

FDIC State Profile

FALL 2003

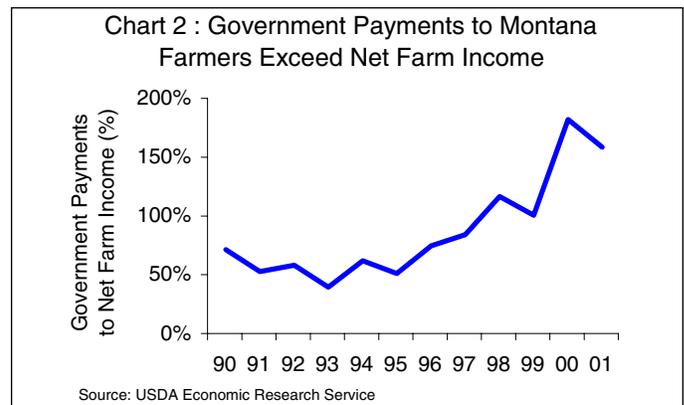
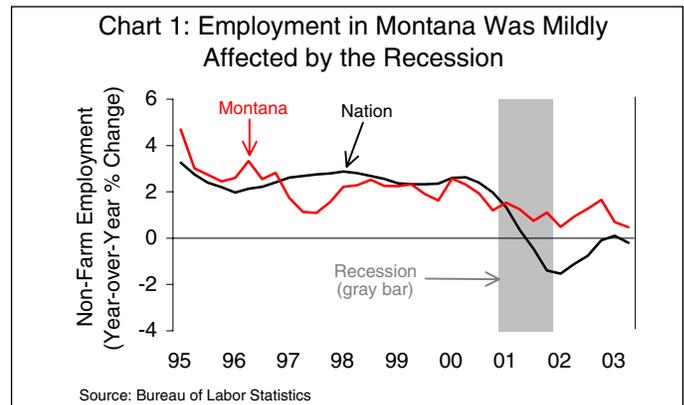
Montana

Non-farm employment in Montana grew year-over-year as of the second quarter of 2003 across most economic sectors.

- Although slowing, non-agricultural employment increased 0.38 percent year-over-year as of the second quarter, surpassing the 0.30 percent employment decline at the national level (see Chart 1).
- Employment growth, which was centered in the finance, insurance, and real estate (FIRE) sector, was insufficient to offset the contraction in the manufacturing sector.
- The manufacturing sector decreased by 4.7 percent year-over-year as of second quarter 2003, primarily because of weakness in the forest products industry. Montana's forest products industry was adversely affected by low timber prices related to weak foreign demand. Mill closures have been announced in **Libby** and **Belgrade**, resulting in the loss of more than 400 jobs. Production workers account for about 40 percent of the workers in Montana's forest products industry, with the remaining workforce in logging, trucking and other related jobs.¹
- The natural resources and mining sector employment declined 1.7 percent, while the trade, transportation and utilities sector employment decreased 0.9 percent year-over-year as of the second quarter 2003.

The Montana economy relies heavily on the stressed agricultural sector.²

- During the past four years, drought hurt cattle and wheat production, which accounted for the overwhelming majority (75 percent) of Montana's 2001 agricultural revenues. Wheat crop yields for 2001 and 2002 dropped to levels not seen since 1988. While forecasts anticipate a 2003 winter wheat harvest more than triple the 2002 harvest as a result of wet winter weather, the improved harvest does not appear to be a signal that Montana agriculture has turned the corner. Recent hot, dry weather could negatively impact the condition of the spring wheat crop.
- Cattle producers, who generate more than half of Montana's agricultural revenues, have also felt the effects of the



drought. Recent weather conditions have degraded pasture and range conditions to approximately the same levels as last year.

- Government subsidy payments to agricultural producers in Montana have dramatically increased over the last decade and approximated or exceeded net farm income from 1998 through 2001. In 2001, government payments accounted for 157 percent of net farm income (see Chart 2).

¹ "Report: Cutbacks Spur Jump in Lumber Industry," *The Missoulian*, June 20, 2003.

² Agriculture represented 3.8 percent of Montana's 2001 Gross State Product.

State Profile

Persistent drought and a weakened agricultural sector could pressure Montana's farm lenders.

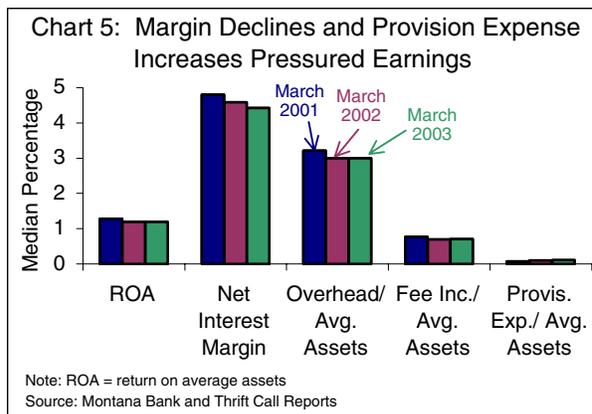
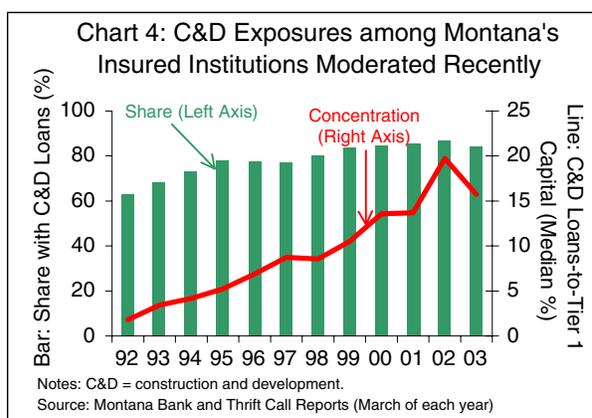
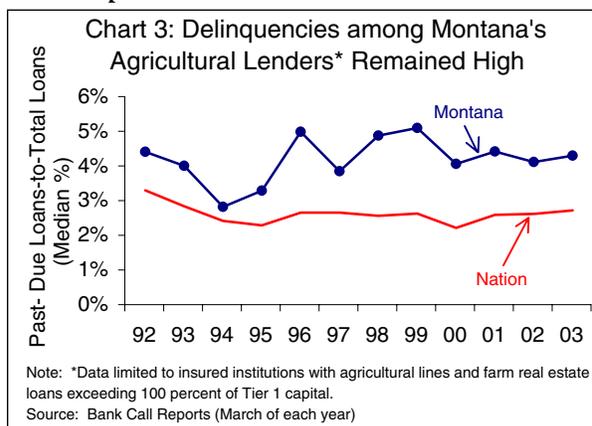
- Loan delinquency levels among Montana's thirty-eight agricultural lenders have stabilized, but remain at a relatively high level of 4.31 percent compared to a nationwide median ratio of 2.74 percent for banks holding agricultural loans in excess of 100 percent of Tier 1 Capital (see Chart 3).
- The median past-due and nonaccrual to total loans ratio was 3.35 percent for Montana's 81 insured institutions, substantially above the corresponding 2.04 percent ratio for insured institutions nationwide.

