

FDIC State Profile

Summer 2004

Michigan

The economic recovery in Michigan has been slower than other states.

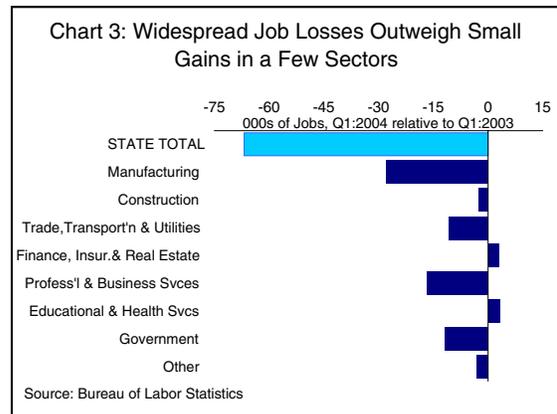
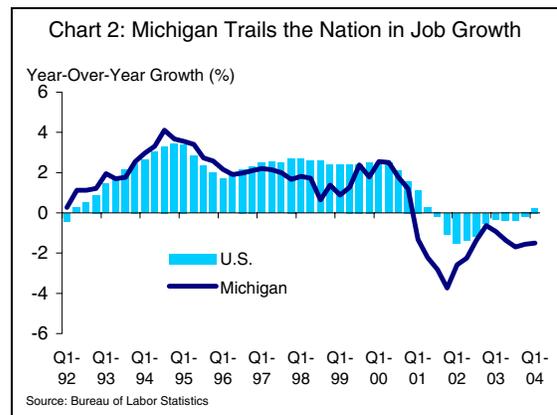
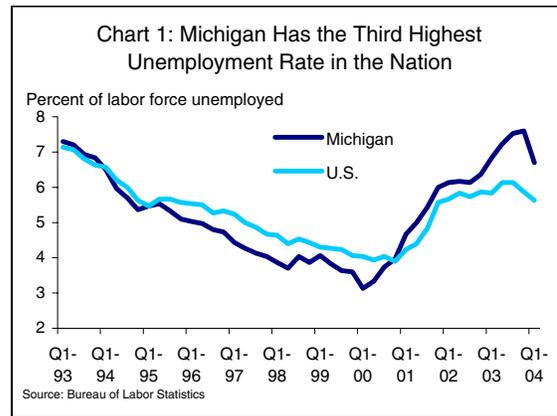
- Michigan's unemployment rate eased to 6.7 percent in first quarter 2004, down from 7.6 percent in the fourth quarter 2003 (See Chart 1). Even so, it had the nation's third highest unemployment rate, behind Oregon and Alaska, where rates were about half a percentage point higher.
- Employment in Michigan fell for the thirteenth consecutive quarter in early 2004 and was 1.5 percent lower than a year earlier (See Chart 2). Michigan's pace of job loss during the recent recession was the most severe in the Chicago Region, more than double the declines in Ohio and Illinois.
- Weakness is widespread among major Michigan industries. Only two sectors—education and health services; and finance, insurance, and real estate—posted job growth during the past year (See Chart 3).
- Manufacturing employment posted its fifteenth quarter of contraction, but the year-over-year rate of decline slowed to 3.7 percent. Because of high productivity, the sector accounts for approximately 25 percent of the state's economic output, but only 16.5 percent of its employment.

Motor vehicle sales remain strong, but parts suppliers are under pressure.

- Since 2000, auto parts suppliers in Michigan have cut employment by over 49,000 jobs, compared to 17,000 for motor vehicle manufacturers. The state lost an additional 116,000 manufacturing jobs over the same period.
- Auto sales remain high in historical terms, aided by manufacturer incentives. The high sales should bolster the incomes of autoworkers who have remained employed.

Financial weakness continues in some households.

- Home resales cooled since jumping in the third quarter of 2003, possibly related to fears of higher mortgage rates. Home price appreciation slowed, while past-due mortgages and foreclosures rose.



