



THE FEDERAL RESERVE BANK *of* MINNEAPOLIS

# Banking Conditions in Ninth District States

Ron Feldman  
Senior Vice President  
Federal Reserve Bank of  
Minneapolis





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# Introduction

- The Federal Reserve Ninth District supervises 83 state member banks and 573 bank holding companies
  - Safety and Soundness
  - Consumer Compliance and Community Reinvestment Act



# Main Points

- Banking conditions remain historically weak
  - Asset quality, earnings, and liquidity
- Banking conditions are no longer getting worse and have improved in some ways
  - Asset quality has begun to stabilize
  - Average profitability has stopped falling
  - Liquidity is stronger
- Conditions in 2011 should improve, although the pace of recovery could be quite slow
  - Factors above point to recovery
  - Weak real estate and loan growth may temper recovery
  - Remain focused on areas of concentration



# Order of Discussion

- Key background on Ninth District banks
- Data on bank conditions demonstrating stabilization/improvement
- Forecast for 2011



# Demographics of Ninth District Banks

	MN	ND	SD	MT	WI	MI
<b>Size</b>						
>\$1 Billion	5 (1%)	4 (4%)	6 (8%)	4 (6%)	0 (0%)	0 (0%)
\$500 Million to \$1 Billion	12 (3%)	6 (7%)	5 (6%)	3 (4%)	4 (7%)	0 (0%)
\$100 Million to \$500 Million	142 (37%)	27 (30%)	22 (28%)	27 (39%)	28 (48%)	13 (62%)
<\$100 Million	221 (58%)	53 (59%)	45 (58%)	36 (51%)	26 (45%)	8 (38%)
<b>Locale (%)</b>						
Metro	42%	20%	24%	21%	34%	0%
Rural	58%	80%	76%	79%	66%	100%
<b>Business Focus</b>						
Agricultural (>25% of Loans)	40%	78%	76%	46%	22%	0%
Commercial Real Estate (FR BOG definition)	33%	37%	33%	36%	41%	33%



# Operations of Ninth District Banks

Bank Medians	MN	ND	SD	MT	WI	MI
Assets (% of assets)						
Loans	64%	62%	63%	59%	65%	60%
Federally guaranteed securities	10%	11%	14%	14%	10%	7%
Other securities	3%	4%	6%	2%	9%	17%
Cash, repos, and deposits with the Fed	11%	10%	8%	13%	7%	9%
Other (includes real estate, intangibles, subsidiary investments, trading assets, etc.)	5%	4%	6%	7%	6%	5%
Liabilities (% of liabilities)						
Insured deposits	72%	72%	71%	71%	72%	69%
Uninsured deposits	23%	24%	24%	22%	23%	25%
Other	3%	3%	4%	3%	4%	5%
Capital						
Risk Based Capital Ratio	14.1%	13.2%	15.5%	15.6%	15.0%	17.6%
Equity to Assets	9.7%	9.0%	10.7%	9.9%	9.8%	10.8%
Net Loan Growth (last 4 qtrs)	-2.90%	1.78%	0.94%	-3.98%	-1.47%	-0.82%
Total Assets Growth (last 4 qtrs)	4.8%	4.2%	4.8%	5.2%	4.9%	4.3%



# Overall Condition of Ninth District Banks

	MN	ND	SD	MT	District
Ratings (%)					
Unsatisfactory	36%	18%	24%	46%	33%
Satisfactory	64%	82%	76%	54%	67%
Number of failures 2010	8	0	0	0	8

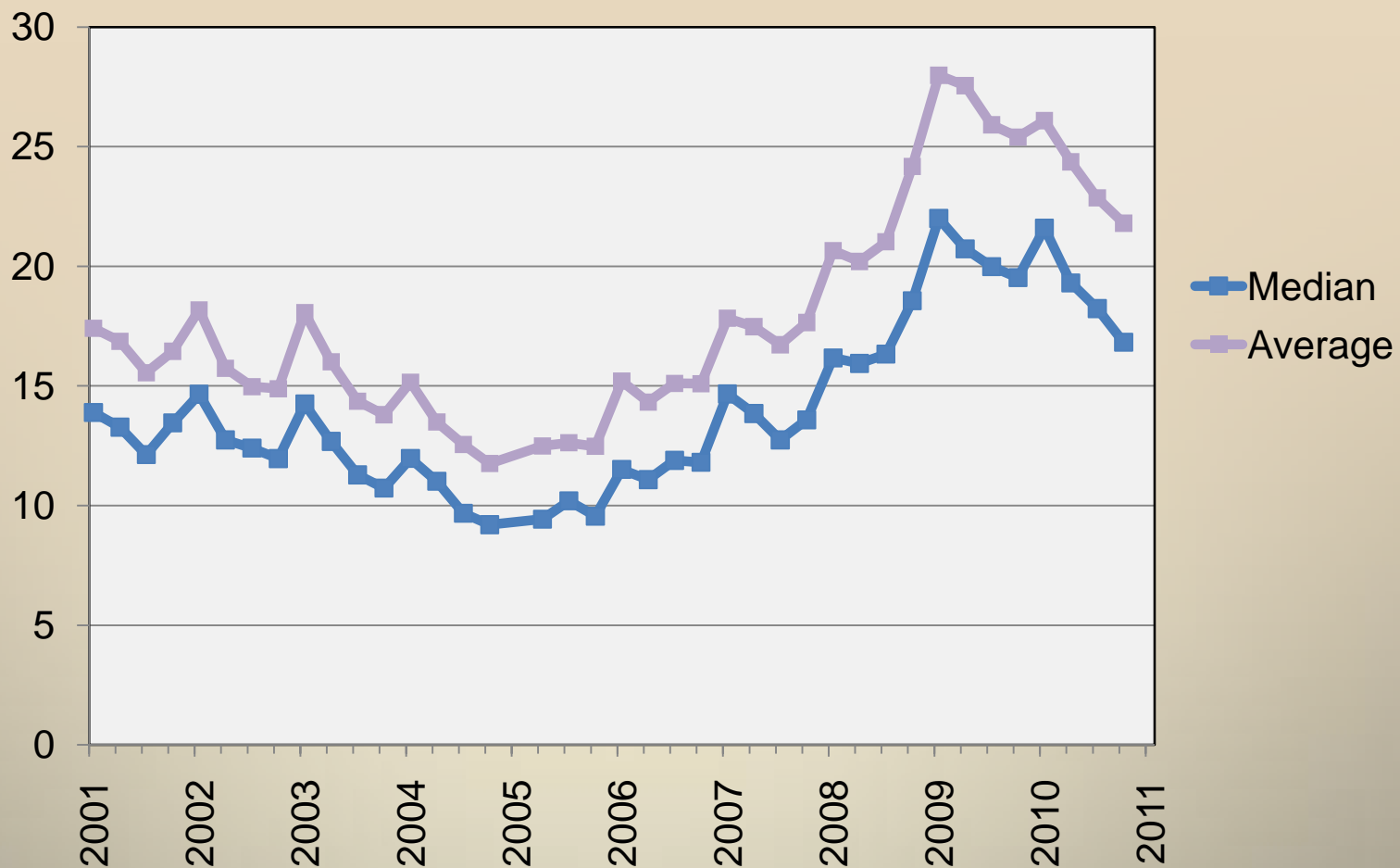


# Main Points

- Banking conditions remain historically weak
  - Asset quality, earnings, and liquidity
- Banking conditions are no longer getting worse and have improved in some ways
  - Asset quality has begun to stabilize
  - Average profitability has leveled off
  - Liquidity is stronger
- Conditions in 2011 should improve, although the pace of recovery could be quite slow



