

FDIC State Profile

Summer 2004

North Dakota

The North Dakota economy was resilient during the recession.

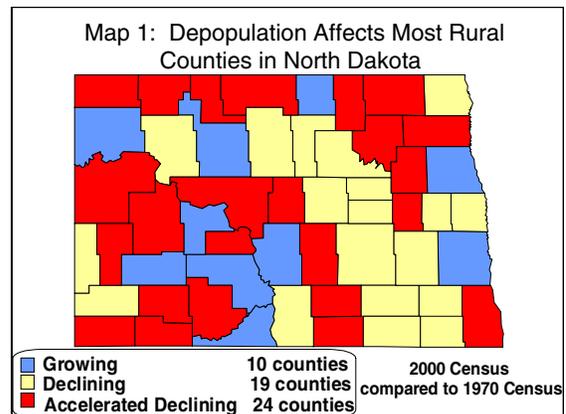
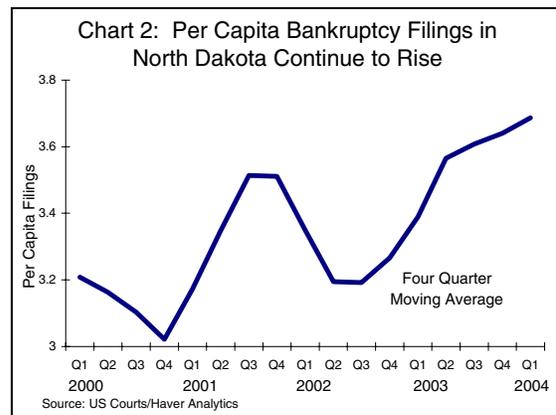
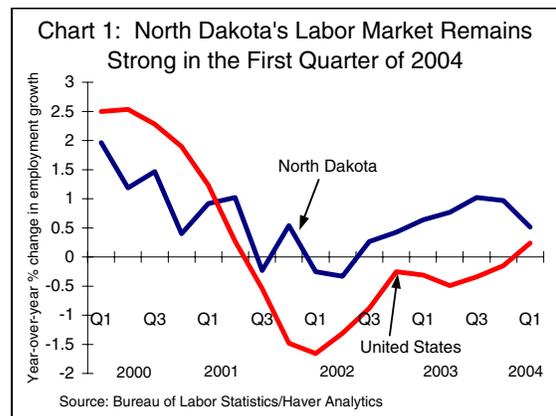
- Although North Dakota's employment remained robust during the national economic downturn, some challenges remain (See Chart 1). The state lost 800 jobs in the first quarter of 2004 as small losses were posted in the retail trade, finance, insurance and real estate, and government sectors.
- The manufacturing sector posted job gains in the first quarter after losing 800 jobs in the fourth quarter of 2003.
- Unemployment declined to 3.0 percent in the first quarter of 2004 from 3.8 percent in the previous quarter, and remains one of the lowest in the United States.

Bankruptcy filings increased in the first quarter of 2004.

- The four-quarter moving average per-capita bankruptcy filings have steadily increased since mid-2002 and now stand at the highest level in at least a decade (See Chart 2).
- In the first quarter of 2004, first-time filings increased to 588, the fourth highest level on record.
- While per-capita filings in North Dakota remain well below that of the nation, the growth in filings in the state far exceeds the nation's.

Depopulation in rural areas is a continuing challenge.

- Population levels have declined in 43 of North Dakota's 53 counties since 1970; population in 24 of those counties declined at an increasing rate during the 1990s (See Map 1).
- 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. North Dakota's metropolitan areas have thus experienced moderate population growth in recent years.



State Profile

- 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.

North Dakota's insured institutions report satisfactory consumer loan quality.