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- Personal income growth in the state advanced by 2.5 percent during 2003, slightly lagging that of the nation (See Chart 4).

Lower noninterest income trims return on assets (ROA).

- The ROA of community banks¹ fell moderately in the quarter ending March 31, 2004, compared to a year earlier, a result of a sharp drop in noninterest income, a smaller decline in net interest income, and some gains from lower expenses and taxes (See Table 1). However, compared to the prior quarter, community banks' ROA decreased only one basis point as improvements in net interest income and provision expenses were offset by a 15 basis point drop in noninterest income.
- Community bank net interest margins declined from the year-earlier period due to a sharp drop in earning asset yields, which more than offset the cost of funds decline.

Asset quality improved during the first quarter of 2004.

- Asset quality improved at community banks and thrifts on a year-over-year basis for major loan categories, with the exception of home equity loans (See Chart 5). Construction and development loans showed the most improvement, partially reflecting higher charge-offs in 2003.
- Commercial and industrial (C&I) loans at community banks had the highest past-due rate of major loan categories during first quarter, despite a spurt in charge-offs. Between December 31, 2003, and March 31, 2004, charge-offs of C&I loans at community banks more than doubled to 1.61 percent.
- Large banks'² past-due rate for C&I loans in first quarter was almost two percentage points below that of community banks. Conversely, large banks' delinquency rate on 1-4 family mortgages of almost 4 percent was one percentage point higher than for community institutions.

- First-quarter provision expenses at community banks were the lowest since 2000, while large banks also posted lower provision expenses in the quarter.

Large banks posted solid asset and loan growth.

- Assets of institutions headquartered in Michigan increased 16 percent from a year earlier, climbing to \$199 billion. Loans increased 18 percent in the same period, led by commercial and industrial and commercial real estate credits.

- Large banks posted 20 percent year-over-year asset growth in first quarter 2004, while community banks saw assets decline 3 percent. Growth in net loans and leases was 22 percent and zero for large banks and community banks, respectively. Large bank growth was fueled by two large mergers, which saw approximately \$29 billion in assets added as Michigan banks consolidated out-of-state charters into the state.

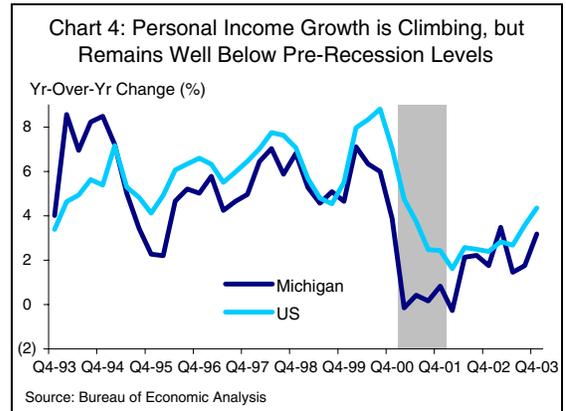
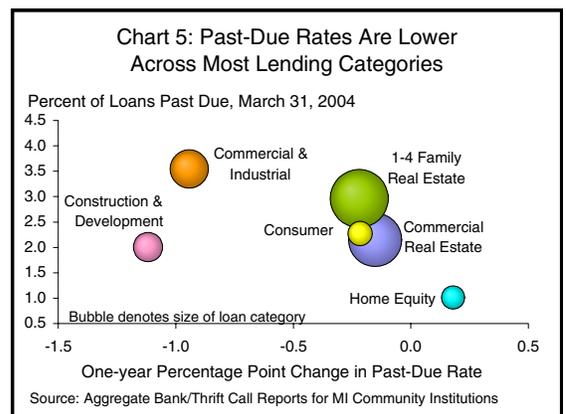