Insured institutions headquartered in Montana have reported a decrease in construction and development (C&D) lending.

- Construction activity decreased in Montana during first quarter 2003, especially housing construction, with residential permits down 15 percent from the previous quarter.
- After more than a decade of steady increase, C&D lending moderated among insured institutions headquartered in Montana in the past year (see Chart 4). As of first quarter 2003, the median C&D loan-to-Tier 1 capital ratio was 15.7 percent, down from 19.7 percent one year earlier.

Montana's insured institutions exhibited strong earnings performance, although lower interest rates over the last 18 months dampened overall returns.

- Insured institutions headquartered in Montana reported a median after-tax return on average assets (ROA) ratio of 1.19 percent through March 31, 2003, nearly 15 percent above the 1.05 percent median ROA for insured institutions nationwide.
- Montana's strong earnings performance relative to the nation was due to higher yields on assets and lower funding cost, and because 27 percent of Montana institutions have elected Subchapter S status. The median net interest margin for insured institutions in Montana was 4.42 percent as of March 31, 2003, compared to the national median of 4.00 percent. The median *pre-tax* ROA, which is more comparable with institutions that have elected Subchapter S tax status,³ was 1.64 percent, a twelve-year low, yet comparing favorably to a national median of 1.43 percent.



- Recent earnings trends were driven by interest rate-related margin compression and rising provision expense ratios, partially offset by stable overhead expenses (see Chart 5).

³ Pre-tax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S status. Twenty-two of Montana's 81 insured institutions have elected Subchapter S status, which eliminates income tax at the bank level.

State Profile

Montana at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	81	84	89	90	93
Total Assets (in thousands)	14,144,032	13,194,217	12,319,107	11,700,203	11,163,496
New Institutions (# < 3 years)	3	2	2	1	2
New Institutions (# < 9 years)	6	5	4	3	4
Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.25	9.35	9.66	9.53	9.78
Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	3.35%	3.27%	3.02%	2.56%	3.25%
Past-Due and Nonaccrual >= 5%	19	24	25	20	29
ALLL/Total Loans (median %)	1.48%	1.48%	1.34%	1.45%	1.63%
ALLL/Noncurrent Loans (median multiple)	1.21	1.12	1.07	1.35	1.23
Net Loan Losses/Loans (aggregate)	0.12%	0.11%	0.13%	0.16%	0.20%
Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	2	2	2	2	1
Percent Unprofitable	2.47%	2.38%	2.25%	2.22%	1.08%
Return on Assets (median %)	1.19	1.20	1.28	1.36	1.18
25th Percentile	0.92	0.78	0.96	0.98	0.89
Net Interest Margin (median %)	4.42%	4.59%	4.80%	4.95%	4.88%
Yield on Earning Assets (median)	6.33%	7.11%	8.62%	8.49%	8.16%
Cost of Funding Earning Assets (median)	1.74%	2.42%	3.79%	3.45%	3.43%
Provisions to Avg. Assets (median)	0.11%	0.10%	0.07%	0.06%	0.06%
Noninterest Income to Avg. Assets (median)	0.70%	0.70%	0.77%	0.71%	0.71%
Overhead to Avg. Assets (median)	3.00%	3.00%	3.21%	3.13%	3.20%
Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	72.48%	75.17%	77.23%	75.14%	70.29%
Loans to Assets (median %)	61.87%	62.76%	65.86%	62.80%	60.89%
Brokered Deposits (# of institutions)	7	8	11	10	11
Bro. Deps./Assets (median for above inst.)	3.90%	2.17%	1.01%	1.12%	1.46%
Noncore Funding to Assets (median)	14.20%	14.20%	14.78%	13.96%	12.57%
Core Funding to Assets (median)	73.93%	73.22%	74.19%	75.47%	76.08%
Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	30	31	33	35	35
National	15	16	18	18	18
State Member	33	33	33	32	35
S&L	2	2	2	2	2
Savings Bank	1	2	3	3	3
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets (\$000s)	% Inst.	% Assets	
No MSA	66	6,635,278	81.48%	46.91%	
Billings MT	6	6,415,434	7.41%	45.36%	
Great Falls MT	5	390,160	6.17%	2.76%	
Missoula MT	4	703,160	4.94%	4.97%	