



# Banking Conditions in Minnesota and the Twin Cities: The Year in Review and a 2012 Forecast

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# Summary

- 2011 Forecast: Conditions will improve, but pace could be quite slow
  
- 2011 Actual: Conditions improved, but unevenly
  - Improvement varied
    - Strong, mostly steady improvement in asset quality
    - Very strong, followed by middling, change in profits
    - Loan growth weakened, but now back to 3Q10 levels
  
  - Asset quality closing in on precrisis levels; much less so for other areas
  
  - Conditions in Twin Cities remain worse than in state; average bank worse than median

# Summary



- 2012 Forecast: Expect continued improvement in 2012
  - Improvements in 2012 generally like improvements in 2011
  - Some measures (e.g., asset quality) close to “normal”; others less so
  - Forecast comes with significant uncertainty

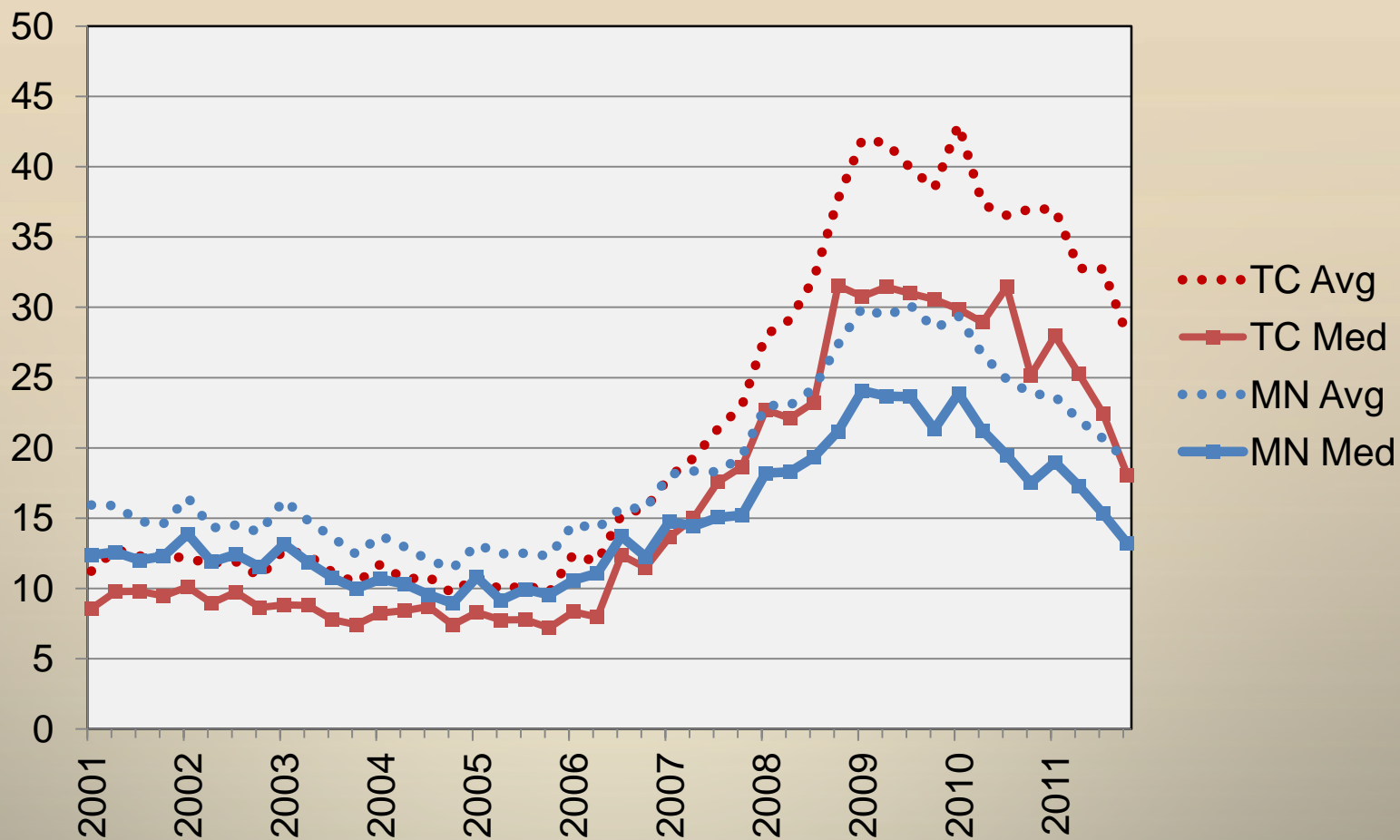


# 2011 Actual

- Strong improvement in overall asset quality
  - Strong improvement in commercial real estate
  - Strong fourth quarter
  
- More middling improvement in profits
  - Strong first quarter gains; weaker since then
  - Provisions were the driver; NIM less so
  
- Loan growth negative, but back to YE10 levels
  - Improvement in fourth quarter



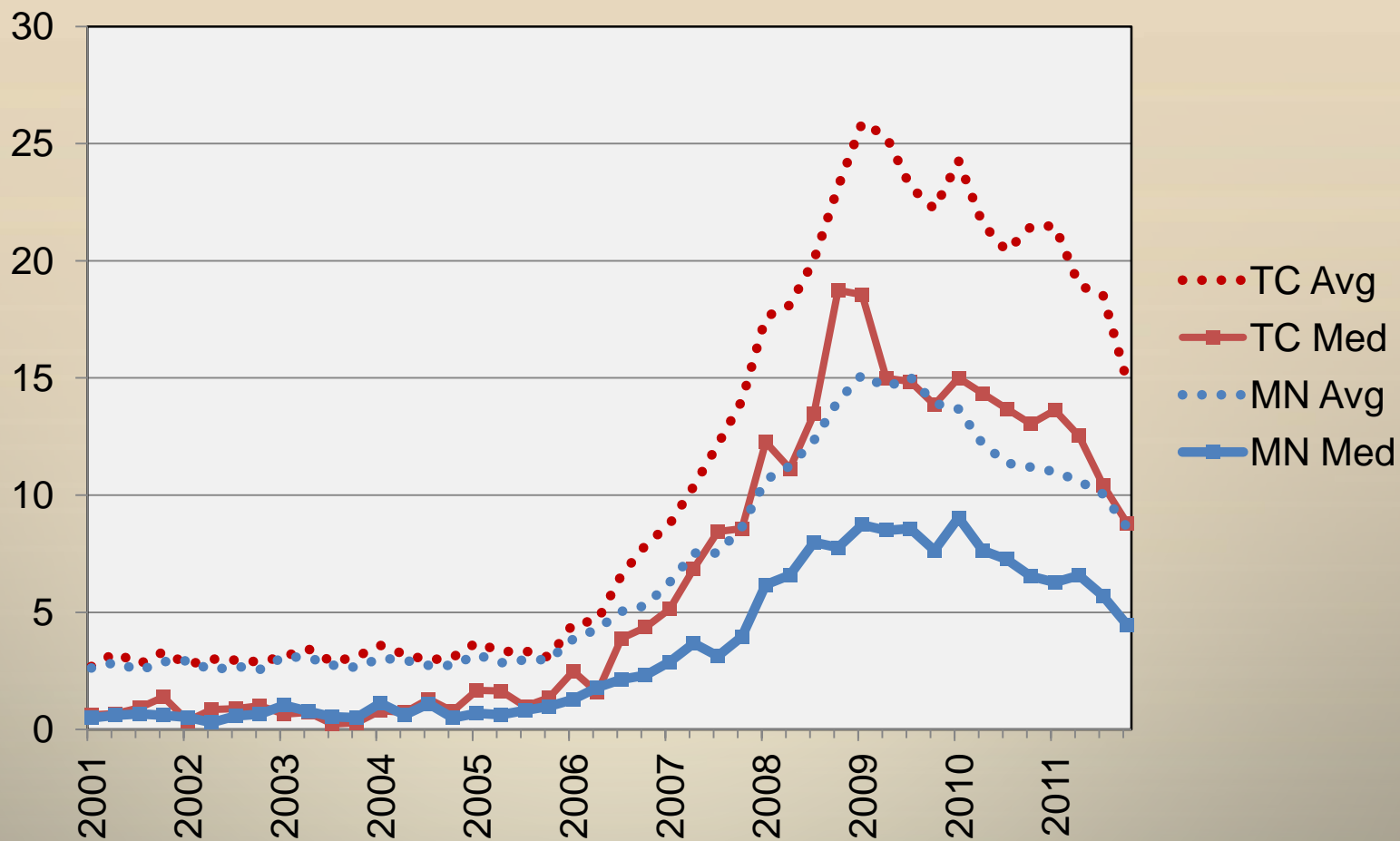
# Strong Annual Improvement in Overall Asset Quality



