

FDIC State Profile

Fall 2004

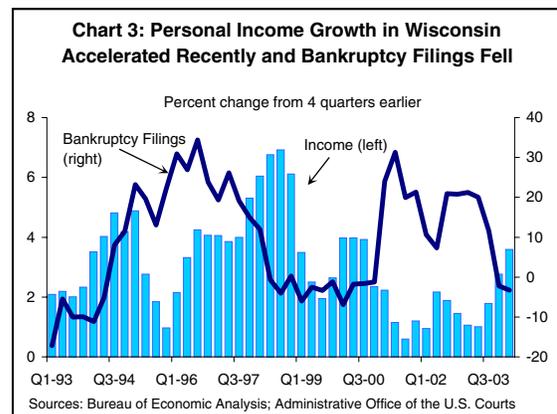
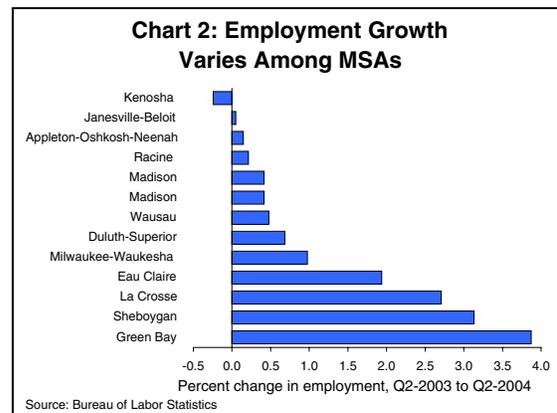
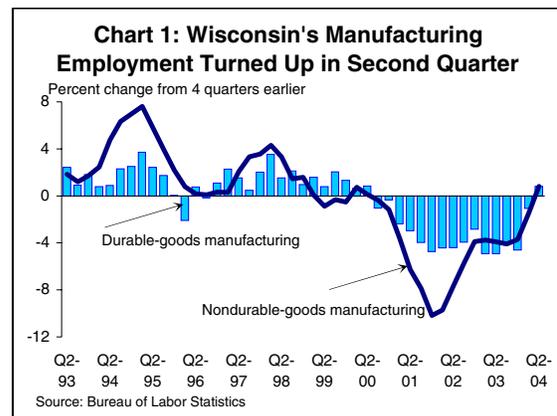
Wisconsin

Wisconsin's economy continues to strengthen.

- Improving labor market conditions illustrate that the economic upturn in Wisconsin is becoming more widespread. Payroll employment in second-quarter 2004 was 1.5 percent higher than a year earlier, a noticeably larger gain than elsewhere in the six-state Chicago Region as well as the nation. In the Chicago Region, Wisconsin alone gained manufacturing jobs in the past year.
- After several years of layoffs, Wisconsin's manufacturers started hiring recently (See Chart 1). Manufacturing sectors that added at least 1,000 workers to their payrolls over the past year included fabricated metals, transportation equipment, plastic and rubber products, and printed materials.
- Net hiring also occurred in most nonmanufacturing sectors, with the exception of information, miscellaneous services, and government. More than half the 6,800 drop in government jobs occurred on state payrolls, with most of the rest at the local government level.
- The varied extent of labor market improvement among metropolitan areas (See Chart 2) partly reflects the diversity in their respective employment mixes among manufacturers, government, services, and other sectors.
- The state's output of goods and services has greatly exceeded its employment gains, with the gap between the two reflecting rising use of existing capacity and workers, as well as productivity gains. Recent strength in domestic manufacturers' new orders and in foreign markets that buy goods from Wisconsin firms suggests that manufacturing, warehouse, transportation, and associated companies will hire additional workers in coming quarters.

Households realize several benefits from improving labor markets.

- Personal income growth of Wisconsin residents has risen noticeably faster than inflation in recent quarters. The 3.6 percent year-over-year gain in first-quarter real income was the strongest since mid-2000 (See Chart 3).