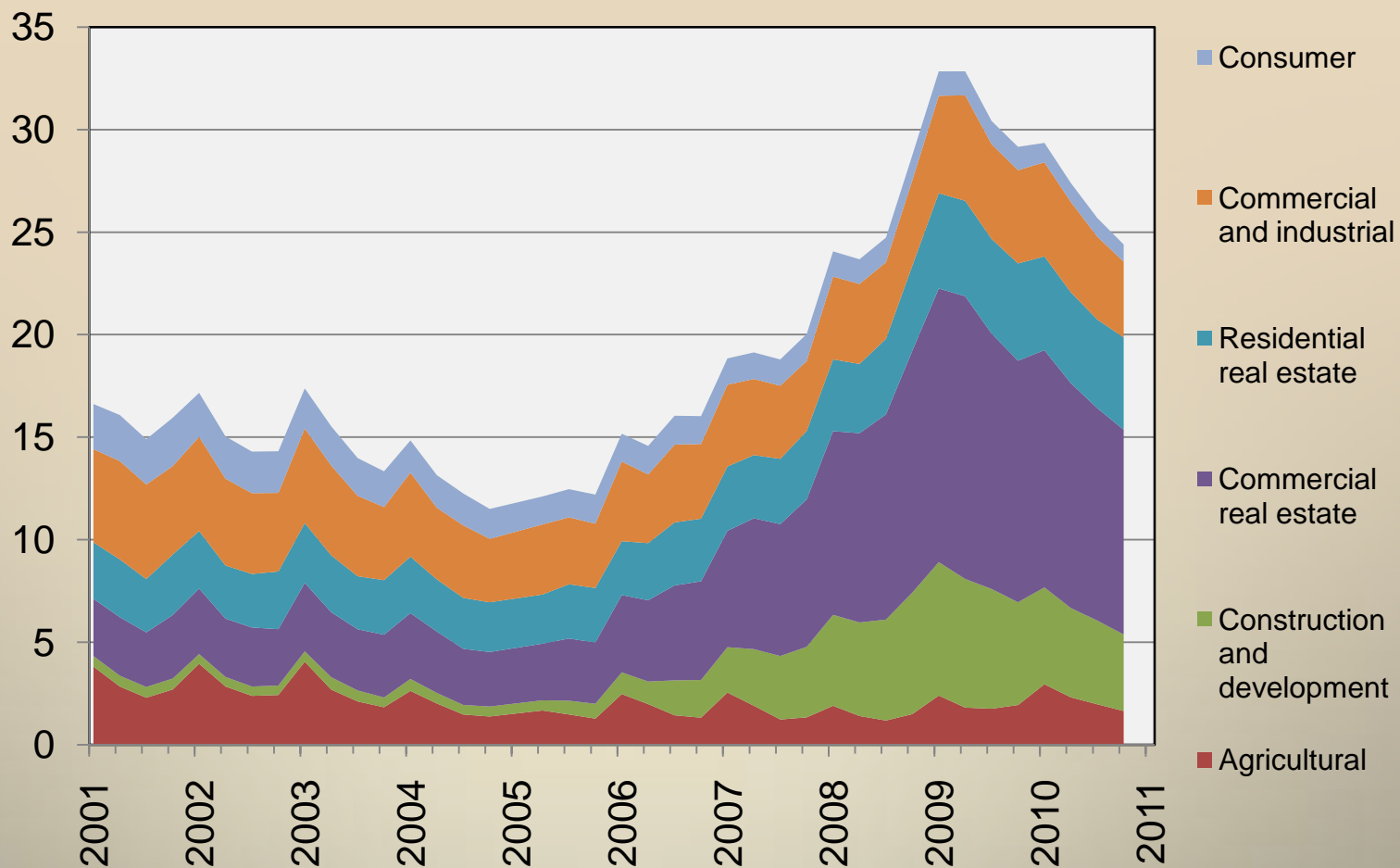
## Asset quality is weak but improving



Noncurrent and delinquent loans as a percent of capital and allowance



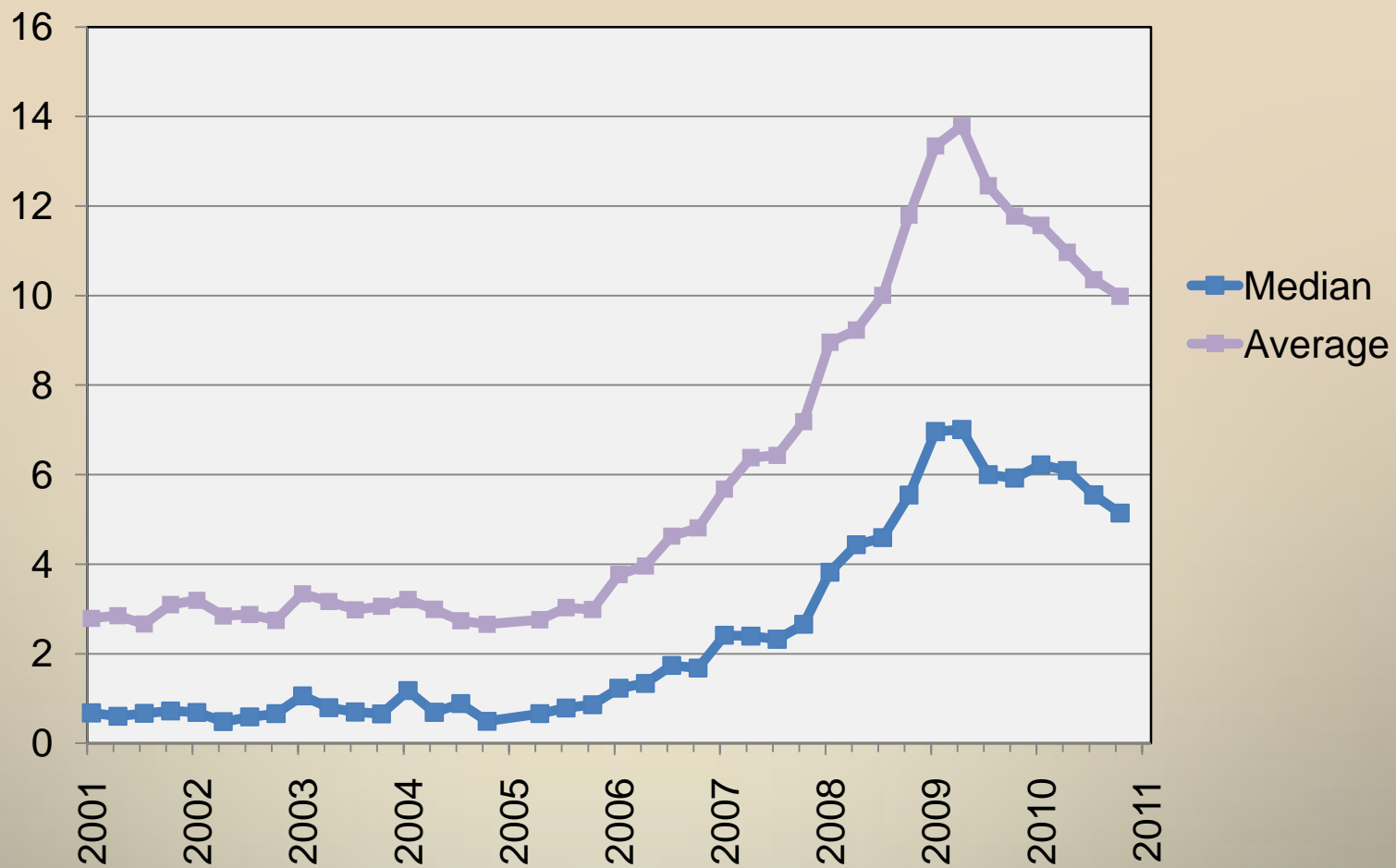
## Real estate related loans drive asset quality



