State Profile

FALL 2003

Nebraska

The Nebraska economy was less severely affected by the recession than other states in the Region.

- Nebraska's job growth slipped below the national rate for the first time in the downturn in the first quarter of 2003, but improved in the second quarter, declining less than 0.1 percent (see Chart 1).
- Manufacturing was the weakest major sector in the first half of 2003, although offset by consistent growth in retail and wholesale trade and the financial sector.
- The unemployment rate has remained under 4 percent throughout the downturn, but increased to a three-year high of 3.9 percent in the second quarter 2003.

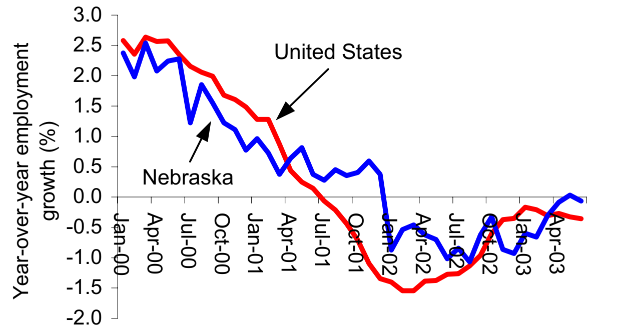
Drought conditions are still pervasive, but less severe than in 2002.

- According to the July 29 Drought Monitor (see Map 1) most of Nebraska continues to be abnormally dry, but conditions have improved from last year.
- Reservoirs, streams, and ponds remain below normal levels, due to the severity of water shortages in 2002.
- Because the state's farmers are highly dependent on irrigation to produce their crops, Nebraska faces severe risk from long-term water shortages—also known as hydrological drought.

Depopulation in rural areas is a continuing challenge.

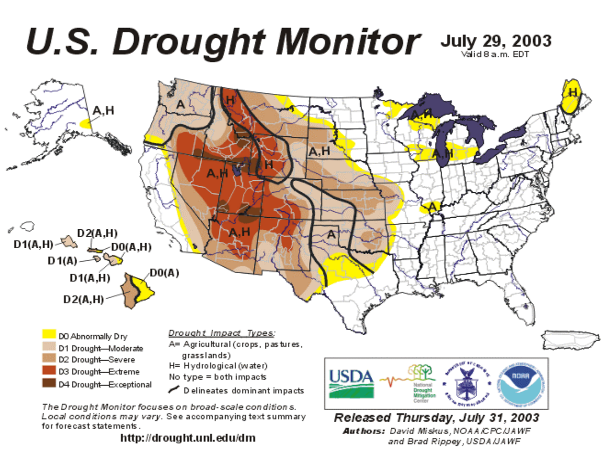
- Population has declined in sixty-six of Nebraska's 93 counties since 1970, and in 21 of those counties at an increasing rate during the 1990s (see Map 2).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent 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 could lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.

Chart 1: Nebraska's Labor Markets Endured Only Mild Stress During the Downturn

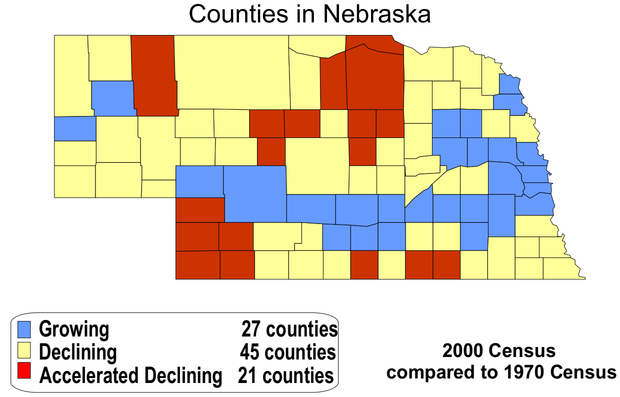


Source: Bureau of Labor Statistics

Map 1: Nebraska's Agriculture Sector Continues to Face Drought Conditions in 2003



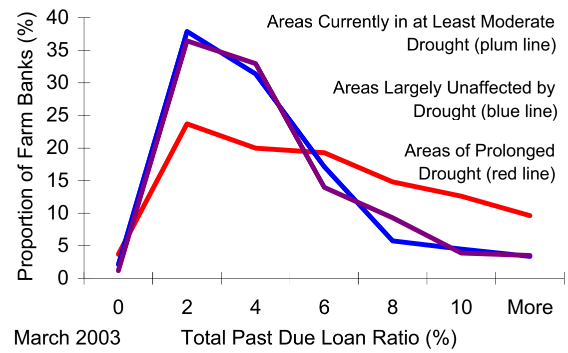
Map 2: Depopulation Affects Most Rural Counties in Nebraska



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

- Much of Nebraska currently remains in "moderate" drought, following "severe" to "exceptional" drought conditions in 2002. These weather problems follow four years of very low crop prices that left many farm banks holding substantial levels of carryover debt.
- Chart 2 shows that farm banks in areas of prolonged drought (predominantly in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by drought.
- Positively, the March 2003 median capital ratio of 10.4 percent for farm banks headquartered in Nebraska remains high by historical standards and is well above levels during the 1980s farm crisis and 1988 drought.