- As chart 2 shows, North Dakota's workers' balance sheets have been under some stress as evidenced by the record pace of personal bankruptcies. However, consumer credit quality indicators at insured institutions remain satisfactory.
- Median, 75th percentile, and aggregate measures all show that delinquency ratios increased only slightly during the worst of the economic downturn, and now appear to be receding (See Chart 3).
- Overall, net charge-off rates remain low and loan loss reserve coverage remains strong.

Commercial banks in North Dakota continue to experience declining net interest margins.

- Net interest margins (NIMs) generally have been declining since 1995, excepting some recent short-term volatility coinciding with interest rate movements over the past few years (See Chart 4).
- This NIM compression has occurred despite consistent growth in loan-to-assets ratios (LTAs). LTAs are now at levels not seen since 1979, preceding the 1980s agricultural crisis.
- North Dakota's commercial banks are currently generating the lowest profit per dollar of credit exposure than at any time during the past 25 years. Regardless, asset quality remains favorable and capital protection remains strong.

North Dakota continues to experience slowly declining core funding.

- Community institutions' core funding continues to erode at a gradual pace from 86.9 percent of total assets in 1997 to 80.2 percent in 2004.
- Unlike the nation's largest institutions, North Dakota's community institutions did not experience the large influx and later outflow of funds from investors that sought shelter from a weak economy and falling stock market (See Chart 5).
- Rural North Dakota's growing elderly population and net out-migration will continue to pressure core funding in the long-term. As elderly depositors pass away, their deposits often follow their heirs who typically have migrated from rural areas to metropolitan areas.

Chart 3: North Dakota Institutions Report Moderate Consumer Loan Delinquencies

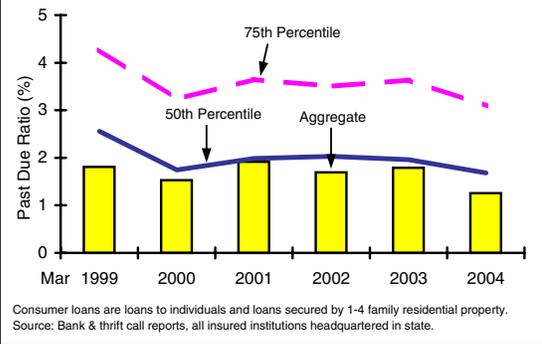


Chart 4: Net Interest Margins Continue to Decline in North Dakota's Commercial Banks

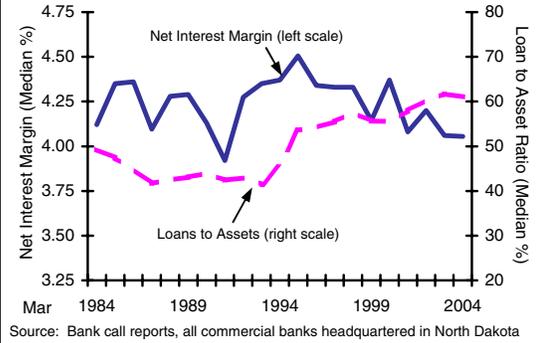
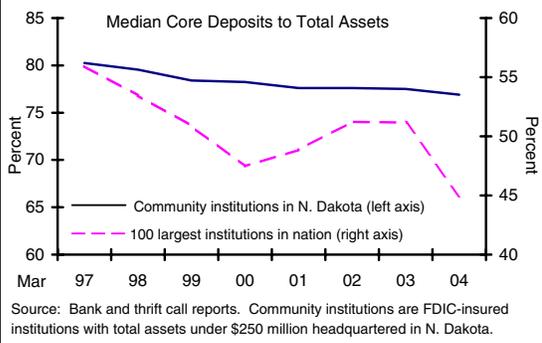


