FDIC State Profile

Fall 2004

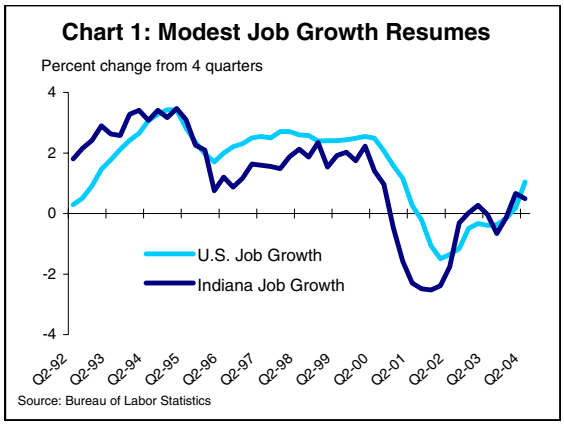
Indiana

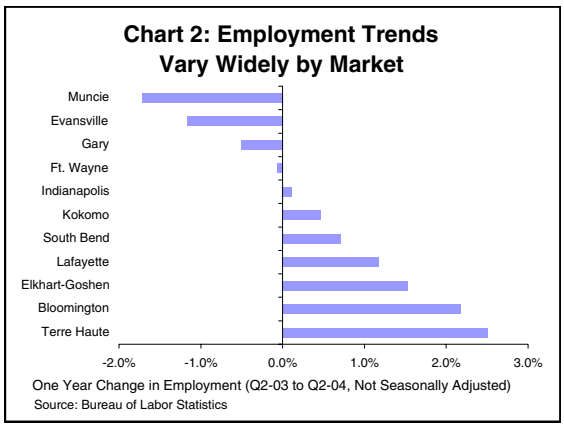
Indiana's economy remains on the road to recovery.

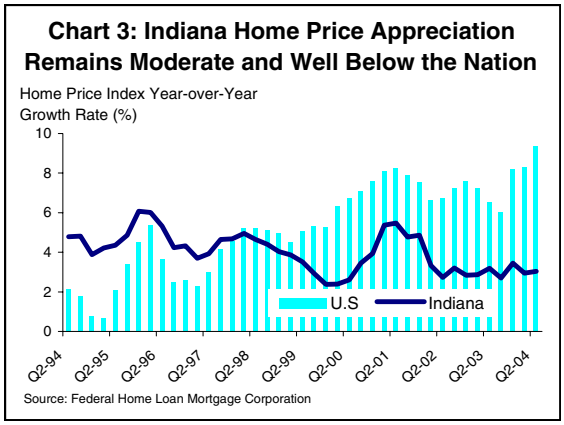
- Indiana's economy performed well relative to other Midwestern states. In the first two quarters of 2004, Indiana generated positive year-over-year job growth that was essentially in line with national trends (See Chart 1).
- In the past year, manufacturing employment declined 0.6 percent in Indiana, roughly half the national rate and well below many surrounding states.
- In 2005, the Crane Naval Surface Warfare Center in southwest Indiana could be at risk as the military continues looking at base realignments and potential closures. Crane employs approximately 4,000 workers.[1]
- While job growth overall was positive in the state, trends varied widely among Indiana's major markets (See Chart 2).
- ***Muncie*** fared the worst, largely because of few good job alternatives to those lost in the manufacturing sector. While manufacturing salaries in Muncie were on par with the national average, service sector jobs in this metropolitan statistical area pay approximately 30 percent below average.[2]
- ***Terre Haute*** employment growth improved strongly, partially because its manufacturing base has benefited from increased defense spending.

Consumers in Indiana appear strained, but the situation should improve.

- Bankruptcies remained relatively high, as Indiana ranked fifth among all states for its per capita bankruptcy rate.
- The conventional mortgage loan foreclosure rate in Indiana also was high and stood well above national levels. Despite high bankruptcy and foreclosure rates in the state, the past-due and net charge off rates on one-to-four family







[1] Economy.com state précis, June 2004.
[2] Economy.com Muncie précis, June 2004.

mortgages at community banks[3] remained at relatively low and stable levels..

