Banking Conditions in Ninth District States:
The Year in Review and a 2012 Forecast

Ron Feldman
Senior Vice President
Federal Reserve Bank of Minneapolis

Summary

- 2011 Forecast: Conditions will improve, but pace could be quite slow
- 2011 Actual: Improving conditions; differences across measures and states
  - For district, strong and steady gains in asset quality and loan growth; less so in profitability
    - Measures remain off precrisis levels; loan growth still negative
  - Dakotas perform better than district; Minnesota, Montana perform generally worse

Summary

- 2012 Forecast: Expect continued improvement in 2012
  - Improvements in 2012 generally like improvements in 2011
    - Improvement and results vary across metrics and states
  - Forecast comes with significant uncertainty

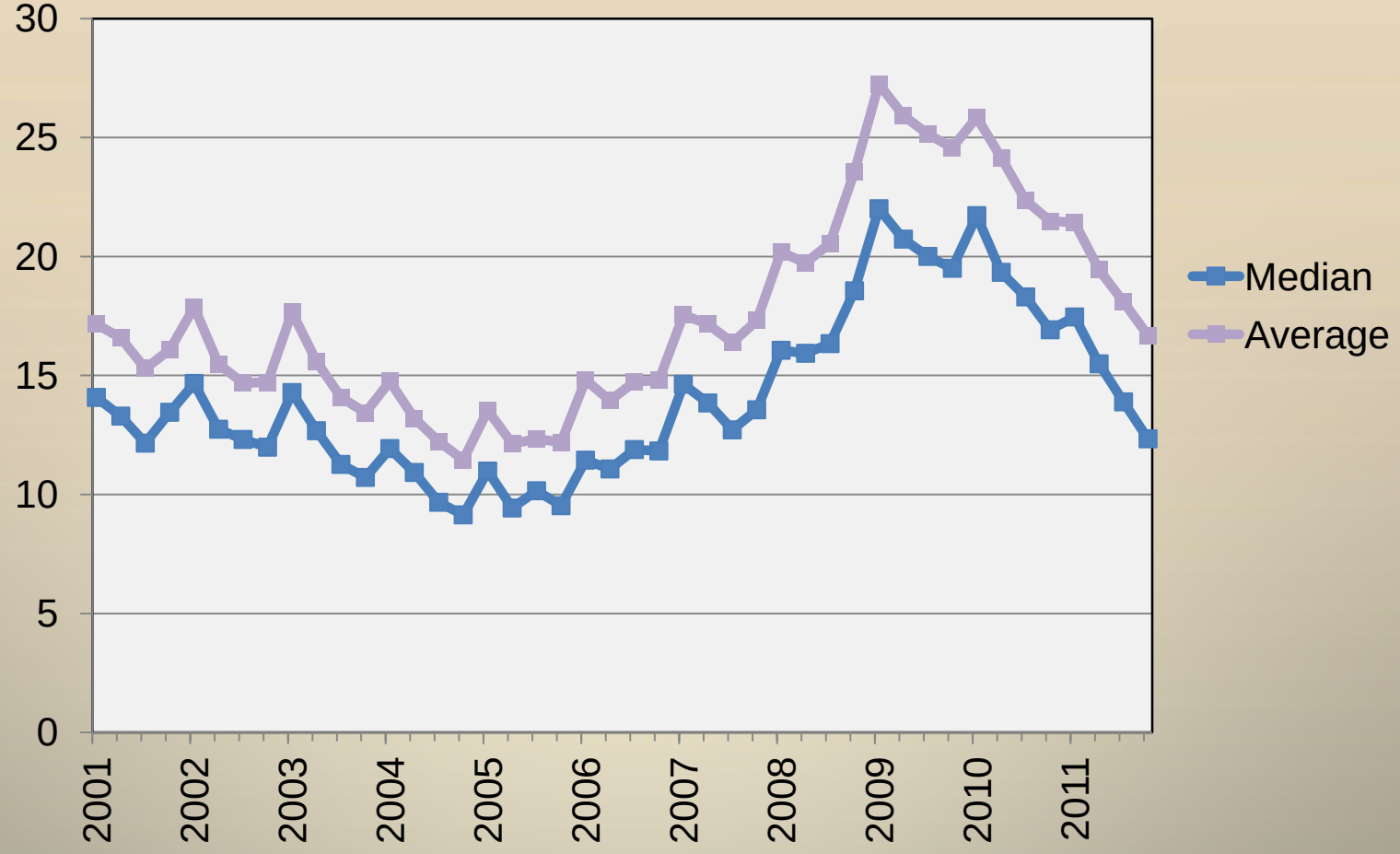
Ninth District

- Ninth District consists of:
  - MN, MT, ND, SD, northwestern WI and Upper Peninsula of MI (UP)
- Detailed data on banking conditions for these geographies, metro areas and type of bank found at:
  - http://www.minneapolisfed.org/banking/data/bankingconditions/index.cfm

2011 Actual

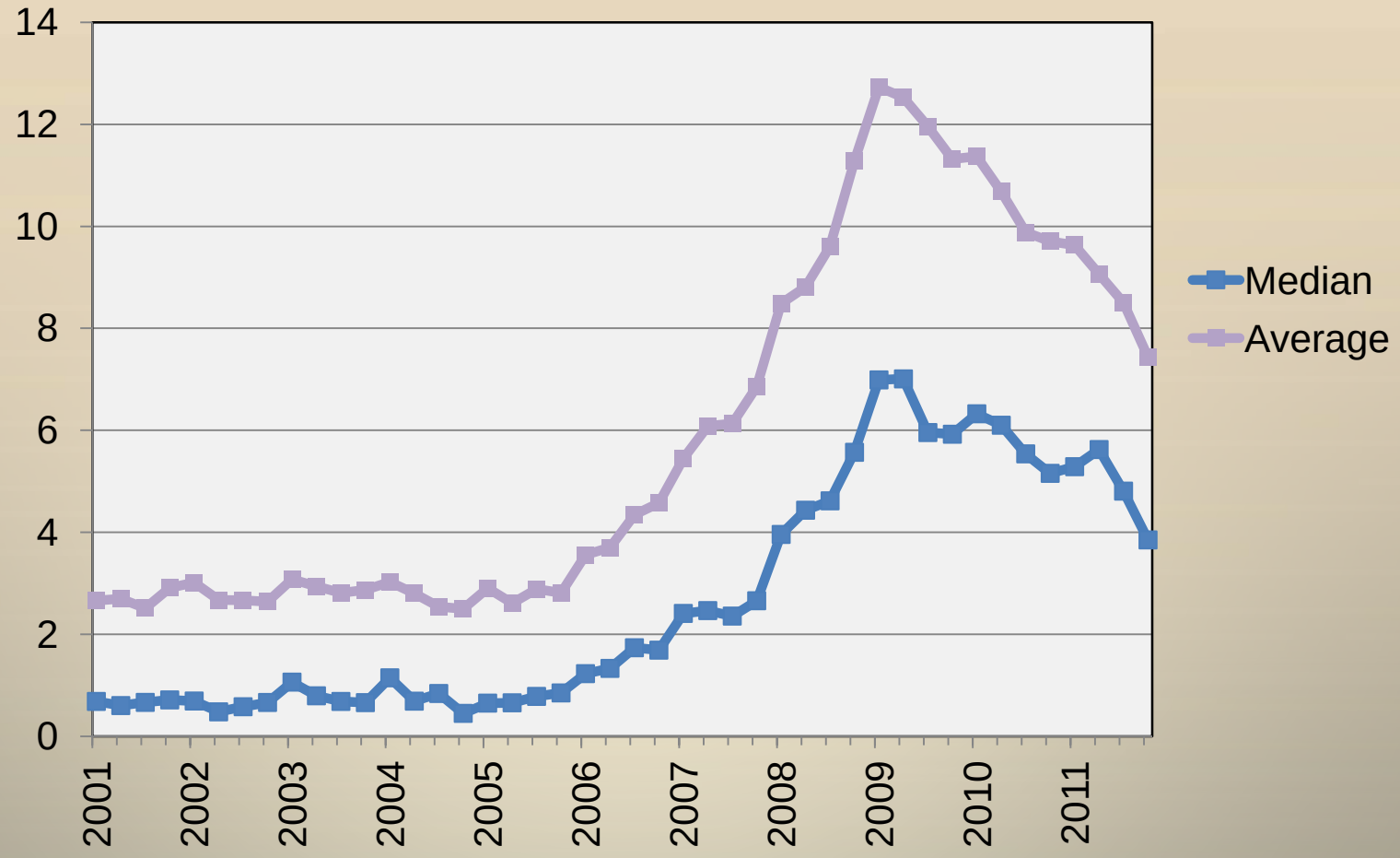
- Strong improvement in overall asset quality
  - Strong improvement in commercial real estate
  - Strong fourth quarter
- More middling improvement in profits
  - Strong first quarter gains; weaker since then
  - Provisions were the driver; NIM contributes too
- Loan growth negative but back to YE10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

Strong, Steady Annual Improvement in Overall Asset Quality



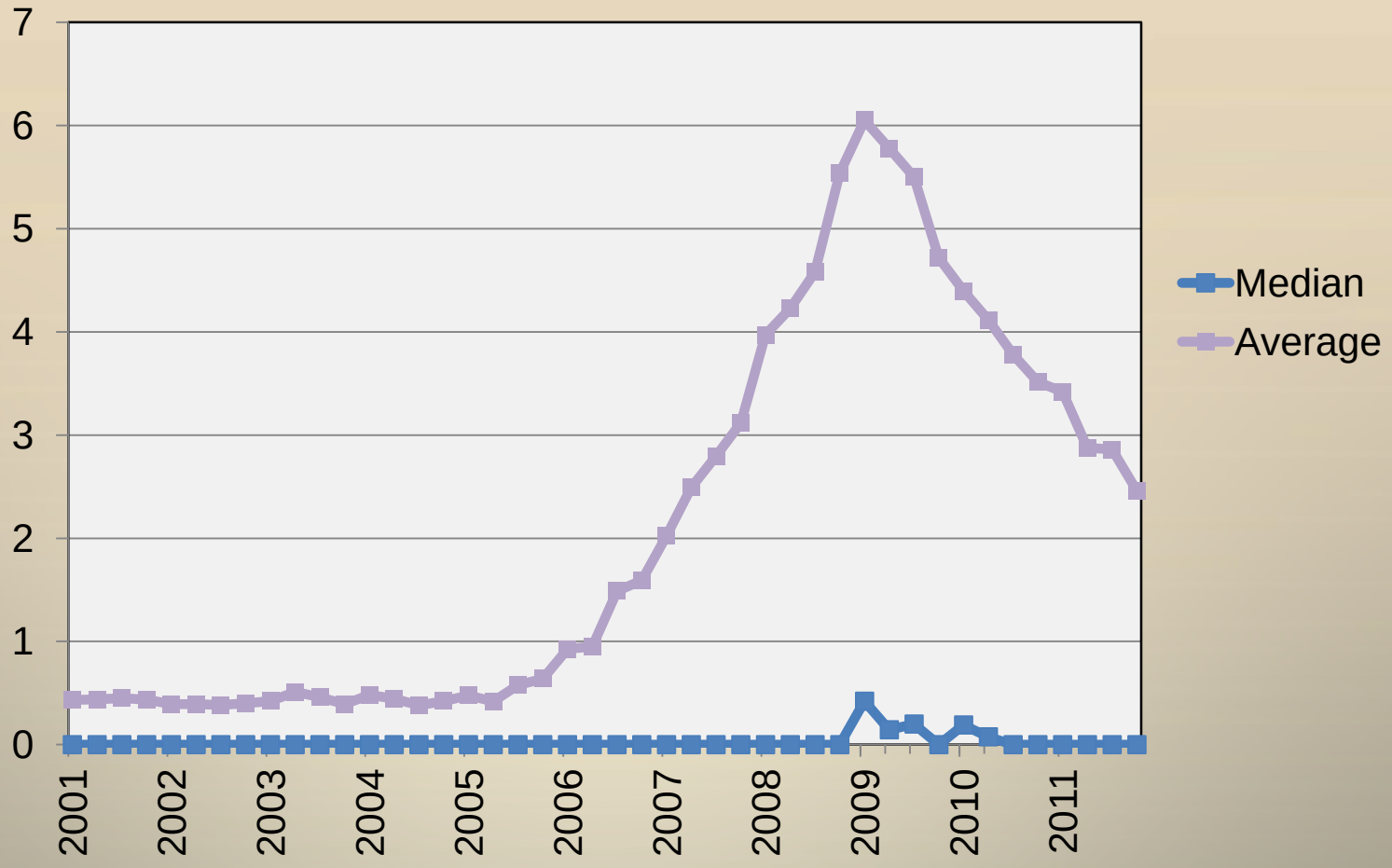
Noncurrent and delinquent loans as a percent of capital and allowances

