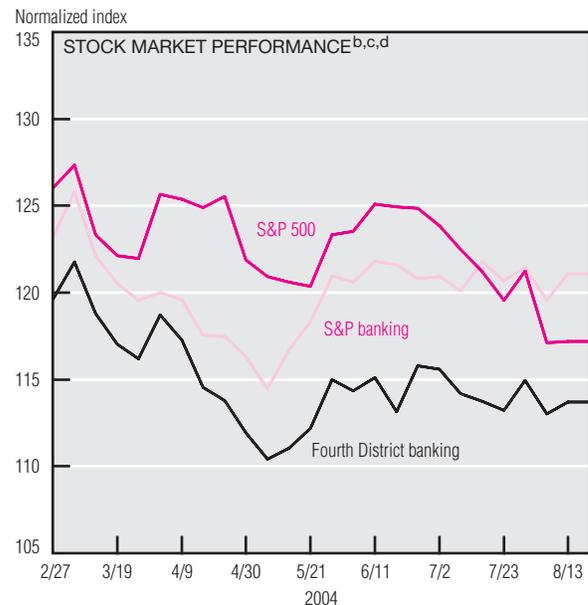
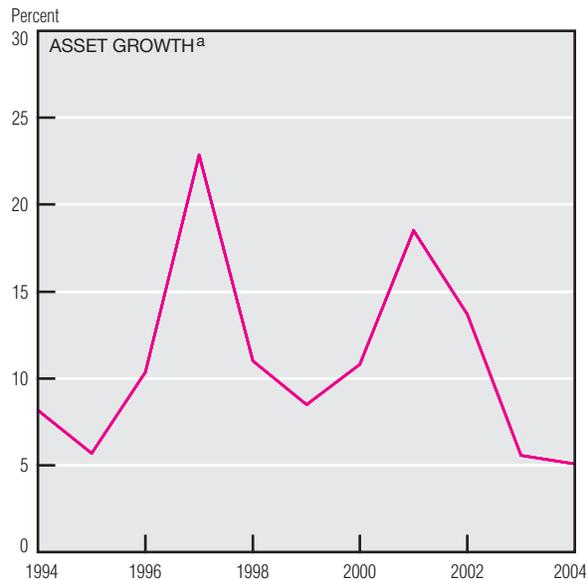
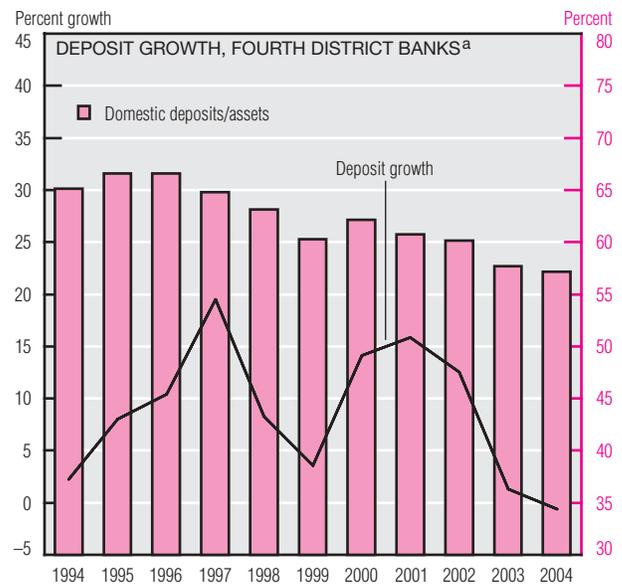
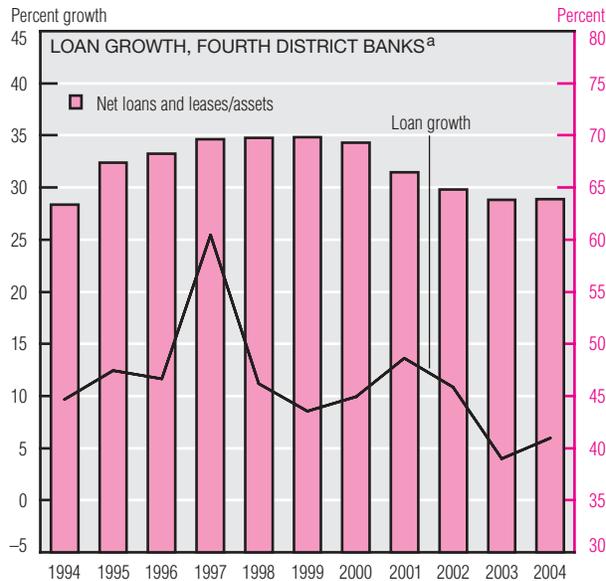


Fourth District Banking Conditions



a. Data for 2004 are as of the end of the first quarter. Growth rates for 2004 are annualized from first-quarter data.

b. Indexes and stock quotes are based on weekly data normalized to 100 on January 3, 2003.

c. The Fourth District Banking Index is a simple average of normalized stock quotes of 17 Fourth District institutions.

d. All dates refer to 2004.

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

Banks are often described as financial intermediaries that finance loans primarily with deposits. The loan portfolio for banks headquartered in the Fourth Federal Reserve District made up 63.9% of assets at the end of 2004:1Q, compared with a loan-to-asset ratio of 50.9% for all FDIC-insured commercial banks. Unlike the broader banking industry, whose loan-to-asset ratios continued a downward trend, Fourth District banks increased the share of assets invested in loans, albeit slightly. This was the first quarter in several years when loans grew more quickly than overall assets.

However, while bank loans increased at an annual rate of nearly 6% during the first quarter of 2004, Fourth District banks' loan portfolio growth remains below the 6.5% growth rate for all FDIC-insured commercial banks.

Domestic deposits are still banks' single most important funding source. Fourth District banks fund more than 57% of their assets with domestic deposits, compared with slightly more than 47% for all FDIC-insured commercial banks. However, asset growth has tended to outstrip deposit growth for the past decade, when Fourth District banks increased

their reliance on Federal Home Loan Bank advances and other non-deposit funding sources. Deposit growth has been declining since the end of 2001; total deposits in Fourth District institutions actually shrank during the first quarter of 2004.

Fourth District banks' stock market performance over the past half year has mirrored bank stocks' general trend. Overall, the performance of the S&P bank stock index and the Fourth District index has been relatively flat since the first week in June, slightly outperforming the broader S&P 500 market index.