Noncurrent and delinquent loans as a percent of capital and allowances

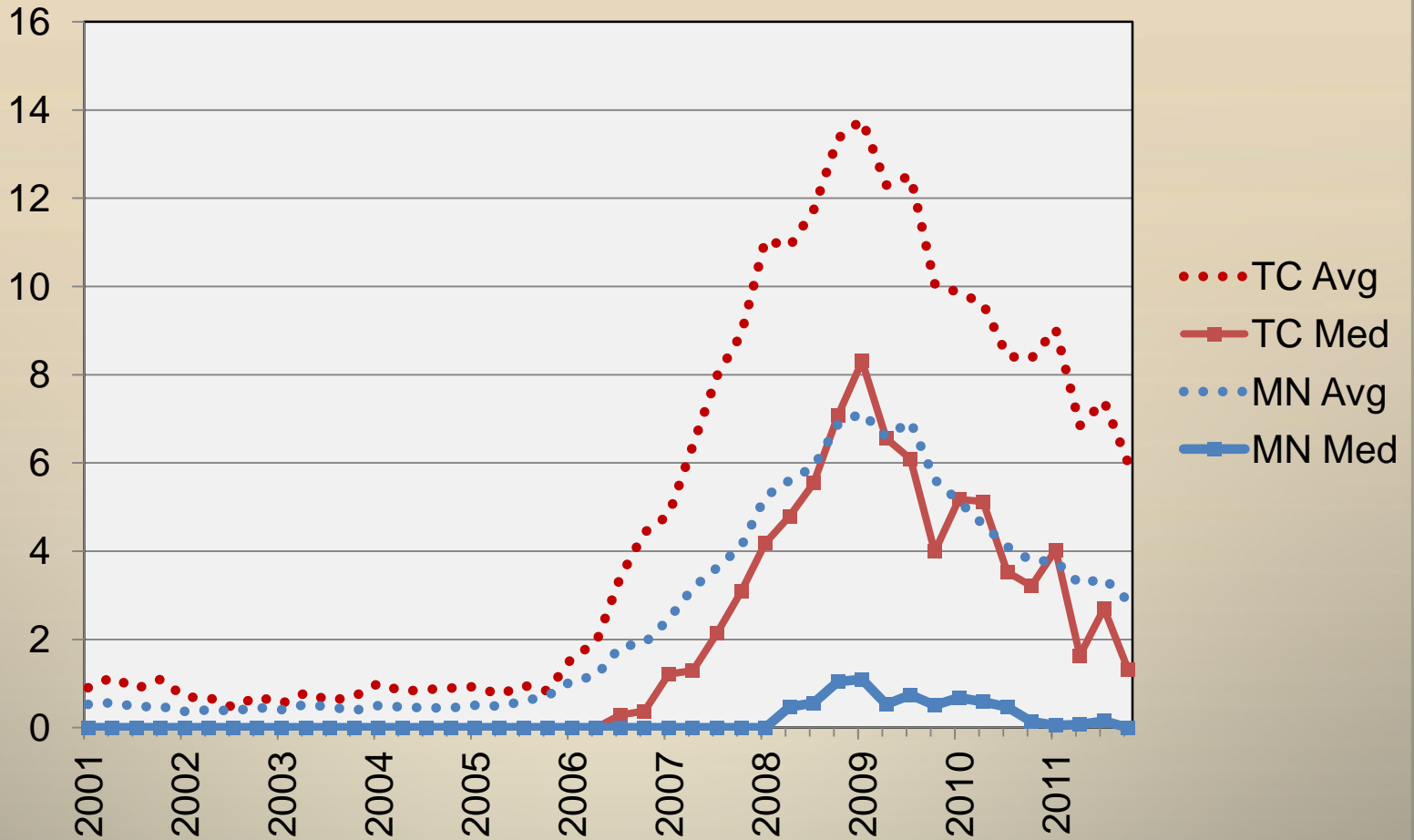


# Strong Annual Improvement in Commercial Real Estate Asset Quality



Noncurrent CRE loans and delinquencies as a percent of capital and allowances

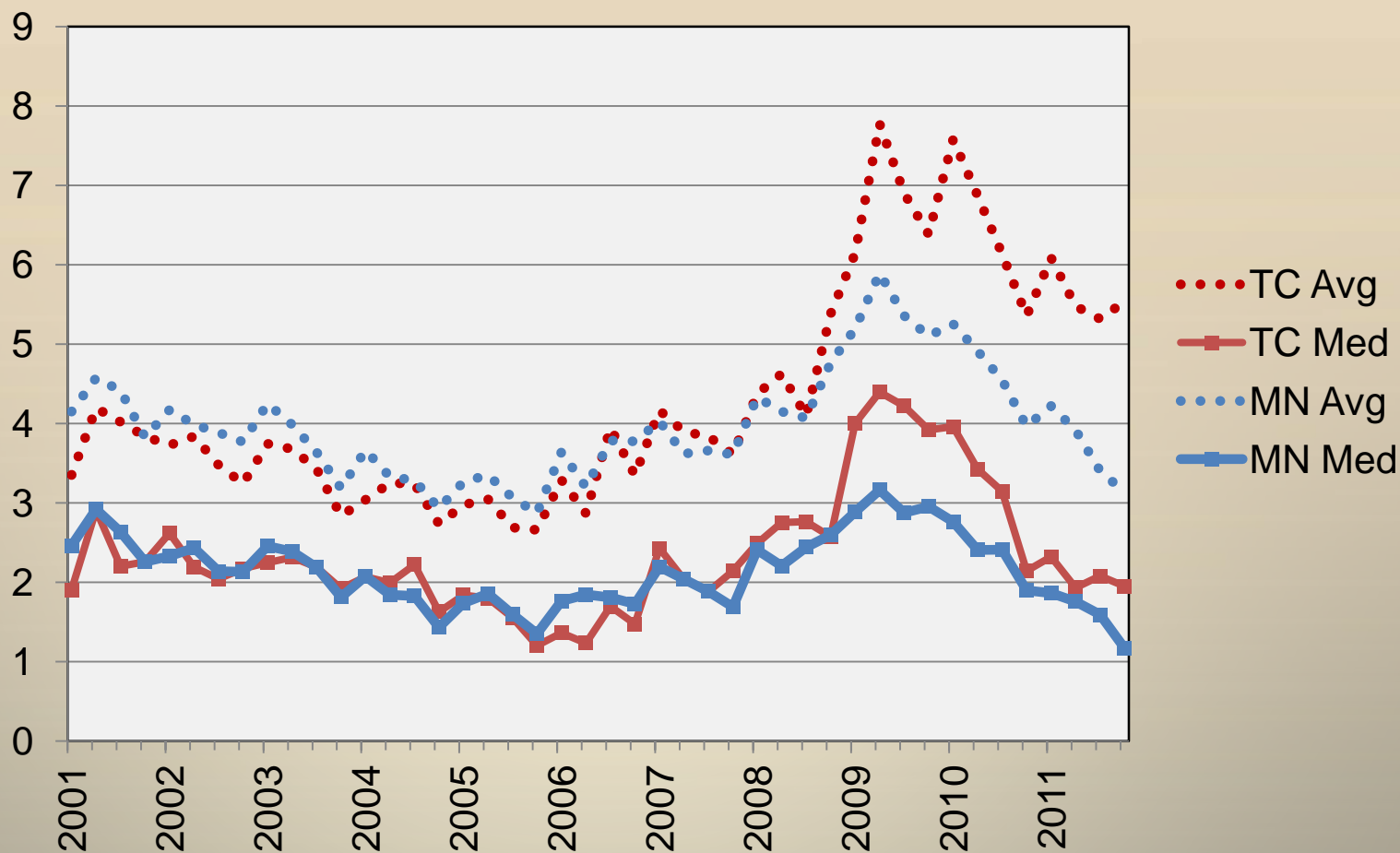
# Decent/Strong Annual Improvement in Construction and Land Development Asset Quality



Noncurrent CLD loans and delinquencies as a percent of capital and allowances



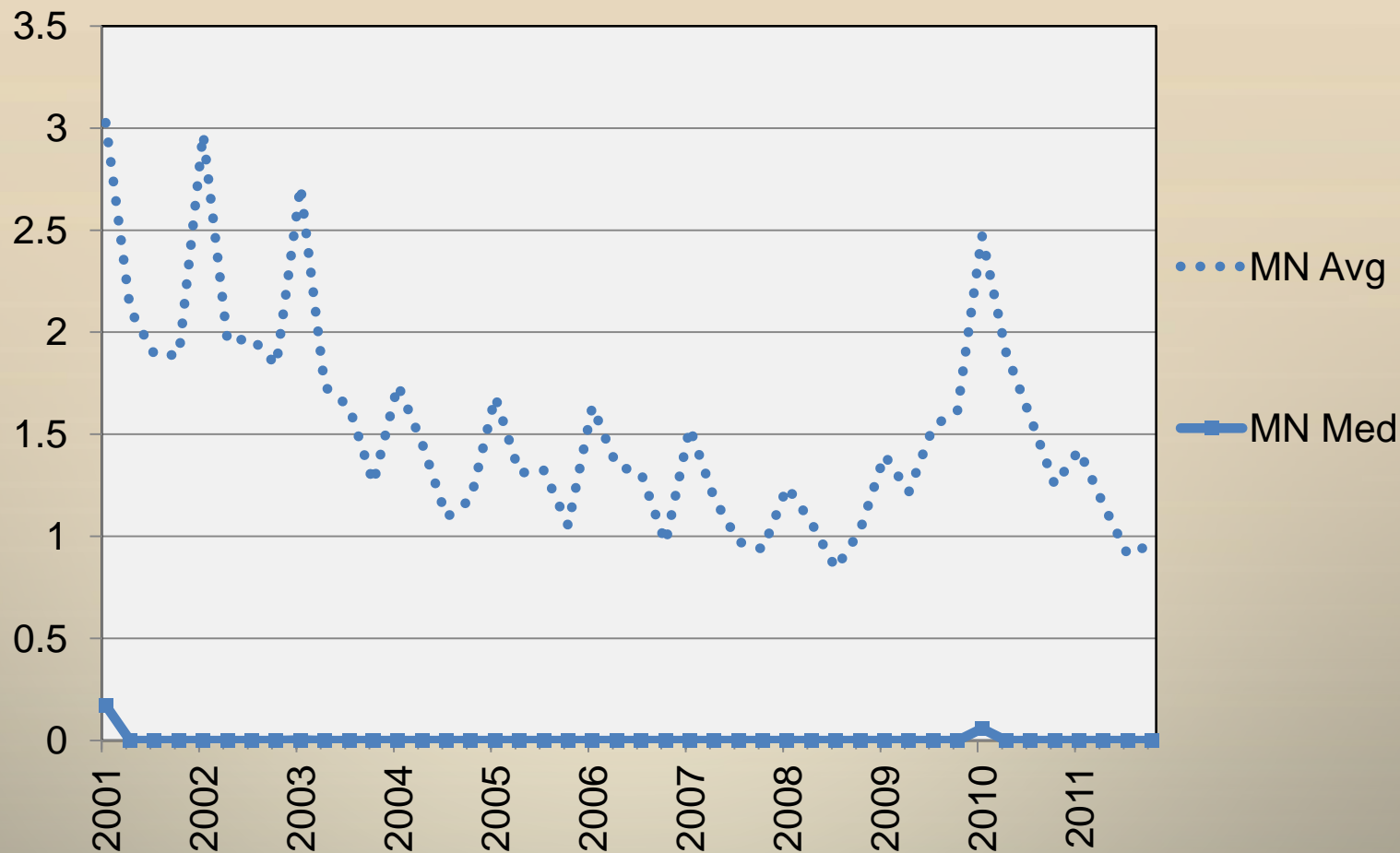
## Improvement in Commercial/Industrial Asset Quality: Strong Annual Change for MN, Less so for TC