Strong Annual Improvement in Commercial Real Estate Asset Quality



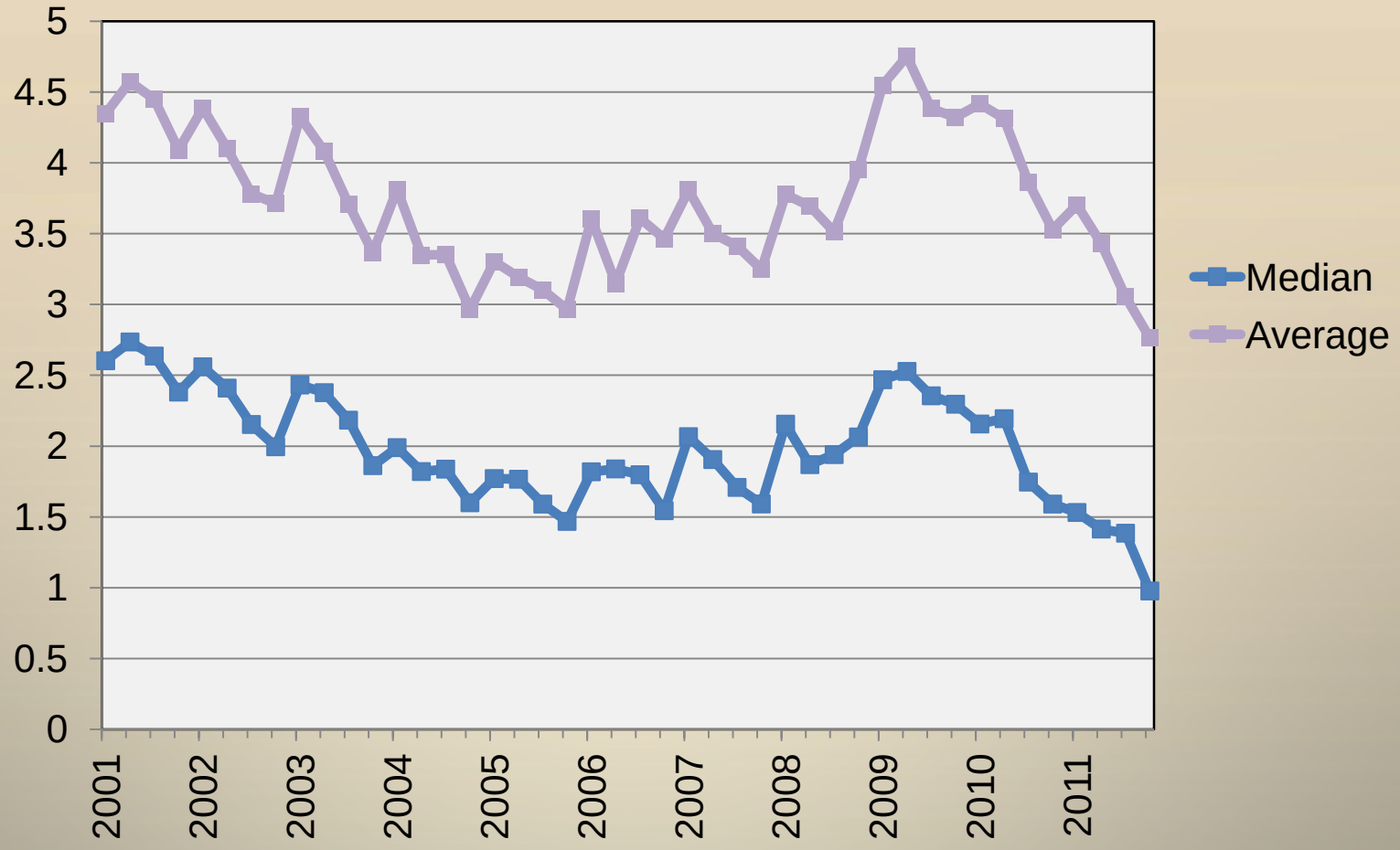
Noncurrent CRE loans and delinquencies as a percent of capital and allowances

Strong Annual Improvement in Construction and Land Development Asset Quality



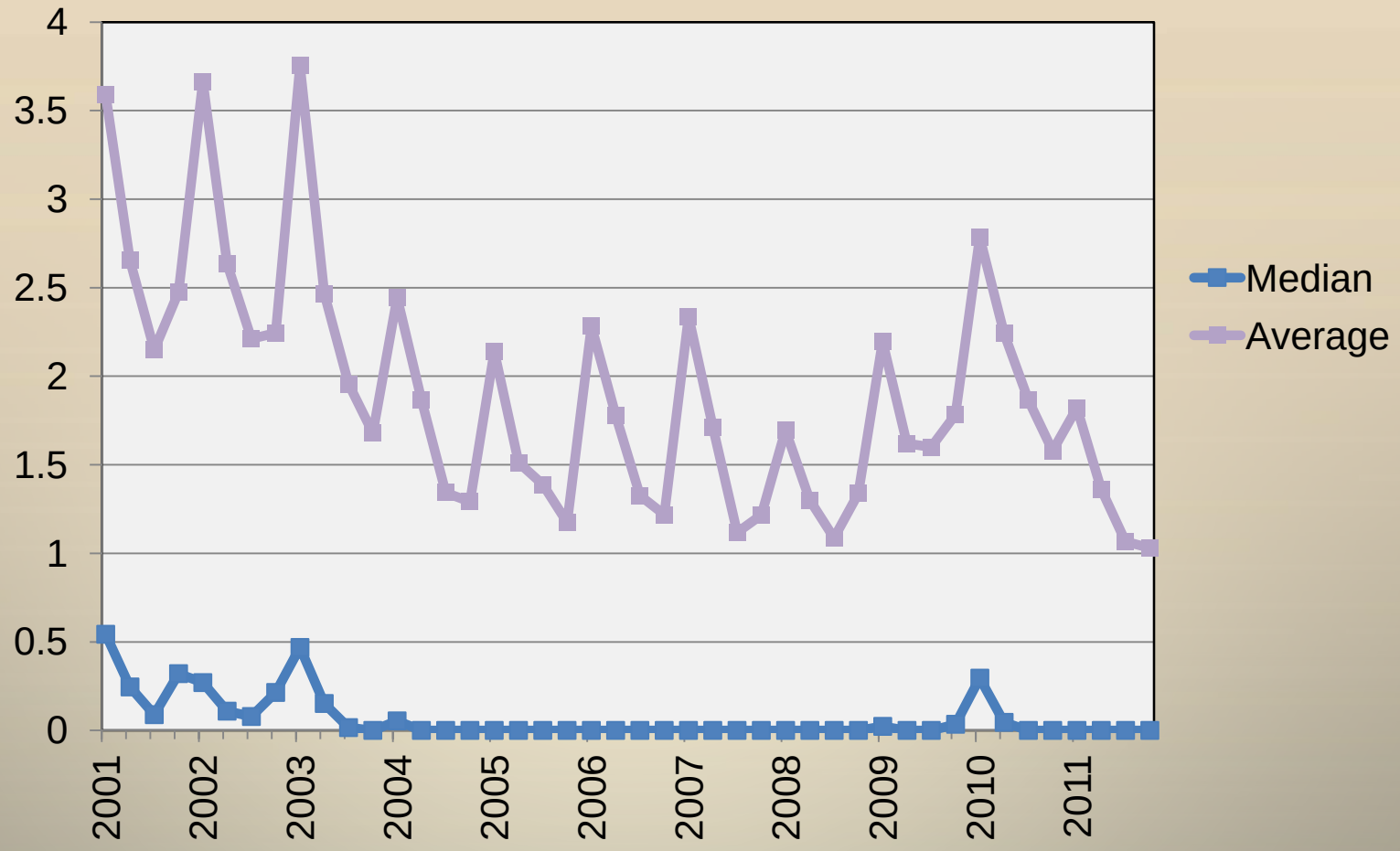
Noncurrent CLD loans and delinquencies as a percent of capital and allowances

Strong Annual Improvement in Commercial and Industrial Asset Quality



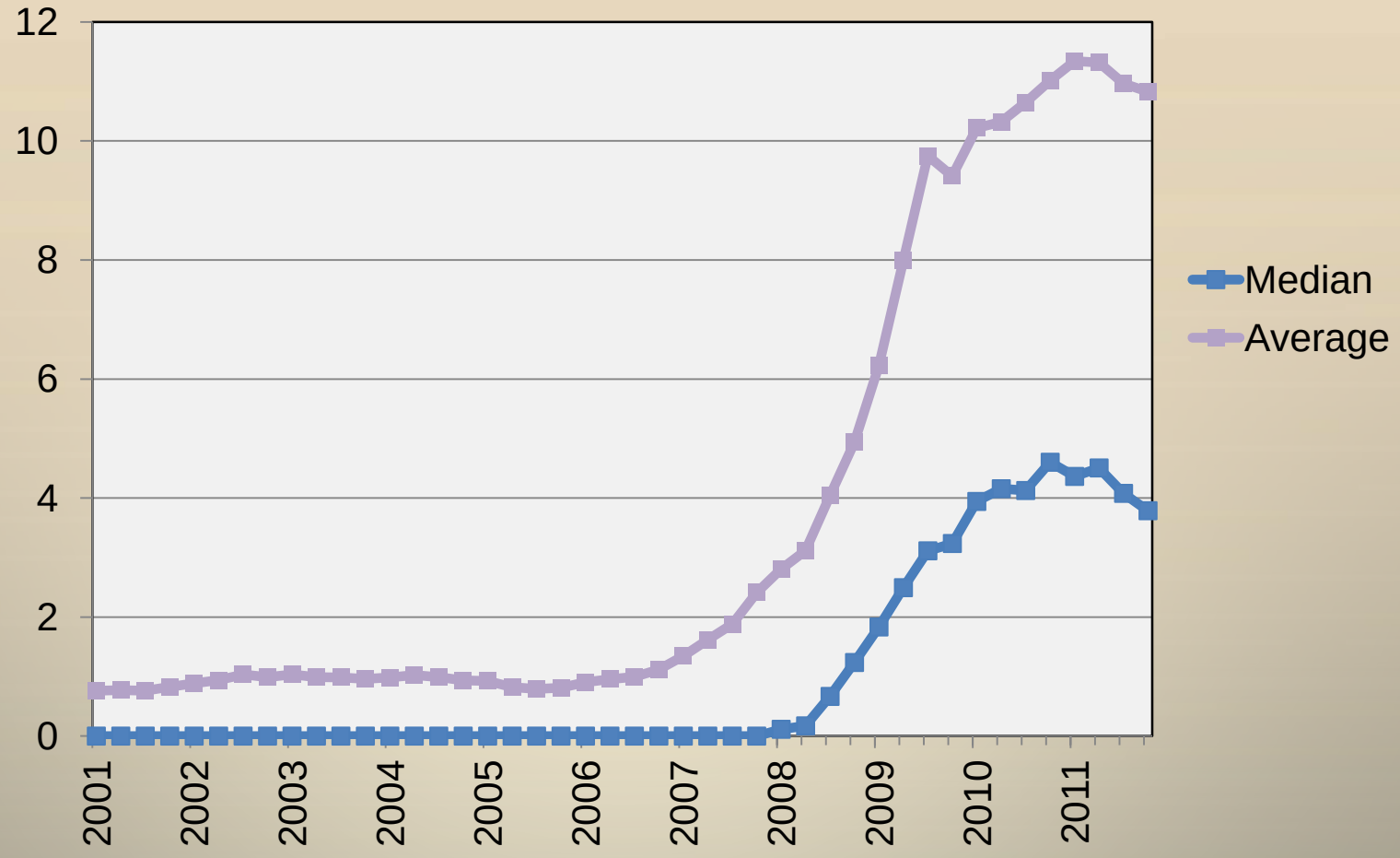
Noncurrent C&I loans and delinquencies as a percent of capital and allowances

Strong Annual Improvement in Agricultural Asset Quality



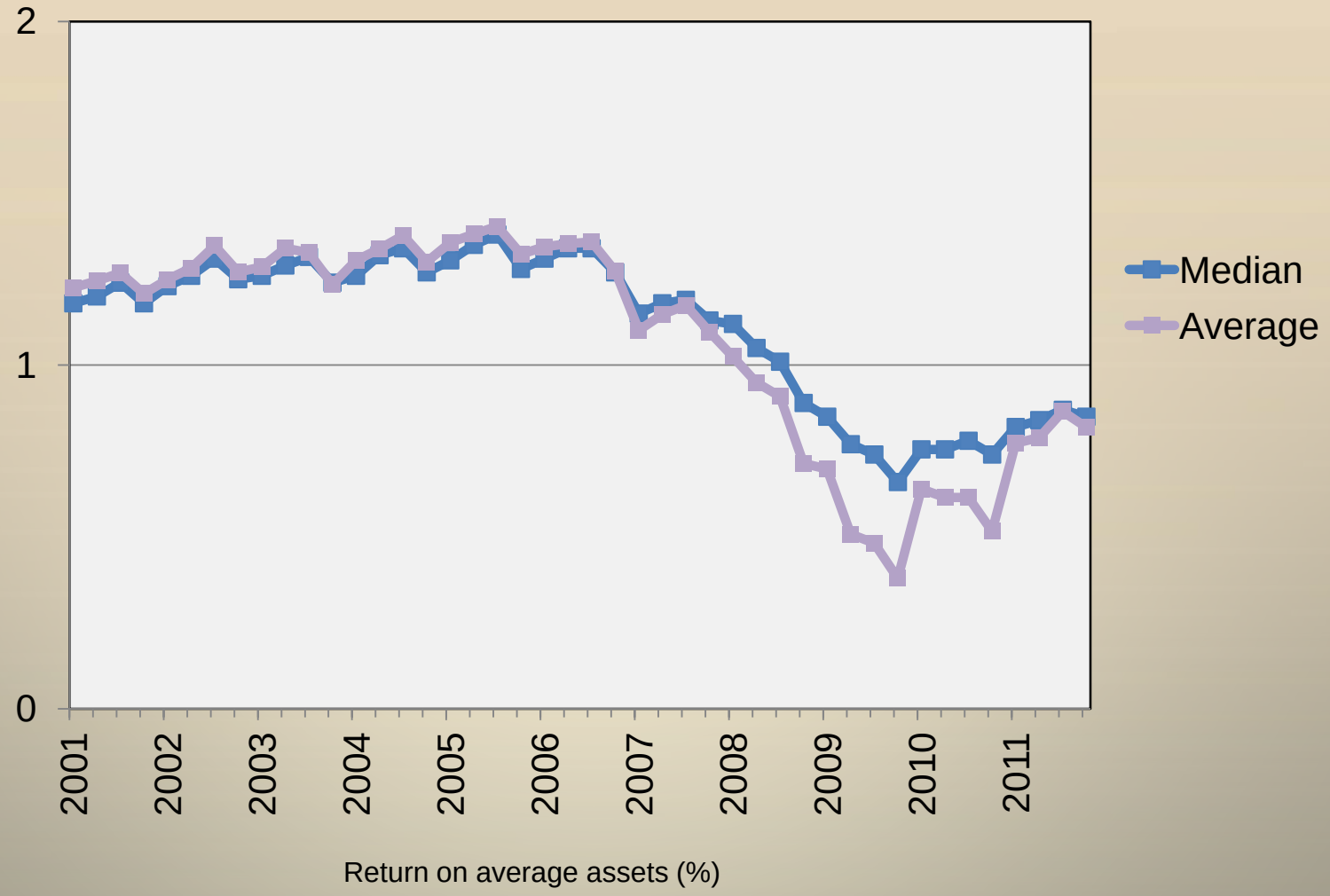
Noncurrent agricultural loans and delinquencies as a percent of capital and allowances

