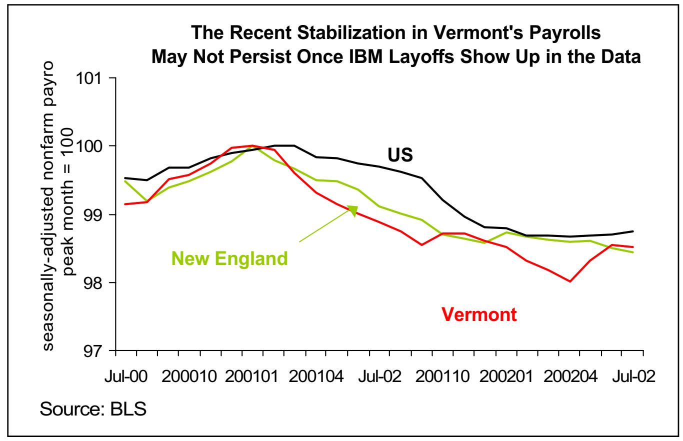
State Profile

WINTER 2002

Vermont

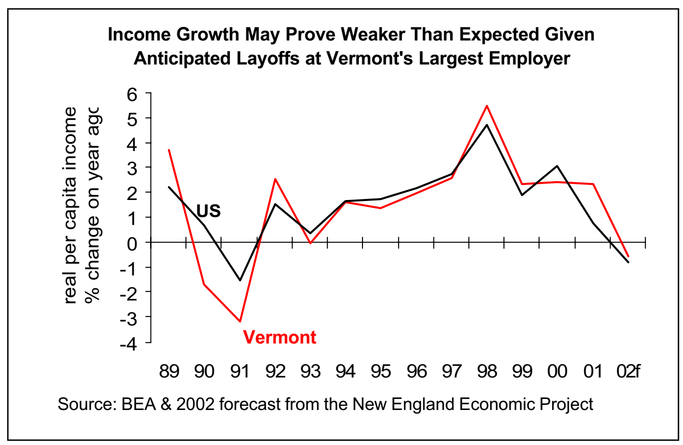
The economic outlook for Vermont is uncertain. The state continues to languish under a slump in US business investment and weak demand for high-end consumer goods and services.

- National business investment, high-end retailing, and tourism—all key drivers of business and consumer sales in the Vermont economy—bore the brunt of this recession.
- At present, economic conditions in Vermont appear stable, but the outlook is clouded.
- The Vermont economy's prospects over the near-term will depend on a return to strength in the national economy, including renewed corporate profitability and expanding business investment.
- Payrolls apparently troughed in April (see top chart), but expected sizeable layoffs at IBM later this year (and resulting negative fallout on employment at other firms) suggest the April bottom may be temporary.
- Household income trends may deteriorate given continued weakness in the state's labor market and/or continued malaise in the national economy (see middle chart).
- Vermont's economy is the second most dependent on manufacturing employment in New England. Nationally, the manufacturing sector preceded the nation into recession, but has recently shown signs of recovery.
- Vermont's non-technology factory sector may benefit from the recent recovery in U.S. manufacturing. However, the emerging pick up nationally may not be sustainable if final demand fails to keep expanding through year-end.
- Vermont's unemployment rate was the second lowest in New England in June and well below the national average. Still, at 3.9 percent, this was a noticeable increase from levels seen as recently as this past winter and the sub-3 percent level seen in much of 1999 and 2000.
- Existing home sales seem to be holding up, while home price appreciation held steady through June (see bottom chart). Residential permit issuance showed a sizeable gain in the first six months of the year, due to a surge in multi-family (and to a lesser degree, single-family) construction.



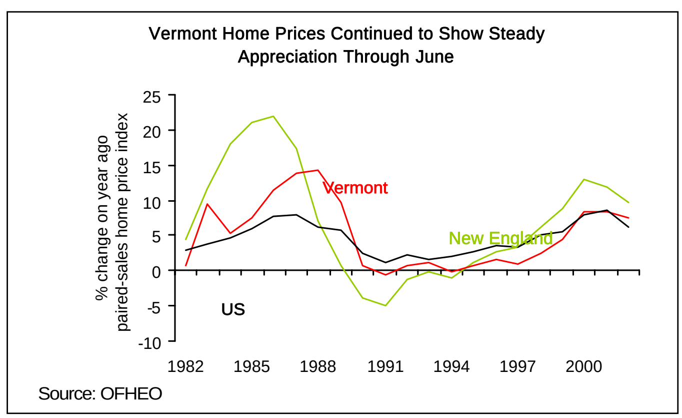
The Recent Stabilization in Vermont's Payrolls May Not Persist Once IBM Layoffs Show Up in the Data

Source: BLS



Income Growth May Prove Weaker Than Expected Given Anticipated Layoffs at Vermont's Largest Employer

Source: BEA & 2002 forecast from the New England Economic Project

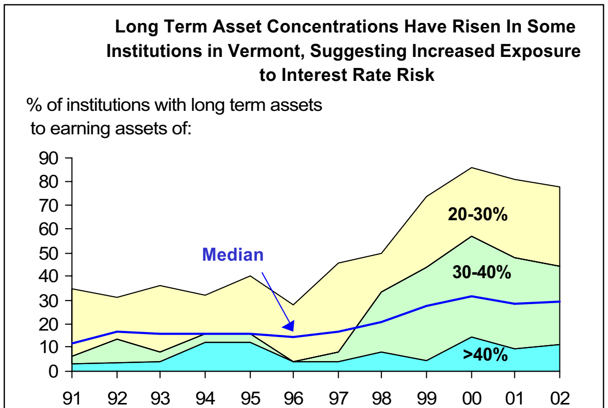


Vermont Home Prices Continued to Show Steady Appreciation Through June

Source: OFHEO

Interest Rate Risk remains a concern for Vermont institutions that increased concentrations of fixed, long-term assets during the recent refinancing waves.