Noncurrent and delinquent loans by type as a percent of capital and allowance (district averages)



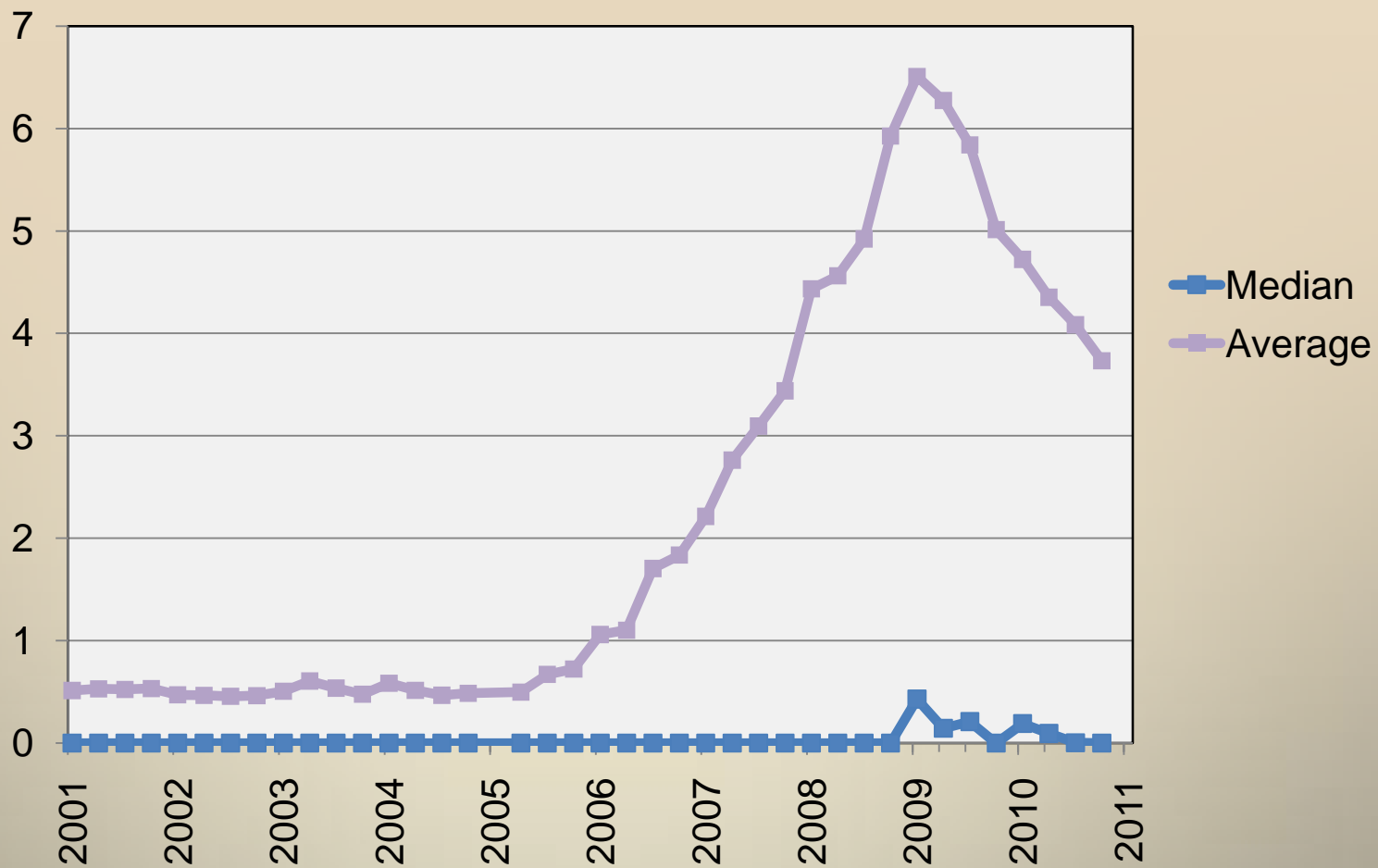
## Commercial Real Estate Asset Quality



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



