FDIC State Profile

Fall 2003

North Dakota

The North Dakota economy was affected only slightly during the 2001 national recession, but has shown weakness recently.

- North Dakota's economy gained jobs in the last half of 2002 and the first half of 2003, after experiencing only slight losses during the downturn (see Chart 1).
- Small declines in the manufacturing sector during early 2003 were offset by growth in government employment and the finance, insurance, and real estate sectors.
- Unemployment declined to 3.4 percent in June 2003, down from 3.9 percent at year-end 2002.

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

- Drought conditions are less severe than in 2002, but areas in the southwestern area of the state continue to be abnormally dry as pictured in Map 1.
- Wildfires have become pervasive in the southwestern counties and crop yields are threatened in the area.
- An August 4 survey by the United States Department of Agriculture rates 26 percent of the state's pasture and rangeland as "Poor" or "Very Poor," suggesting continuing risks to cattle ranchers.

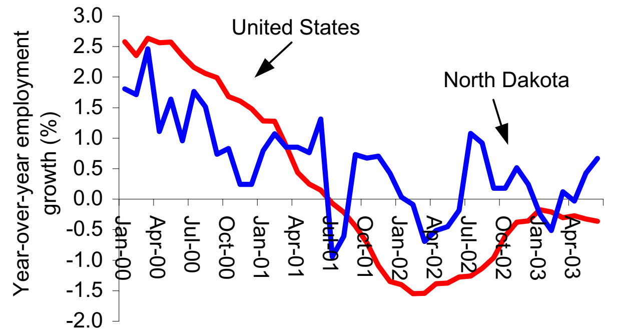
Depopulation in rural areas is a continuing challenge.

- Population declined in forty-three of North Dakota's 53 counties since 1970, and in 24 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.

Community banks headquartered in North Dakota have reported sound asset quality despite the economic slowdown.

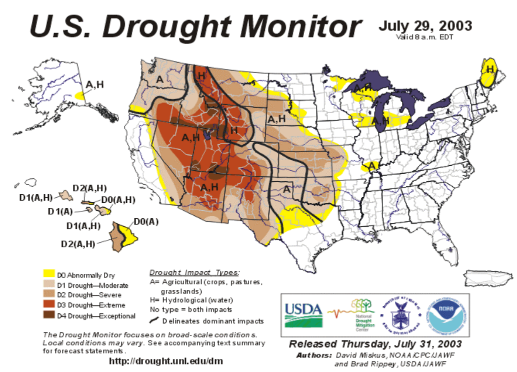
- Four years of historically low crop prices left many farm banks with elevated loan delinquency levels and substantial levels of carryover debt between 1996 and 2000. How-

Chart 1: North Dakota's Labor Market Has Been Resilient Throughout the Downturn

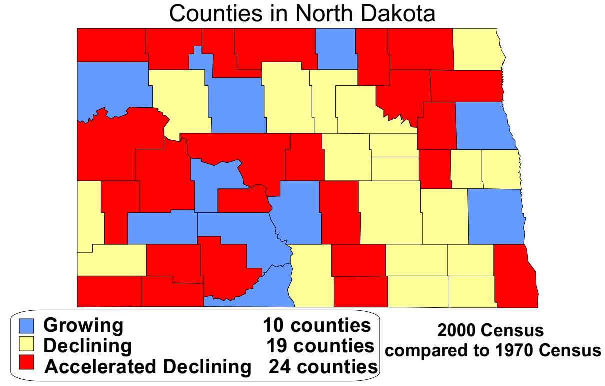


Source: Bureau of Labor Statistics

Map 1: North Dakota's Agriculture Sector Continues to Face Risk of Drought in 2003



Map 2: Depopulation Affects Most Rural Counties in North Dakota



ever, significant government support during the past three years has helped hold down loan defaults and delinquencies.

- Noncurrent and past-due loan levels among community banks headquartered in North Dakota have moderated during the past two years, and charge-off rates remain low (see Chart 2).
- Loan loss reserve levels have declined in proportion to total loans, but appear to have kept pace with the level of problem loans.

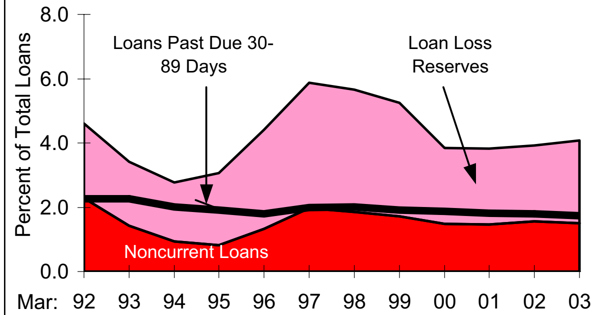
Community banks headquartered in North Dakota continue to face challenges in maintaining net interest margins.