State Profile

- Faster growth in income and home values enhanced household purchasing power and their ability to remain current on (or to pay down) debt. In late 2003 and first quarter 2004, personal bankruptcy filings in Wisconsin were lower than year-earlier levels for the first time since 2000.
- Single-family home resales remained high, and home price appreciation accelerated modestly in late 2003 and early 2004.

Earnings weakened but return on assets (ROA) remained well above 1 percent.

- Net income (ROA) of Wisconsin community banks and thrifts as a group fell to 1.19 percent in the quarter ending June 30, 2004, even though many factors contributing to ROA changed little relative to a year earlier (See Table 1).¹
- For the fourth consecutive quarter, however, noninterest income relative to average assets was 25 percentage points or more below the year-earlier level even though trust fees and service charges on deposits held steady. The decline has been concentrated in what is reported as “all other noninterest income,” and lower mortgage origination and/or servicing fees likely were a contributing factor.
- Near-term earnings are unlikely to be spurred by rapid loan growth, as loans to small businesses and small farms grew by only 2.6 percent over the past year.²

Improvement in loan credit quality is widespread.

- Community institutions’ aggregate ROA benefited in second quarter 2004 from lower provision expenses relative to the same period a year earlier, while charge-off rates held about steady.
- Reserve coverage of nonperforming loans at community institutions rose to 145.4 percent as of June 30, 2004. The recent nonperforming loan coverage compared with a low of 113.6 in September 2002. The loan loss reserve for total loans was 1.24 percent as of June 30, the same as two years earlier.
- The percentage of total loans past due on June 30, 2004, was 1.83 percent. This ratio came after 11 quarters of past-due rates that ranged between 2.02 and 2.61 percent. The second-quarter’s improvement relative to a year earlier was widespread among loan categories (See Chart 4).

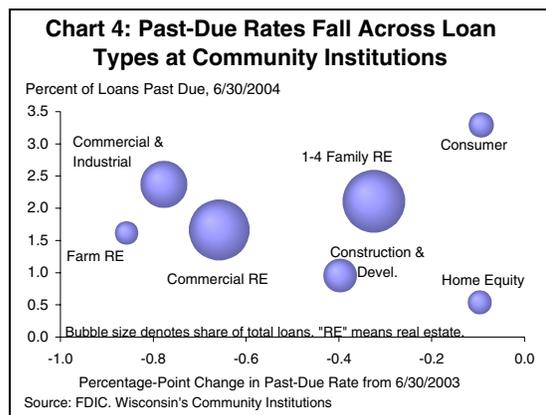
Stroke-of-the-pen risk³ affects some Wisconsin institutions.

- Wisconsin’s Department of Revenue (DOR) is investigating how nearly 170 banks reported income and expenses from Nevada subsidiaries to determine whether the subsidiaries were established mainly to avoid the state’s corporate income tax.⁴
- By mid-August 2004, the DOR audited about 60 Wisconsin banks with out-of-state subsidiaries, and 17 institutions agreed to settlements for back taxes. A major point of contention appears to be Wisconsin’s ability to tax income from loans sent to Nevada subsidiaries. The DOR has developed a general settlement framework that is being communicated to affected institutions.
- DOR plans to continue auditing banks with Nevada subsidiaries. While details of settlements to date are not public, estimates from several institutions’ quarterly or annual earnings statements suggest that back taxes associated with settlements amounted to 3 to 4 percent of the institutions’ 2003 earnings.

Table 1: Lower Noninterest Income Trimmed ROA of Wisconsin’s Community Institutions

Income statement contribution (as a percentage of average assets)			
	3 months ended June 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.58	3.59	0.01
Noninterest Income	1.13	0.80	-0.33
Noninterest Expense	-2.76	-2.67	0.09
Provision Expense	-0.17	-0.14	0.03
Security Gains & Losses	0.07	0.02	-0.05
Income Taxes	-0.48	-0.41	0.07
Net Income (ROA)	1.37	1.19	-0.18

Source: FDIC



¹Community banks and thrifts are nonspecialty institutions with assets of \$1 billion or less that have been operating for three years or longer.