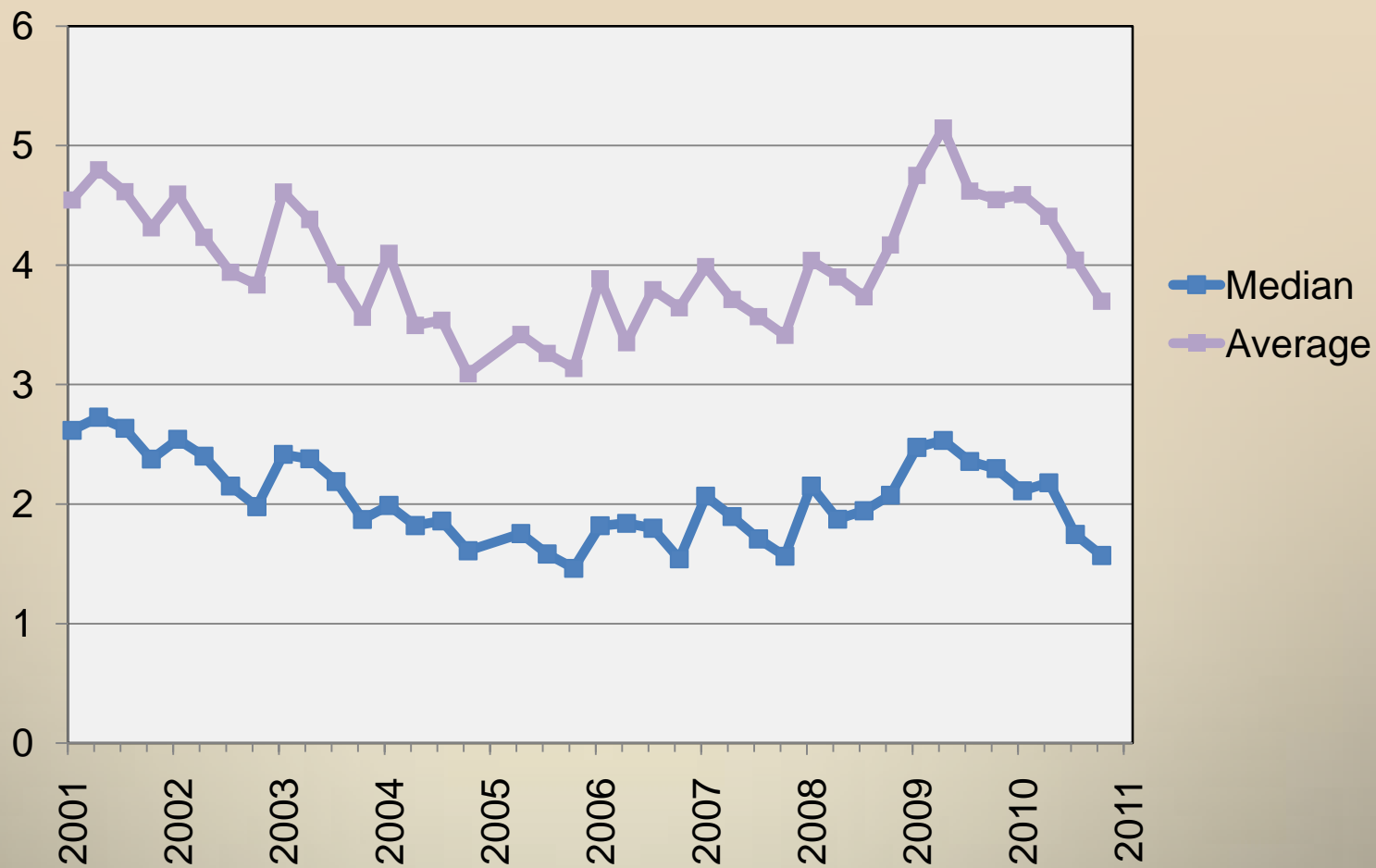
## Construction and Development Asset Quality



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



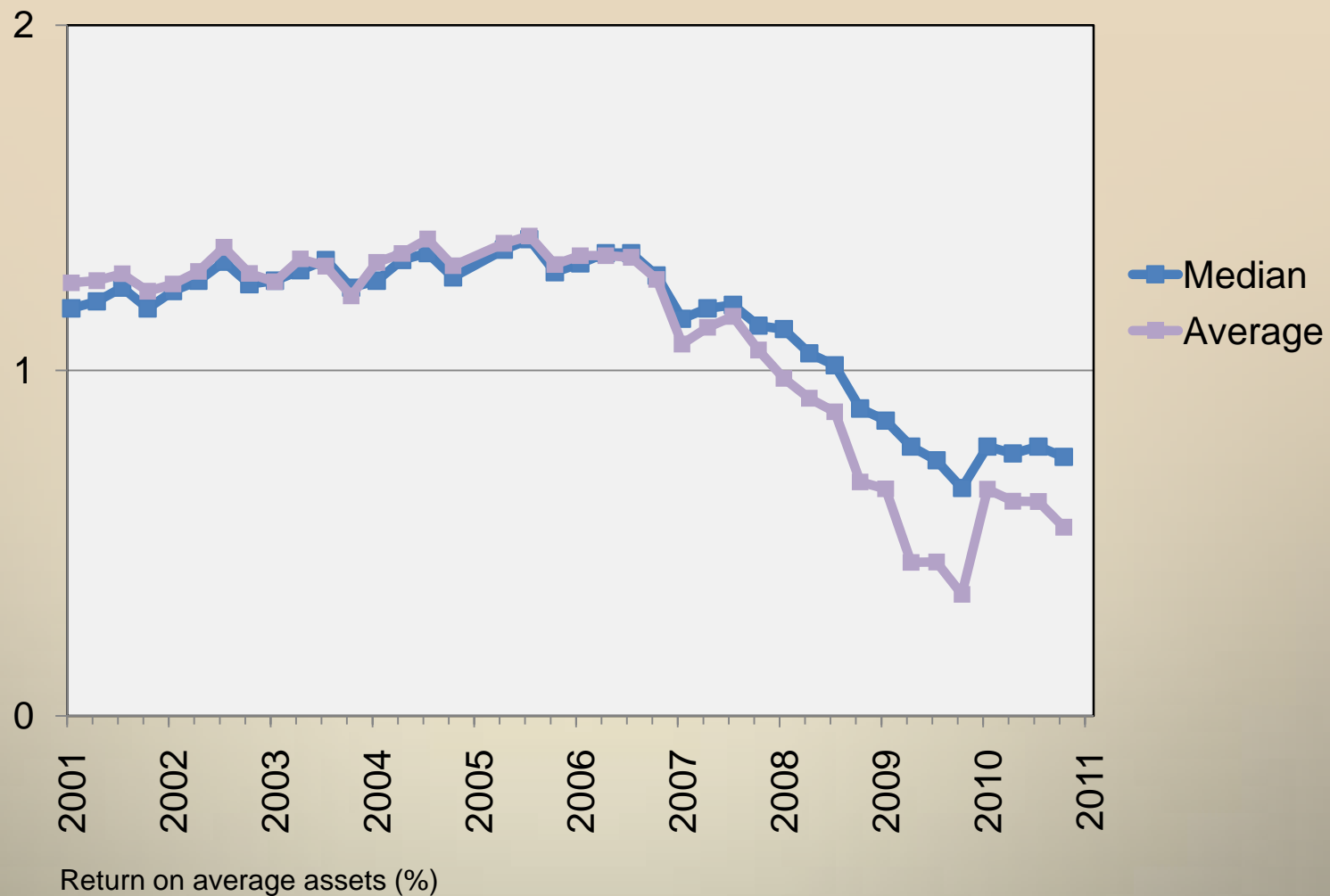
## Commercial and Industrial Asset Quality