Noncurrent C&I loans and delinquencies as a percent of capital and allowances



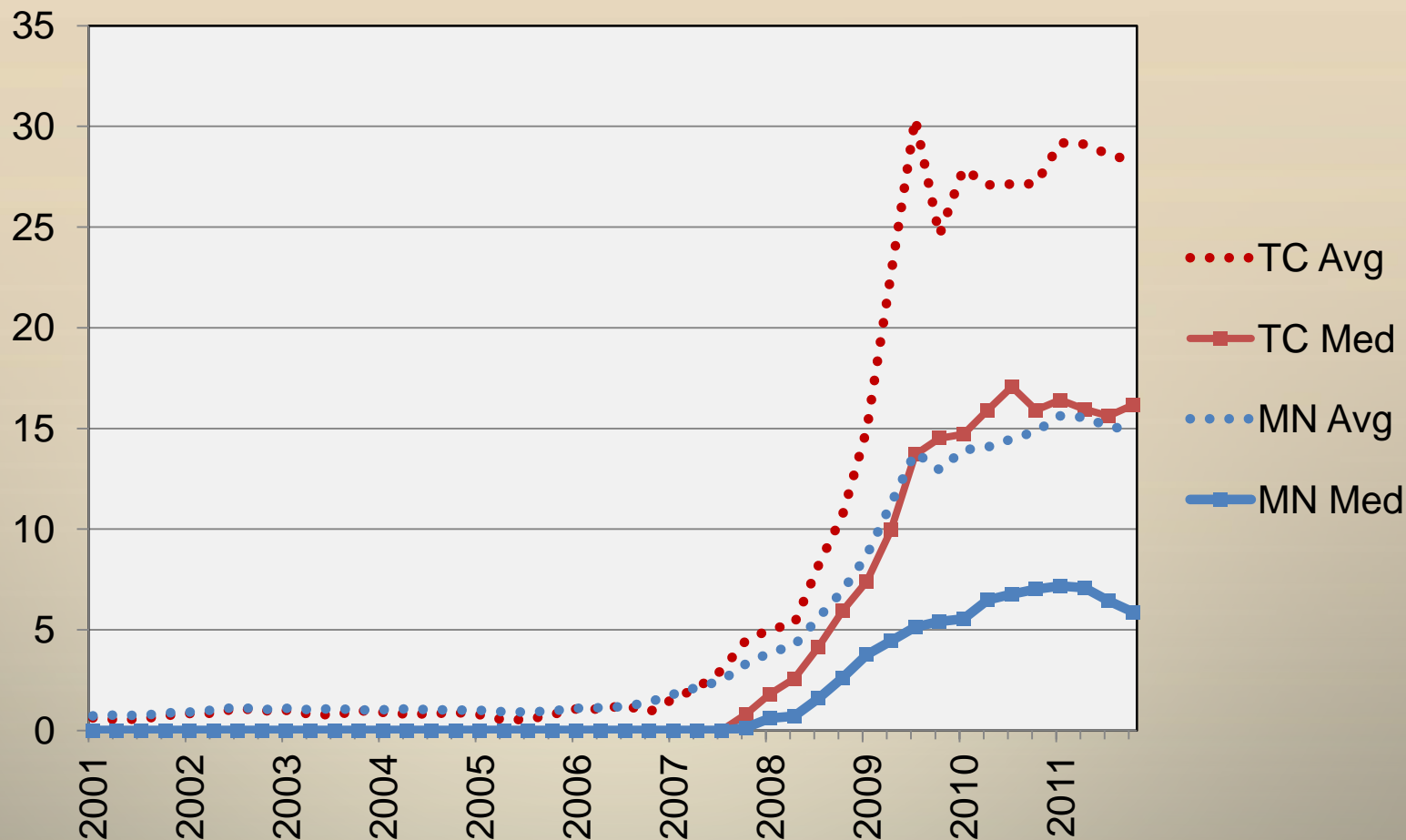
# Good Improvement for Agricultural Asset Quality



Noncurrent agricultural loans and delinquencies as a percent of capital and allowances

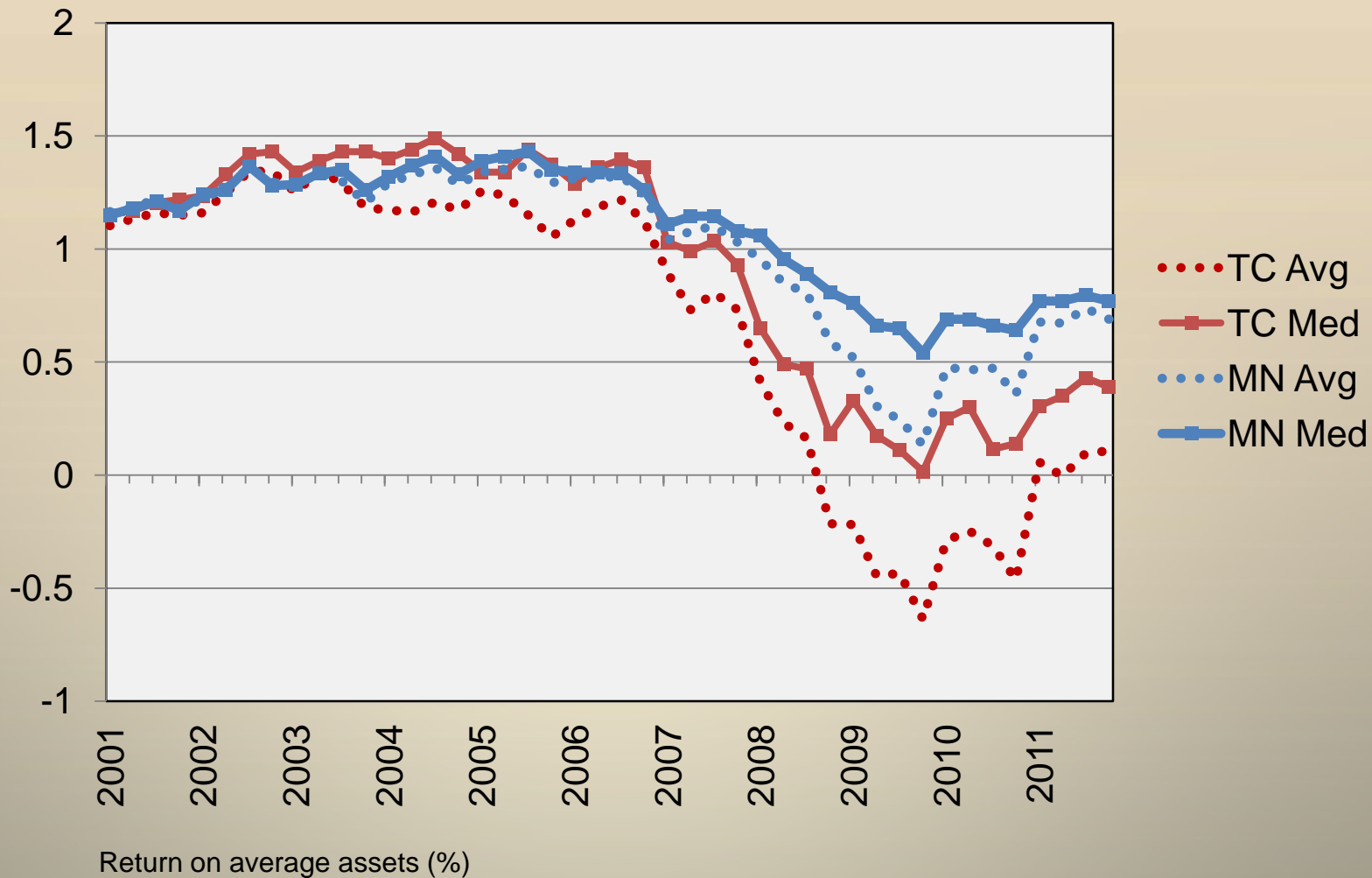


# Amount of Other Real Estate Owned Flat



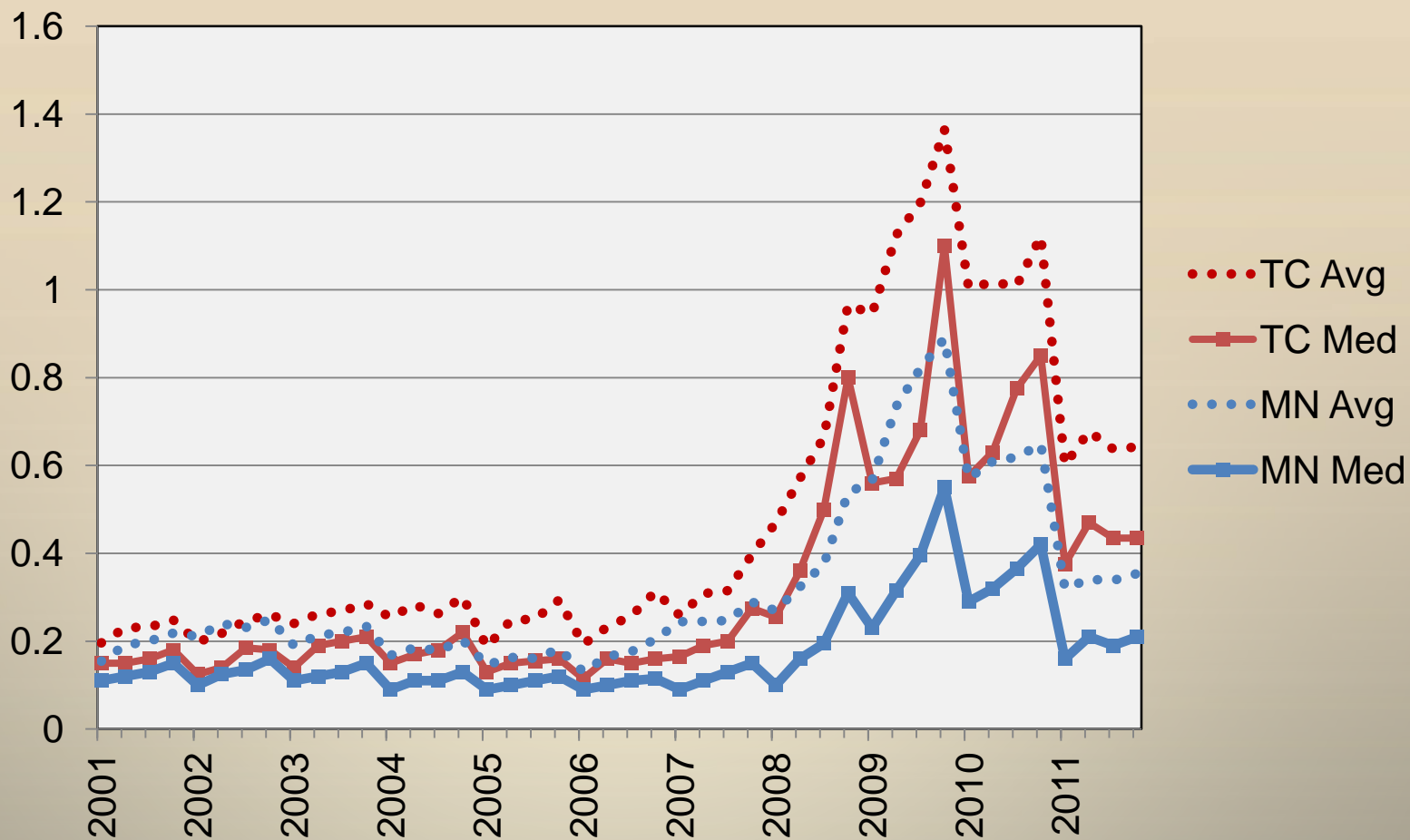
Other real estate owned as a percent of capital and allowance