Amount of Real Estate Owned Back to Year-End 2010 Levels

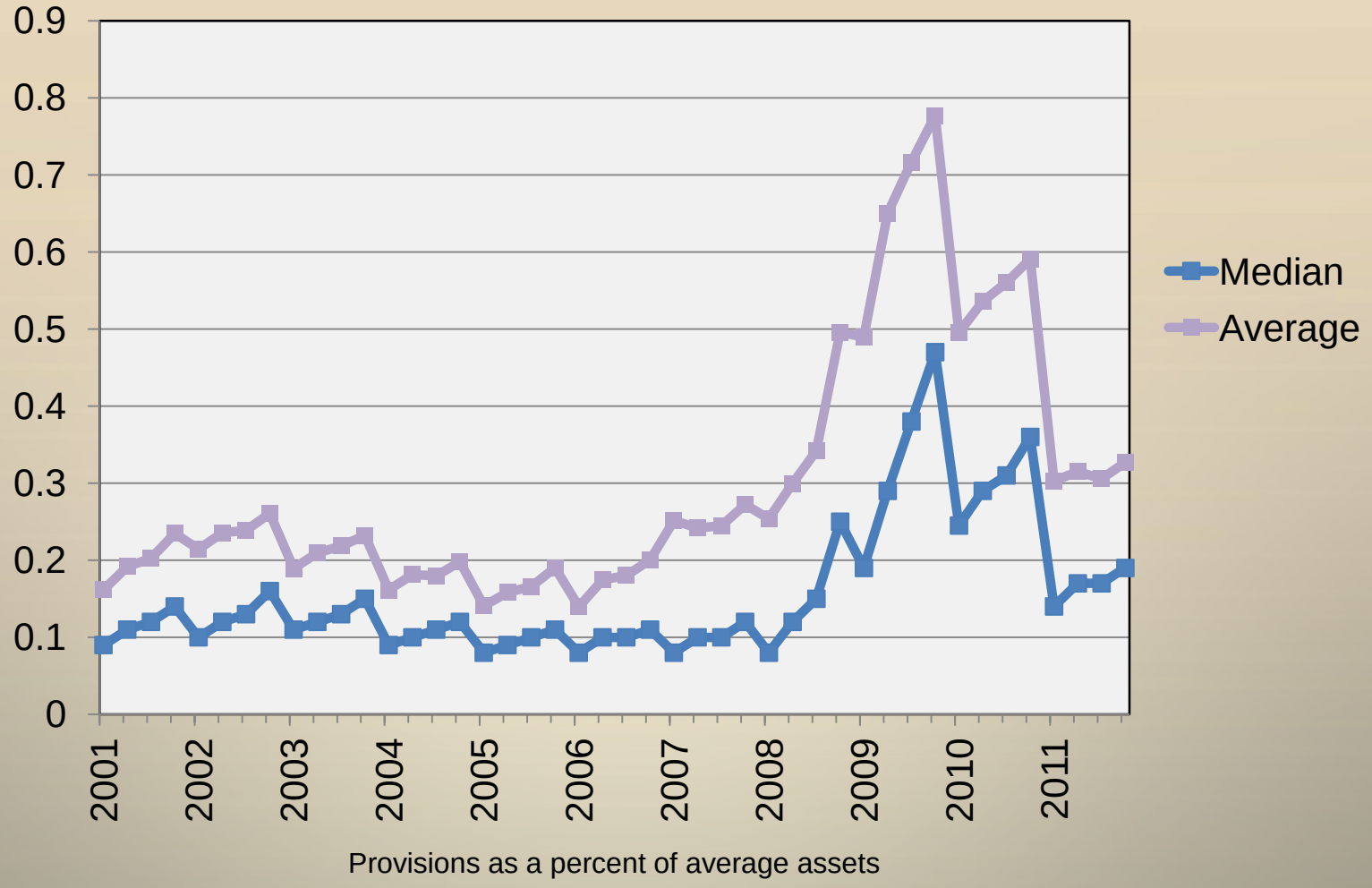


Noncurrent loans and other real estate owned as a percent of total loans and OREO

Strong Initial Growth in Profits; Slower Improvement Since Then

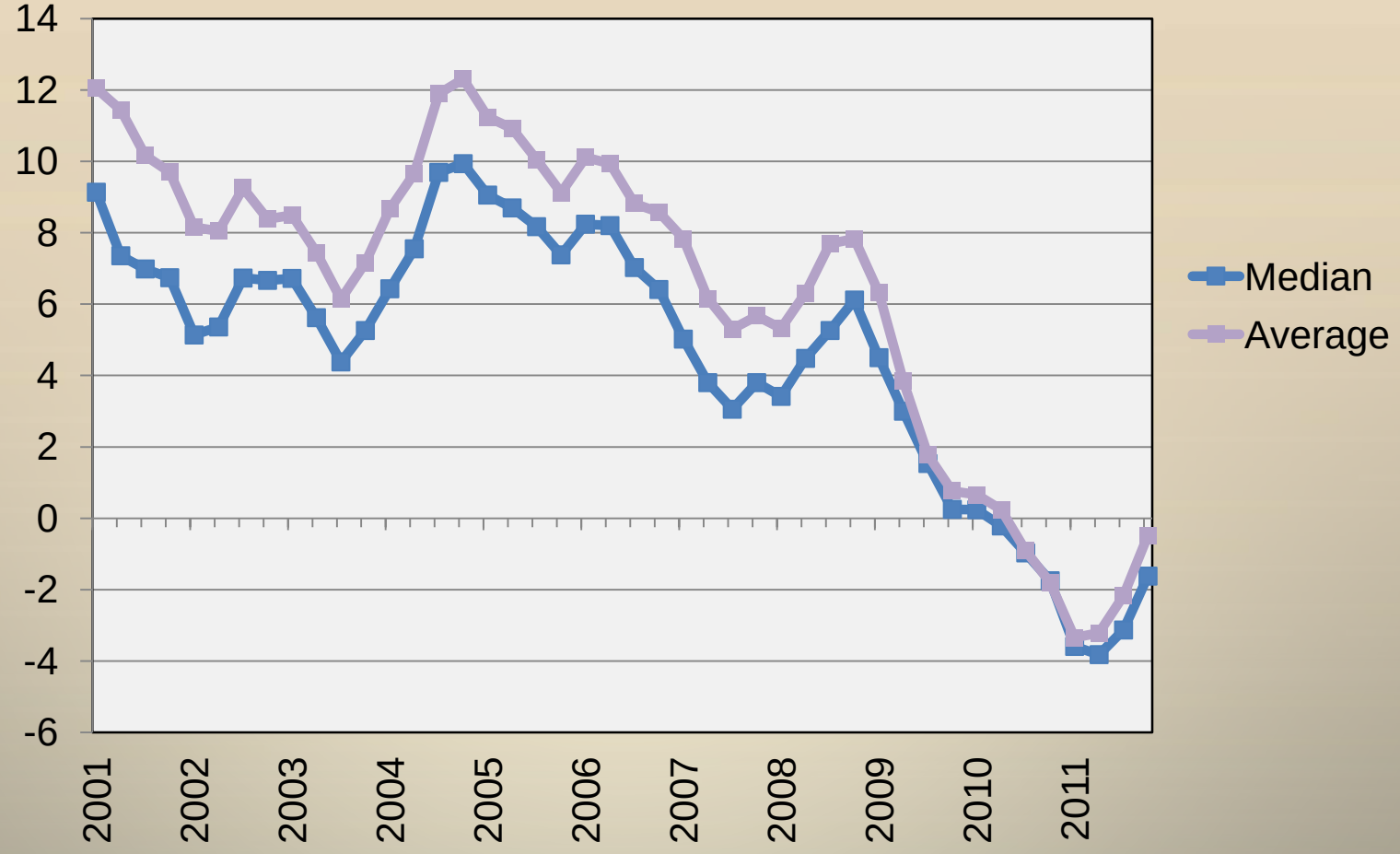


Change in Provisions Driving Change in Profits



Net Interest Margin Also Increased Initially and Then Flattened

Steady Improvement in Year-Over-Year Loan Growth but Still Negative

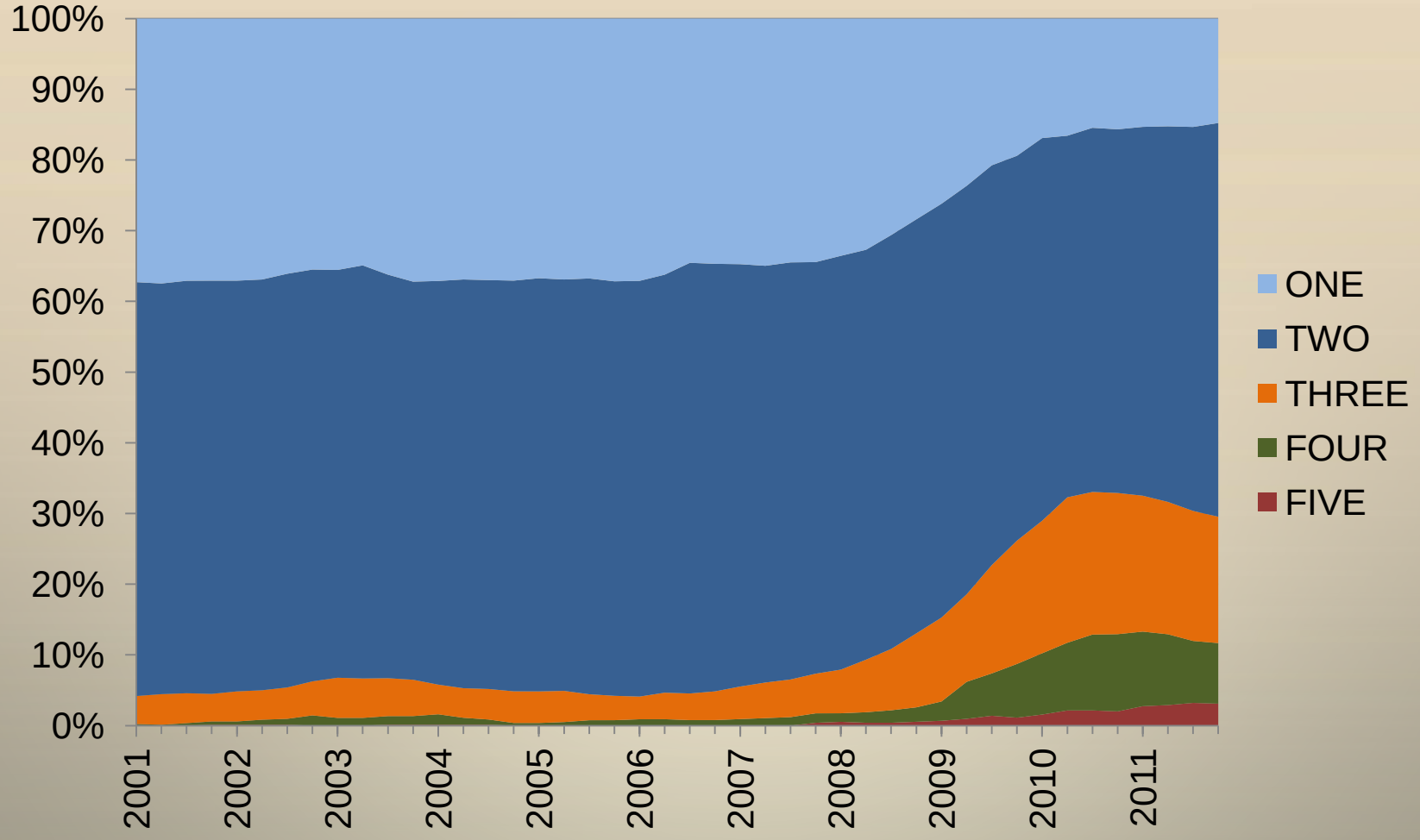


Net loan growth (%) (over last 4 quarters)

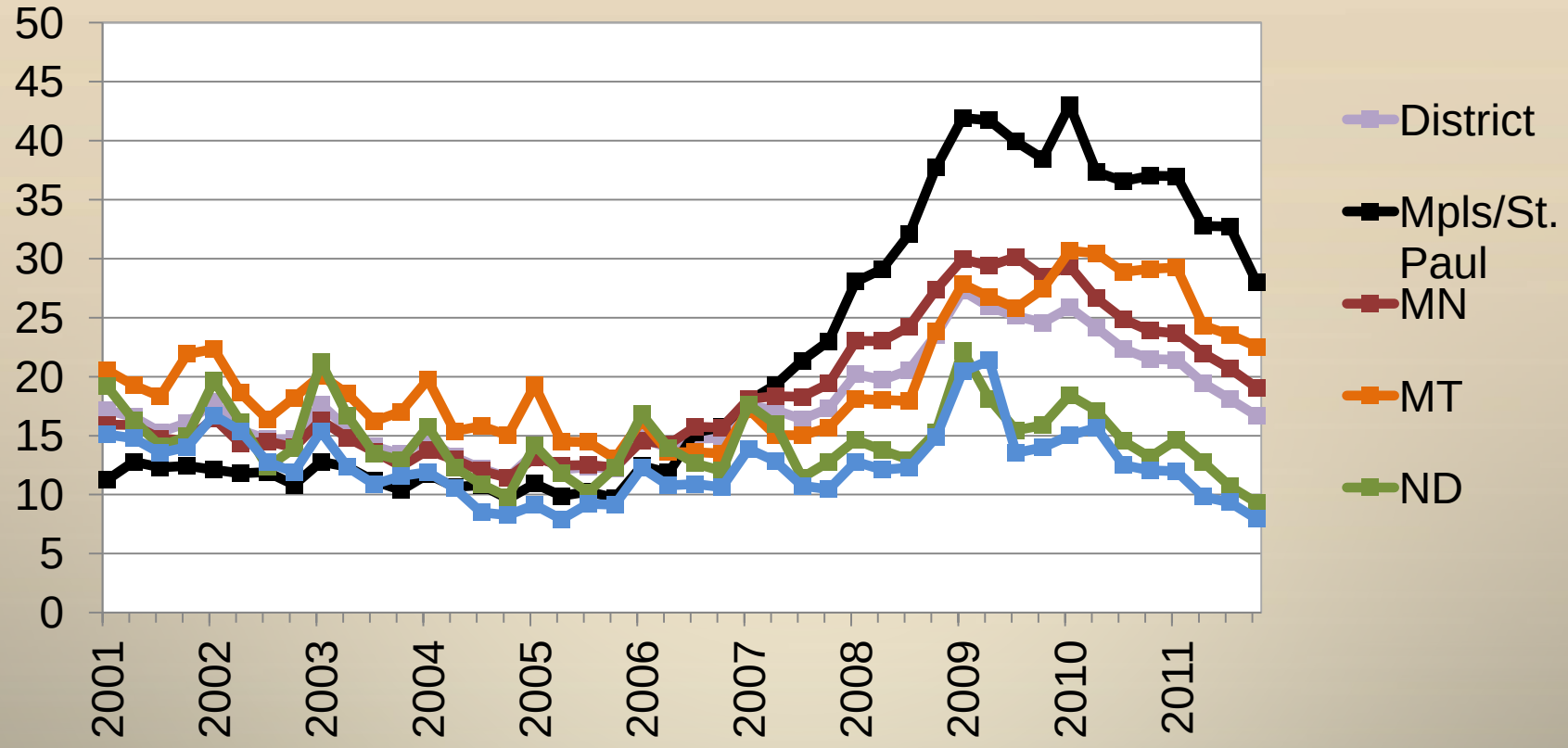
Continued Improvement for Liquidity and Capital