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

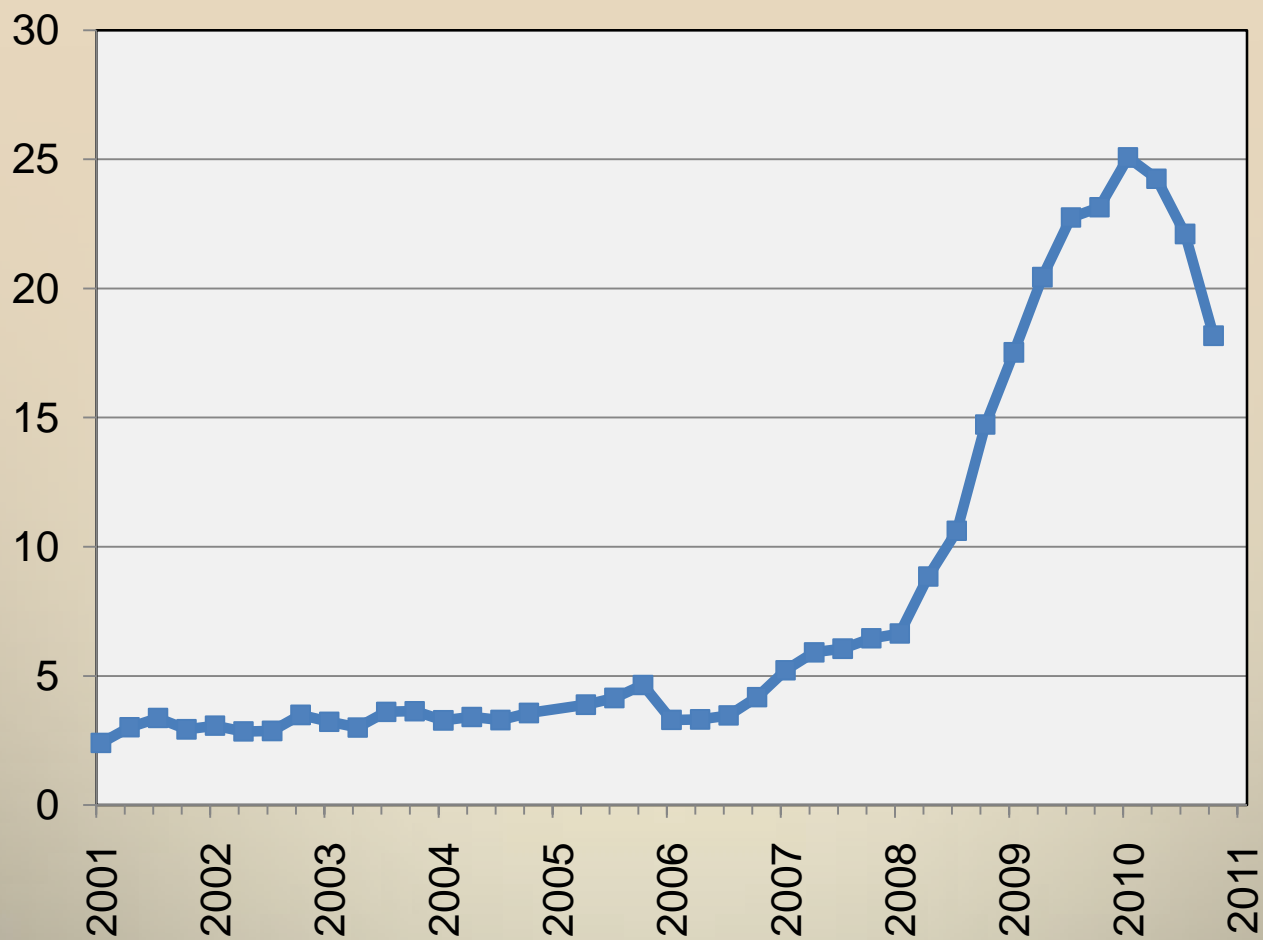


## Earnings are weak but no longer declining





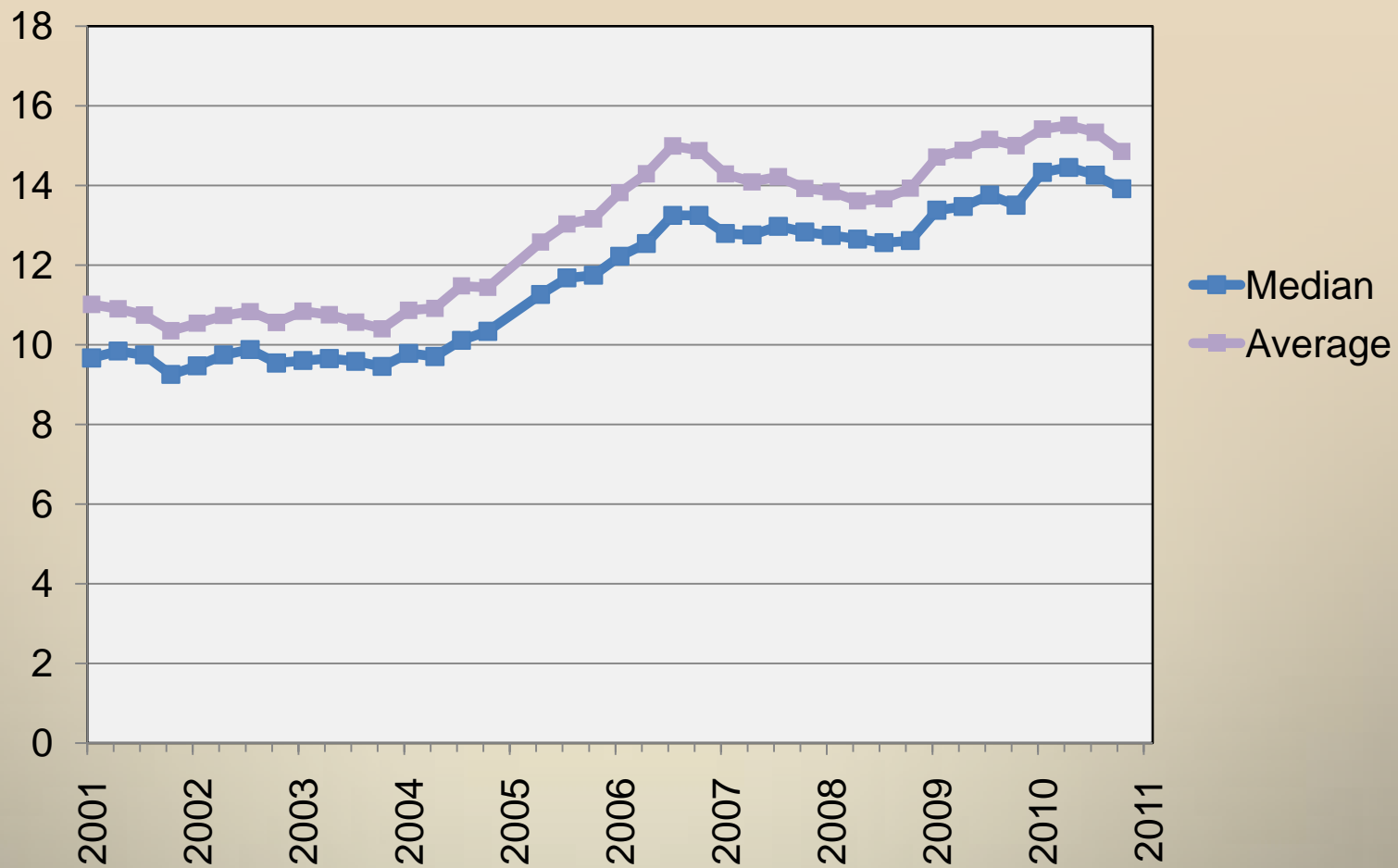
## Fewer institutions are losing money



Percent of institutions with negative earnings over last four quarters