- Personal income growth started to rebound in line with national trends. As the employment situation continues to improve, so should consumer financial strength.
- Rising interest rates may affect home values in Indiana less than in other parts of the U.S. Indiana home price gains never reached unsustainable levels in recent years, despite falling or low interest rates (See Chart 3).

Bank profitability stumbles in the second quarter.

- Indiana's community banks saw a substantial decline in profitability in the second quarter, when compared to a year ago (See Table 1).
- Net interest income held steady, and better asset quality led to lower provision expenses. However, rising interest rates resulted in lower securities gains.
- Banks realized lower levels of noninterest income during the quarter, a situation likely caused by reduced fee income as mortgage origination and refinancing activity slowed.
- As the economy continues to improve, the ability of bankers to manage future interest rate changes may drive short-term profitability trends more than loan performance issues. Rising rates are likely to pressure net interest income in coming quarters, as retail depositors await higher yields and banks may subsequently feel compelled to raise deposit rates more quickly than usual.

Community bank loan quality improved across the board.

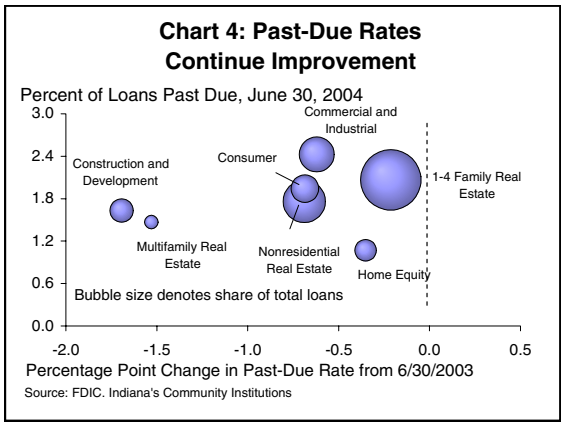
- Most credit quality indicators were favorable among Indiana community banks. Net charge offs remained low, and overall delinquencies trended down for five consecutive quarters.
- Improved loan quality enabled reserve levels to hold fairly steady relative to total loans, while reserve coverage of nonperforming loans rose sharply in the second quarter.
- Delinquency rates improved in all major loan segments during the past year (See Chart 4). One-to-four family mortgage loans, the largest segment by far, saw only modest improvement, but these loans typically have the highest quality collateral protection.
- Mortgage loan exposures were much higher in relation to Tier 1 capital in Indiana than in the Region overall (See Chart 5). Over the past several years, the exposure has been trending down as banks migrated toward riskier, but higher yielding, commercial real estate[4] (CRE) credits. The median level of CRE to Tier 1 capital for Indiana's community banks rose to 152 percent from 132 percent a year earlier.
- Growth in loans to small businesses has been moderate over the past year at 8.48% and somewhat above growth for the U.S. as a whole.[5]

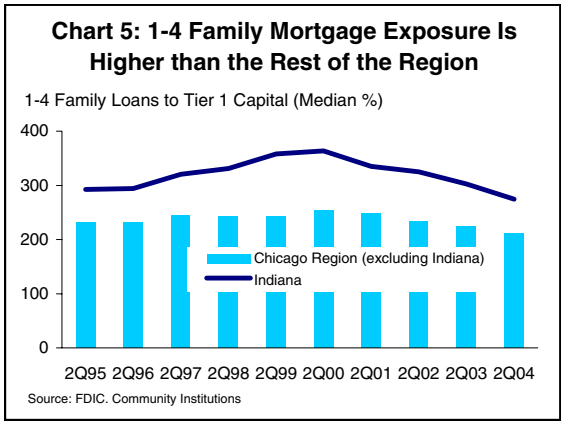
Table 1: Earnings Performance Drops at Community Banks and Thrifts

Income statement contribution (as a percentage of average assets)

	3 months ended June 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.32	3.32	0.00
Noninterest Income	0.95	0.81	-0.14
Noninterest Expense	-2.69	-2.72	-0.03
Provision Expense	-0.28	-0.21	0.07
Security Gains & Losses	0.15	-0.01	-0.16
Income Taxes	-0.42	-0.35	0.07
Net Income (ROA)	1.03	0.84	-0.19

Source: FDIC





[3]Community banks are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks.

