,587 | 4.41% | 2.93% |
| Davenport-Moline-Rock Island IA-IL | 11 | 2,403,406 | 2.55% | 4.28% |
| Sioux City IA-NE | 9 | 1,641,779 | 2.09% | 2.92% |
| Iowa City IA | 8 | 2,070,141 | 1.86% | 3.68% |
| Waterloo-Cedar Falls IA | 7 | 907,478 | 1.62% | 1.62% |
| Dubuque IA | 7 | 1,625,053 | 1.62% | 2.89% |
| Omaha NE-IA | 6 | 529,405 | 1.39% | 0.94% |