Table 1: Earnings Performance Drops at Michigan Community Banks and Thrifts

Income statement contribution (as a percentage of average assets)			
	3 months ended March 31		Basis Point Change
	2003	2004	
Net Interest Income	3.75	3.64	-0.11
Noninterest Income	1.20	0.97	-0.23
Noninterest Expense	-3.23	-3.16	0.07
Provision Expense	-0.23	-0.18	0.05
Security Gains & Losses	0.06	0.02	-0.04
Income Taxes	-0.46	-0.37	0.09
Net Income (ROA)	1.09	0.92	-0.17

Source: Aggregate Bank and Thrift Call Reports for Community Institutions



¹Community banks include insured institutions with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks and thrifts.

²Large banks consist of institutions with total assets over \$1 billion.

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Michigan at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	178	179	181	186	198
Total Assets (in thousands)	199,273,103	172,433,883	173,233,717	178,471,462	161,493,810
New Institutions (# < 3 years)	5	10	13	22	23
New Institutions (# < 9 years)	38	39	38	39	37
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.17	9.01	8.89	8.94	9.16
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	2.02%	2.39%	2.21%	1.90%	1.69%
Past-Due and Nonaccrual >= 5%	18	27	25	18	14
ALLL/Total Loans (median %)	1.28%	1.34%	1.31%	1.28%	1.31%
ALLL/Noncurrent Loans (median multiple)	1.50	1.44	1.56	1.77	2.34
Net Loan Losses/Loans (aggregate)	0.38%	0.49%	0.57%	0.45%	0.20%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	11	16	18	18	21
Percent Unprofitable	6.18%	8.94%	9.94%	9.68%	10.61%
Return on Assets (median %)	0.93	1.13	1.11	0.97	1.08
25th Percentile	0.61	0.70	0.81	0.68	0.72
Net Interest Margin (median %)	4.00%	4.09%	4.33%	4.23%	4.44%
Yield on Earning Assets (median)	5.66%	6.24%	6.99%	8.39%	8.08%
Cost of Funding Earning Assets (median)	1.73%	2.18%	2.76%	4.14%	3.72%
Provisions to Avg. Assets (median)	0.13%	0.18%	0.17%	0.14%	0.13%
Noninterest Income to Avg. Assets (median)	0.66%	0.86%	0.71%	0.66%	0.59%
Overhead to Avg. Assets (median)	2.98%	3.06%	3.09%	3.11%	3.05%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	90.97%	88.08%	88.65%	90.72%	88.01%
Loans to Assets (median %)	74.49%	72.16%	72.74%	74.70%	73.14%
Brokered Deposits (# of Institutions)	64	63	61	56	54
Bro. Deps./Assets (median for above inst.)	6.99%	8.49%	6.55%	4.91%	5.34%
Noncore Funding to Assets (median)	19.14%	18.82%	20.38%	21.56%	19.52%
Core Funding to Assets (median)	69.34%	70.49%	68.44%	66.29%	69.50%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	101	102	101	102	102
National	25	26	27	28	36
State Member	31	31	33	35	37
S&L	2	2	2	2	2
Savings Bank	13	13	13	14	14
Stock and Mutual SB	6	5	5	5	7
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	76	11,735,012	42.70%	5.89%	
Detroit MI PMSA	39	122,545,341	21.91%	61.50%	
Grand Rapids-Muskegon-Holland MI	20	43,414,905	11.24%	21.79%	
Ann Arbor MI PMSA	12	2,618,406	6.74%	1.31%	
Lansing-East Lansing MI	10	7,379,990	5.62%	3.70%	
Kalamazoo-Battle Creek MI	7	613,399	3.93%	0.31%	
Saginaw-Bay City-Midland MI	5	3,283,498	2.81%	1.65%	
Flint MI PMSA	4	5,948,596	2.25%	2.99%	
Benton Harbor MI	4	1,673,536	2.25%	0.84%	
Jackson MI	1	60,420	0.56%	0.03%	