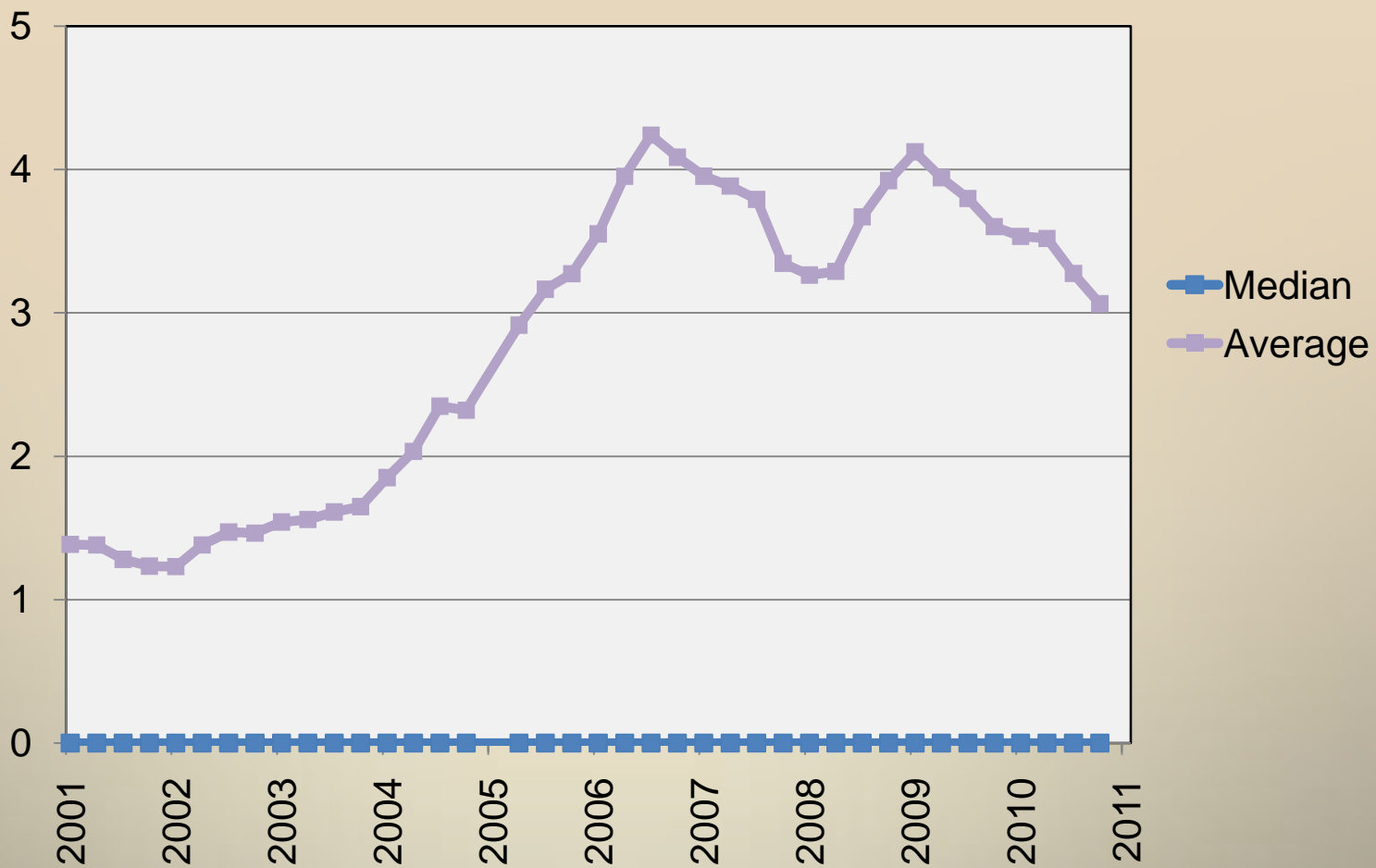
## Use of noncore funding remains high but is declining



Noncore funding as a percent of total liabilities



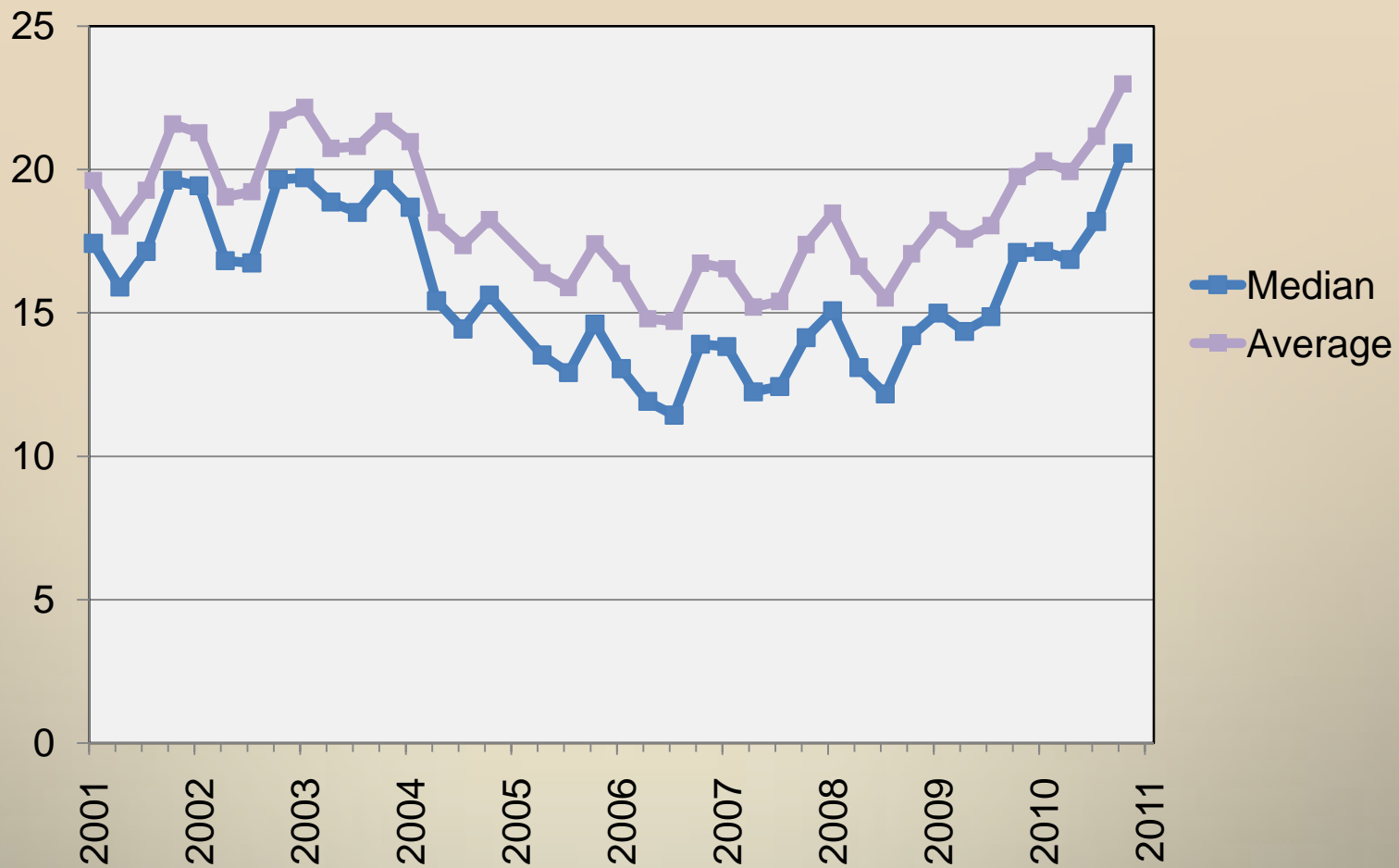
## Use of brokered deposits is declining