[4]Commercial real estate consists of construction and development, multifamily residential, and nonresidential real estate lending.

[5]Small business loans as reported each June in Schedule RC-C Part II. Loans to Small Businesses.

Indiana at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	203	207	214	221	224
Total Assets (in thousands)	114,468,502	135,613,980	125,201,062	116,633,202	86,115,989
New Institutions (# < 3 years)	2	6	9	11	9
New Institutions (# < 9 years)	16	18	19	20	15

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.51	9.41	9.36	9.26	9.23

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.91%	2.53%	2.10%	2.10%	1.58%
Past-Due and Nonaccrual >= 5%	15	24	21	13	12
ALLL/Total Loans (median %)	1.14%	1.19%	1.15%	1.09%	1.10%
ALLL/Noncurrent Loans (median multiple)	1.54	1.36	1.30	1.50	1.90
Net Loan Losses/Loans (aggregate)	0.27%	0.38%	0.50%	0.41%	0.23%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	12	7	11	14	11
Percent Unprofitable	5.91%	3.38%	5.14%	6.33%	4.91%
Return on Assets (median %)	0.80	0.94	0.99	0.91	0.93
25th Percentile	0.53	0.66	0.66	0.61	0.64
Net Interest Margin (median %)	3.64%	3.81%	3.95%	3.84%	3.98%
Yield on Earning Assets (median)	5.55%	6.02%	6.79%	7.94%	7.91%
Cost of Funding Earning Assets (median)	1.76%	2.19%	2.84%	4.21%	4.04%
Provisions to Avg. Assets (median)	0.11%	0.15%	0.13%	0.11%	0.10%
Noninterest Income to Avg. Assets (median)	0.68%	0.72%	0.65%	0.63%	0.54%
Overhead to Avg. Assets (median)	2.75%	2.76%	2.68%	2.66%	2.69%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	88.61%	85.89%	87.11%	89.72%	89.02%
Loans to Assets (median %)	69.30%	68.30%	68.58%	71.24%	70.55%
Brokered Deposits (# of Institutions)	56	48	44	39	31
Bro. Deps./Assets (median for above inst.)	4.19%	3.21%	2.62%	2.79%	1.48%
Noncore Funding to Assets (median)	22.63%	21.69%	21.12%	21.79%	21.06%
Core Funding to Assets (median)	64.87%	66.25%	67.07%	67.07%	67.21%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	84	92	94	97	97
National	33	28	32	31	32
State Member	28	29	28	27	25
S&L	15	15	15	16	16
Savings Bank	36	36	38	43	48
Stock and Mutual SB	7	7	7	7	6

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Indianapolis IN	24	52,169,319	11.82%	45.58%
Gary IN PMSA	15	7,730,980	7.39%	6.75%
Ft Wayne IN	13	4,112,464	6.40%	3.59%
Louisville KY-IN	12	2,750,242	5.91%	2.40%
Evansville-Henderson IN-KY	10	12,438,642	4.93%	10.87%
Terre Haute IN	6	2,187,046	2.96%	1.91%
Cincinnati OH-KY-IN PMSA	5	670,735	2.46%	0.59%
South Bend IN	4	4,089,003	1.97%	3.57%
Lafayette IN	4	1,809,304	1.97%	1.58%
Elkhart-Goshen IN	4	398,758	1.97%	0.35%
Kokomo IN	3	1,530,927	1.48%	1.34%
All Other MSAs	5	2,549,963	2.46%	2.23%
No MSA	98	22,031,119	48.28%	19.25%