²Small business loans as reported each June in Schedule RC-C Part II, Loans to Small Businesses

³Stroke-of-the-pen risk refers to risks arising from changes in such environmental factors as accounting standards or laws and regulations. Such risk can significantly affect business strategies or reported income and expenses.

⁴See DOR “Red Flags” in Audits of Banks at <http://www.dor.state.wi.us/taxpro/news.html#banks>

Wisconsin at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	310	311	320	327	357
Total Assets (in thousands)	111,937,184	107,372,291	106,379,452	99,651,620	94,800,242
New Institutions (# < 3 years)	2	7	12	15	11
New Institutions (# < 9 years)	27	28	31	32	27

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.74	9.45	9.32	9.10	9.22

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.78%	2.23%	2.26%	2.10%	1.59%
Past-Due and Nonaccrual >= 5%	28	36	35	37	13
ALLL/Total Loans (median %)	1.24%	1.25%	1.24%	1.18%	1.19%
ALLL/Noncurrent Loans (median multiple)	1.56	1.37	1.41	1.52	2.29
Net Loan Losses/Loans (aggregate)	0.13%	0.22%	0.23%	0.19%	0.11%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	7	6	13	14	12
Percent Unprofitable	2.26%	1.93%	4.06%	4.28%	3.36%
Return on Assets (median %)	1.12	1.24	1.20	1.01	1.03
25th Percentile	0.77	0.92	0.84	0.75	0.78
Net Interest Margin (median %)	3.93%	3.96%	4.10%	3.76%	3.95%
Yield on Earning Assets (median)	5.53%	5.98%	6.79%	8.01%	7.96%
Cost of Funding Earning Assets (median)	1.62%	2.07%	2.68%	4.25%	4.07%
Provisions to Avg. Assets (median)	0.10%	0.12%	0.11%	0.10%	0.09%
Noninterest Income to Avg. Assets (median)	0.60%	0.75%	0.56%	0.53%	0.52%
Overhead to Avg. Assets (median)	2.67%	2.71%	2.65%	2.66%	2.60%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	85.82%	81.08%	84.36%	86.67%	86.90%
Loans to Assets (median %)	71.58%	68.54%	71.15%	72.52%	72.21%
Brokered Deposits (# of Institutions)	144	136	131	142	155
Bro. Deps./Assets (median for above inst.)	3.97%	3.28%	3.09%	2.65%	3.01%
Noncore Funding to Assets (median)	16.43%	15.18%	15.05%	15.51%	15.75%
Core Funding to Assets (median)	71.96%	72.61%	73.18%	72.92%	73.04%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	201	200	205	211	217
National	42	43	48	49	51
State Member	28	28	26	26	49
S&L	7	8	8	8	12
Savings Bank	17	17	17	14	8
Stock and Mutual SB	15	15	16	19	20

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Milwaukee-Waukesha WI PMSA	42	50,393,842	13.55%	45.02%
Madison WI	22	8,957,610	7.10%	8.00%
Appleton-Oshkosh-Neenah WI	12	3,344,689	3.87%	2.99%
Wausau WI	10	1,698,722	3.23%	1.52%
Minneapolis-St Paul MN-WI	8	1,166,964	2.58%	1.04%
La Crosse WI-MN	8	4,449,997	2.58%	3.98%
Janesville-Beloit WI	8	1,262,545	2.58%	1.13%
Eau Claire WI	8	1,125,048	2.58%	1.01%
Sheboygan WI	5	753,429	1.61%	0.67%
Racine WI PMSA	5	3,444,896	1.61%	3.08%
Green Bay WI	5	13,786,643	1.61%	12.32%
All Other MSAs	6	907,431	1.94%	0.81%
No MSA	171	20,645,368	55.16%	18.44%