Brokered deposits as a percent of total liabilities



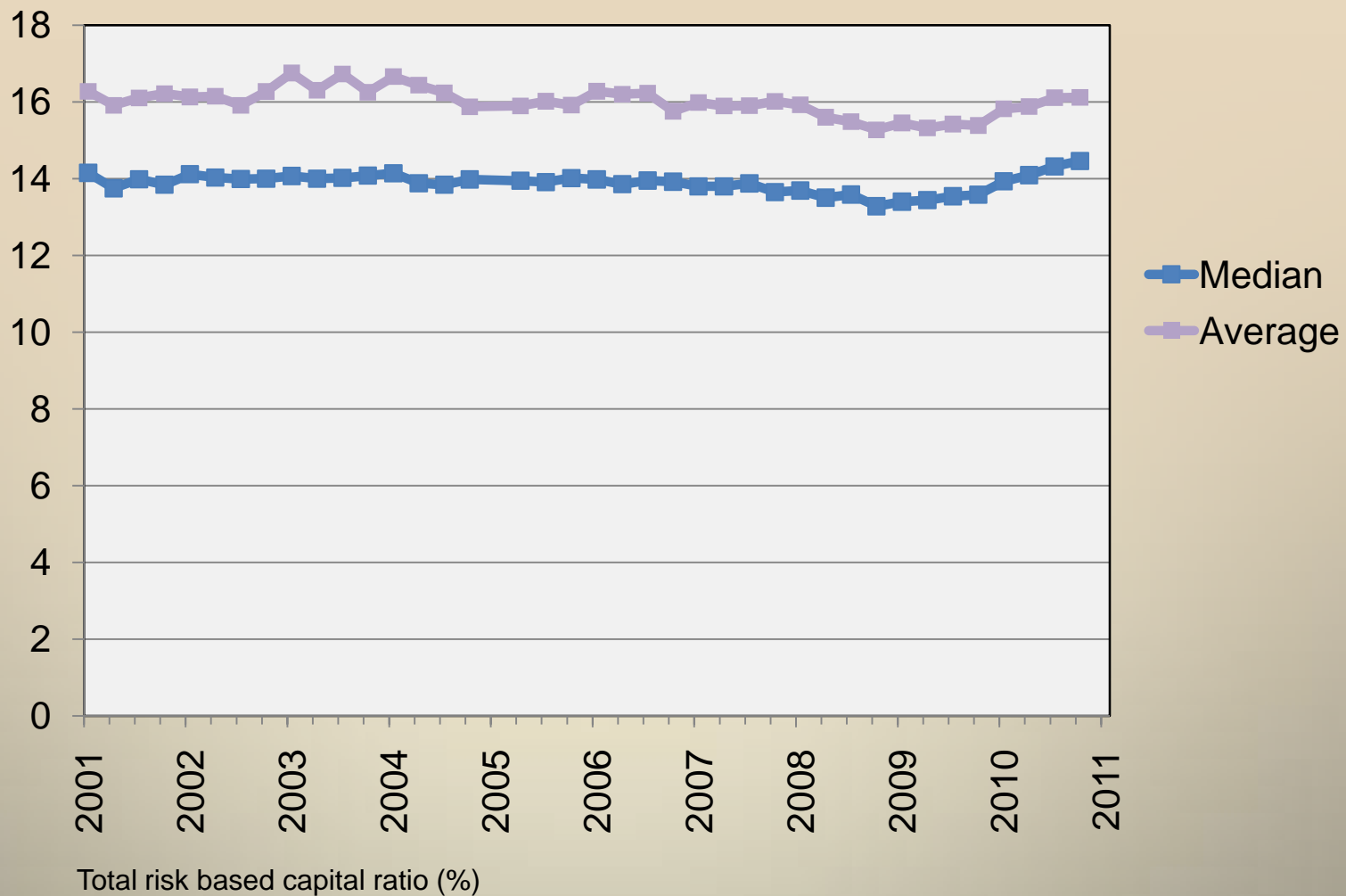
## Bank asset liquidity has returned to pre-crisis levels