# Strong Initial Growth in Profits; Slower Improvement Since Then





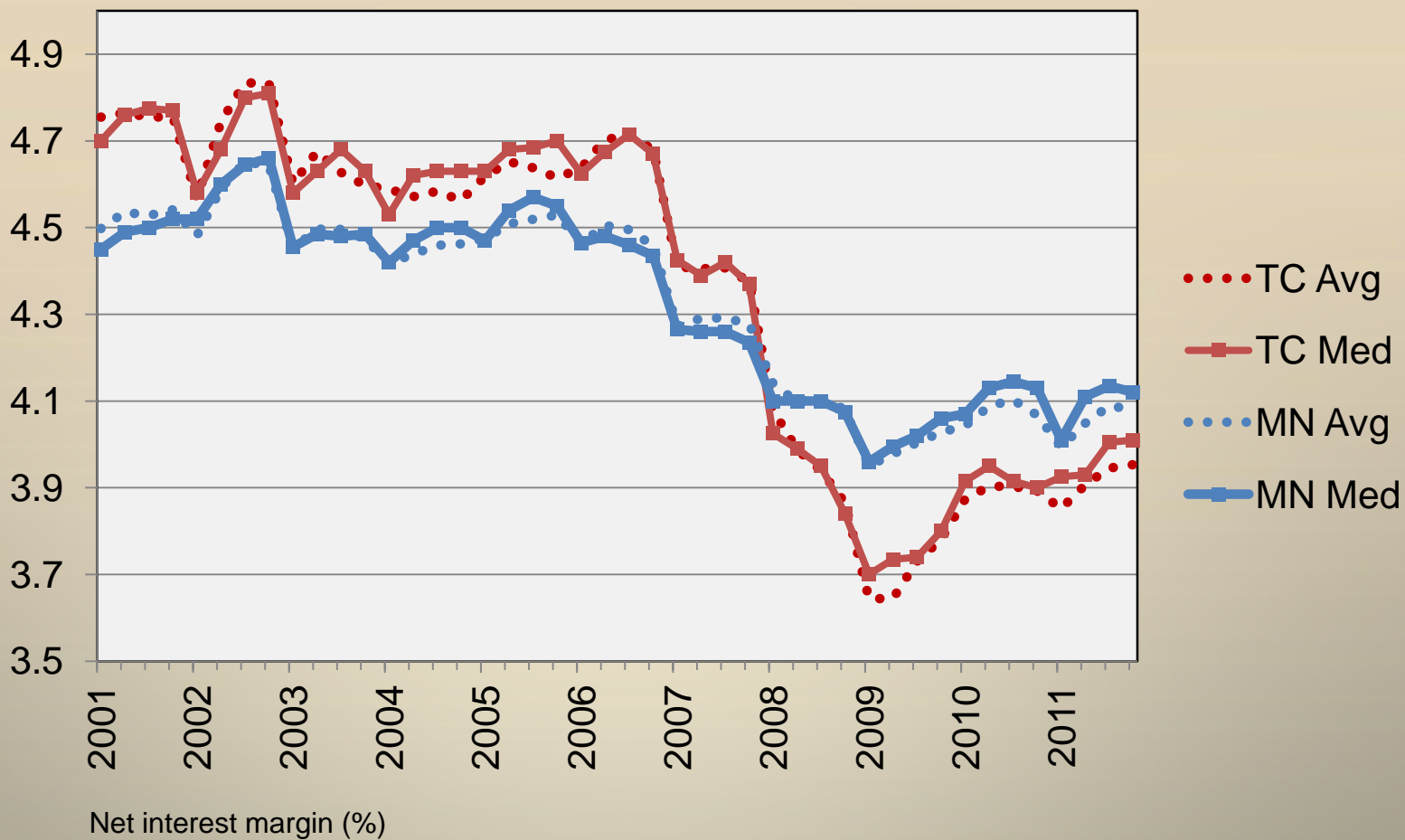
# Change in Provisions Driving Change in Profits



