FDIC State Profile

Spring 2004

Indiana

Weakness in manufacturing continues to depress Indiana's job picture.

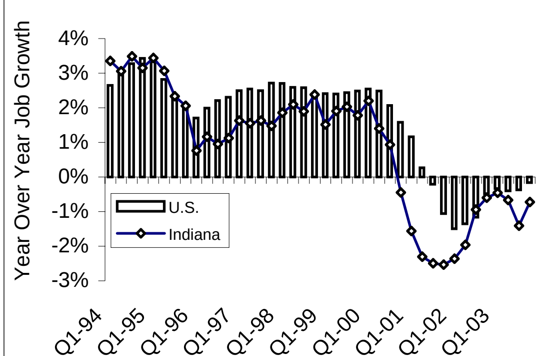
- Indiana continues to lose jobs at a faster rate than the nation, and the gap in national versus state employment trends is wider than a year ago (See Chart 1).
- Manufacturing employment represents 20 percent of Indiana's total nonfarm employment so the loss of 2.5 percent of manufacturing jobs from the fourth quarter of 2002 to the fourth quarter of 2003 was the major drag on overall state employment trends. Even as the overall economy recovers, many of these manufacturing jobs may not be replaced.
- Employment trends are bleak across most employment categories. Government employment was the only significant category that managed to increase on a year-over-year basis, but its growth was anemic at 0.29 percent.

Weak economic conditions have pressured some Indiana residents.

- The credit worthiness of Indiana's households, relative to the rest of the nation, is not strong. Although Indiana typically experiences a higher bankruptcy rate than the nation, disproportionate economic weakness in the state has pushed bankruptcy filings well above national levels (See Chart 2).
- Underscoring the strains being felt in Indiana, the conventional mortgage foreclosure rate also remains well above national levels.
- Furthermore, delinquencies are higher for 1-4 family mortgage loans held by Indiana's community[1] banks versus those outside of the state. The past due rate on 1-4 family loans in Indiana's community banks was 2.51 percent, compared to 2.29 percent for similar banks outside the state, as of year-end 2003.

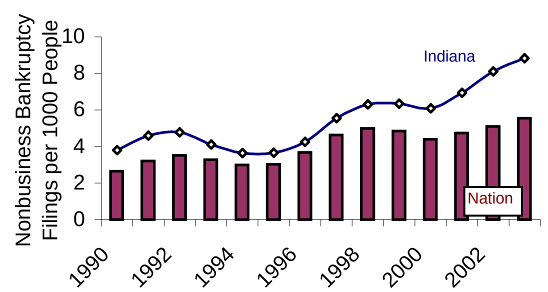
Indianapolis' office market has yet to rebound.

Chart 1: Job Losses Continue in Indiana



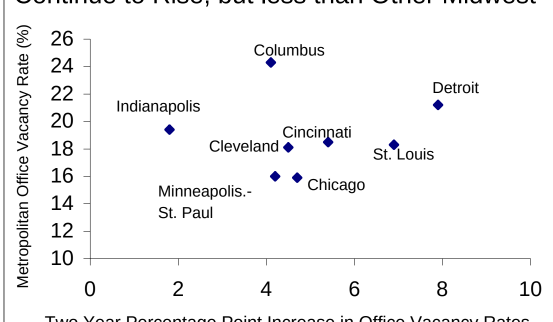
Source: Bureau of Labor Statistics

Chart 2: Indiana's Bankruptcy Rates Have Grown Relative to the Nation



Source: Administrative Office of the U.S. Courts/Bureau of the Census/Haver Analytics

Chart 3: Indianapolis' Office Vacancies Continue to Rise, but less than Other Midwest



Source: CB Commercial Property Information Systems

[1] Community banks are insured institutions with less than $1 billion in assets, excluding de novos and specialty banks, such as credit card lenders.

- Office vacancies in Indianapolis and the Chicago Region's larger markets continue to increase, albeit at a slower rate.

- The Indianapolis market continues to have an elevated office vacancy rate, but it has not experienced as much deterioration during the last two years as the other large markets in the Region (See Chart 3).

The earnings performance of the state's insured institutions faltered somewhat at year end.

- Indiana's community banks saw a sharp drop in aggregate profitability in the fourth quarter of 2003 versus a year earlier (See Table 1). Most of the drop in profitability, as measured by return on assets, was the result of continued net interest margin declines, as asset yields fell more than funding costs. Current performance shows that the steep yield curve hasn't been of much benefit, and that competition remains strong.

Asset quality improvement shows insured institutions have navigated economic weakness fairly well.

- In spite of a weak economy, aggregate delinquency rates in most major loan segments have improved during the last year (See Chart 4).

- As delinquencies have come down, reserve coverage of nonperforming loans has risen. Should this trend continue, future profitability may receive a slight boost as provision expenses hold steady or decline.

Securities portfolios may be less a source of strength in coming quarters.

- Commercial banks have reported diminishing securities portfolio appreciation in recent quarters (See Chart 5). This is to be expected, as banks have already recognized significant gains during recent quarters, and interest rates are no longer falling appreciably prompting increases in securities prices.

- Indiana's community banks hold a higher share of mortgage-backed securities than community banks in the rest of the nation. In Indiana's community banks, 41 percent of securities portfolios are mortgage backed versus 38 percent elsewhere. A higher share of mortgage-backed securities, in addition to sizeable 1-4 family mortgage loan holdings, often leads to greater market value fluctuations than would be seen by institutions with less exposure to prepayment or extension risk in periods of changing interest rates.

