FDIC State Profile

Fall 2003

South Dakota

South Dakota's employment grew in the first half of 2003.

- South Dakota experienced only a modest decline in employment from October 2001 through July 2002. Total jobs have increased every month except once since August 2002 (see Chart 1).
- Strong growth in the government and construction sectors has offset small declines in manufacturing employment in the first six months of 2003.
- Unemployment grew slightly in the first half of 2003. The unemployment rate was estimated to be 3.1 percent in June, the lowest jobless rate among the 50 states.

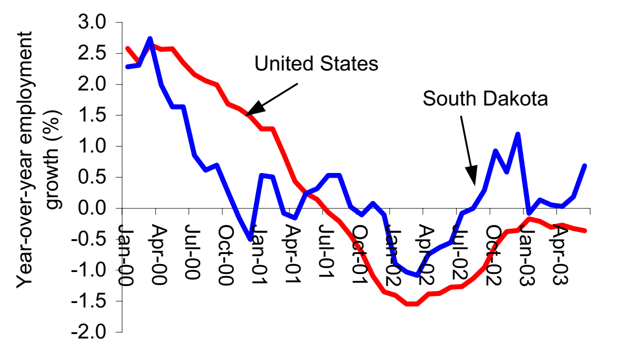
Drought conditions may continue to stress the South Dakota agricultural sector in 2003.

- In 2003, moderate drought affects the western half of the state. The affected area has been growing eastward throughout the year. Map 1 portrays the extent of subnormal moisture.
- While rains have been adequate for the state's crop farmers, pastureland has not recovered from the 2002 drought.
- An August 4 survey by the United States Department of Agriculture rates 26 percent of South Dakota's pastureland as "Poor" or "Very Poor," suggesting continuing risk to cattle ranchers.

Depopulation in rural areas is a continuing challenge.

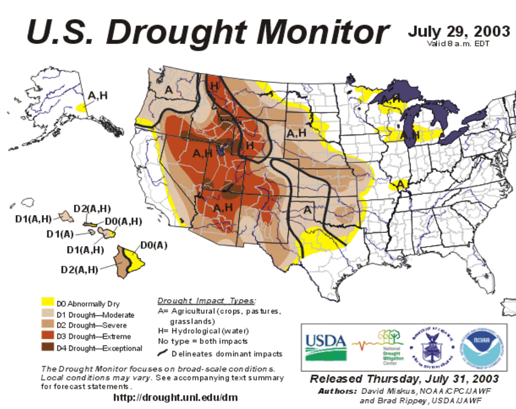
- Population declined in forty-three of South Dakota's 66 counties since 1970, and in 6 of those counties, at an increasing rate in the 1990s (see Map 2).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent 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: South Dakota Has Endured Only a Mild Economic Downturn

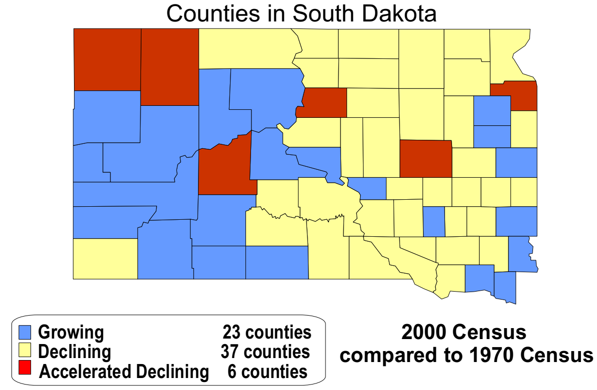


Source: Bureau of Labor Statistics

Map 1: South Dakota Agriculture Sector Continues to Face Risk of Drought in 2003



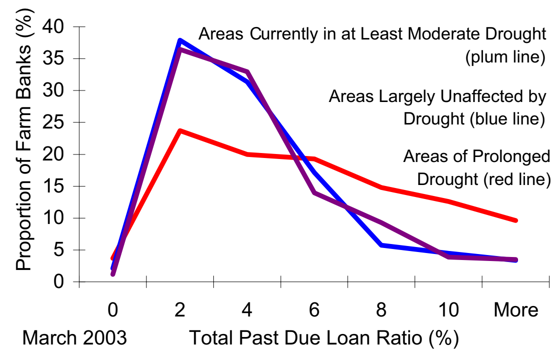
Map 2: Depopulation Affects Most Counties in South Dakota



Severe drought conditions threaten asset quality among many of the state's farm banks.

- Much of South Dakota remains in "moderate" drought, following "extreme" 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 do insured institutions in less seriously affected areas by drought.
- On a positive note, the March 2003 median capital ratio of 11.5 percent reported by farm banks headquartered in South Dakota remains high by historical standards and well above levels reached during the 1980s farm crisis and 1988 drought.