Chart 5: Core Funding in North Dakota's Community Institutions Decreased in 2004



North Dakota at a Glance

| General Information | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
|--|---------------|-------------------|---------------|----------------|-----------------|
| Institutions (#) | 103 | 107 | 107 | 112 | 116 |
| Total Assets (in thousands) | 19,377,901 | 19,953,536 | 19,058,994 | 18,810,180 | 12,654,763 |
| New Institutions (# < 3 years) | 0 | 1 | 1 | 1 | 1 |
| New Institutions (# < 9 years) | 2 | 2 | 2 | 3 | 2 |
| Capital | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
| Tier 1 Leverage (median) | 9.28 | 9.16 | 9.03 | 9.44 | 9.73 |
| Asset Quality | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
| Past-Due and Nonaccrual (median %) | 2.52% | 3.36% | 3.39% | 3.39% | 3.34% |
| Past-Due and Nonaccrual >= 5% | 19 | 32 | 30 | 31 | 33 |
| ALLL/Total Loans (median %) | 1.69% | 1.72% | 1.75% | 1.81% | 1.79% |
| ALLL/Noncurrent Loans (median multiple) | 1.80 | 1.39 | 1.77 | 1.72 | 1.91 |
| Net Loan Losses/Loans (aggregate) | 0.36% | 0.60% | 0.69% | 0.81% | 0.91% |
| Earnings | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
| Unprofitable Institutions (#) | 0 | 1 | 2 | 2 | 7 |
| Percent Unprofitable | 0.00% | 0.93% | 1.87% | 1.79% | 6.03% |
| Return on Assets (median %) | 1.15 | 1.12 | 1.17 | 1.11 | 1.18 |
| 25th Percentile | 0.81 | 0.80 | 0.79 | 0.76 | 0.89 |
| Net Interest Margin (median %) | 4.07% | 4.10% | 4.20% | 4.08% | 4.30% |
| Yield on Earning Assets (median) | 5.50% | 6.01% | 6.76% | 8.19% | 8.02% |
| Cost of Funding Earning Assets (median) | 1.45% | 1.94% | 2.66% | 4.12% | 3.70% |
| Provisions to Avg. Assets (median) | 0.06% | 0.12% | 0.10% | 0.08% | 0.09% |
| Noninterest Income to Avg. Assets (median) | 0.48% | 0.47% | 0.43% | 0.46% | 0.43% |
| Overhead to Avg. Assets (median) | 2.76% | 2.66% | 2.77% | 2.75% | 2.78% |
| Liquidity/Sensitivity | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
| Loans to Deposits (median %) | 72.05% | 72.20% | 70.34% | 68.67% | 65.21% |
| Loans to Assets (median %) | 61.12% | 61.73% | 60.31% | 58.18% | 55.70% |
| Brokered Deposits (# of Institutions) | 20 | 20 | 17 | 17 | 20 |
| Bro. Deps./Assets (median for above inst.) | 1.81% | 1.71% | 1.09% | 1.52% | 2.54% |
| Noncore Funding to Assets (median) | 12.58% | 12.30% | 11.49% | 11.54% | 11.21% |
| Core Funding to Assets (median) | 76.31% | 76.17% | 76.80% | 76.30% | 77.94% |
| Bank Class | Mar-04 | Mar-03 | Mar-02 | Mar-01 | Mar-00 |
| State Nonmember | 82 | 84 | 85 | 89 | 92 |
| National | 13 | 15 | 15 | 16 | 18 |
| State Member | 5 | 5 | 4 | 4 | 3 |
| S&L | 0 | 0 | 0 | 0 | 0 |
| Savings Bank | 3 | 3 | 3 | 3 | 3 |
| Stock and Mutual SB | 0 | 0 | 0 | 0 | 0 |
| MSA Distribution | | # of Inst. | Assets | % Inst. | % Assets |
| No MSA | | 84 | 6,305,442 | 81.55% | 32.54% |
| Fargo-Moorhead ND-MN | | 11 | 10,925,693 | 10.68% | 56.38% |
| Bismarck ND | | 6 | 968,324 | 5.83% | 5.00% |
| Grand Forks ND-MN | | 2 | 1,178,442 | 1.94% | 6.08% |