

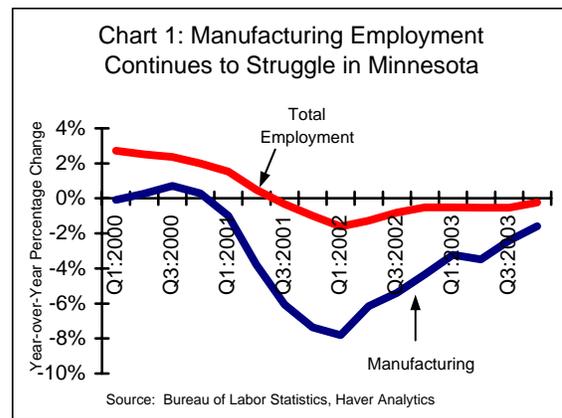
# FDIC State Profile

Spring 2004

## Minnesota

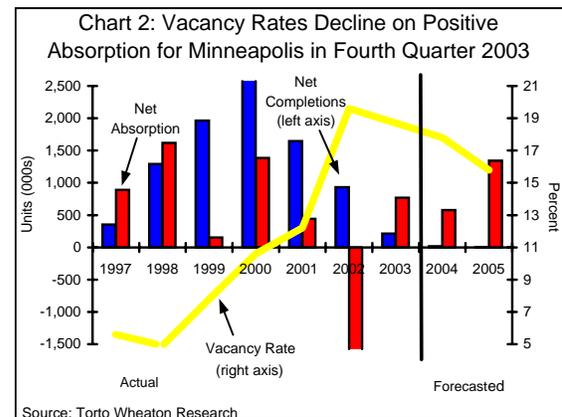
Minnesota continues to loose jobs, but the pace is slowing.

- The Minnesota economy continued to lose jobs in the fourth quarter of 2003, a trend that has continued since July of 2001.
- The manufacturing sector posted the most significant job losses for the year, a loss totaling 5,600 jobs (See Chart 1). Modest gains in the sector were posted in the fourth quarter, with the industry adding 800 jobs.
- Although the state's unemployment rate rose slightly to 4.6 percent in the fourth quarter 2003, up from 4.5 percent at third quarter 2003, it remains significantly below the nation's 5.9 percent unemployment rate in the fourth quarter.



Commercial real estate in the Minneapolis MSA is on the path to recovery.

- After peaking in 2002, office vacancy rates in the Minneapolis MSA declined to 18.7 percent in 2003, a result primarily of positive absorption in the sector (See Chart 2).
- Positive absorption trends coupled with no new construction will allow vacancy rates to decline to the forecasted rate of 17.8 percent in 2004.
- Vacancy rates in the area's industrial real estate market increased in 2003 to 10.3 percent up from 9.1 percent in 2002. In addition to rising vacancy rates, the Minneapolis MSA experienced a 3 percent decline in net asking rents for the sector.



Higher prices for Minnesota's major agricultural commodities point to improved farm income in 2003.

- Near ideal growing conditions in the summer of 2003 imply record harvests of both corn and soybeans.
- Despite record harvests in 2003, prices are projected to increase in 2004 because of strong domestic and export demand. Soybean prices are forecasted to increase substantially, a result of smaller than expected harvest in 2003 (See Chart 3).

**Chart 3: Farm Incomes Improved in 2003  
Outlook Varied for 2004**

	2001	2002	Est 2003	Proj 2004	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.20	2.45	3%
Soybeans	4.54	4.25	5.53	7.25	18%
Wheat	2.62	2.78	3.56	3.35	18%
Cattle	72.71	67.50	84.69	74.50	12%
Hogs	45.81	34.92	39.45	39.00	14%
Milk	14.97	12.10	12.45	13.30	14%

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock and milk are per hundredweight  
Source: USDA/WASDE February 10, 2004

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- Results for cattle and hogs improved moderately in 2003, but are expected to decline in 2004. Cattle prices fell substantially with the USDA finding of a single case of bovine spongiform encephalopathy in December of 2003. Hog operations will likely see prices decline due to improved supply and pressure from beef products. The dairy sector will continue to suffer the lowest prices experienced in more than 20 years, the result of continuing overproduction.