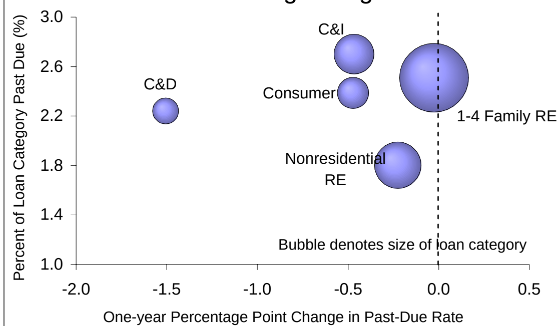
Table 1: Earnings Performance Drops

Income statement contribution (as a percentage of average assets)

	3 months ended December 31		Basis Point Change
	2002	2003	
Net Interest Income	3.50	3.33	-0.17
Total Noninterest Income	0.91	0.86	-0.05
Noninterest Expense	-2.77	-2.77	0.00
Provision Expense	-0.35	-0.30	0.05
Security Gains & Losses	0.17	0.06	-0.11
Income Taxes	-0.44	-0.35	0.09
Net Income (ROA)	1.02	0.83	-0.19

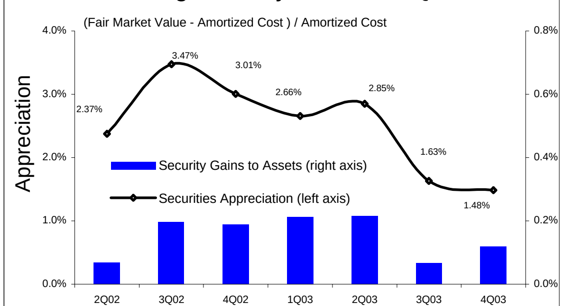
Source: Bank and Thrift Call Reports for Community Institutions

Chart 4: Past-Due Rates are Lower Across Most Lending Categories



Source: Aggregate Bank and Thrift Call Reports for Indiana's Community Institutions

Chart 5: Securities Portfolio Appreciation Has Diminished Significantly in Recent Quarters



Source: Bank and Thrift Call Reports for Indiana's Community Commercial

Indiana at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	206	210	217	219	226
Total Assets (in thousands)	117,431,783	128,941,804	127,749,223	101,484,345	81,008,946
New Institutions (# < 3 years)	4	7	10	10	9
New Institutions (# < 9 years)	16	18	20	17	13

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.60	9.17	9.38	9.24	9.38

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.13%	2.48%	2.34%	1.90%	1.71%
Past-Due and Nonaccrual >= 5%	14	27	24	17	13
ALLL/Total Loans (median %)	1.16%	1.17%	1.12%	1.10%	1.13%
ALLL/Noncurrent Loans (median multiple)	1.68	1.30	1.27	1.72	1.95
Net Loan Losses/Loans (aggregate)	0.43%	0.39%	0.57%	0.37%	0.27%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	11	11	13	11	12
Percent Unprofitable	5.34%	5.24%	5.99%	5.02%	5.31%
Return on Assets (median %)	0.90	0.95	0.91	0.89	0.94
25th Percentile	0.59	0.62	0.63	0.59	0.64
Net Interest Margin (median %)	3.73%	3.93%	3.88%	3.95%	3.94%
Yield on Earning Assets (median)	5.86%	6.66%	7.63%	8.04%	7.69%
Cost of Funding Earning Assets (median)	2.09%	2.69%	3.93%	4.23%	3.79%
Provisions to Avg. Assets (median)	0.15%	0.17%	0.14%	0.11%	0.12%
Noninterest Income to Avg. Assets (median)	0.72%	0.69%	0.67%	0.57%	0.56%
Overhead to Avg. Assets (median)	2.76%	2.73%	2.70%	2.70%	2.64%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	86.21%	85.39%	87.50%	88.82%	86.12%
Loans to Assets (median %)	68.17%	68.27%	69.33%	70.86%	68.85%
Brokered Deposits (# of Institutions)	52	46	41	34	30
Bro. Deps./Assets (median for above inst.)	3.94%	3.01%	2.26%	2.63%	1.95%
Noncore Funding to Assets (median)	21.89%	21.14%	21.31%	20.71%	18.94%
Core Funding to Assets (median)	66.51%	67.76%	68.08%	67.69%	70.51%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	92	93	93	97	99
National	28	30	33	31	33
State Member	28	28	28	25	26
S&L	15	15	16	16	16
Savings Bank	36	37	40	44	46
Stock and Mutual SB	7	7	7	6	6

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	99	21,466,955	48.06%	18.28%
Indianapolis IN	24	53,757,565	11.65%	45.78%
Gary IN PMSA	15	7,681,406	7.28%	6.54%
Ft Wayne IN	14	6,023,965	6.80%	5.13%
Louisville KY-IN	12	2,621,715	5.83%	2.23%
Evansville-Henderson IN-KY	10	12,894,645	4.85%	10.98%
Terre Haute IN	7	2,037,394	3.40%	1.73%
Cincinnati OH-KY-IN PMSA	5	650,757	2.43%	0.55%
South Bend IN	4	4,079,154	1.94%	3.47%
Lafayette IN	4	1,771,113	1.94%	1.51%
Elkhart-Goshen IN	4	381,296	1.94%	0.32%
Kokomo IN	3	1,560,048	1.46%	1.33%
Bloomington IN	3	866,090	1.46%	0.74%