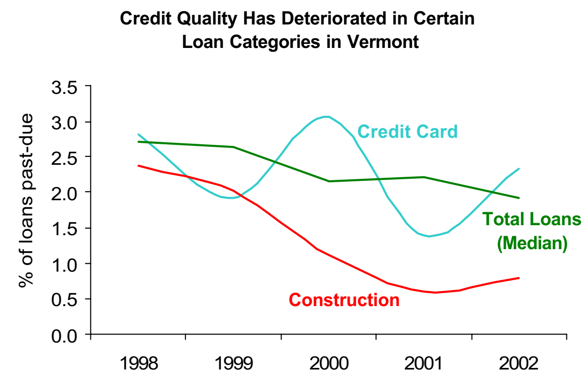
- With the conventional 30-year mortgage rate below 7.25 percent for the past 18 months, refinancing activity has been strong as borrowers seek to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions. Median long-term assets to earning assets continues to rise, as one fifth of Vermont's institutions had long-term asset concentrations greater than 40 percent as of second quarter 2002.
- Earnings could be pressured at those institutions with large concentrations in fixed-rate assets as margin compression may occur when interest rates rise with the recovering economy.



Source: Bank and Thrift Call Reports, Data Through 2nd Quarter

Although asset quality improved modestly during the second quarter, certain loan delinquencies deteriorated and could become more pronounced with the weak economy.

- The median past-due ratio improved during the second quarter of 2002; however, construction and credit card delinquencies increased at some Vermont institutions over the past year, particularly commercial banks. The median past-due ratio also remains highest among all New England states.
- Over forty percent of Vermont's banks and thrifts report high-risk[1] loan concentrations of at least 300 percent of capital. The median high-risk loan to capital ratio for the state remains the highest in the Region, but has declined compared to one year ago. The *Burlington* MSA had the fourth highest high-risk concentration ratio out of all MSAs in New England as of second quarter 2002 (344 percent), but that median has also declined.
- In contrast, residential real estate concentrations continue to rise throughout the state. Sixty-five percent the state's institutions reported residential concentrations to capital greater than 300 percent as of second quarter 2002, an increase from 50 percent of institutions three years ago. Should household financial conditions weaken further with additional layoffs, residential real estate past-due levels could increase, as deterioration in credit quality often lags the bottom of a business cycle.



Source: Commercial Bank Call Reports, Data as of 2nd Quarter

[1]High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

Vermont at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	20	23	23	25	26
Total Assets (in thousands)	6,789,800	8,535,835	8,596,740	8,502,052	8,114,539
New Institutions (# <3 years)	0	0	0	0	0
New Institutions (# <9 years)	0	0	0	1	2
Capital					
Tier 1 Leverage (median)	9.35	8.87	8.56	8.91	8.57
Asset Quality					
Past-Due and Nonaccrual (median %)	1.92%	2.22%	2.16%	2.65%	2.71%
Past-Due and Nonaccrual ≥ 5%	0	1	0	0	1
ALLL/Total Loans (median %)	1.29%	1.29%	1.41%	1.48%	1.42%
ALLL/Noncurrent Loans (median multiple)	1.46	1.37	1.80	1.41	1.02
Net Loan Losses/Loans (aggregate)	0.13%	0.24%	0.19%	0.17%	0.32%
Earnings					
Unprofitable Institutions (#)		0	0	2	1
Percent Unprofitable	0.00%	0.00%	0.00%	8.00%	3.85%
Return on Assets (median %)	1.05	1.02	1.01	0.97	1.05
25th Percentile	0.84	0.91	0.80	0.75	0.84
Net Interest Margin (median %)	4.64%	4.64%	4.72%	4.60%	4.81%
Yield on Earning Assets (median)	7.02%	8.17%	8.25%	8.02%	8.42%
Cost of Funding Earning Assets (median)	2.34%	3.55%	3.52%	3.36%	3.75%
Provisions to Avg. Assets (median)	0.14%	0.12%	0.18%	0.17%	0.20%
Noninterest Income to Avg. Assets (median)	0.70%	0.61%	0.64%	0.54%	0.69%
Overhead to Avg. Assets (median)	3.56%	3.44%	3.41%	3.42%	3.63%
Liquidity/Sensitivity					
Loans to Deposits (median %)	86.34%	86.36%	86.87%	80.90%	81.75%
Loans to Assets (median %)	70.67%	72.11%	70.16%	68.50%	69.32%
Brokered Deposits (# of Institutions)	0	0	1	5	6
Bro. Deps./Assets (median for above inst.)	na	na	1.96%	0.47%	0.35%
Noncore Funding to Assets (median)	11.07%	11.90%	12.03%	9.50%	9.78%
Core Funding to Assets (median)	78.70%	77.78%	77.24%	80.45%	79.71%
Bank Class					
State Nonmember	7	7	7	10	10
National	8	11	11	10	11
State Member	0	0	0	0	0
S&L	1	1	1	2	2
Savings Bank	1	1	1	0	0
Mutually Insured	3	3	3	3	3

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	17	2,959,643	85.00%	43.59%
Burlington VT	3	3,830,157	15.00%	56.41%