FDIC State Profile

Winter 2005

Michigan

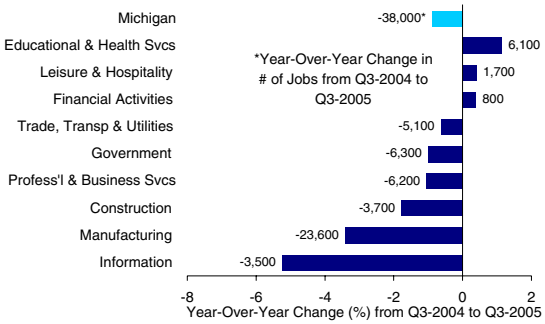
Employment trends worsened for an already beleaguered Michigan.

- Michigan was one of only three states, including hurricane-ravaged Louisiana and Mississippi, that experienced year-over-year job losses at third quarter 2005. The state's -0.9 percent job loss rate was the worst since fourth quarter 2003.
- Manufacturing continued to account for most job losses; however, the ripple effect from auto sector woes continued as most major job sectors experienced losses or slower growth (see Chart 1). Particularly noteworthy were government job losses, a sector that previously gained 5,400 jobs in second quarter 2005, as state tax revenues continued to face pressure.
- The only metros reporting job gains were **Ann Arbor**, **Grand Rapids-Wyoming**, **Jackson**, **Kalamazoo-Portage**, **and Muskegon-North Shores**, which collectively added only 3,300 jobs.
- Recent announcements of Delphi's bankruptcy and General Motor's (GM) planned plant closures further dampen near-term employment prospects. Numerous jobs, wages, and pensions are at stake as Delphi and GM are major Michigan employers. Auto parts supplier Delphi employs an estimated 15,000 people in Michigan, with most workers concentrated in the metros of **Saginaw**, **Flint**, **Detroit-Warren-Livonia**, and Grand Rapids-Wyoming, areas already suffering job losses or slow growth. GM plans facility closures by 2008 in **Lansing**, Flint, and **Ypsilanti**.

Household conditions reflect poor employment trends.

- A combination of relatively slow population growth, steady housing starts, poor employment conditions, and slow income growth contributed to relatively slower home appreciation and produced conditions for added financial stress for many Michigan households.
- Homes in the state appreciated 4.0 percent from third quarter 2004 to third quarter 2005, compared to 12.0 percent for the nation, a situation that limits Michigan homeowners from tapping home equity to the same extent as those in other parts of the nation.

Chart 1: Auto Sector Job Losses Rippled Through Most Employment Sectors



Source: Bureau of Labor Statistics

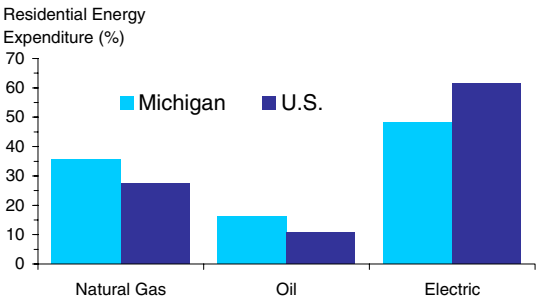
Table 1: Higher Loan Yields Helped Community Bank Profits

Income statement contribution (percent of average assets)	3 months ended Sep 30		Percentage Point Change
	2004	2005	
Net Interest Income	3.82	3.95	0.13
Noninterest Income	1.00	1.02	0.02
Noninterest Expense	-3.18	-3.22	-0.04
Provision Expense	-0.17	-0.21	-0.04
Security Gains & Losses	0.02	0.00	-0.02
Pretax Net Income	1.49	1.54	0.05
Income Taxes	-0.43	-0.44	-0.01
Net Income (ROA)	1.06	1.10	0.04

Source: FDIC

Note: Merger-adjusted data for Michigan's Community Institutions

Chart 2: Michigan Relies on Natural Gas More than the Nation



Source: U.S. Department of Energy.
Note: Energy sources greater than 1% as of 2001.

- Bankruptcies and foreclosures remained elevated and above the national level. The volume of loans in foreclosure was 1.6 percent at third quarter 2005 compared to a national level of 1.0 percent.