- Liquidity
  - Noncore funding continued to fall at a moderate rate
  - High share of liquid assets remains high
  - Falling use of brokered deposits
- Capital Levels Stronger

Bank Ratings Flat to Some Improvement

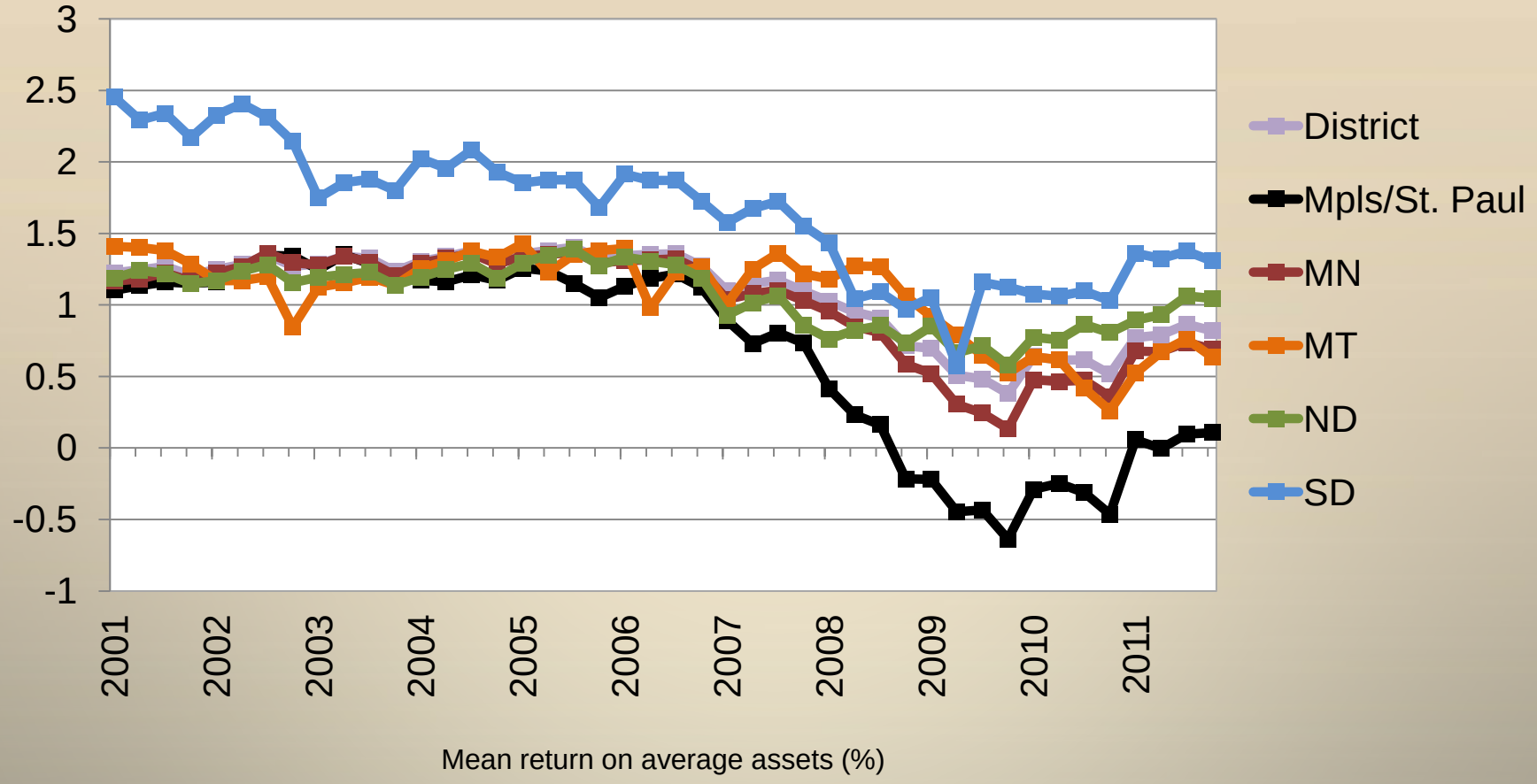


Dakotas Have Significantly Better Asset Quality; Twin Cities and Montana Worst, but All Improving

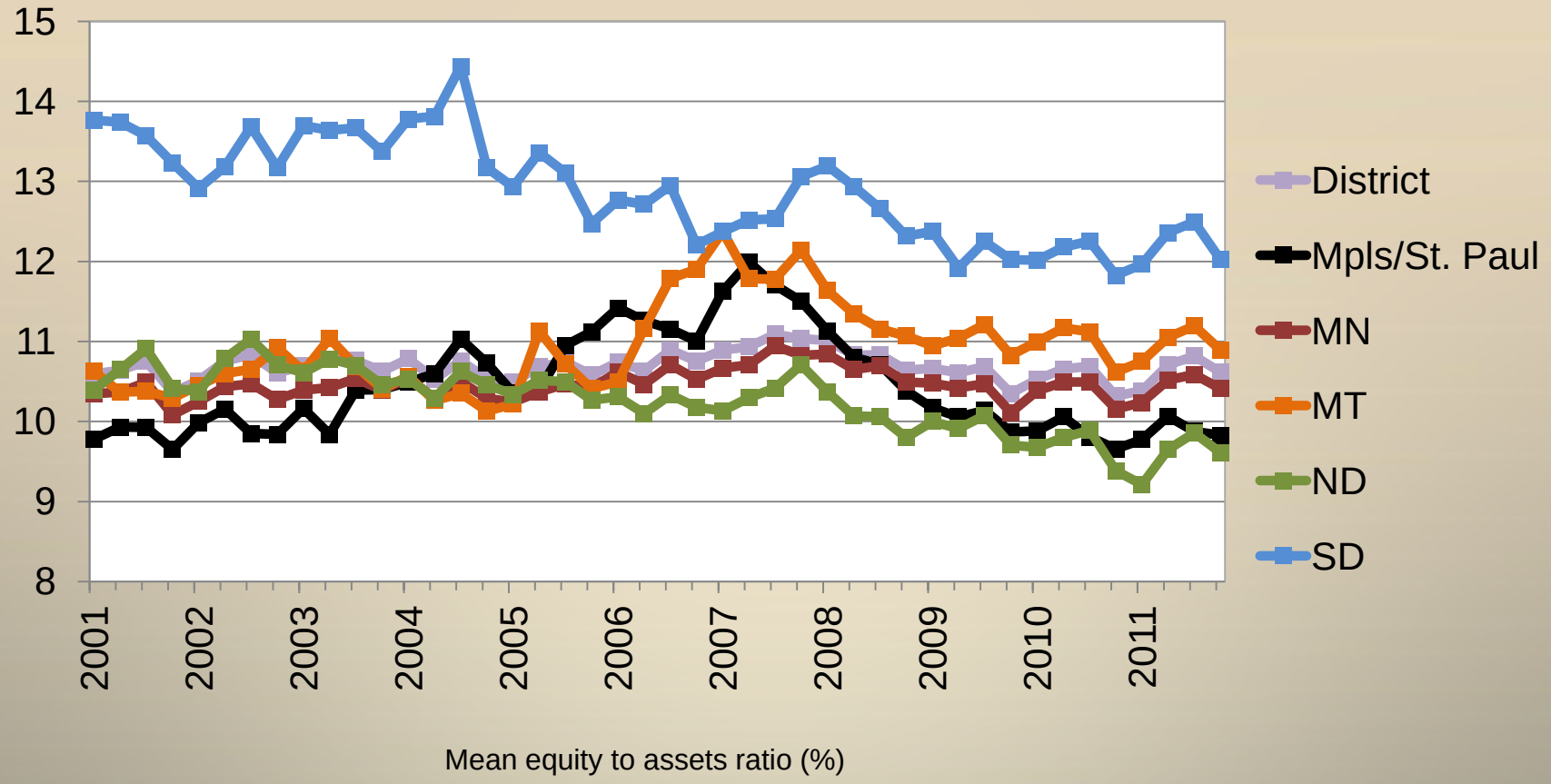


Mean noncurrent and delinquent loans as a percent of capital and allowances

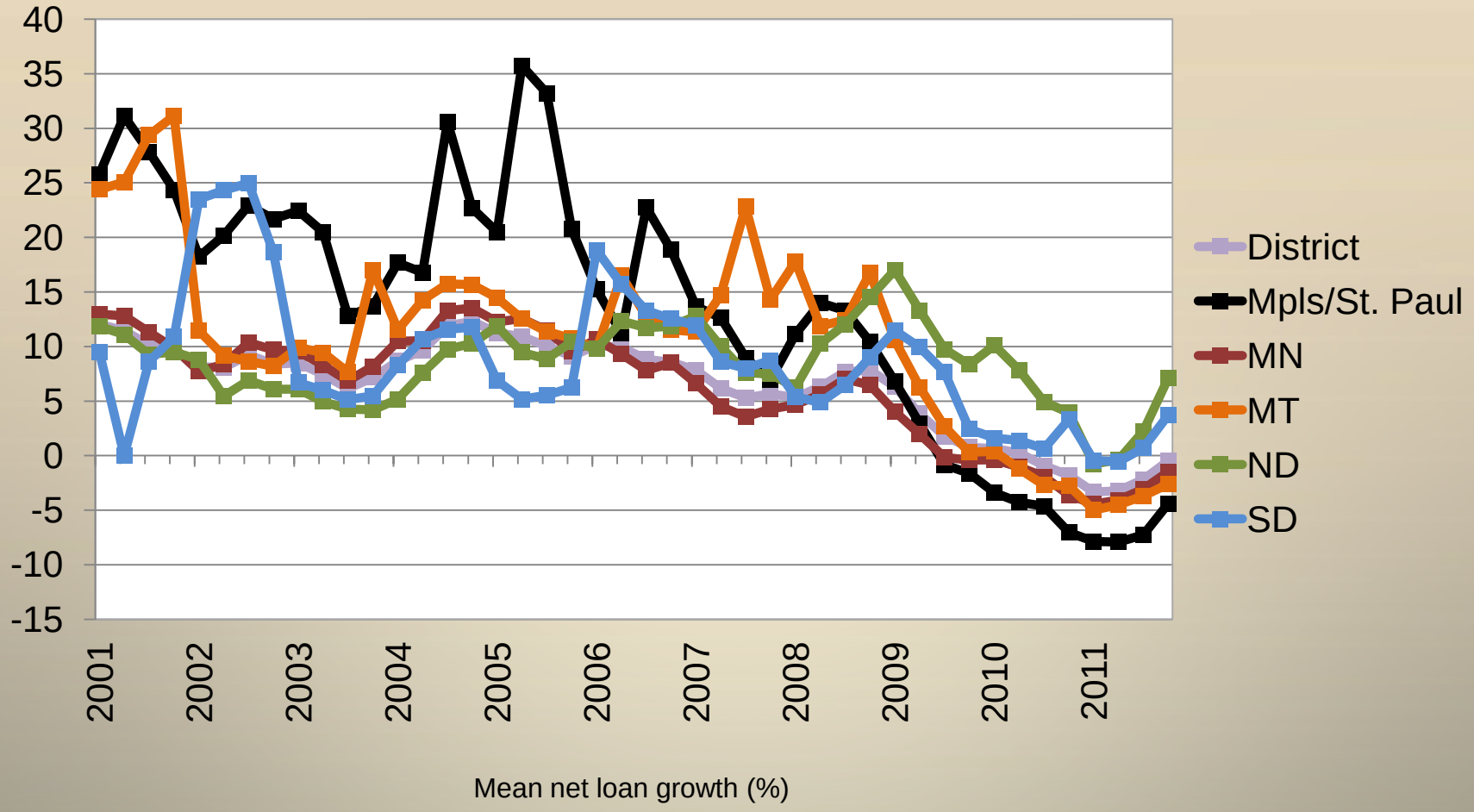
Dakotas Have Highest Profits; Twin Cities Significantly Lower



Capital Levels Vary Less by Geography; SD and MT Above District; TC and ND Below



All but Dakotas Have Negative Loan Growth; All on Improving Trend



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 Results

- 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
  - North and South Dakota banks are approaching or exceeding precrisis conditions
  - For Montana and Minnesota:
    - Some measures (e.g., asset quality) close to normal; others less so