Liquid assets as a percent of total assets



## Capital levels have improved a bit recently



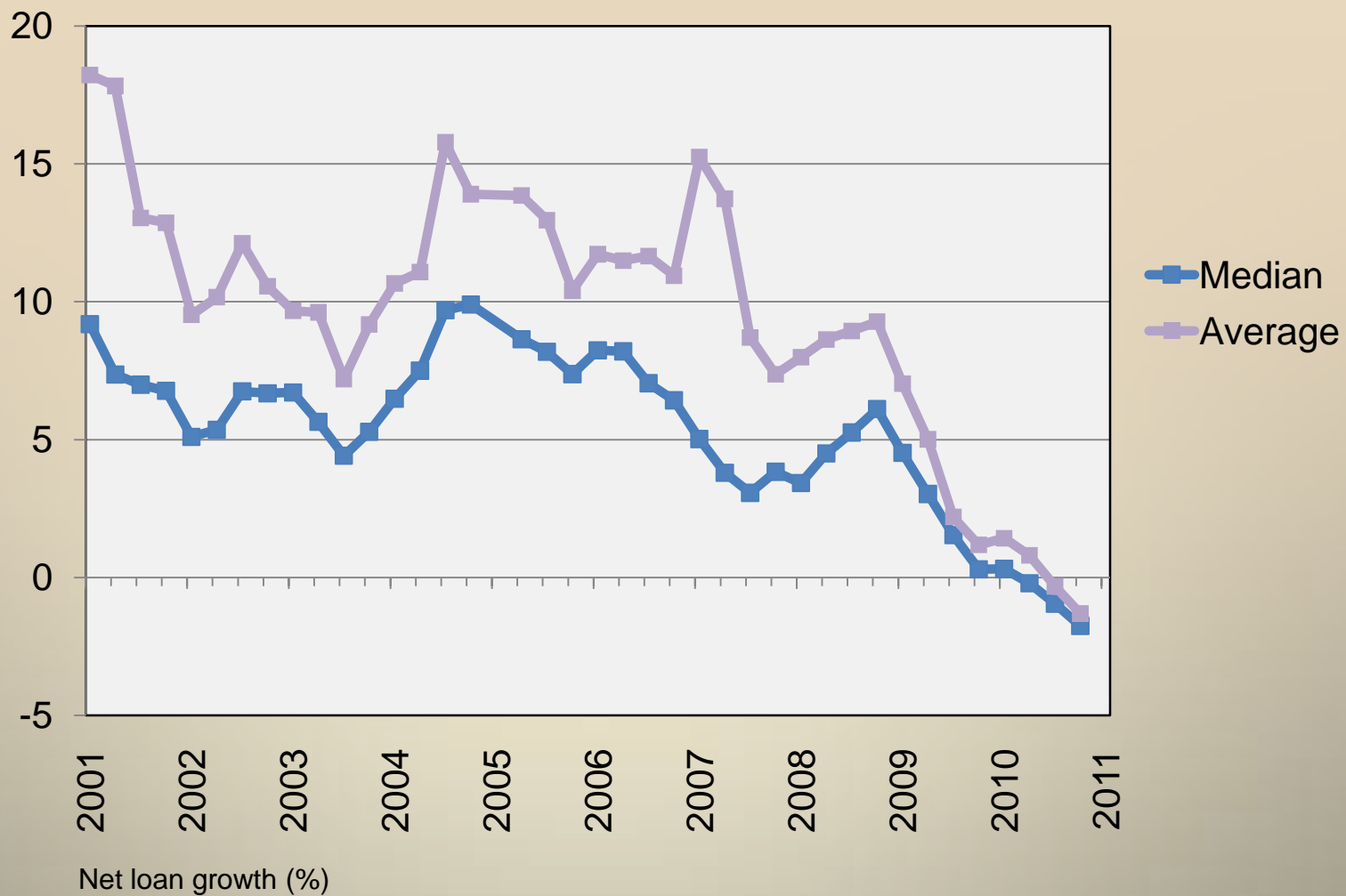


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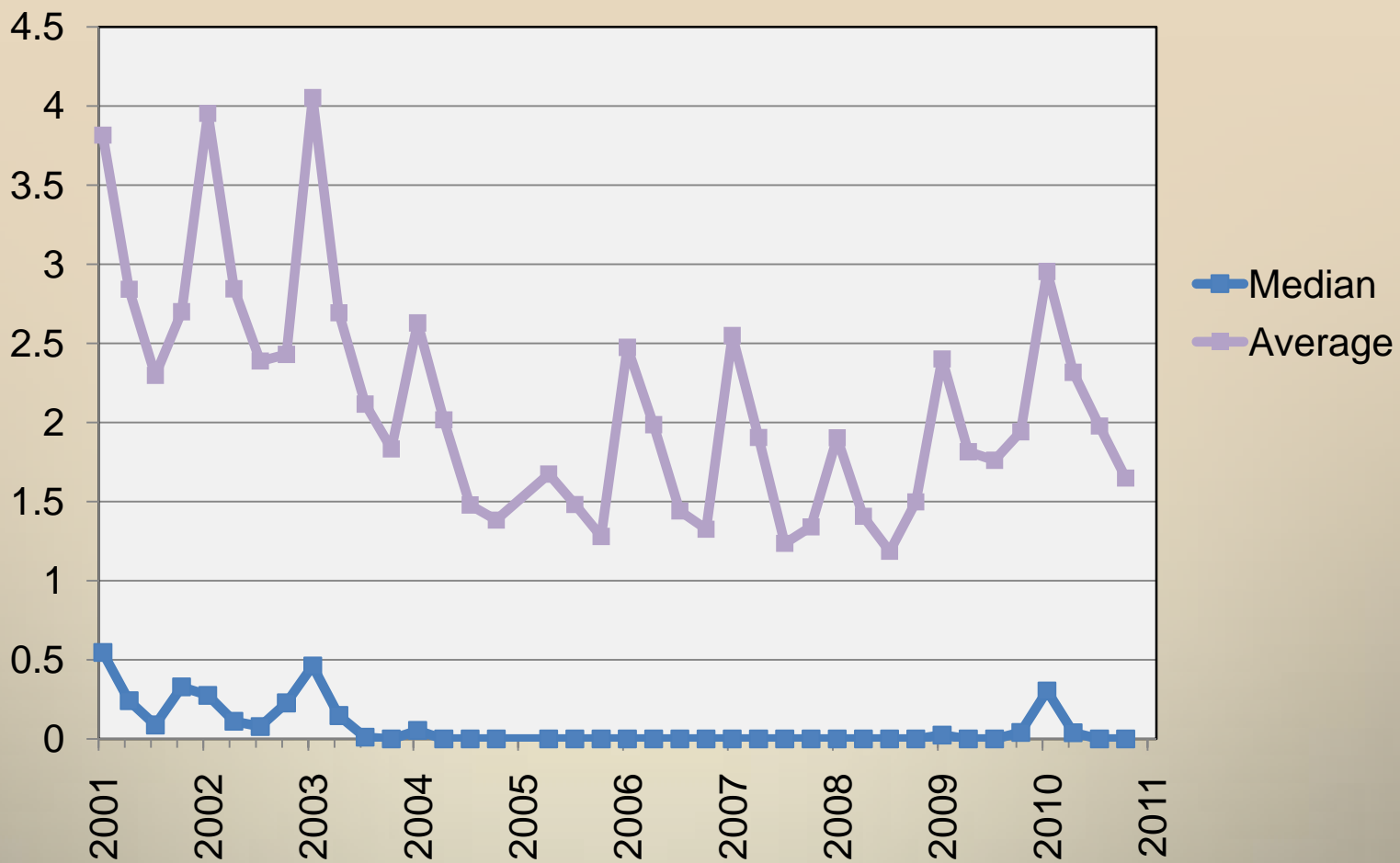


## Banks loans shrank in 2010





## Agricultural Asset Quality



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