- 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 revert to historically normal levels.

Community institutions in North Dakota continue to face funding challenges.

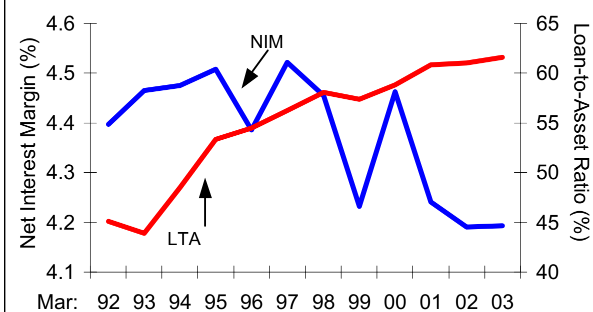
- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 83 percent to 78 percent between March 1993 and March 2003.
- To counter declining deposits, community institutions headquartered in North 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 between 5 and 10 percent of total funds increased from 5.5 percent to 14.9 percent.

Chart 2: Past-Due Loans Are Elevated, but Stable; Reserves Decline Slightly



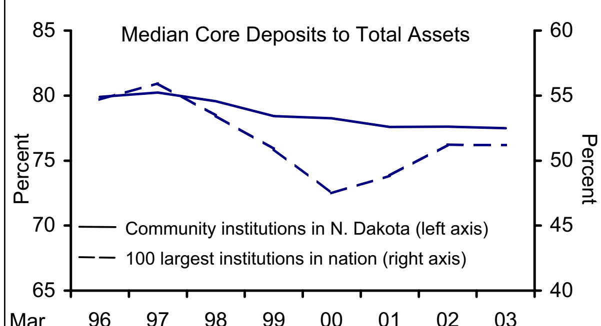
Source: Bank and Thrift Call Reports, commercial banks with assets less than $250 million headquartered in North Dakota, excluding de novos and specialty banks.

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



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

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 North 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.

North Dakota at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	107	107	112	116	117
Total Assets (in thousands)	19,953,536	19,058,994	18,810,180	12,654,763	11,744,135
New Institutions (# < 3 years)	1	1	1	1	1
New Institutions (# < 9 years)	2	2	3	2	4

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.16	9.03	9.44	9.73	9.66

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	3.36%	3.39%	3.39%	3.34%	4.10%
Past-Due and Nonaccrual >= 5%	31	30	31	33	48
ALLL/Total Loans (median %)	1.72%	1.75%	1.81%	1.79%	1.84%
ALLL/Noncurrent Loans (median multiple)	1.39	1.77	1.72	1.91	1.46
Net Loan Losses/Loans (aggregate)	0.60%	0.69%	0.81%	0.91%	0.83%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	1	2	2	7	4
Percent Unprofitable	0.93%	1.87%	1.79%	6.03%	3.42%
Return on Assets (median %)	1.12	1.17	1.11	1.18	1.08
25th Percentile	0.80	0.79	0.76	0.89	0.79
Net Interest Margin (median %)	4.10%	4.20%	4.08%	4.30%	4.14%
Yield on Earning Assets (median)	6.02%	6.76%	8.19%	8.02%	7.70%
Cost of Funding Earning Assets (median)	1.94%	2.66%	4.12%	3.70%	3.59%
Provisions to Avg. Assets (median)	0.12%	0.10%	0.08%	0.09%	0.08%
Noninterest Income to Avg. Assets (median)	0.47%	0.43%	0.46%	0.43%	0.46%
Overhead to Avg. Assets (median)	2.68%	2.77%	2.75%	2.78%	2.71%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	72.20%	70.34%	68.67%	65.21%	64.58%
Loans to Assets (median %)	61.73%	60.31%	58.18%	55.70%	55.66%
Brokered Deposits (# of Institutions)	20	17	17	20	19
Bro. Deps./Assets (median for above inst.)	1.71%	1.09%	1.52%	2.54%	2.81%
Noncore Funding to Assets (median)	12.30%	11.49%	11.54%	11.21%	10.06%
Core Funding to Assets (median)	76.17%	76.80%	76.30%	77.94%	78.22%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	84	85	89	92	93
National	15	15	16	18	18
State Member	5	4	4	3	3
S&L	0	0	0	0	0
Savings Bank	3	3	3	3	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	84	5,929,262	78.50%	29.72%
Fargo-Moorhead ND-MN	14	12,004,064	13.08%	60.16%
Bismarck ND	6	877,846	5.61%	4.40%
Grand Forks ND-MN	3	1,142,364	2.80%	5.73%