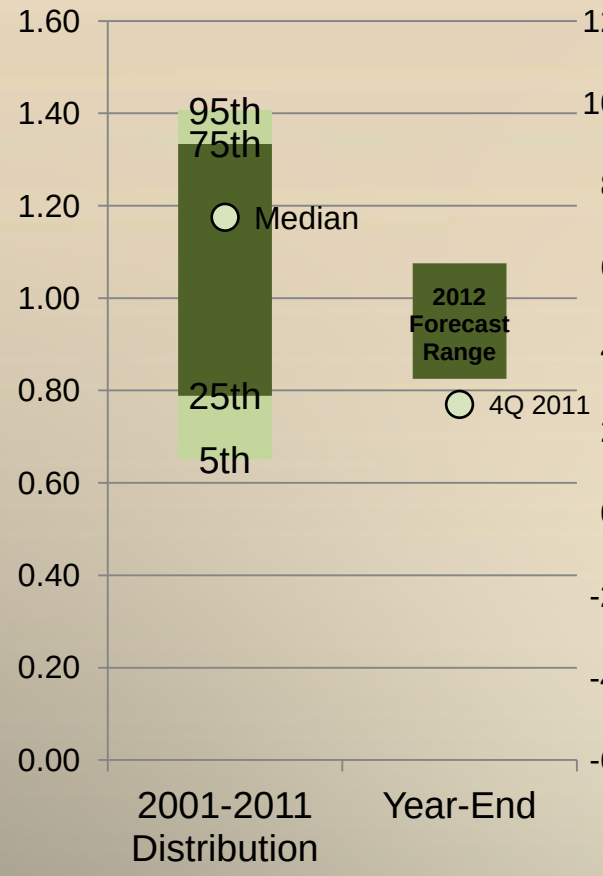
Minnesota Forecast Bank Median

Profitability (ROAA)	(%)
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

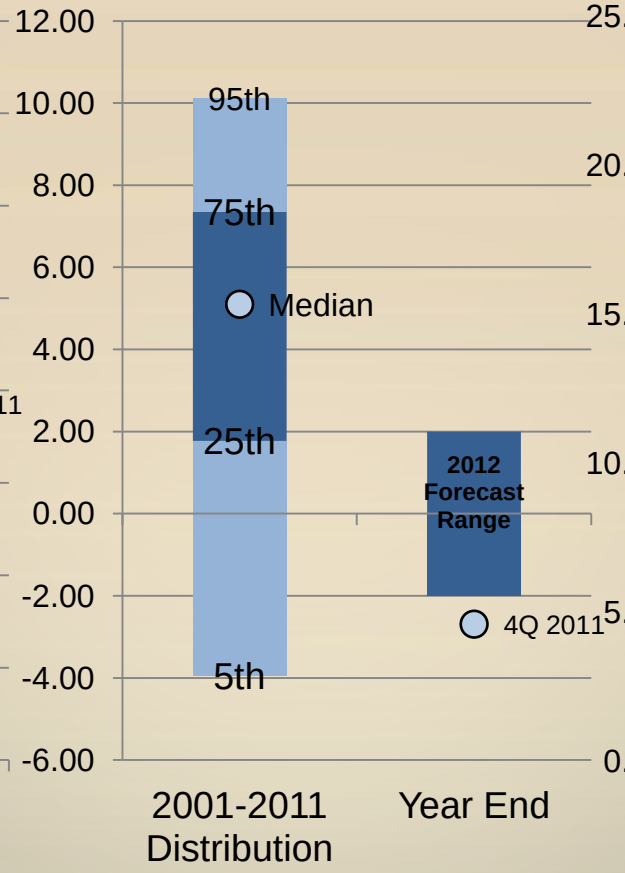
Loan Growth (Yr Over Yr)	(%)
Current Value (Fourth Quarter 2011)	-2.69
Median Value for 2001 to 2011	5.1
High Value, Range of Forecast	2.0
Low Value, Range of Forecast	-2.0

Asset Quality (NC+DL Ratio)	(%)
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

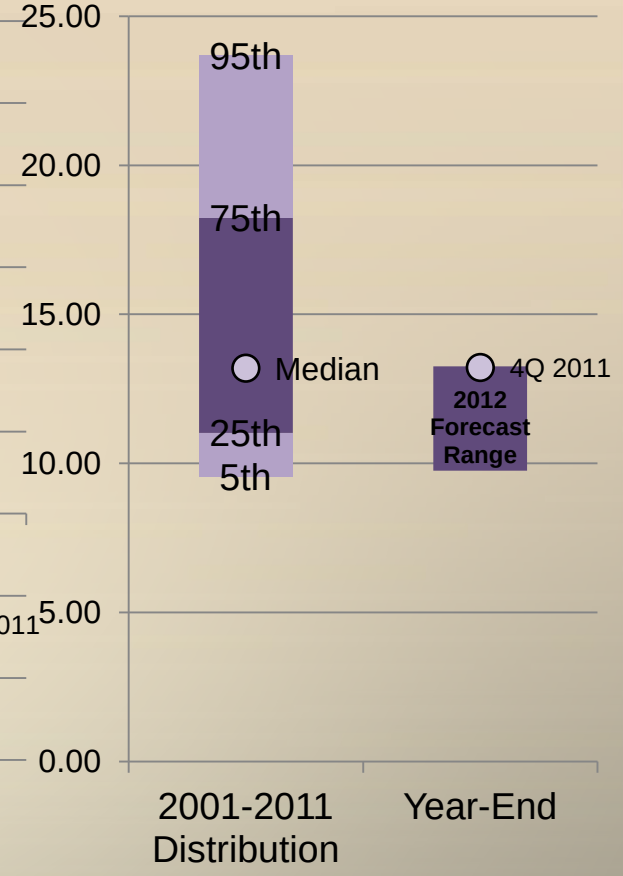
Minnesota Forecast
Bank Median



Return on Average Assets



Net Loan Growth (Y-to-Y)



Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

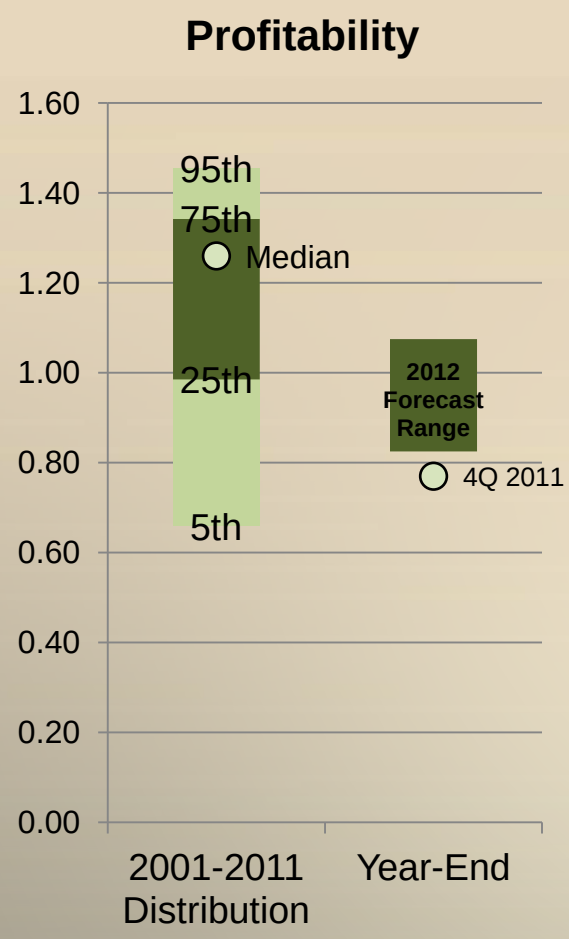
Montana Forecast
Bank Median

Profitability (ROAA)	(%)
Current Value (Fourth Quarter 2011)	0.77
Median Value for 2001 to 2011	1.26
High Value, Range of Forecast	1.075
Low Value, Range of Forecast	0.825

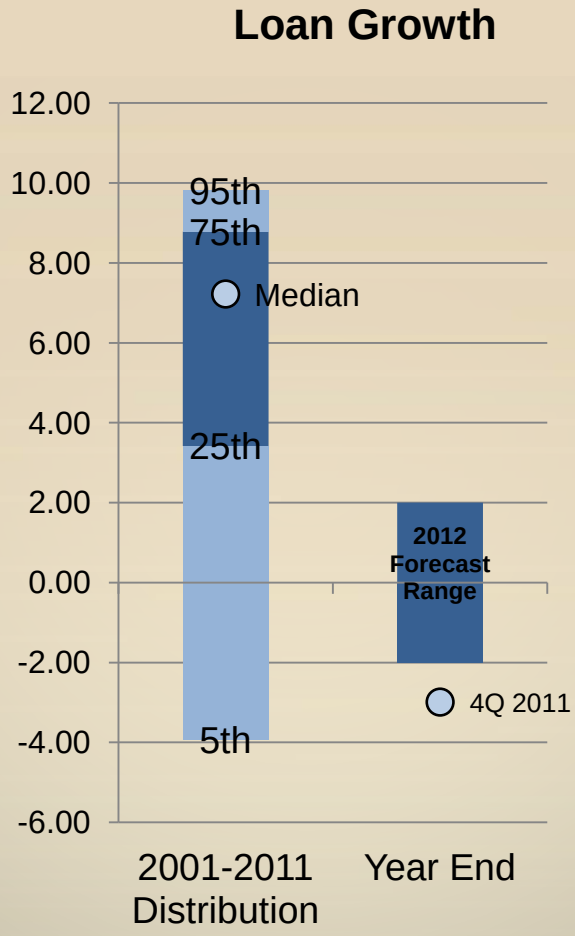
Loan Growth (Yr over Yr)	(%)
Current Value (Fourth Quarter 2011)	-2.99
Median Value for 2001 to 2011	7.22
High Value, Range of Forecast	2.0
Low Value, Range of Forecast	-2.0

Asset Quality (NC+DL Ratio)	(%)
Current Value (Fourth Quarter 2011)	16.64
Median Value for 2001 to 2011	14.81
High Value, Range of Forecast	15.75
Low Value, Range of Forecast	12.25

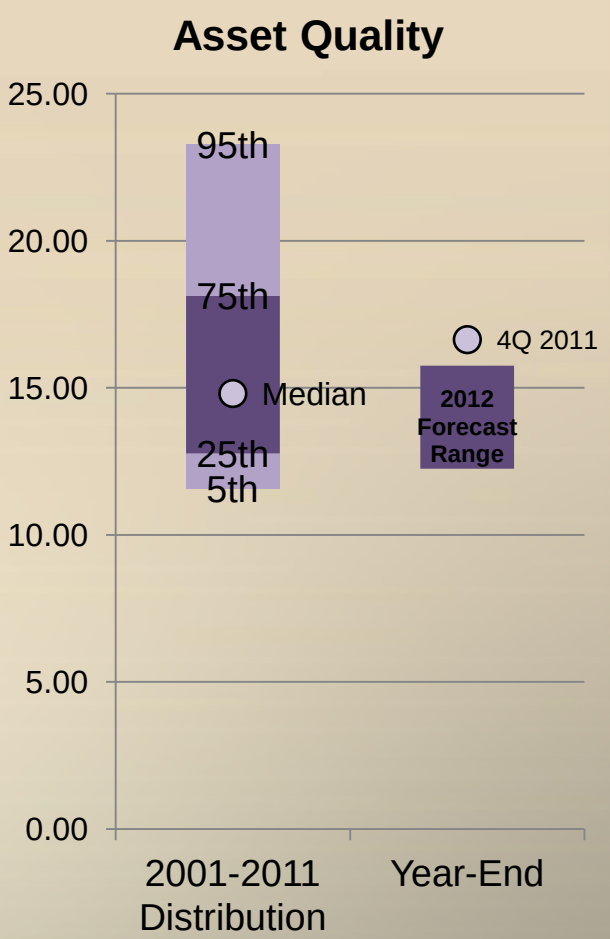
Montana Forecast
Bank Median



Return on Average Assets



Net Loan Growth (Y-to-Y)



Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

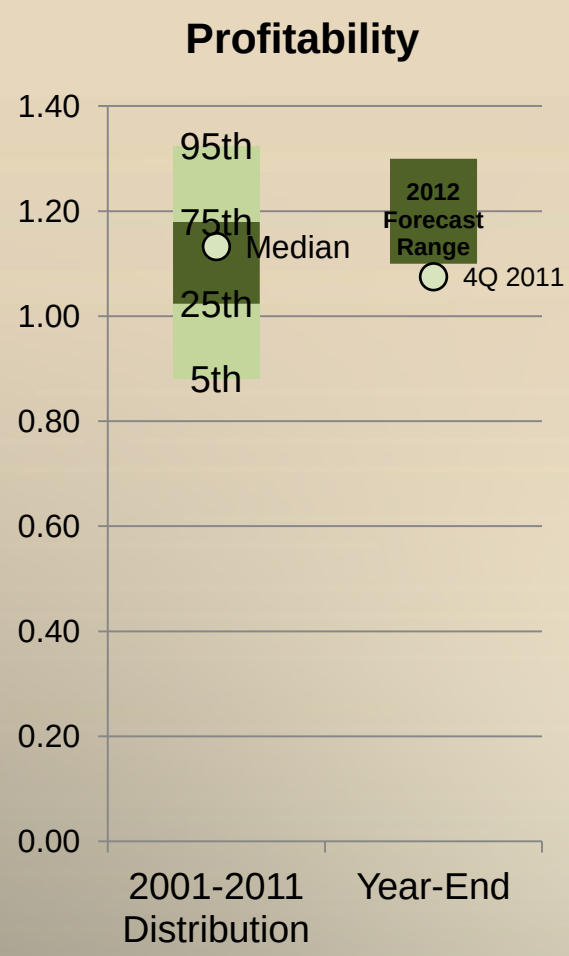
North Dakota Forecast
Bank Median

Profitability (ROAA)	(%)
Current Value (Fourth Quarter 2011)	1.08
Median Value for 2001 to 2011	1.13
High Value, Range of Forecast	1.30
Low Value, Range of Forecast	1.10

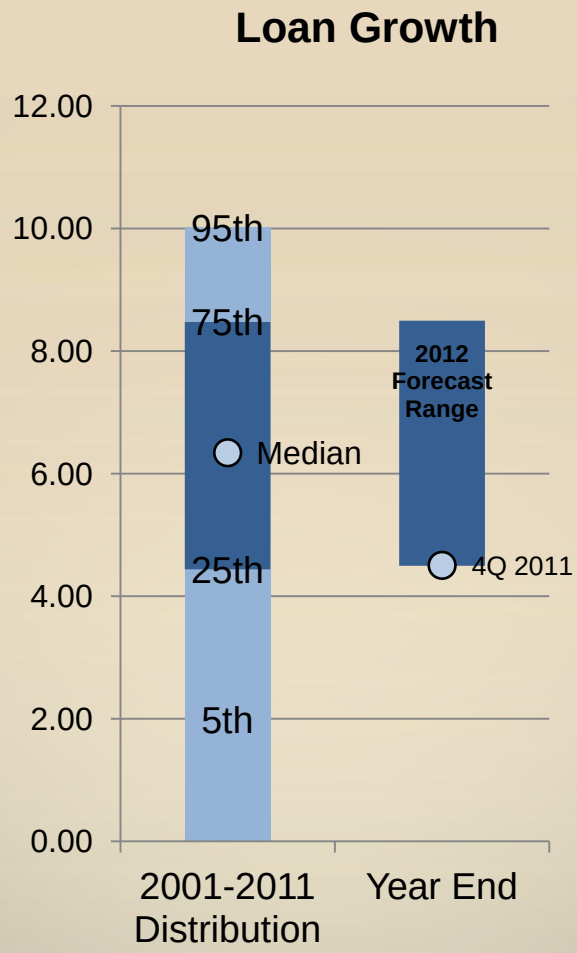
Loan Growth (Yr over Yr)	(%)
Current Value (Fourth Quarter 2011)	4.51
Median Value for 2001 to 2011	6.34
High Value, Range of Forecast	8.50
Low Value, Range of Forecast	4.50

Asset Quality (NC+DL Ratio)	(%)
Current Value (Fourth Quarter 2011)	6.78
Median Value for 2001 to 2011	11.08
High Value, Range of Forecast	7.75
Low Value, Range of Forecast	4.25