Provisions as a percent of average assets

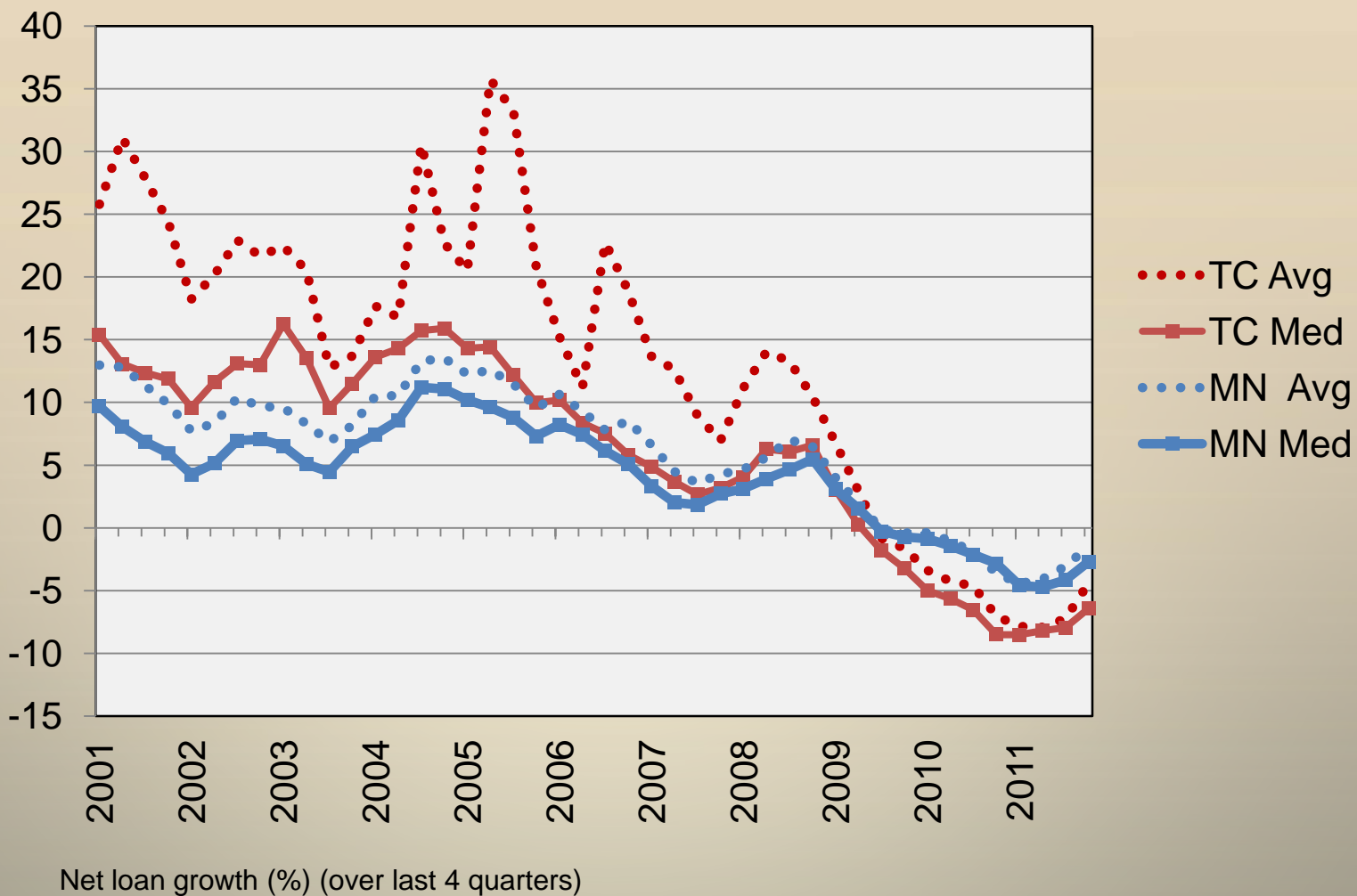


# Net Interest Margin Has Been Flatter



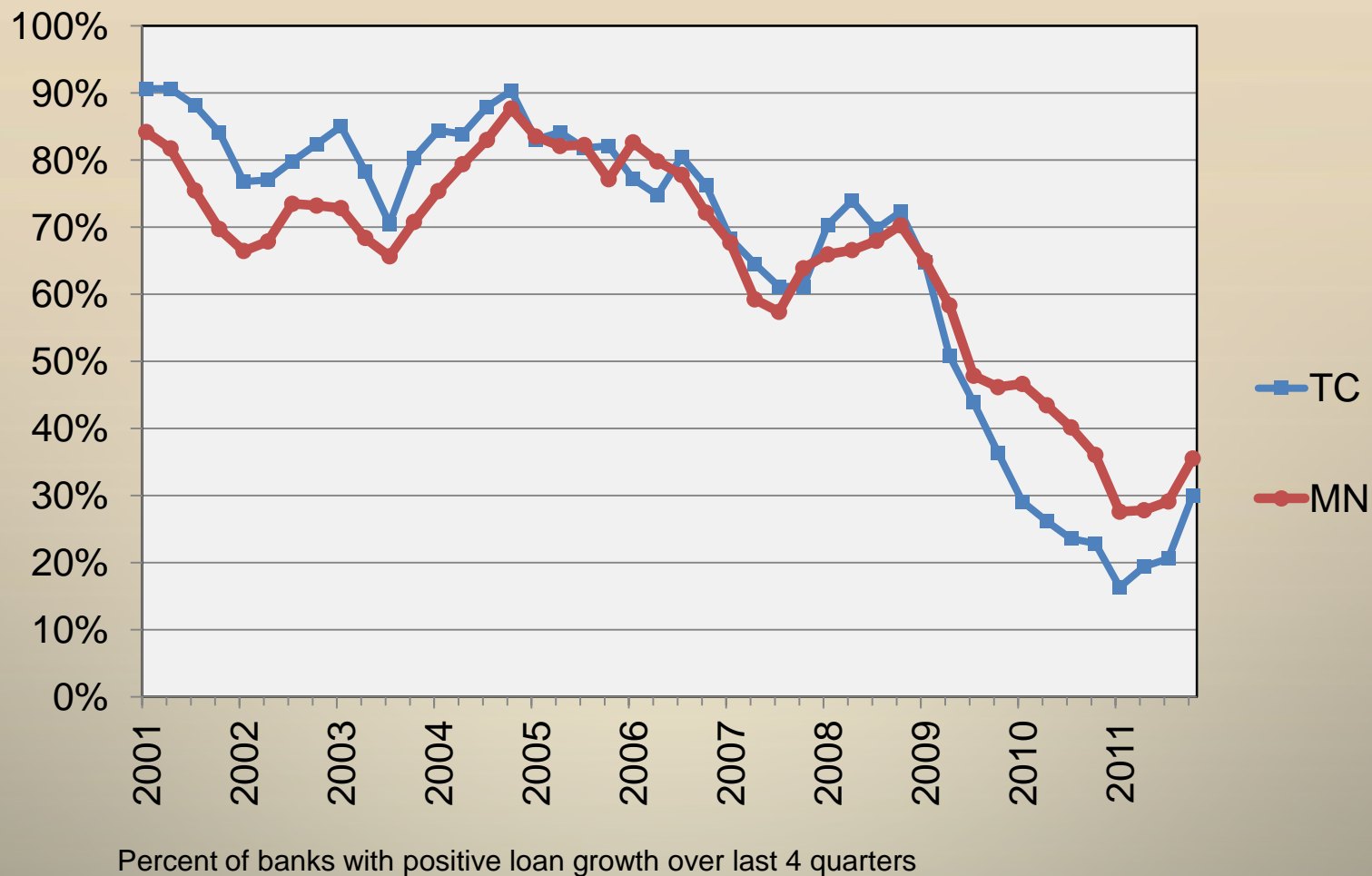


# Year-over-Year Loan Growth Back to Late 2010 Levels; Still Negative





## More Banks with Positive Loan Growth; Remains Far Off Precrisis Levels



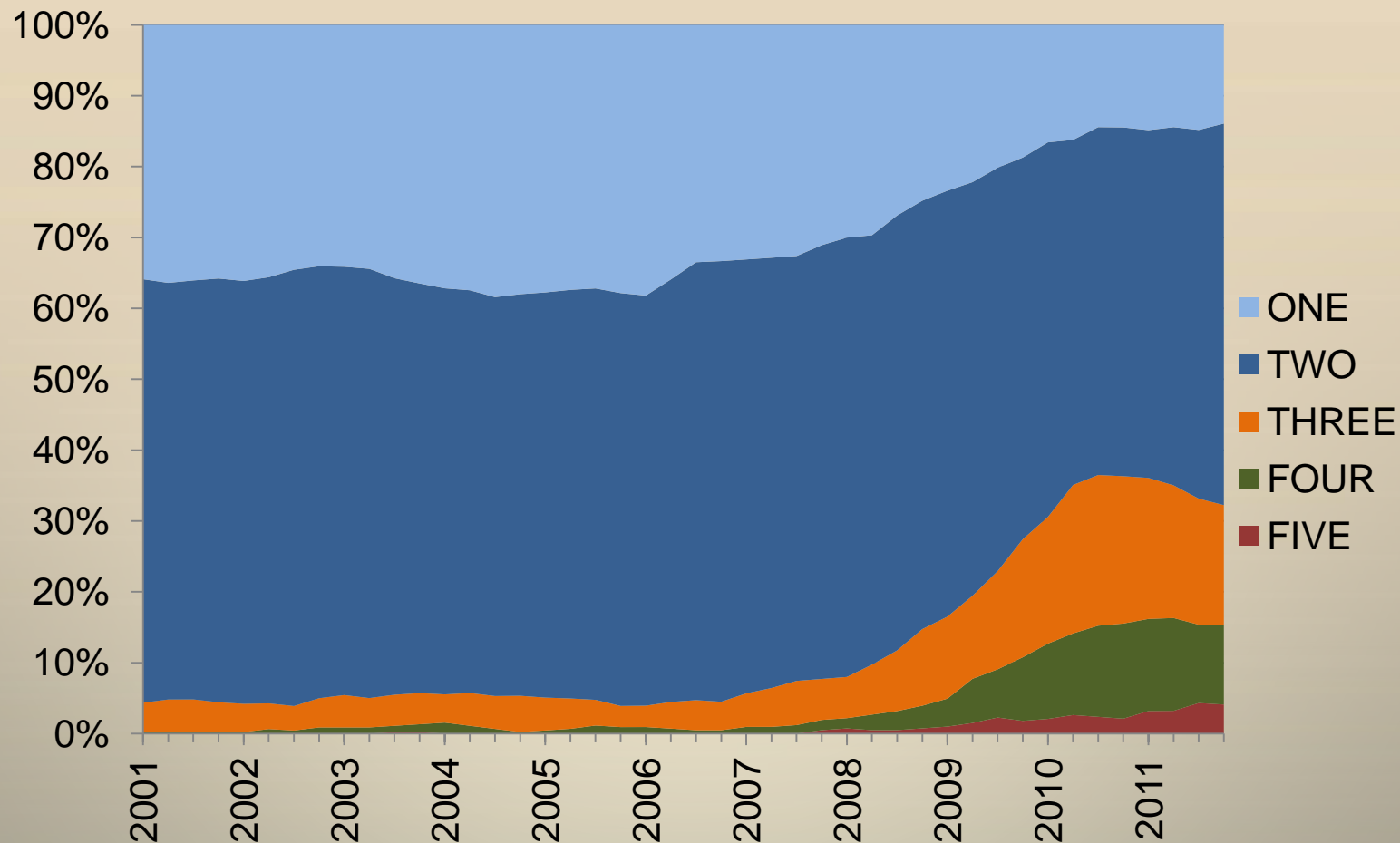


# Stronger Funding and Capital Levels

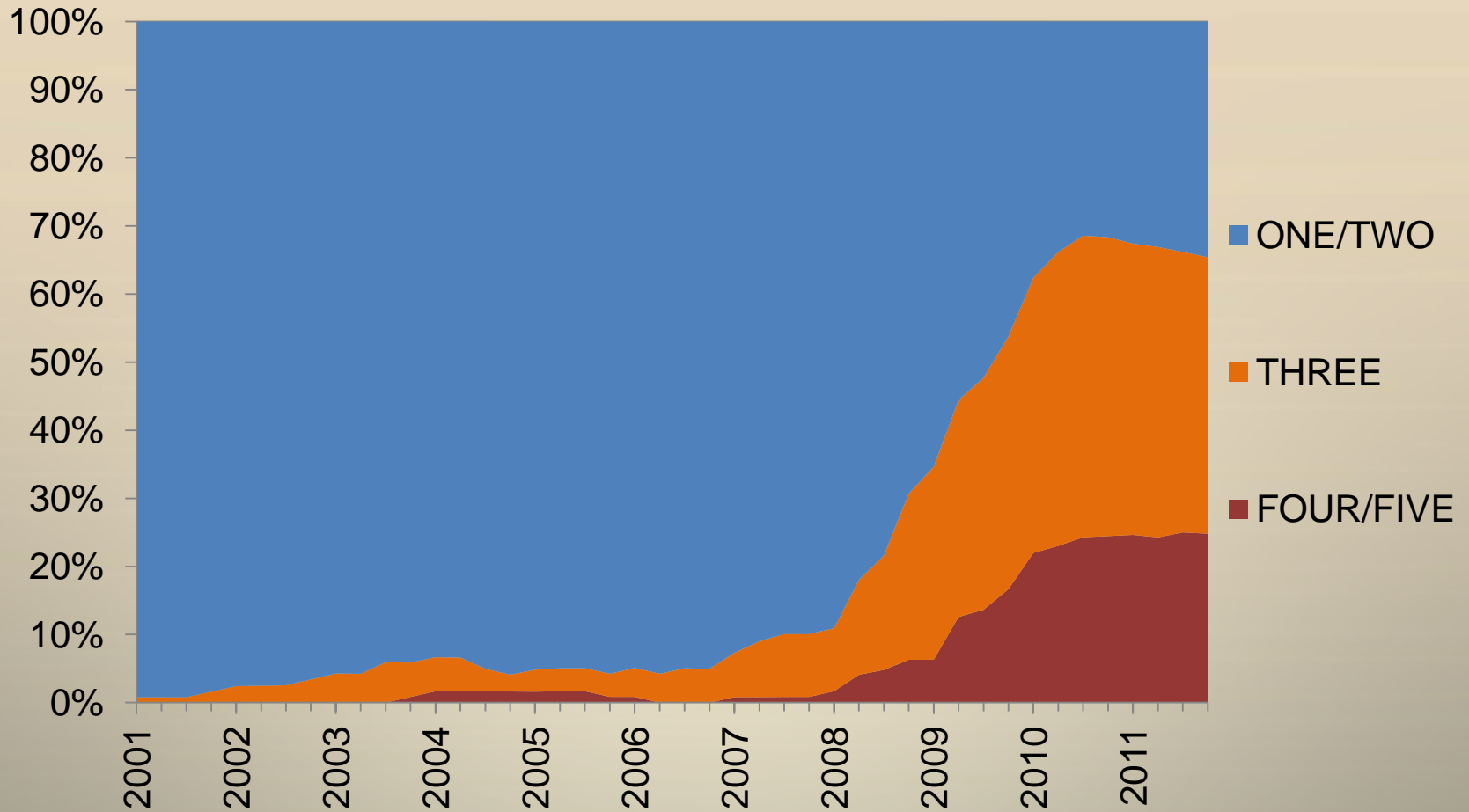
- Current liquidity better than precrisis levels
  - Noncore funding continued to fall
  - Liquid assets remain very high
  - Falling use of brokered deposits
- Capital levels remain strong/improving



# MN Bank Ratings: Small Annual Improvement



# TC Bank Ratings: Small Annual Improvement





# Forecast for Year-End 2012

- Caveats
  - Significant inherent uncertainty
  - Currently in a “turning point”; even more uncertain
  - First-time forecast
  
- Approach
  - Judgmental forecast
    - Informed by many sources (e.g., data, analysis, outreach)
  - Median bank for three variables, one year out



# Forecast for Year-End 2012

- Expect continued improvement in 2012
  - 2012 improvements for profitability and asset quality generally like improvements in 2011
    - Loan growth improvements weighted to recent improvement
  - Metrics vary in returning to “normal” levels
    - Some measures (e.g., asset quality) close to normal; others less so