Potential energy cost increases may adversely affect some Michigan residents this winter.

- Consumer costs for winter heating fuels are expected to rise considerably this winter. Forecasts predict Midwest natural gas prices will increase by 44 percent, the largest increase compared to other regions and other types of Midwest heating fuels.[1] Estimates show Michigan's winter natural gas bills will be 51 percent higher than last year.[2]

- Michigan has relatively colder climate conditions and ranked 14th highest among all states for heating degree-days.[3] Natural gas represents a large share, 36 percent, of Michigan residential energy expenditures compared to 27 percent for the nation.[4] An estimated 87 percent of Michigan homes use natural gas as their principal heating fuel, ranking Michigan as the second largest user among all states.[5]

Earnings performance of Michigan community institutions remained favorable.

- Aggregate profitability [6] for Michigan community institutions increased slightly as net interest income increased, and despite a small increase in noninterest and provision expenses (see Table 1).[7]

- Net interest margins benefited from an aggregate increase in the yield on earning assets that outpaced an increase in cost of funding earning assets. Earning asset yields benefited from higher interest rates and continued strong growth in commercial real estate loans, which typically are higher yielding. Total funding costs rose slower relative to asset yield increases, as banks were able to delay increasing deposit rates.

Asset quality indicators were relatively stable for Michigan community institutions.

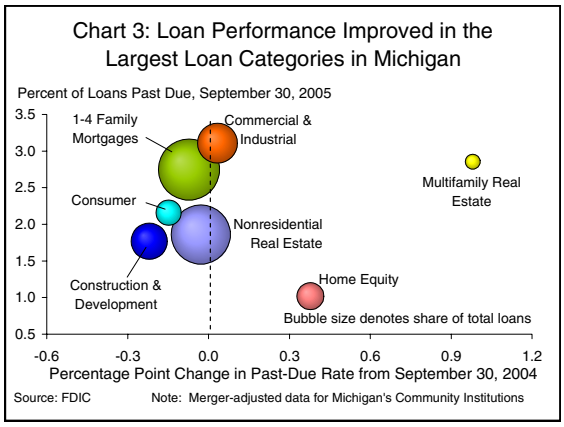
- The loan delinquency rate was stable and stood at 2.3 percent as of September 30, 2005. The delinquency rate declined for a number of major loan categories with the exception of multifamily residential real estate, home equity, and commercial and industrial loans (see Chart 2).

- Despite the strain on households discussed earlier, insured institutions reported a moderate level of piggyback loans made in the state's Core Based Statistical Areas (CBSAs) in 2004. The number of piggyback loans made in Michigan CBSAs in 2004 as a percentage of 1-4 family home purchase loans was 9.6 percent, compared to 12.8 percent nationally.[8]

Michigan office growth is catching up with population growth.

- After lagging population growth for a number of years, recent bank office additions pushed Michigan office growth closer to the state's population growth in 2005 (see Chart 3). While increased, Michigan's office growth rate remained below the national rate at 1.9 percent and 2.5 percent, respectively, in 2005.

- The Detroit-Warren-Livonia metro (Detroit) accounted for 93 percent of the Michigan office growth between 2002 and 2005, moving the level of offices more in line with the metro's population. Despite a relatively low office density, the number of bank offices in Detroit declined by 13 between 1995 and 2002, and the number of people per banking office ramped up to 4,357 in 2002, its highest level in the last decade. With the recent office growth, the number of people per office in Detroit declined somewhat to 3,876 in 2005, but still relatively high compared to the median for all metros in the nation of 3,142 people per office.



[1] Energy Information Administration / Short-Term Energy Outlook – December 2005.
[2] Michigan Public Service Commission estimates, November 2005, Judy Palnau.
th highest among all states for heating degree-days.
[3] Based on data from the National Oceanic and Atmospheric Administration using the average number of heating degree-days for the past five years.
[4] U.S. Department of Energy, data as of 2001.
[5] U.S. Census Bureau, 2004 American Community Survey.
[6] Earnings data excludes one community bank due to a large one time gain on the sale of a branch network it experienced that skewed September 2004 earnings results for the rest of Michigan community institutions.
[7] Community institutions are insured banks and thrifts with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

[8] Data reported by insured institutions as part of the Home Mortgage Disclosure Act. Piggyback loans refer to second liens on home purchase loans.