### Minnesota's Metropolitan Institutions Have Increased Their Commercial Real Estate (CRE) Exposure

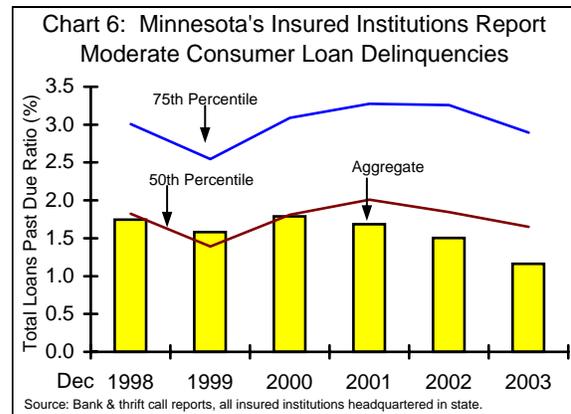
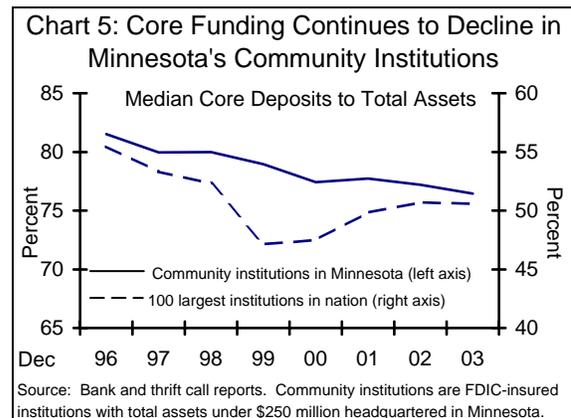
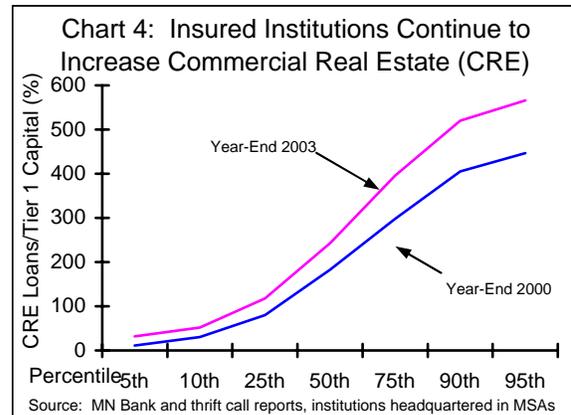
- Exposure to Commercial Real Estate (CRE) has increased substantially the past few years despite weakening CRE market fundamentals in Minneapolis-St. Paul and other metropolitan areas (See Chart 4).
- Most of the growth is in nonresidential, nonfarm properties including owner-occupied business properties and construction and development properties, historically the most volatile CRE segment.
- Despite weakened markets and increased CRE loan volume, CRE delinquencies remain low and CRE net charge-offs are negligible.

### Community Institutions in Minnesota Continue to Experience Declining Core Funding

- Unlike some other states in the Region, Minnesota's community institutions did not experience any reprieve in their core funding erosion over the past few years (See Chart 5).
- Minnesota's community institutions apparently did not benefit from the influx of funds into the nation's banking system from investors seeking shelter from a weak economy and falling stock markets.
- Rural Minnesota'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.

### Minnesota's Insured Institutions Continue to Show Satisfactory Asset Quality

- Asset quality among Minnesota's insured institutions has remained satisfactory throughout this economic downturn.
- Median, 75th percentile, and aggregate measures all show that delinquency ratios increased only slightly during the worst of the economic downturn, and appear to be receding again (See Chart 6).
- Net charge offs remain negligible as well, and loan loss reserve coverage remains strong areas.



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### Minnesota at a Glance

<b>General Information</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Institutions (#)	486	487	504	513	519
Total Assets (in thousands)	108,681,549	111,174,652	110,453,163	189,966,731	160,160,027
New Institutions (# < 3 years)	13	14	19	20	17
New Institutions (# < 9 years)	40	33	37	36	28
<b>Capital</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Tier 1 Leverage (median)	9.06	8.92	8.81	8.91	8.86
<b>Asset Quality</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Past-Due and Nonaccrual (median %)	1.65%	1.85%	2.01%	1.81%	1.39%
Past-Due and Nonaccrual >= 5%	41	48	51	36	32
ALLL/Total Loans (median %)	1.27%	1.27%	1.26%	1.25%	1.30%
ALLL/Noncurrent Loans (median multiple)	1.83	1.66	1.69	2.26	2.45
Net Loan Losses/Loans (aggregate)	0.16%	0.25%	0.29%	0.62%	0.58%
<b>Earnings</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Unprofitable Institutions (#)	23	21	21	21	18
Percent Unprofitable	4.73%	4.31%	4.17%	4.09%	3.47%
Return on Assets (median %)	1.24	1.26	1.14	1.14	1.14
25th Percentile	0.80	0.86	0.73	0.77	0.78
Net Interest Margin (median %)	4.33%	4.50%	4.39%	4.48%	4.46%
Yield on Earning Assets (median)	6.13%	6.89%	8.01%	8.47%	8.05%
Cost of Funding Earning Assets (median)	1.76%	2.40%	3.63%	3.96%	3.60%
Provisions to Avg. Assets (median)	0.14%	0.16%	0.14%	0.12%	0.11%
Noninterest Income to Avg. Assets (median)	0.64%	0.63%	0.63%	0.61%	0.66%
Overhead to Avg. Assets (median)	3.05%	3.03%	3.02%	3.03%	3.08%
<b>Liquidity/Sensitivity</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
Loans to Deposits (median %)	77.92%	78.15%	76.30%	76.74%	73.80%
Loans to Assets (median %)	65.89%	65.80%	65.16%	65.87%	63.24%
Brokered Deposits (# of Institutions)	134	135	133	134	120
Bro. Deps./Assets (median for above inst.)	3.17%	3.27%	3.07%	3.18%	2.95%
Noncore Funding to Assets (median)	12.96%	12.14%	11.45%	11.79%	10.68%
Core Funding to Assets (median)	75.35%	76.52%	76.53%	76.62%	78.25%
<b>Bank Class</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>
State Nonmember	319	317	329	336	334
National	119	121	125	127	134
State Member	26	27	27	28	29
S&L	10	10	10	10	10
Savings Bank	12	12	13	12	12
Stock and Mutual SB	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	308	23,095,798	63.37%	21.25%	
Minneapolis-St Paul MN-WI	118	79,302,953	24.28%	72.97%	
St Cloud MN	22	2,586,645	4.53%	2.38%	
Duluth-Superior MN-WI	17	1,178,975	3.50%	1.08%	
Rochester MN	6	1,128,751	1.23%	1.04%	
Grand Forks ND-MN	6	388,834	1.23%	0.36%	
La Crosse WI-MN	5	232,045	1.03%	0.21%	
Fargo-Moorhead ND-MN	4	767,548	0.82%	0.71%	