# Minnesota Forecast

## Bank Median



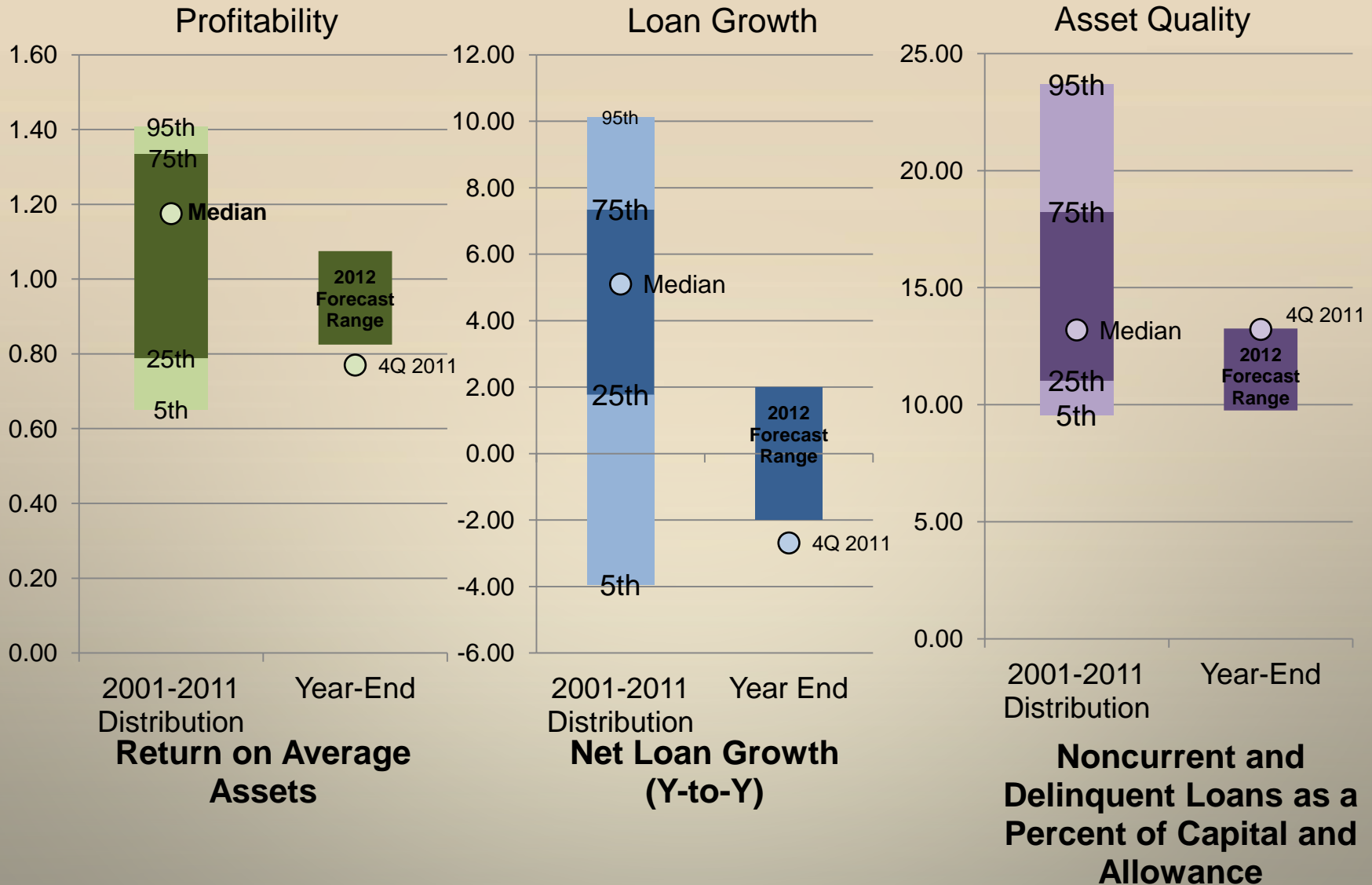
<b>Profitability (ROAA)</b>	<b>(%)</b>
Current Value (Fourth Quarter 2011)	0.77
Median Value for 2001 to 2011	1.175
High Value, Range of Forecast	1.075
Low Value, Range of Forecast	0.825

<b>Loan Growth (Yr Over Yr)</b>	<b>(%)</b>
Current Value (Fourth Quarter 2011)	-2.69
Median Value for 2001 to 2011	5.1
High Value, Range of Forecast	2.0
Low Value, Range of Forecast	-2.0

<b>Asset Quality (NC+DL Ratio)</b>	<b>(%)</b>
Current Value (Fourth Quarter 2011)	13.22
Median Value for 2001 to 2011	13.19
High Value, Range of Forecast	13.25
Low Value, Range of Forecast	9.75

# Minnesota Forecast

## Bank Median



# Twin Cities Forecast

## Bank Median



<b>Profitability (ROAA)</b>	<b>(%)</b>
Current Value (Fourth Quarter 2011)	0.39
Median Value for 2001 to 2011	1.19
High Value, Range of Forecast	0.85
Low Value, Range of Forecast	0.60

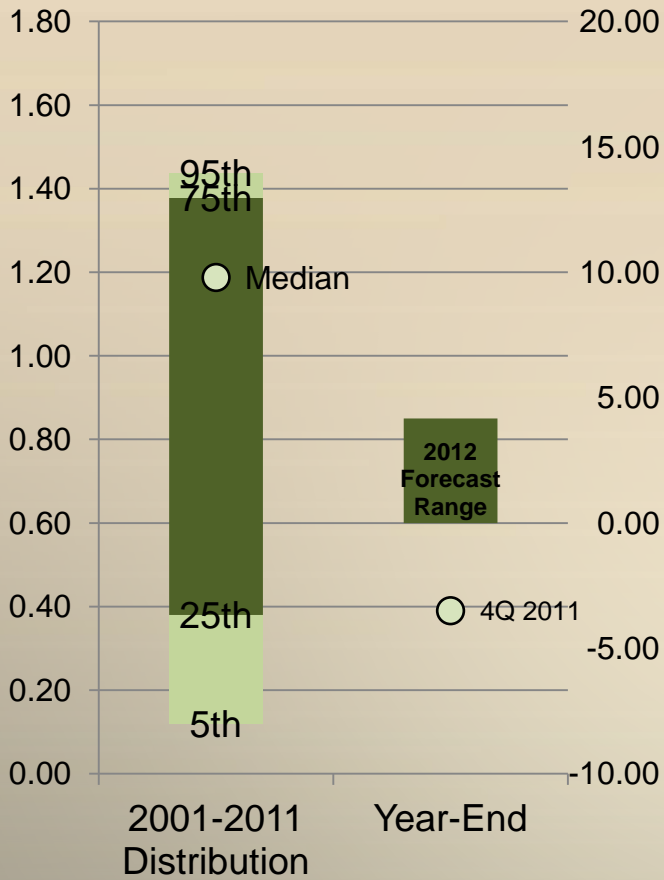
<b>Loan Growth (Yr over Yr)</b>	<b>(%)</b>
Current Value (Fourth Quarter 2011)	-6.42
Median Value for 2001 to 2011	7.95
High Value, Range of Forecast	-0.25
Low Value, Range of Forecast	-4.25

<b>Asset Quality (NC+DL Ratio)</b>	<b>(%)</b>
Current Value (Fourth Quarter 2011)	18.08
Median Value for 2001 to 2011	10.79
High Value, Range of Forecast	16.0
Low Value, Range of Forecast	12.5

# Twin Cities Forecast Bank Median

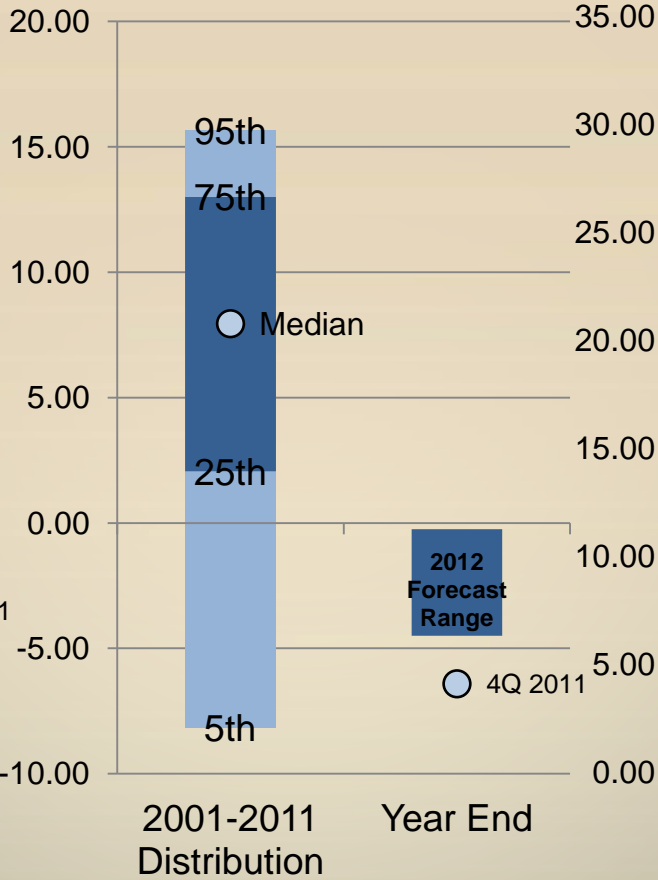


## Profitability



## Return on Average Assets

## Loan Growth



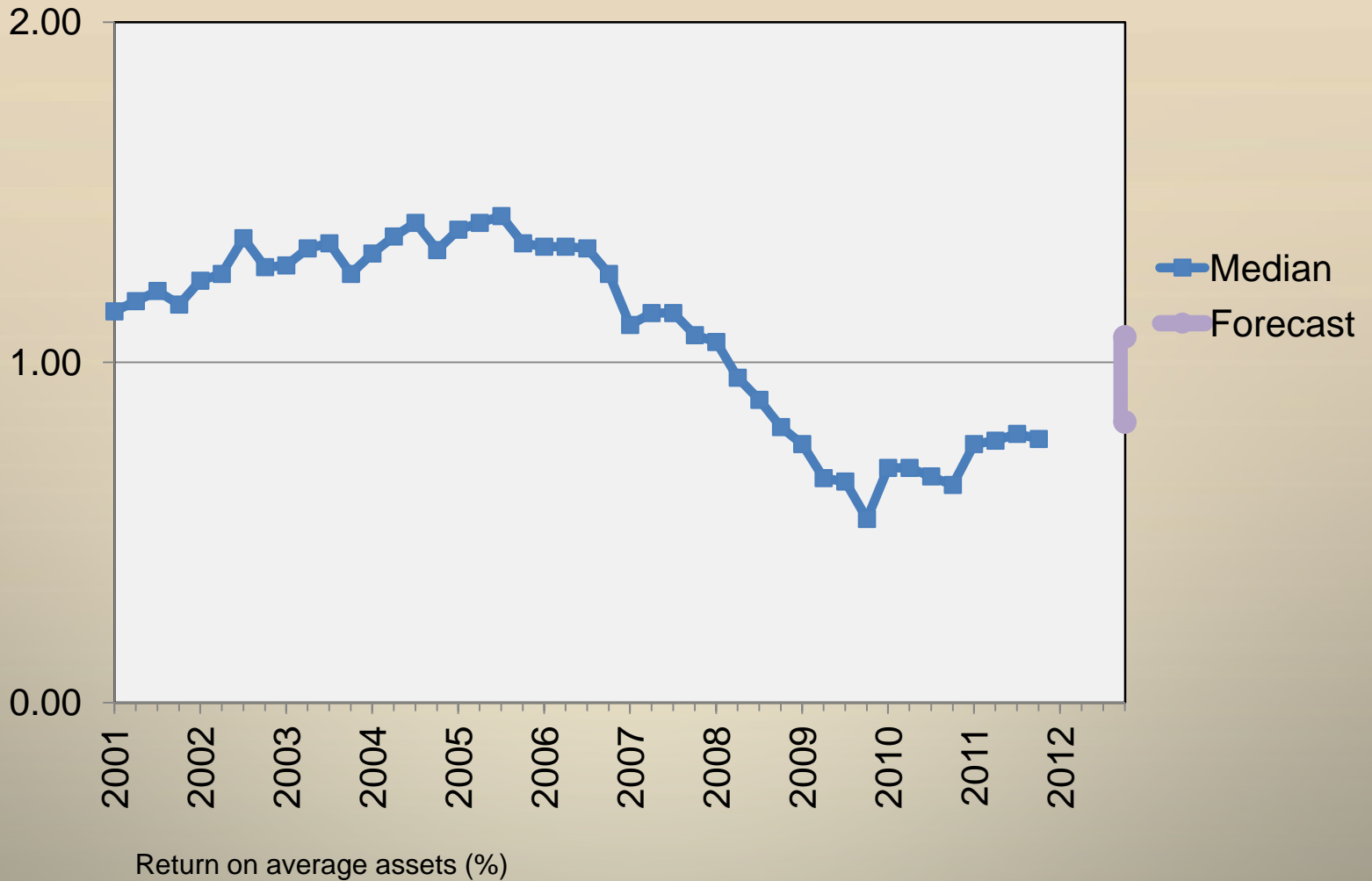
## Net Loan Growth (Y-to-Y)