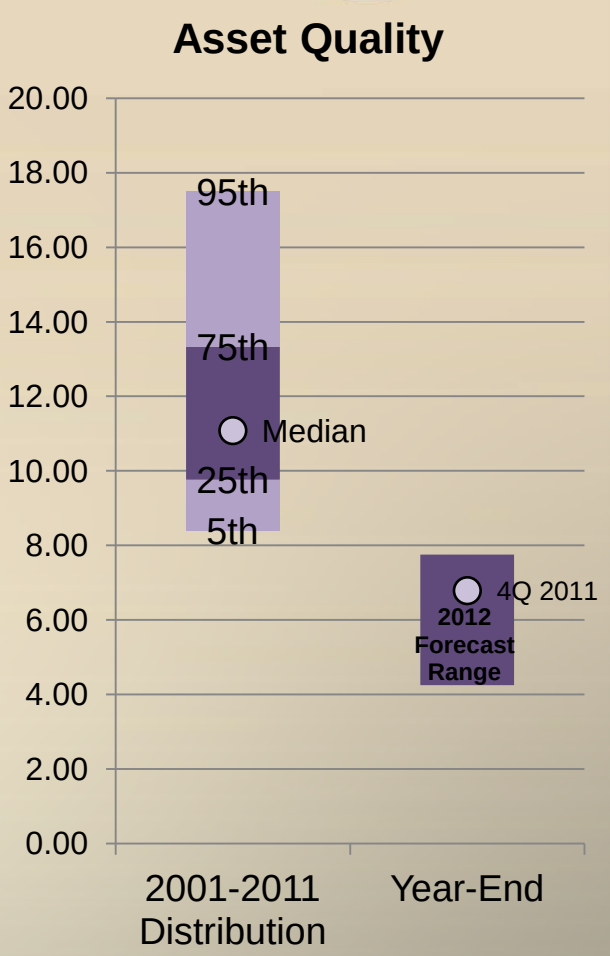
North Dakota Forecast
Bank Median



Return on Average Assets



Net Loan Growth (Y-to-Y)



Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

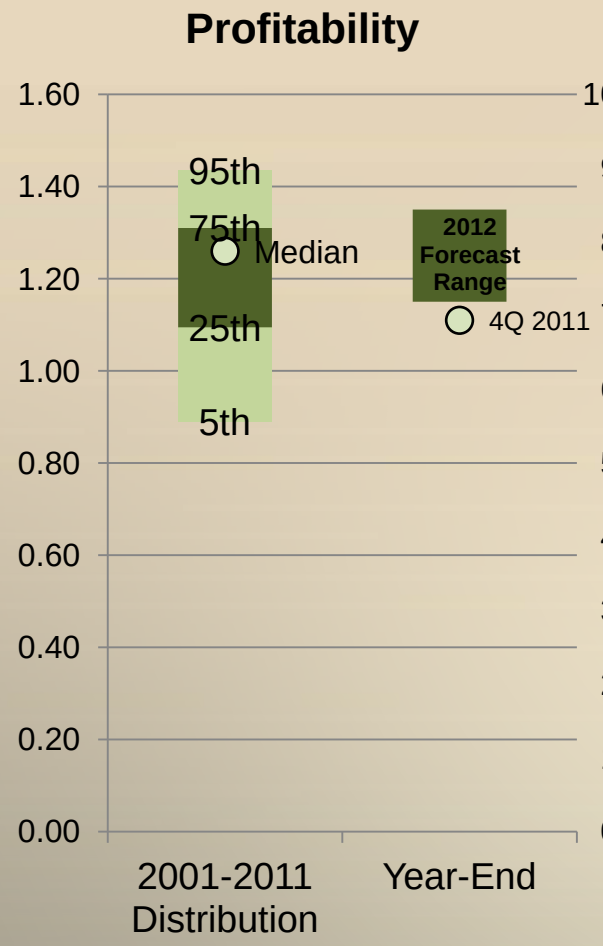
South Dakota Forecast
Bank Median

Profitability (ROAA)	(%)
Current Value (Fourth Quarter 2011)	1.11
Median Value for 2001 to 2011	1.26
High Value, Range of Forecast	1.35
Low Value, Range of Forecast	1.15

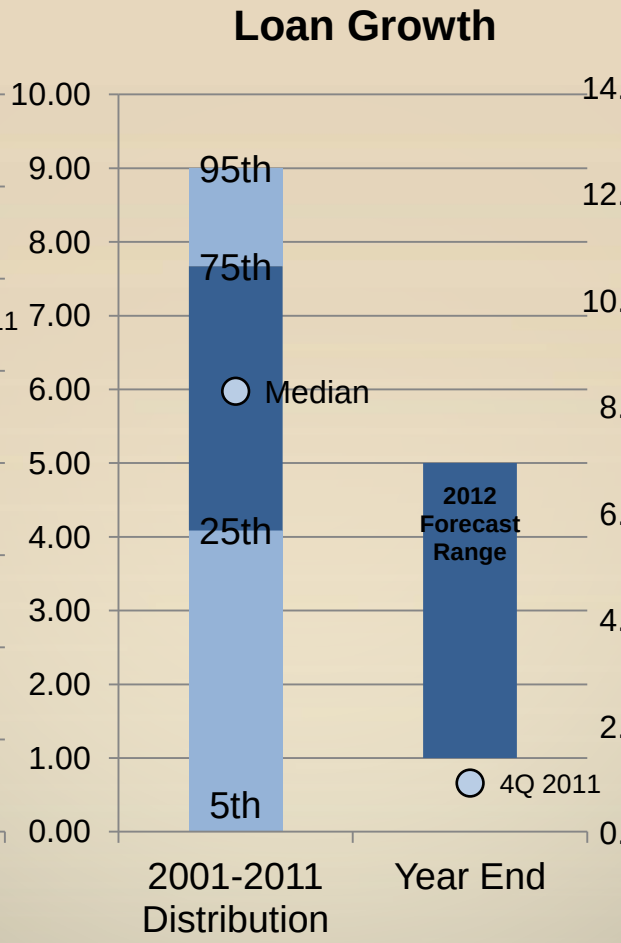
Loan Growth (Yr over Yr)	(%)
Current Value (Fourth Quarter 2011)	0.66
Median Value for 2001 to 2011	5.98
High Value, Range of Forecast	5.0
Low Value, Range of Forecast	1.0

Asset Quality (NC+DL Ratio)	(%)
Current Value (Fourth Quarter 2011)	4.60
Median Value for 2001 to 2011	8.66
High Value, Range of Forecast	6.0
Low Value, Range of Forecast	2.5

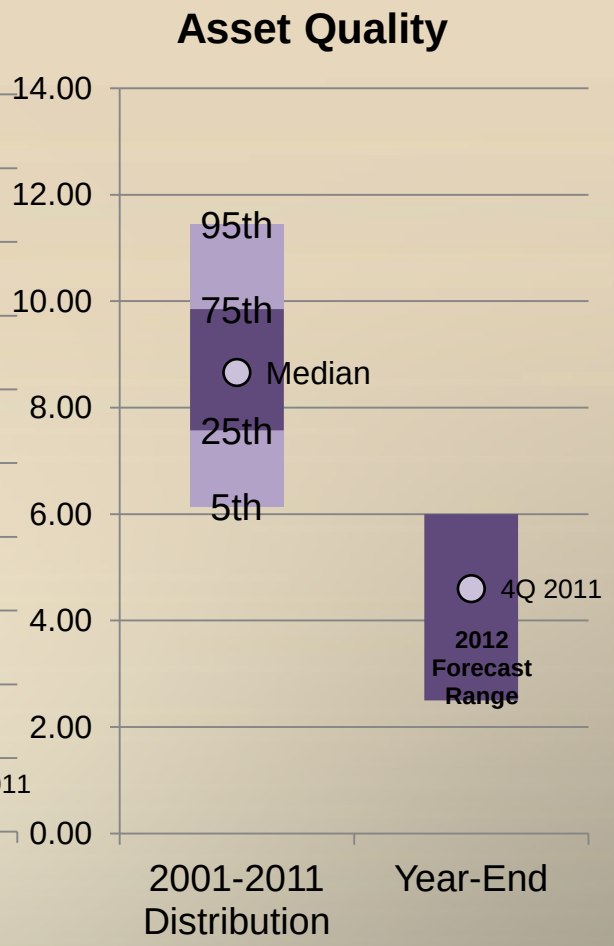
South Dakota Forecast
Bank Median



Return on Average Assets

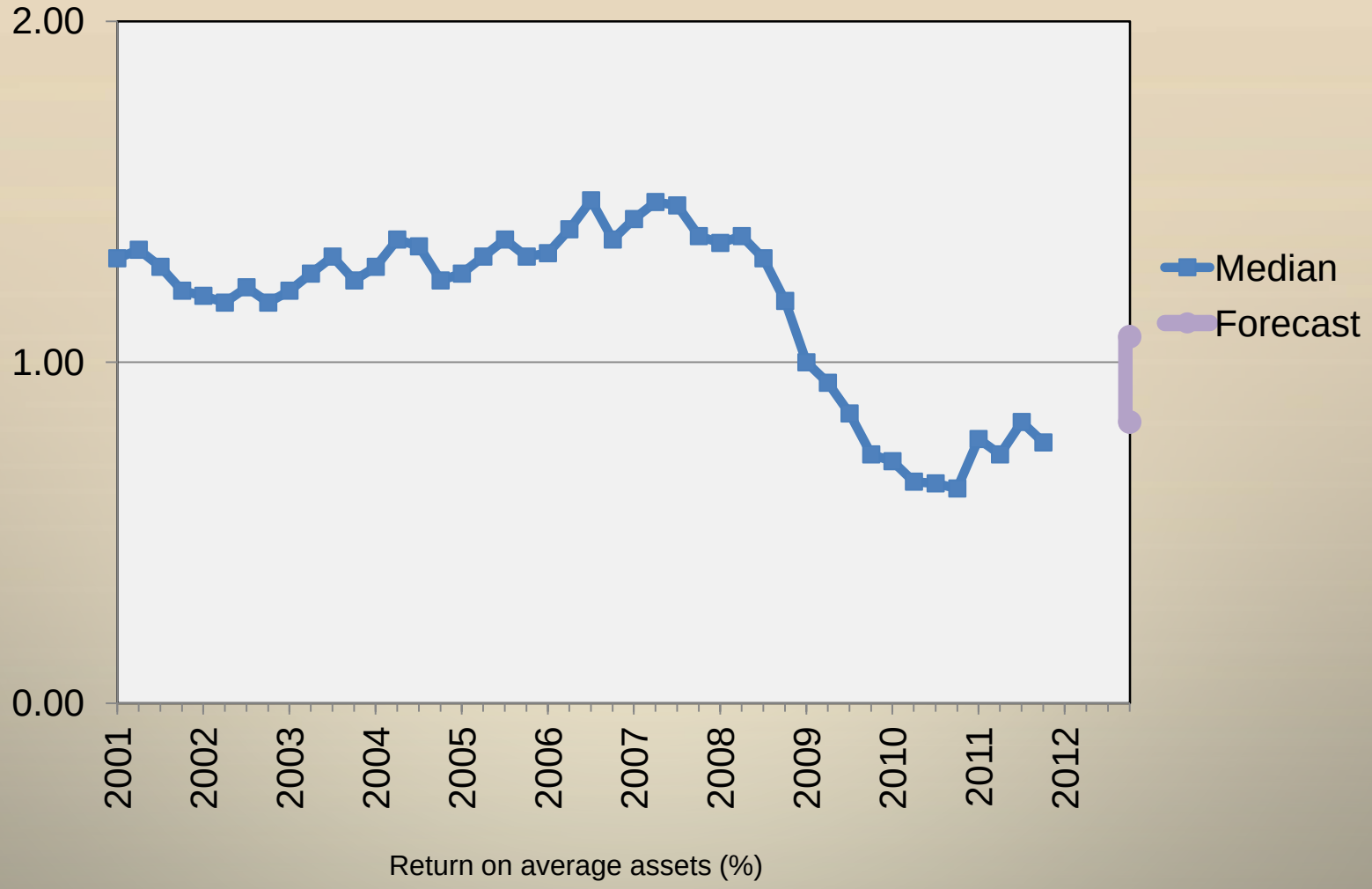


Net Loan Growth (Y-to-Y)