Michigan at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	-0.9%	-0.6%	-0.2%	-0.4%	-1.5%
Manufacturing (16%)	-3.4%	-3.3%	-1.9%	-2.9%	-5.7%
Other (non-manufacturing) Goods-Producing (5%)	-1.6%	-1.0%	-0.1%	-0.2%	-4.5%
Private Service-Producing (64%)	-0.2%	-0.3%	0.4%	0.2%	-0.5%
Government (16%)	-1.0%	0.8%	-0.9%	-0.5%	-0.2%
Unemployment Rate (% of labor force)	6.7	7.0	7.1	7.1	7.1

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	3.6%	1.7%	1.8%	4.9%
Single-Family Home Permits	-11.8%	-7.7%	-2.5%	1.5%	6.3%
Multifamily Building Permits	-35.4%	21.1%	8.2%	0.9%	-2.3%
Existing Home Sales	-1.7%	-0.5%	-5.0%	2.9%	1.9%
Home Price Index	4.0%	5.1%	5.2%	4.4%	3.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	8.98	7.47	6.18	6.32	6.18

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	175	173	174	173	178
Total Assets (in millions)	215,046	211,931	198,144	194,630	196,664
New Institutions (# < 3 years)	7	4	5	4	8
Subchapter S Institutions	13	12	12	12	10

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.79	1.69	1.87	1.82	2.15
ALLL/Total Loans (median %)	1.22	1.21	1.24	1.24	1.30
ALLL/Noncurrent Loans (median multiple)	1.67	1.80	1.78	1.67	1.41
Net Loan Losses / Total Loans (median %)	0.06	0.06	0.06	0.12	0.14

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.57	9.48	9.16	9.25	9.08
Return on Assets (median %)	1.05	1.01	1.03	0.97	1.10
Pretax Return on Assets (median %)	1.47	1.41	1.40	1.35	1.52
Net Interest Margin (median %)	4.28	4.23	4.10	4.08	4.12
Yield on Earning Assets (median %)	6.39	6.19	5.78	5.72	6.00
Cost of Funding Earning Assets (median %)	2.14	1.96	1.70	1.70	1.99
Provisions to Avg. Assets (median %)	0.12	0.13	0.13	0.15	0.19
Noninterest Income to Avg. Assets (median %)	0.71	0.67	0.69	0.73	0.89
Overhead to Avg. Assets (median %)	3.06	3.03	2.95	2.97	3.12

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	76.2	76.5	75.2	76.2	74.0
Noncore Funding to Assets (median %)	22.3	21.5	19.7	20.5	18.6
Long-term Assets to Assets (median %, call filers)	11.2	11.4	12.0	11.7	12.5
Brokered Deposits (number of institutions)	81	75	68	68	63
Brokered Deposits to Assets (median % for those above)	8.1	8.7	8.0	8.6	7.1

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	90.7	90.3	91.6	88.3	93.4
Commercial Real Estate	253.2	258.8	251.2	255.5	236.9
Construction & Development	54.3	52.0	49.7	51.3	45.9
Multifamily Residential Real Estate	6.2	6.4	5.1	5.1	4.9
Nonresidential Real Estate	183.1	187.2	182.1	186.0	186.8
Residential Real Estate	271.9	277.4	279.2	272.5	287.2
Consumer	32.0	34.6	36.5	36.1	39.6
Agriculture	2.3	2.8	2.9	3.0	3.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Detroit-Warren-Livonia, MI	58	77,033	< $250 million	119 (68%)
Grand Rapids-Wyoming, MI	33	11,536	$250 million to $1 billion	43 (24.6%)
Lansing-East Lansing, MI	24	5,369	$1 billion to $10 billion	9 (5.1%)
Ann Arbor, MI	18	4,651	> $10 billion	4 (2.3%)
Flint, MI	14	4,050		