## Asset Quality

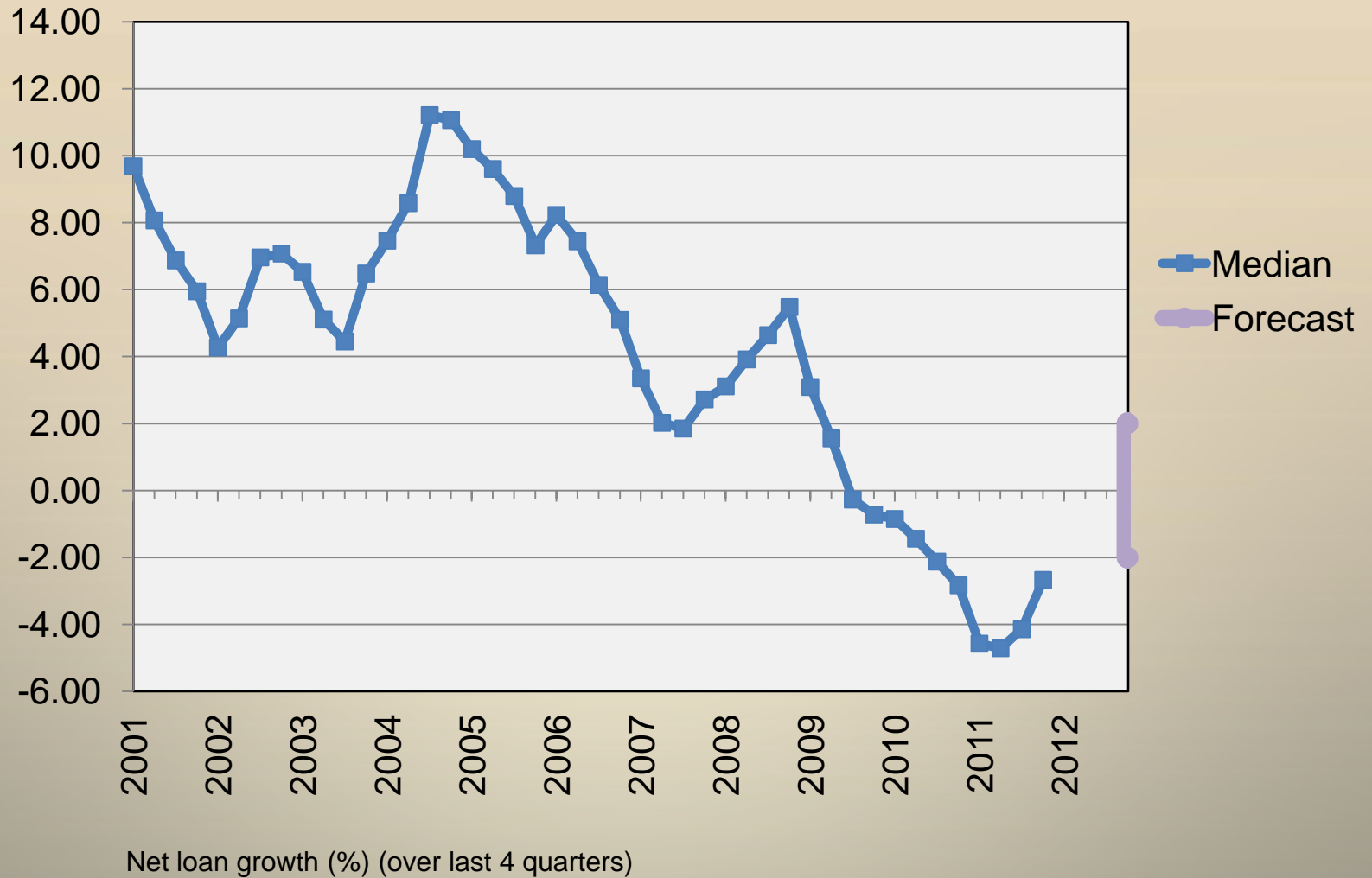


## Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

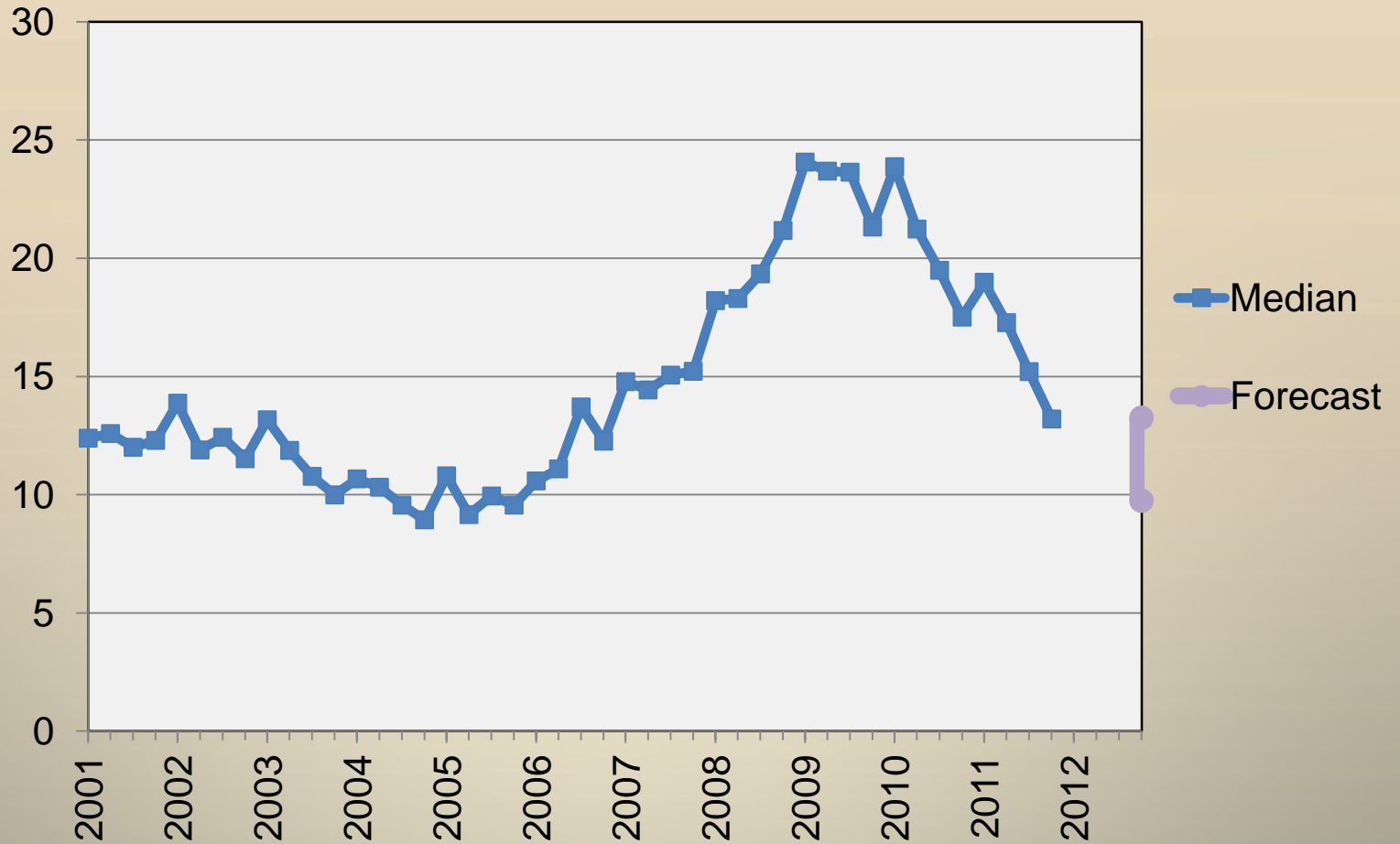
# Profitability Forecast Minnesota Bank Median