Chart 2: Farm Banks Experiencing Prolonged Drought Report Higher Loan Delinquency

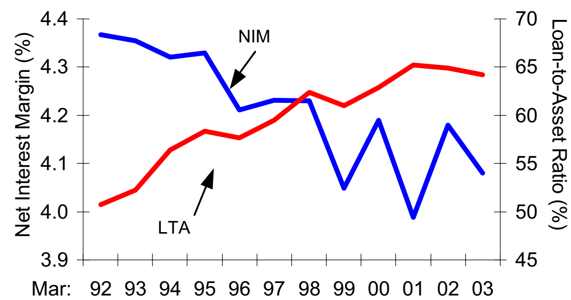


Source: Bank Call Reports, farm banks in Kansas City Region

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

- Net interest margins (NIMs) declined steadily in the 1990s, because of strong and increasing loan and funding competition as well as depopulation trends in rural areas (see Chart 3).
- 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.

Chart 3: Net Interest Margins Have Eroded Despite Increasing Loan-to-Asset Ratios

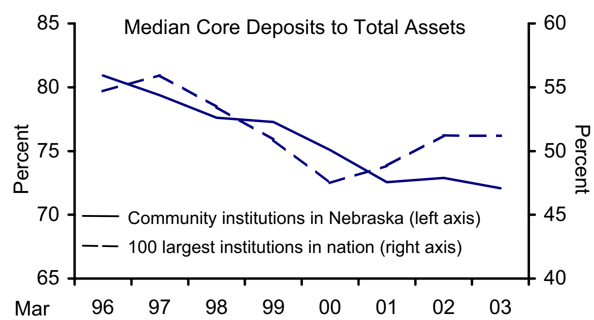


Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in Nebraska, excluding de novos and specialty banks

Community institutions in Nebraska 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 81 percent to 72 percent between March 1993 and March 2003.
- To counter declining deposits, community institutions headquartered in Nebraska 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 9.9 percent to 25.5 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 4, 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 4: 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 Nebraska.

Nebraska at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	278	289	292	311	325
Total Assets (in thousands)	48,985,976	45,898,978	45,032,475	44,016,081	42,470,997
New Institutions (# < 3 years)	4	6	7	3	9
New Institutions (# < 9 years)	17	19	18	16	18

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.71	9.45	9.59	9.54	9.42

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	3.27%	2.94%	2.95%	2.11%	2.82%
Past-Due and Nonaccrual >= 5%	80	71	59	61	86
ALLL/Total Loans (median %)	1.61%	1.57%	1.52%	1.60%	1.65%
ALLL/Noncurrent Loans (median multiple)	1.48	1.55	1.73	2.19	1.80
Net Loan Losses/Loans (aggregate)	0.43%	0.45%	0.40%	0.37%	0.52%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	11	16	11	5	13
Percent Unprofitable	3.96%	5.54%	3.77%	1.61%	4.00%
Return on Assets (median %)	1.11	1.15	1.14	1.22	1.15
25th Percentile	0.74	0.81	0.75	0.84	0.75
Net Interest Margin (median %)	4.11%	4.12%	4.05%	4.20%	4.06%
Yield on Earning Assets (median)	6.35%	6.99%	8.35%	8.09%	7.83%
Cost of Funding Earning Assets (median)	2.21%	2.90%	4.32%	3.90%	3.84%
Provisions to Avg. Assets (median)	0.04%	0.03%	0.04%	0.03%	0.04%
Noninterest Income to Avg. Assets (median)	0.52%	0.48%	0.48%	0.49%	0.47%
Overhead to Avg. Assets (median)	2.68%	2.63%	2.65%	2.63%	2.60%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	76.60%	77.25%	78.79%	74.89%	71.34%
Loans to Assets (median %)	64.12%	63.90%	65.48%	62.92%	60.73%
Brokered Deposits (# of Institutions)	82	75	77	82	96
Bro. Deps./Assets (median for above inst.)	2.29%	2.45%	2.30%	2.00%	2.91%
Noncore Funding to Assets (median)	16.51%	15.35%	15.42%	13.70%	11.95%
Core Funding to Assets (median)	71.33%	72.06%	72.03%	74.53%	75.82%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	173	178	183	187	197
National	74	77	78	89	94
State Member	20	19	16	20	21
S&L	5	5	5	5	5
Savings Bank	6	10	10	10	8
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	230	15,598,152	82.73%	31.84%
Omaha NE-IA	32	28,407,554	11.51%	57.99%
Lincoln NE	13	4,698,356	4.68%	9.59%
Sioux City IA-NE	3	281,914	1.08%	0.58%