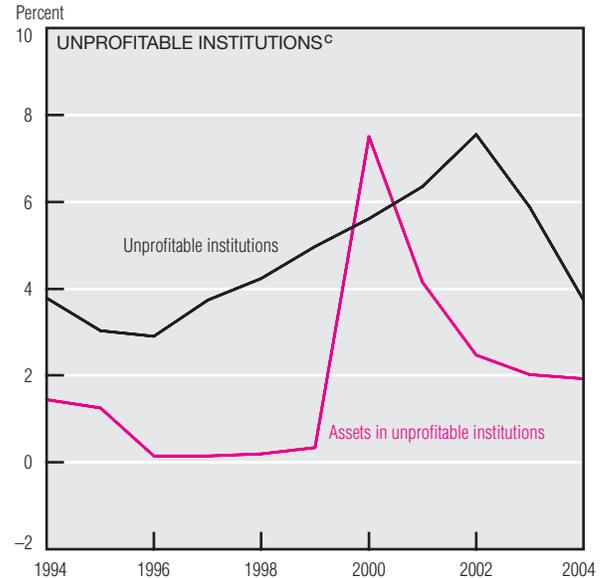
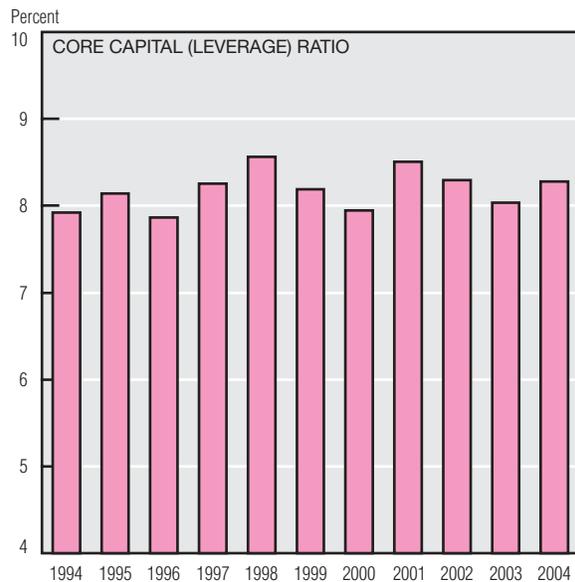
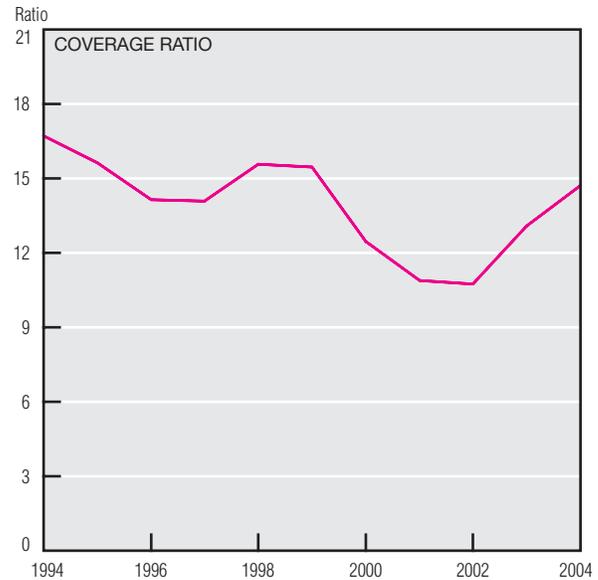
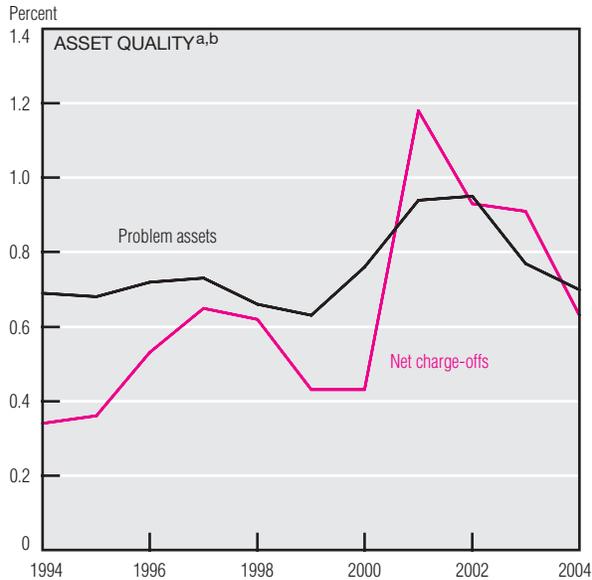


Fourth District Banking Conditions



NOTE: All 2004 data are for the first quarter.

a. Problem assets are shown as a percent of total assets, net charge-offs as a percent of total loans.

b. For net charge-offs, the 2004 observation is annualized on the basis of first-quarter data.

c. An institution is considered to be unprofitable if its return on assets is negative.

SOURCE: Author's calculations from Federal Financial Institutions Examination Council, *Quarterly Bank Reports on Condition and Income*.

All performance indicators point to a strengthening banking sector in the Fourth Federal Reserve District. Asset quality showed continued signs of improvement in 2004:1Q. Net charge-offs (losses realized on loans and leases currently in default minus recoveries on previously charged-off loans and leases) fell in the first quarter to 0.63% of total loans. Problem assets (nonperforming loans and repossessed real estate) as a percent of loans and leases fell to 0.70% from 0.77% at the end of 2003. The improvement in asset quality for Fourth

District banks mirrored that of the overall banking industry, in which net charge-offs and nonperforming loans fell to 0.72% of loans and 0.67% of assets, respectively.

Reflecting an industry wide trend of strengthening balance sheets, Fourth District banks held \$14.71 in equity capital and loan loss reserves for every dollar of problem loans, well above the recent low in the coverage ratio of 10.75 at the end of 2002. Improvement in the coverage ratio is due largely to a marked reduction in problem loans and a

slight strengthening of bank capital. Equity capital as a percent of assets (the core capital ratio) for Fourth District banks rose somewhat, from just over 8.0% at the end of 2003 to nearly 8.3% in 2004:1Q.

Improved asset quality in Fourth District banks was also reflected in the decline in the percent of institutions that were unprofitable to 3.7% from nearly 5.9% at the end of 2003. Assets in unprofitable banks declined slightly to 1.93% of banking assets in the Fourth District.