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

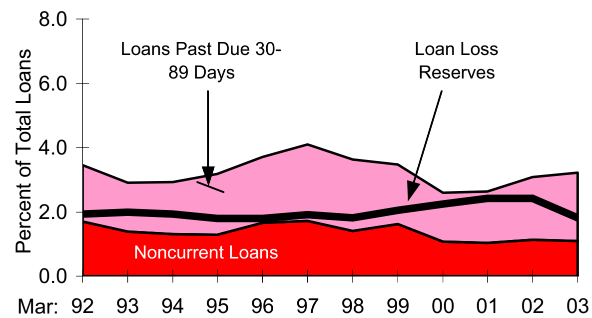


Source: Bank Call Reports, farm banks in Kansas City Region

Some South Dakota's community banks reported high net charge-off rates during the economic slowdown.

- Net charge-off rates escalated with the onset of the economic slowdown, rising from 0.22 percent in 1998 to 1.22 percent in 2001. The rate dropped sharply to 0.66 percent in 2002 as credit card portfolios stabilized.
- Much of the net charge-offs involved credit card portfolios centered in a small number of institutions.
- The aggressive charge-offs have caused problem loans to decline significantly. While the charge-offs reduced loan loss reserves, reserves appear to be stable relative to the level of problem loans (see Chart 3).

Chart 3: High Net Charge-offs Reduced Noncurrent Loans and Loan Loss Reserves

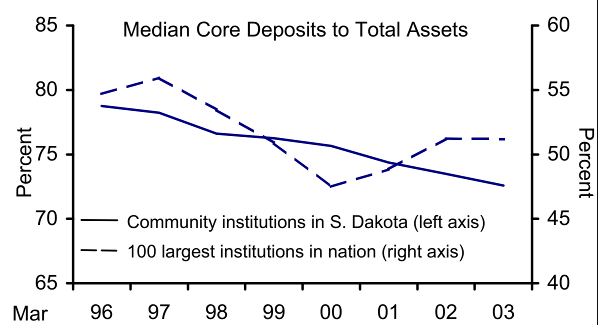


Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in South Dakota, excluding de novos and specialty banks

Community institutions in South Dakota 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 83 percent to 73 percent between March 1993 and March 2003.
- To counter declining deposits, community institutions headquartered in South Dakota 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 3.2 percent to 7.8 percent.

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 South Dakota.

- 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.

South Dakota at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	97	97	97	106	108
Total Assets (in thousands)	68,695,312	64,275,193	37,547,574	34,340,530	30,750,633
New Institutions (# < 3 years)	1	1	1	1	4
New Institutions (# < 9 years)	5	6	6	7	7

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	11.29	11.00	11.07	10.76	10.52

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.39%	2.30%	2.38%	2.04%	3.51%
Past-Due and Nonaccrual >= 5%	21	21	15	20	27
ALLL/Total Loans (median %)	1.77%	1.78%	1.73%	1.96%	2.00%
ALLL/Noncurrent Loans (median multiple)	2.55	2.19	2.10	2.78	2.02
Net Loan Losses/Loans (aggregate)	4.30%	5.17%	2.91%	4.55%	3.14%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	3	6	5	3	3
Percent Unprofitable	3.09%	6.19%	5.15%	2.83%	2.78%
Return on Assets (median %)	1.18	1.30	1.33	1.45	1.34
25th Percentile	0.74	0.74	0.95	0.95	0.88
Net Interest Margin (median %)	4.20%	4.27%	4.37%	4.60%	4.36%
Yield on Earning Assets (median)	6.39%	7.09%	8.62%	8.43%	8.10%
Cost of Funding Earning Assets (median)	2.13%	2.86%	4.21%	3.80%	3.73%
Provisions to Avg. Assets (median)	0.03%	0.04%	0.09%	0.09%	0.02%
Noninterest Income to Avg. Assets (median)	0.60%	0.59%	0.64%	0.66%	0.59%
Overhead to Avg. Assets (median)	3.16%	3.09%	3.00%	2.94%	2.95%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	78.31%	78.50%	77.95%	77.09%	72.85%
Loans to Assets (median %)	66.94%	65.06%	64.91%	64.49%	61.40%
Brokered Deposits (# of Institutions)	25	26	25	23	24
Bro. Deps./Assets (median for above inst.)	3.26%	1.83%	3.00%	2.93%	2.99%
Noncore Funding to Assets (median)	14.92%	12.54%	12.68%	11.67%	12.06%
Core Funding to Assets (median)	71.95%	72.34%	73.21%	74.71%	75.24%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	60	60	62	65	66
National	19	19	18	23	23
State Member	14	14	13	14	15
S&L	0	0	0	0	0
Savings Bank	4	4	4	4	4
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	78	8,297,873	80.41%	12.08%
Sioux Falls SD	14	59,811,072	14.43%	87.07%
Rapid City SD	5	586,367	5.15%	0.85%