# Year-over-Year Loan Growth Forecast Minnesota Bank Median

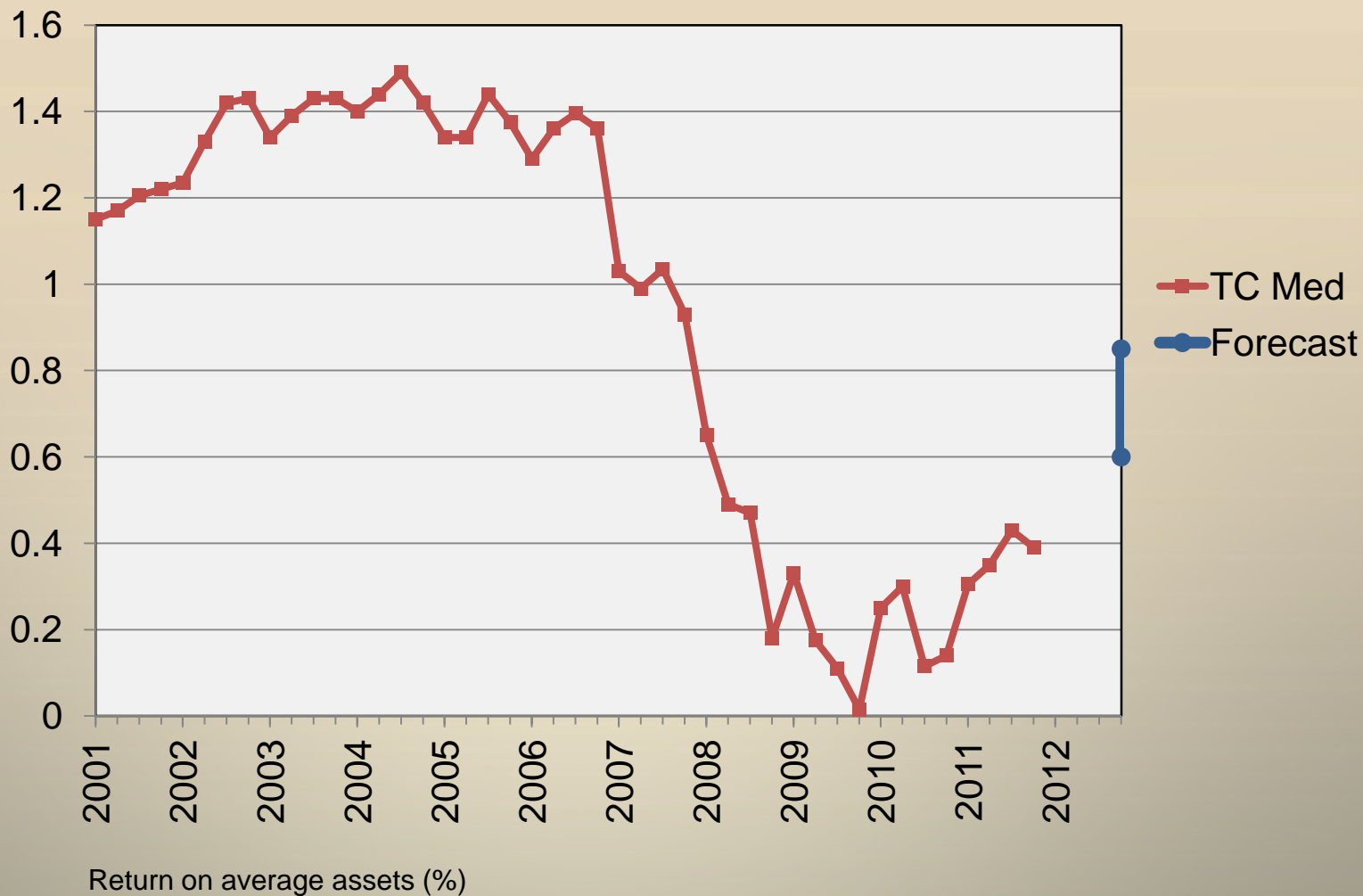


# Overall Asset Quality Forecast Minnesota Bank Median

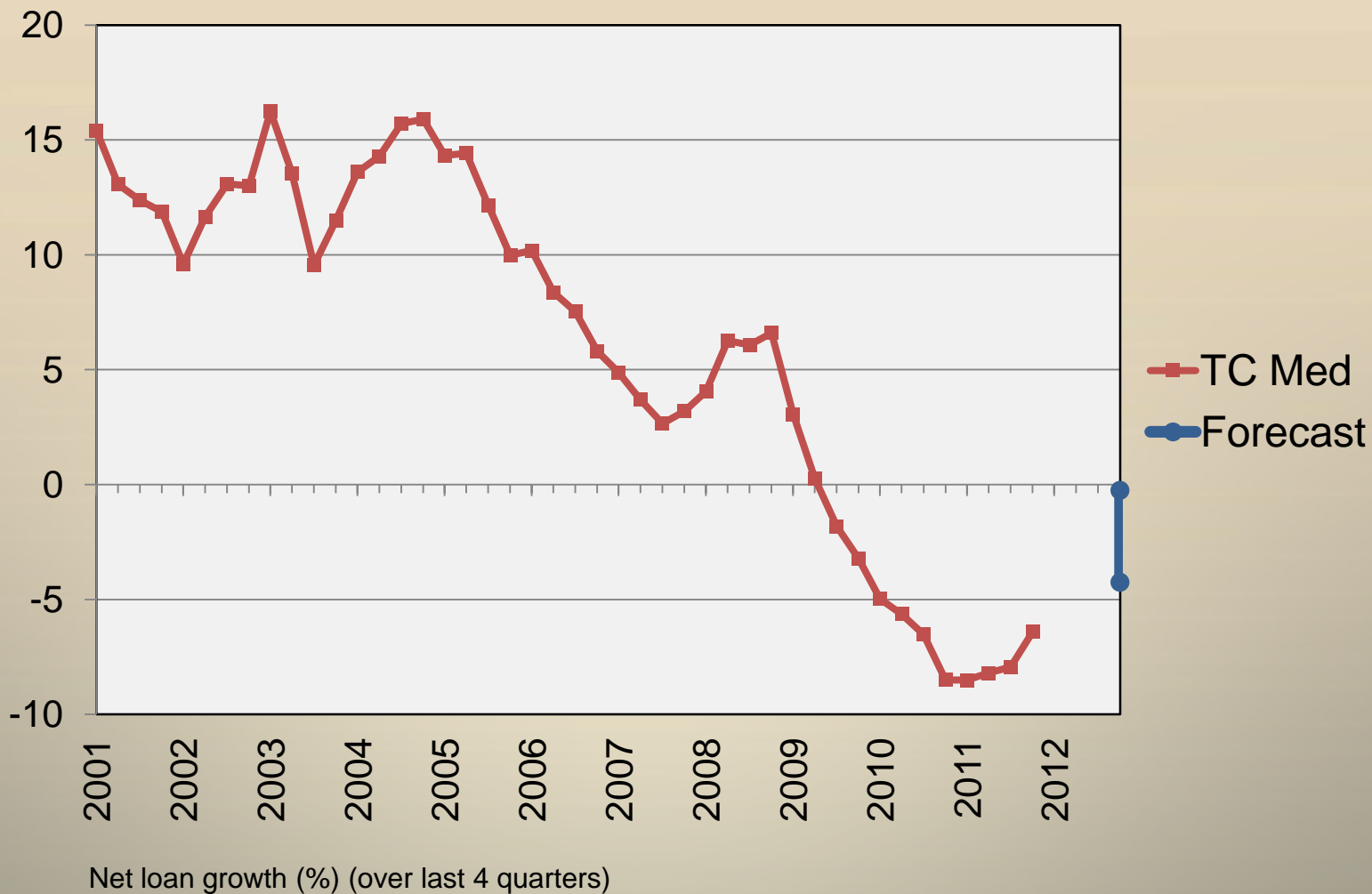


Noncurrent and delinquent loans as a percent of capital and allowances

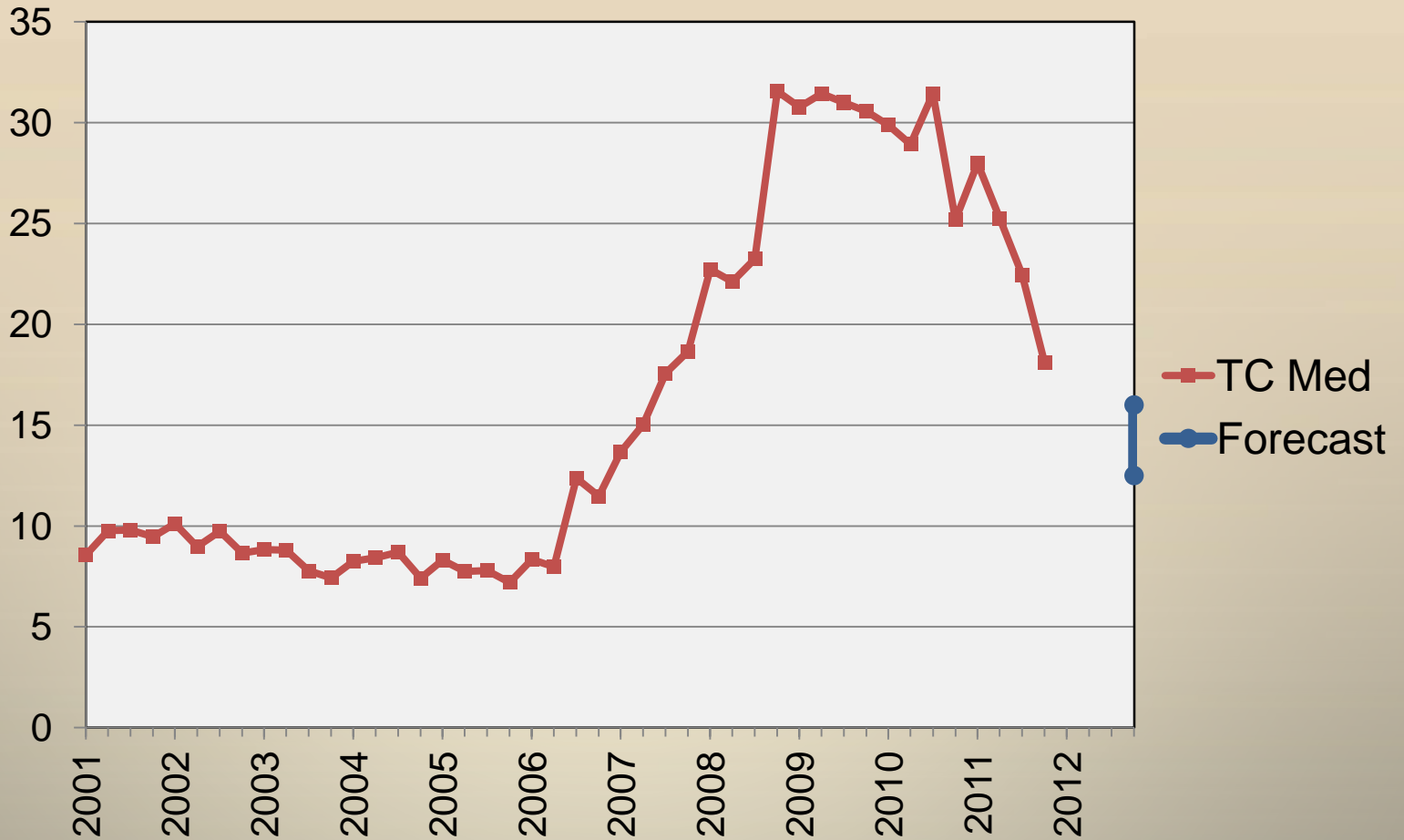
# Profitability Forecast Twin Cities Bank Median



# Year-over-Year Loan Growth Forecast Twin Cities Bank Median



# Overall Asset Quality Forecast Twin Cities Bank Median



Noncurrent and delinquent loans as a percent of capital and allowances