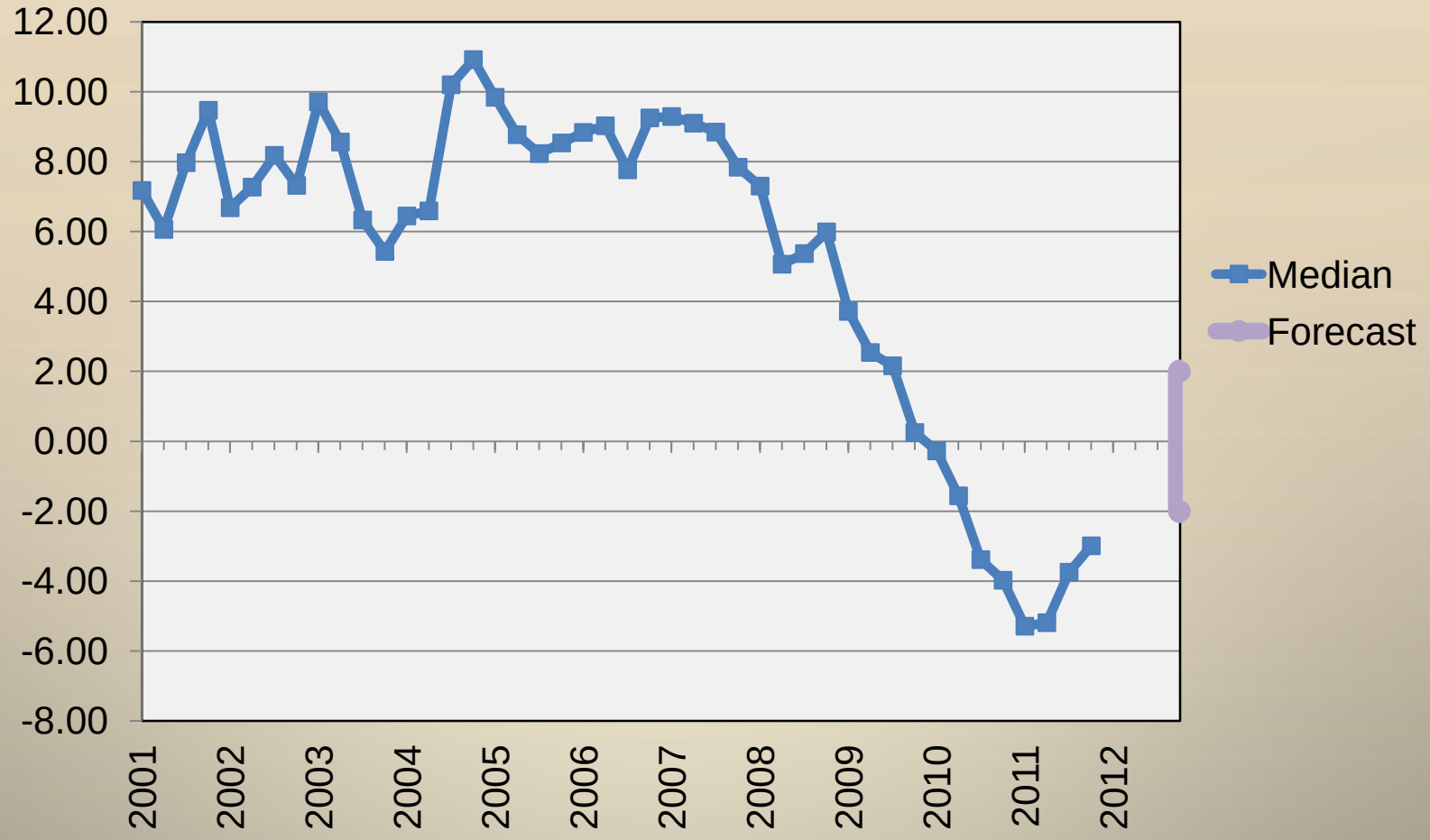


Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

Profitability Forecast
Montana Bank Median

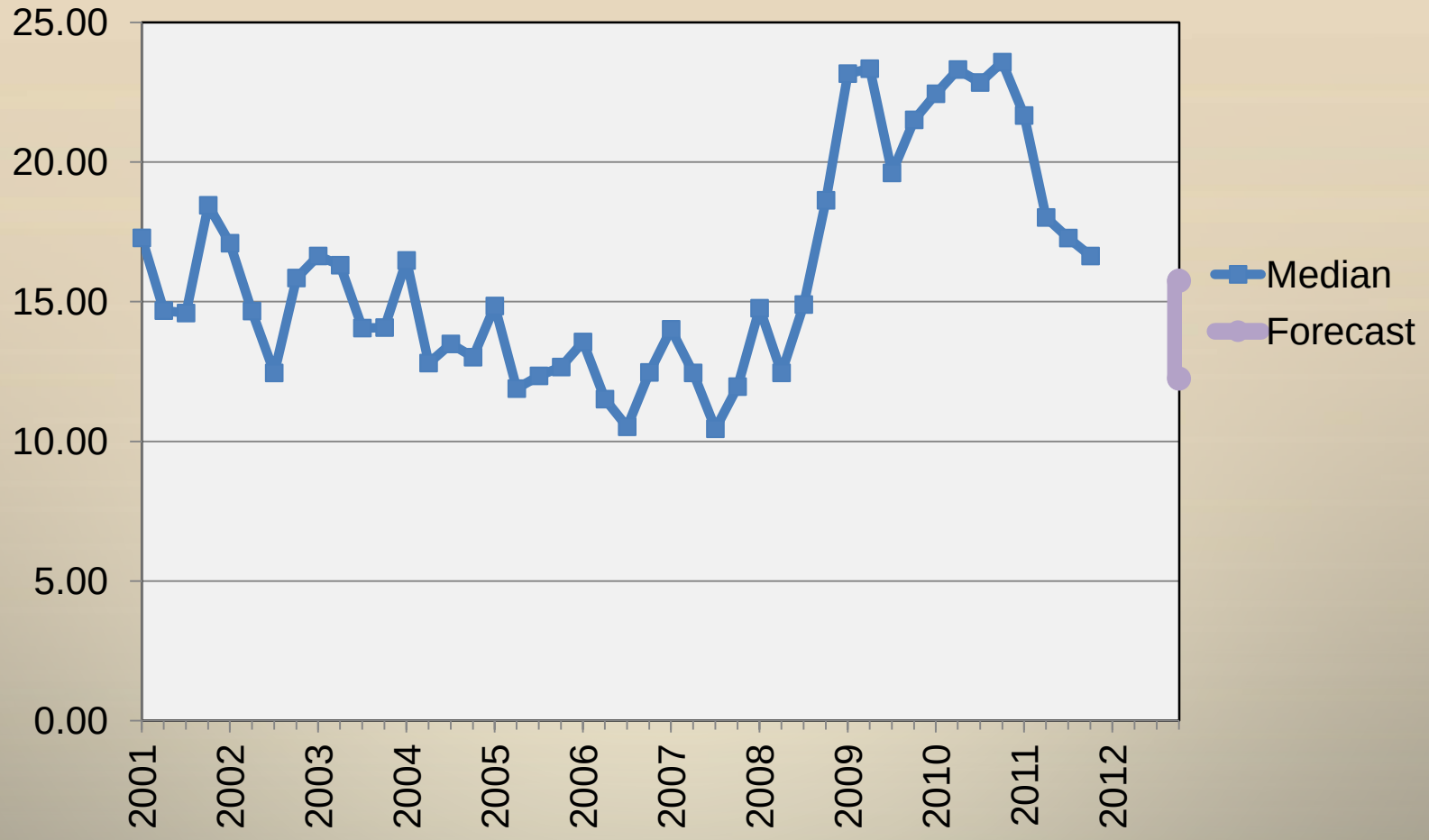


Year-over-Year Loan Growth Forecast
Montana Bank Median



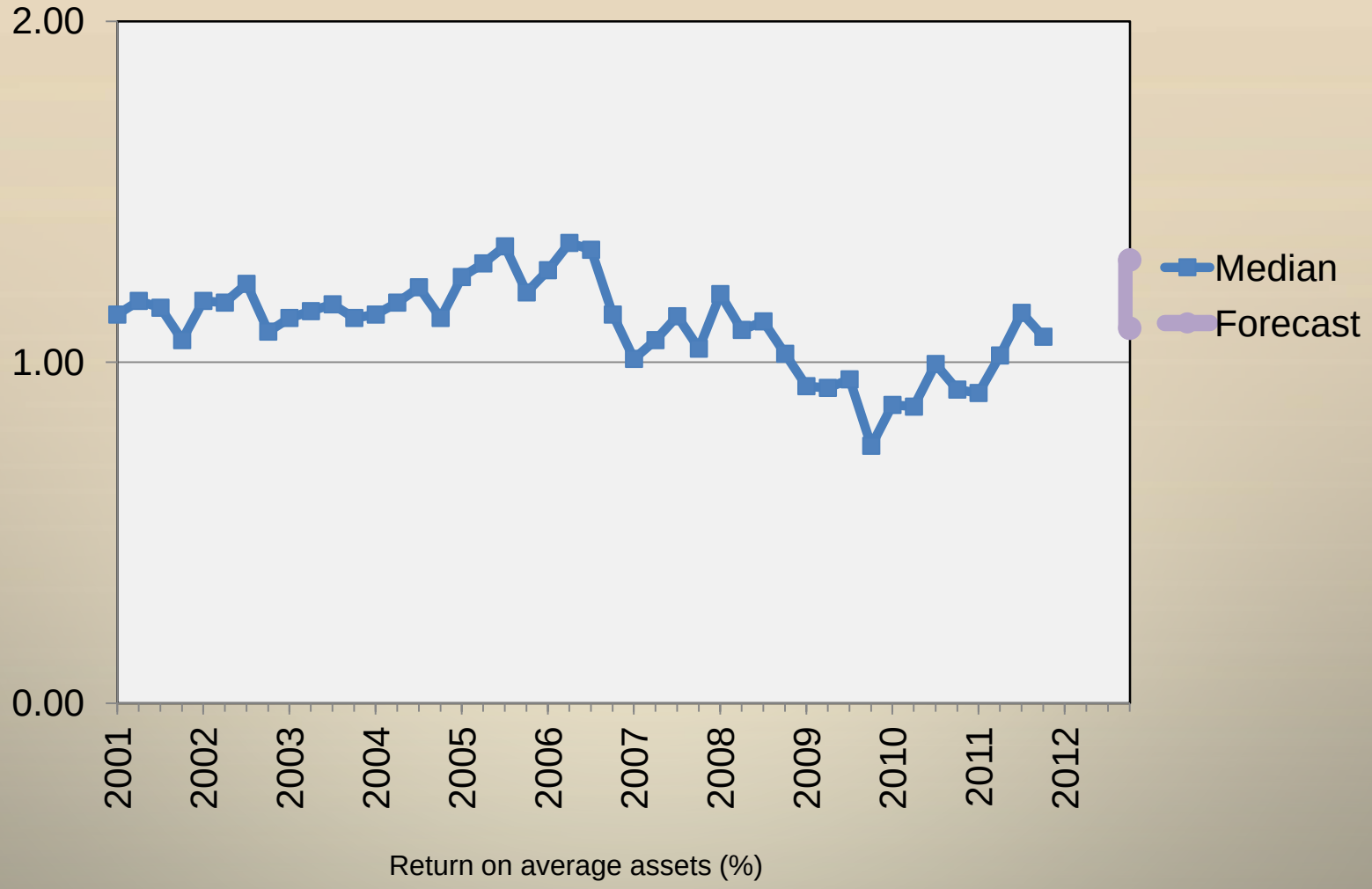
Net loan growth (%) (over last 4 quarters)

