FDIC State Profile
FALL 2003

Kansas

Kansas's employment situation continues to deteriorate in the second quarter of 2003.

- While the Kansas economy added jobs in February of 2003, the first growth experienced since August 2001, the gains were overwhelmed by losses in the subsequent four months (see Chart 1).
- Weakness continued to be most pronounced in the manufacturing sector. Government employment grew in the first five months of 2003, but declined sharply in June as a result of job cuts necessitated by the state's budget difficulties.
- Employment in 2003 has remained lower than year-ago levels, but reached a six-month high in June.

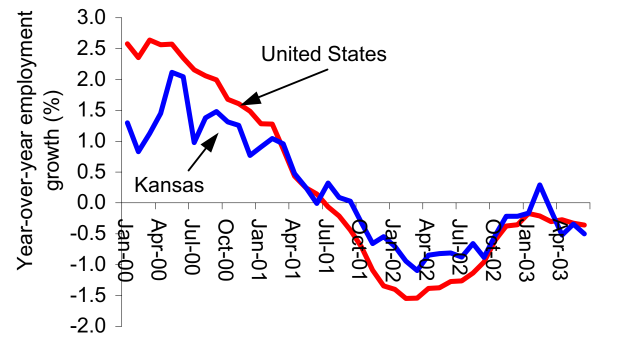
The Kansas City office market continues to soften in 2003.

- The Kansas City metropolitan area office market continues to weaken in 2003 with vacancy rates of 19.2 percent at the second quarter 2003, considerably higher than the 16.2 percent vacancy rate reported one year ago (see Chart 2).
- Office rental rates declined 6.5 percent during 2002, and are not expected to improve significantly until 2004.

Depopulation in rural areas continues to be a challenge.

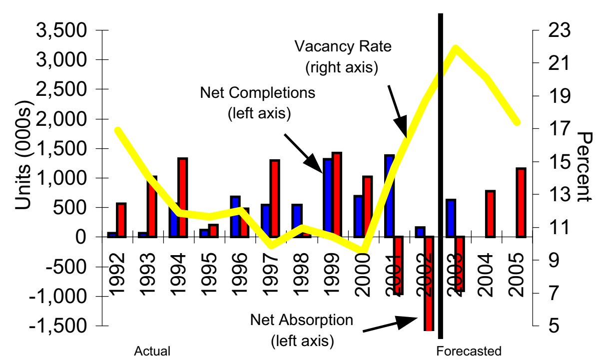
- Sixty-seven of 105 counties in Kansas have lost population since 1970, and in 22 of those counties at an increasing rate in the 1990s (see Map 1).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby 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 lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.

Chart 1: Employment Gains in Early 2003 Have Been Erased in Subsequent Months



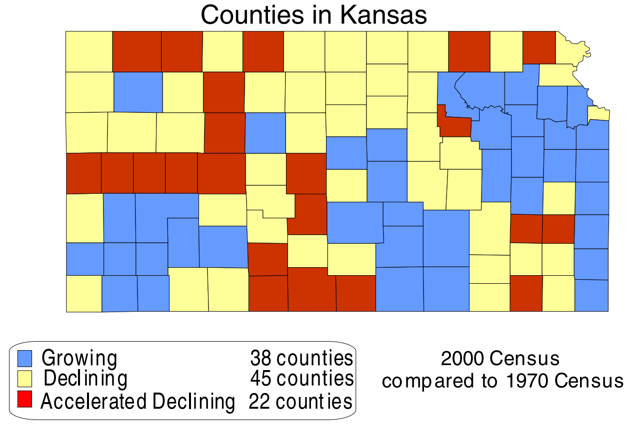
Source: Bureau of Labor Statistics

Chart 2: Kansas City Office Market Vacancies Continue to Climb in the Second Quarter 2003



Source: Torto Wheaton Research

Map 1: Depopulation Affects Most Rural Counties in Kansas



Continuing drought conditions are contributing to weakening asset quality among many of the state's farm banks.

- Northern Kansas remains in "moderate" drought, following "moderate" to "severe" drought conditions in 2001 and 2002. These weather problems follow four years of very low crop prices that left many farm banks with substantial levels of carryover debt.
- Chart 3 shows that farm banks in areas of prolonged drought (predominately in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by the drought.
- On a positive note, the March 2003 median capital ratio of 10.2 percent reported by banks headquartered in Kansas remains high by historical standards and well above levels during the 1980s farm crisis and 1988 drought.

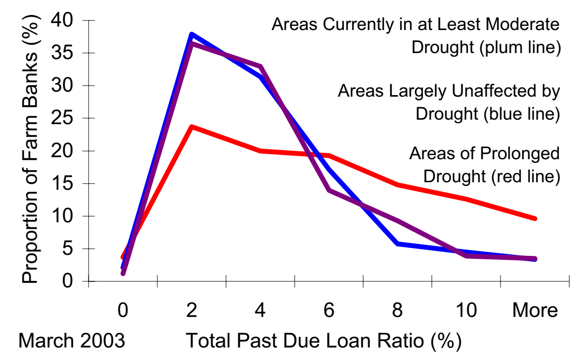
Softening commercial real estate markets are a concern to metropolitan commercial lenders headquartered in Kansas.