Overall Asset Quality Forecast
Montana Bank Median

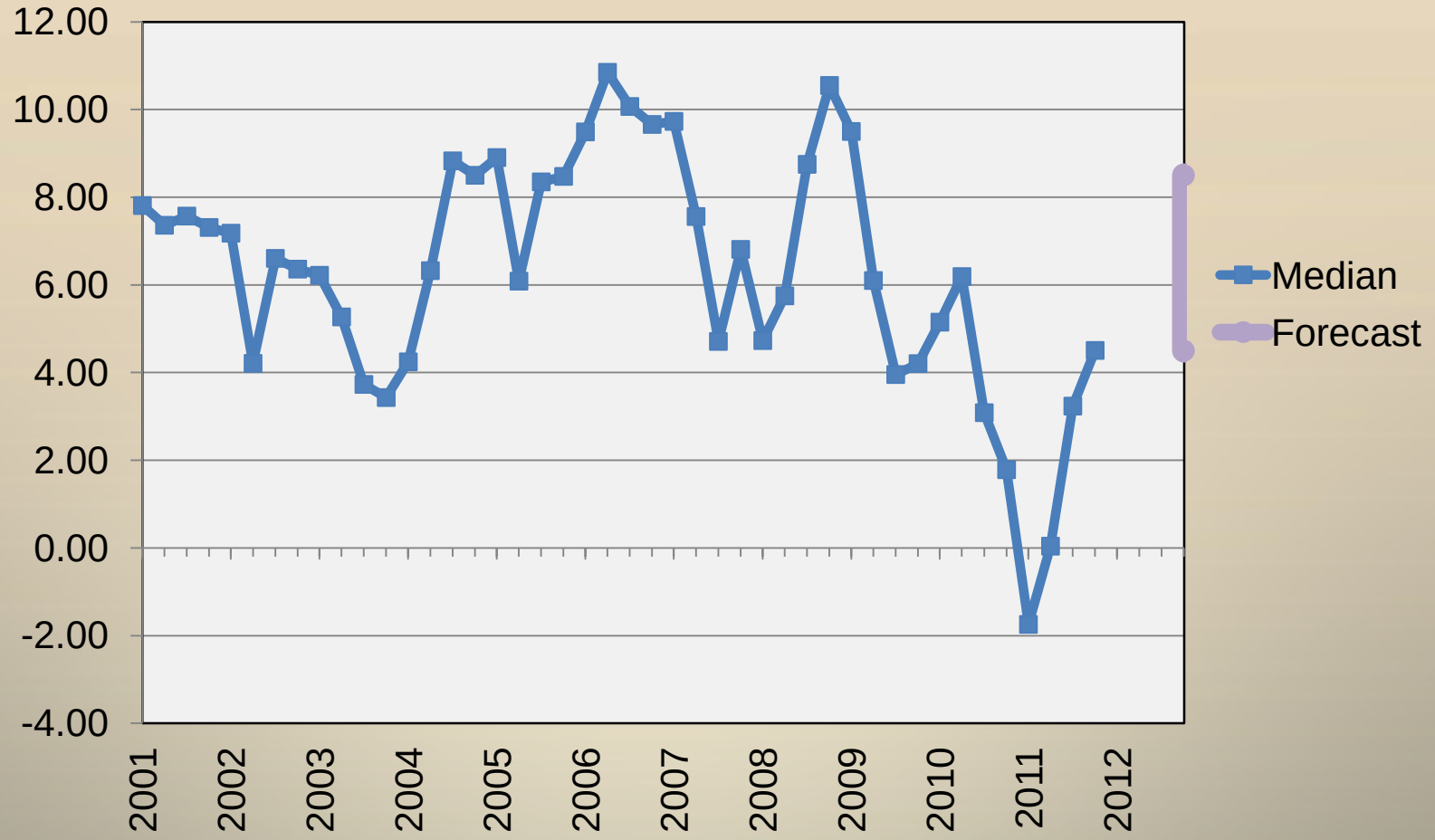


Noncurrent and delinquent loans as a percent of capital and allowances

Profitability Forecast
North Dakota Bank Median

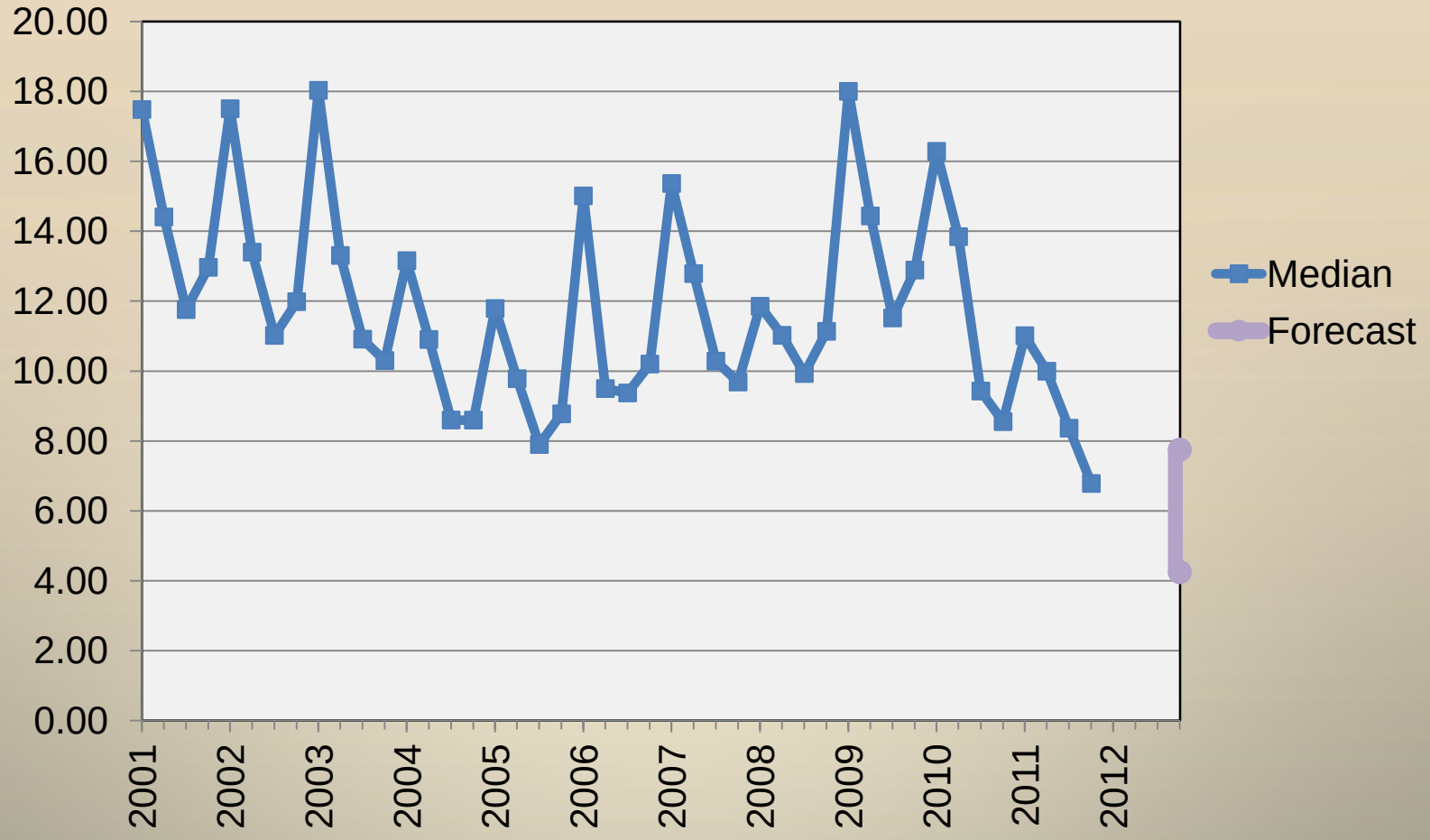


Year-over-Year Loan Growth Forecast
North Dakota Bank Median



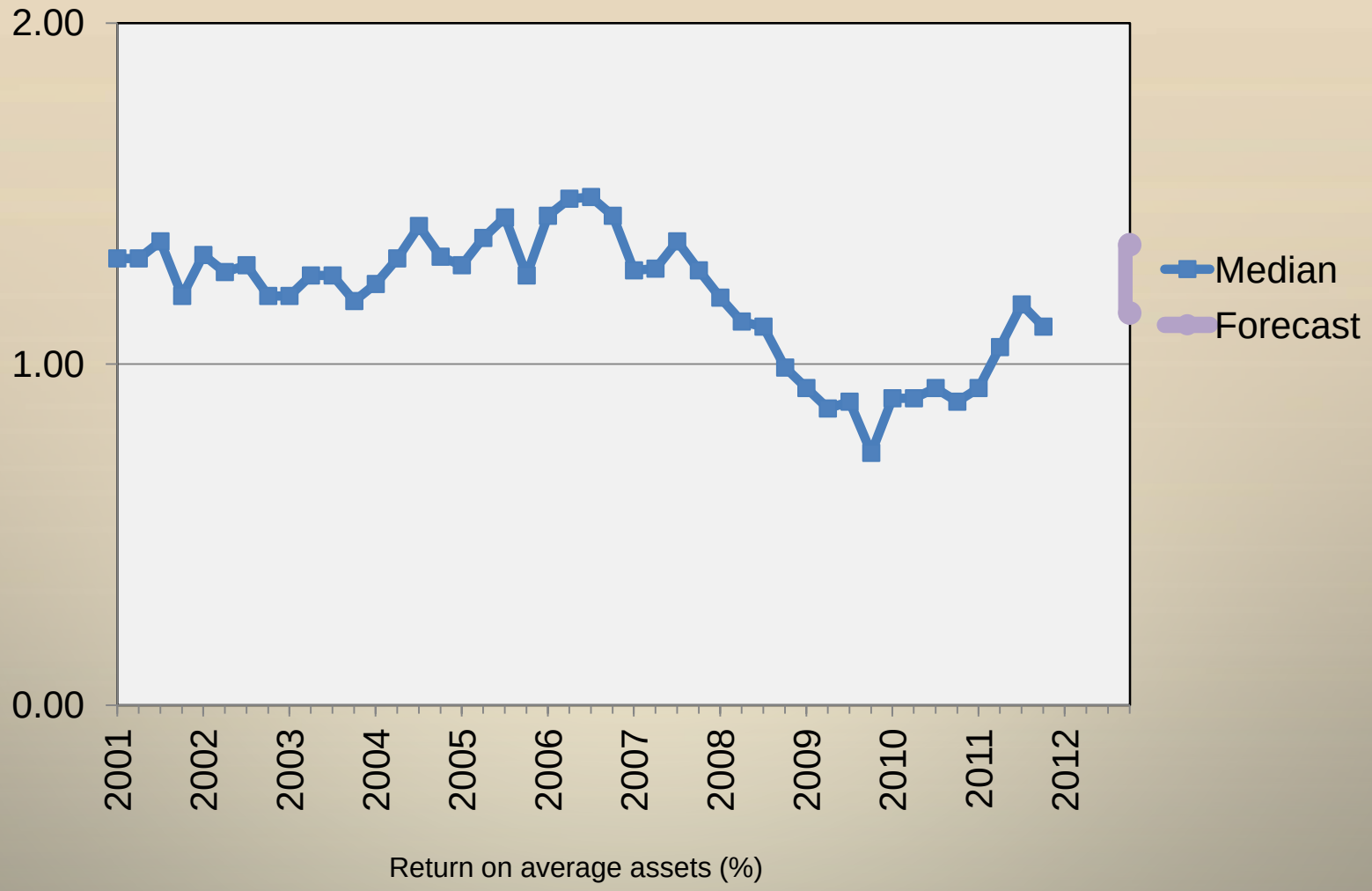
Net loan growth (%) (over last 4 quarters)

Overall Asset Quality Forecast
North Dakota Bank Median

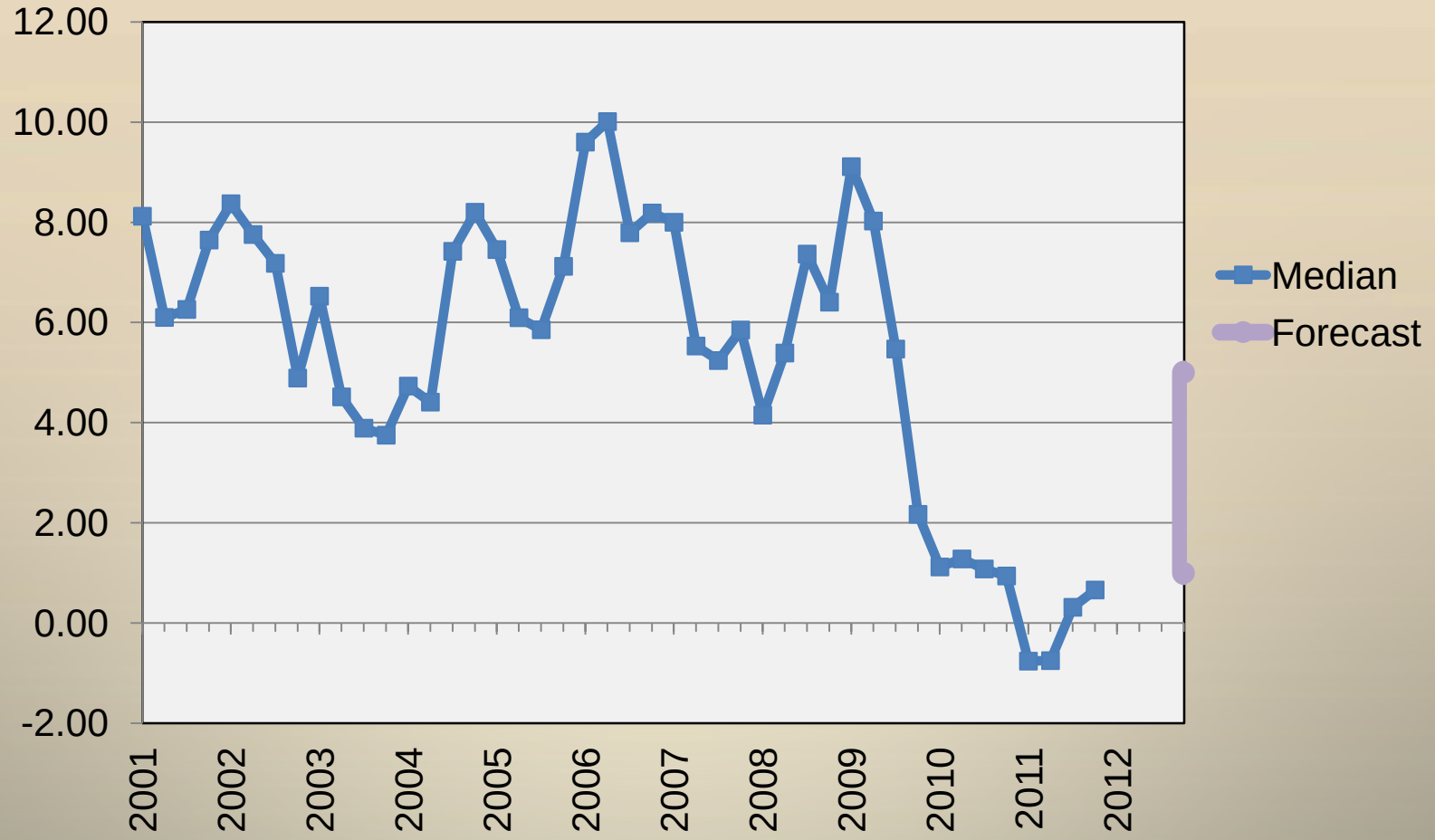


Noncurrent and delinquent loans as a percent of capital and allowances

Profitability Forecast
South Dakota Bank Median

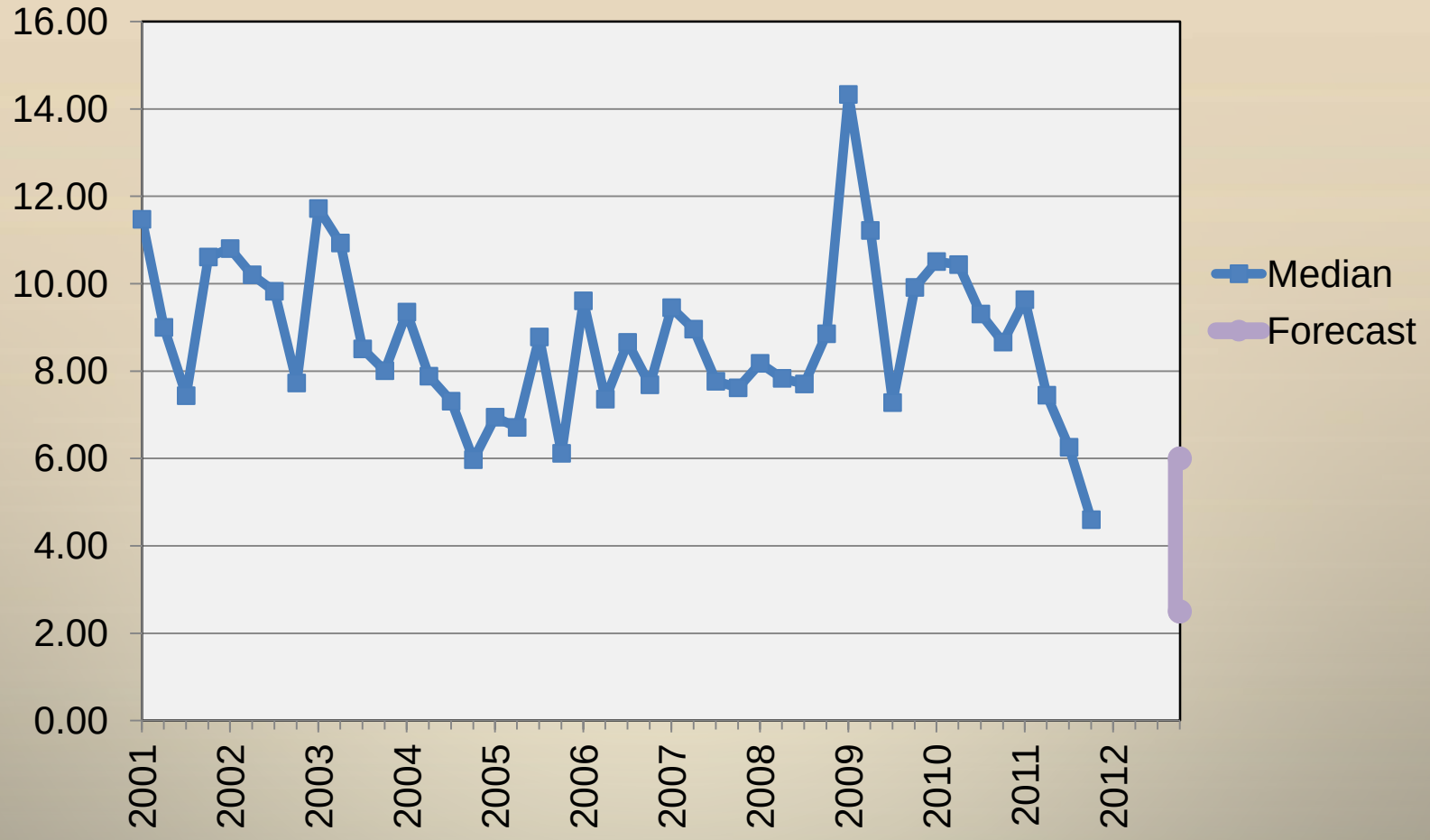


Year-over-Year Loan Growth Forecast
South Dakota Bank Median



Net loan growth (%) (over last 4 quarters)

Overall Asset Quality Forecast
South Dakota Bank Median



Noncurrent and delinquent loans as a percent of capital and allowances