- Many institutions operating in the state's largest metropolitan markets have increased reliance on commercial real estate (CRE) loans during the past two years (see Chart 4).
- This increased exposure has come as metropolitan CRE markets, most notably office and industrial, softened significantly during the past two years. Office vacancy rates have risen to the highest level in nearly a decade.

Community institutions in Kansas continue to face funding challenges.

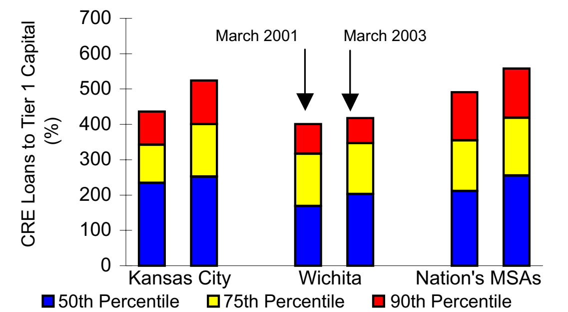
- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 82 percent to 73 percent between March 1993 and March 2003.
- To counter declining deposits, community institutions headquartered in Kansas 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 1993 and March 2003, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 5.8 percent to 15.5 percent.
- The weak economy and significant declines in the stock market have prompted a substantial shift of deposit funds into the banking system. However, as seen in Chart 5, most of the benefit has accrued to the nation's largest banks.
- See "Kansas City Regional Perspectives - Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenges," *FDIC Outlook*, Spring 2003, for further discussion about funding.

Chart 3: Farm Banks Experiencing Prolonged Drought Report Higher Loan Delinquency



Source: Bank Call Reports, farm banks in Kansas City Region

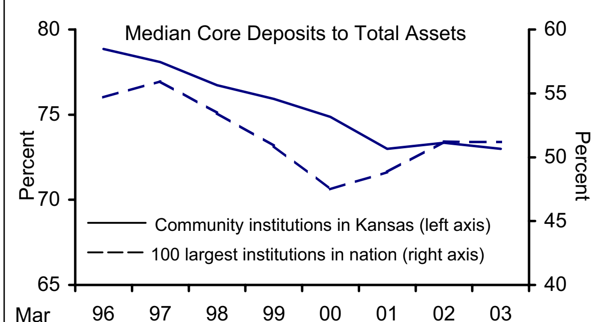
Chart 4: Institutions in Kansas Have Increased Exposure to CRE During the Past Two Years



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

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 Kansas.

Kansas at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	380	386	392	395	411
Total Assets (in thousands)	51,601,025	48,728,036	49,858,336	46,017,358	42,659,878
New Institutions (# < 3 years)	7	8	8	7	5
New Institutions (# < 9 years)	17	18	15	13	11

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.34	9.51	9.67	9.53	9.35

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.21%	1.83%	2.03%	1.76%	1.94%
Past-Due and Nonaccrual >= 5%	64	46	44	36	46
ALLL/Total Loans (median %)	1.42%	1.40%	1.39%	1.43%	1.50%
ALLL/Noncurrent Loans (median multiple)	1.54	1.85	2.11	2.05	2.00
Net Loan Losses/Loans (aggregate)	0.29%	0.27%	0.20%	0.26%	0.48%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	21	20	20	13	18
Percent Unprofitable	5.53%	5.18%	5.10%	3.29%	4.38%
Return on Assets (median %)	1.04	1.13	1.17	1.20	1.10
25th Percentile	0.72	0.77	0.78	0.82	0.79
Net Interest Margin (median %)	4.02%	4.10%	4.17%	4.32%	4.07%
Yield on Earning Assets (median)	5.93%	6.79%	8.22%	7.98%	7.67%
Cost of Funding Earning Assets (median)	1.95%	2.66%	4.05%	3.72%	3.57%
Provisions to Avg. Assets (median)	0.06%	0.06%	0.05%	0.03%	0.00%
Noninterest Income to Avg. Assets (median)	0.60%	0.58%	0.58%	0.54%	0.54%
Overhead to Avg. Assets (median)	2.90%	2.88%	2.91%	2.92%	2.84%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	71.92%	72.43%	73.53%	69.89%	68.08%
Loans to Assets (median %)	58.86%	61.25%	62.48%	60.36%	58.14%
Brokered Deposits (# of Institutions)	47	41	37	28	26
Bro. Deps./Assets (median for above inst.)	2.44%	3.31%	2.12%	2.33%	1.63%
Noncore Funding to Assets (median)	15.29%	15.08%	15.73%	13.65%	12.45%
Core Funding to Assets (median)	72.24%	72.70%	72.20%	74.65%	75.74%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	235	239	245	249	259
National	101	104	107	106	112
State Member	27	26	23	23	23
S&L	10	10	10	10	10
Savings Bank	7	7	7	7	7
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	294	20,459,389	77.37%	39.65%
Kansas City MO-KS	43	12,410,824	11.32%	24.05%
Wichita KS	27	7,151,948	7.11%	13.86%
Topeka KS	9	10,834,534	2.37%	21.00%
Lawrence KS	7	744,330	1.84%	1.44%