FDIC State Profile

SPRING 2003

Vermont

The economic outlook for Vermont improved in late 2002. Still, a slump in U.S. business investment and weak demand for high-end consumer goods and services remain obstacles to the state's economic growth.

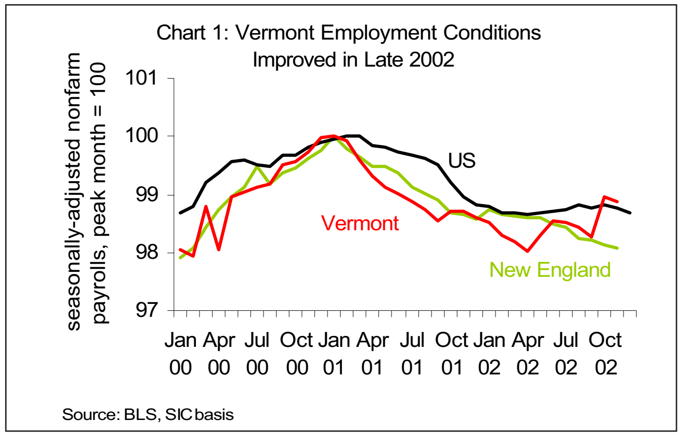
- National business investment, high-end retailing, and tourism—all key drivers of business and consumer sales in the Vermont economy—bore the brunt of this recession.
- Despite the poor performance of these sectors, Vermont's economy had managed to show signs of modest improvement by late last year.
- A cyclical trough in payroll employment was reached in April, and despite additional high profile layoffs at IBM late in the year, the state's economy managed modest net job gains during the fall (see **Chart 1**).
- Vermont showed modest per capita income growth during the first half of 2002, while the state's per capita bankruptcy filing rate remains the lowest in New England.
- Prospects for the Vermont economy will depend in 2003 on resumed strength in the national economy, including renewed corporate profitability and expanding business investment.

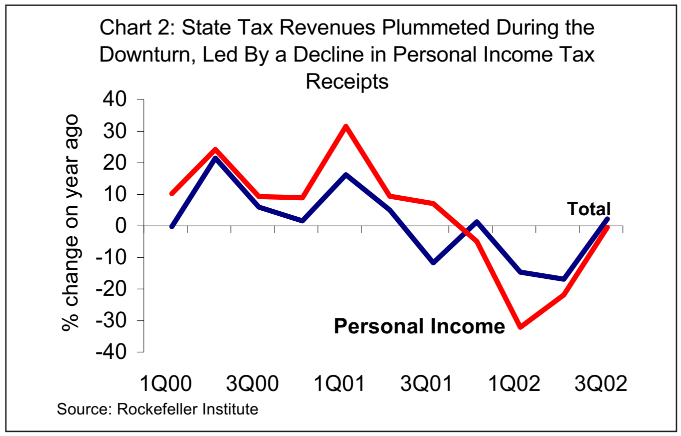
A drop in state spending and payrolls may occur given reduced tax receipts.

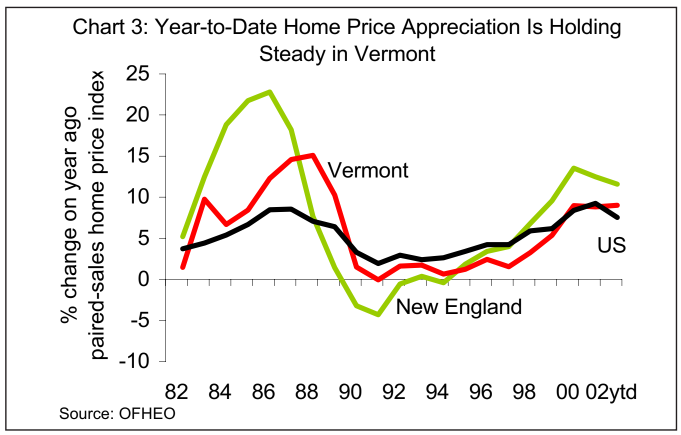
- Income tax revenue collections have plummeted in Vermont as capital gains declined (see **Chart 2**).
- Although the state is not required by law to balance the budget annually, cuts in state spending are planned to decrease the estimated $30 million budget deficit for fiscal year 2004.
- These reductions also may impede the state's economic recovery.

Vermont's housing market continues to exhibit strength.

- Through third quarter, year-to-date existing home sales and home price appreciation held steady (see **Chart 3**).
- Renewed job growth and modest gains in income, coupled with favorable mortgage interest rates, should support the state's housing market over the near term.



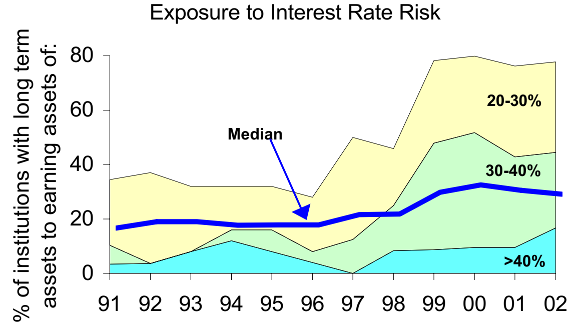




Interest Rate Risk remains a concern for Vermont institutions with increased concentrations of fixed, long-term assets, resulting from recent refinancing waves.

- With the conventional 30-year mortgage rate below 7.0 percent for the past year, refinancing activity has been strong as borrowers continue 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 has fallen slightly but remains high, as nearly one-fifth of Vermont's institutions had long-term asset concentrations greater than 40 percent as of third quarter 2002 (see **Chart 4**).
- Earnings could be pressured at institutions with large concentrations in fixed-rate assets as margin compression may occur if interest rates should rise.

Chart 4: Long Term Asset Concentrations Have Risen In Many Institutions in Vermont, Suggesting Increased Exposure to Interest Rate Risk

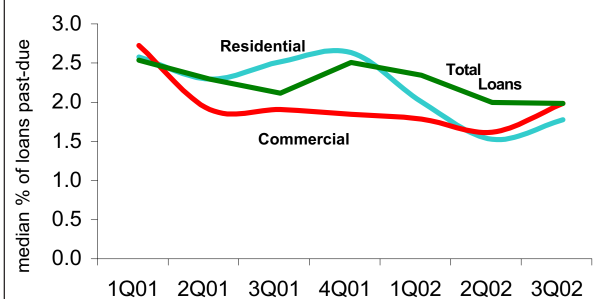


Source: Bank Call Reports, Data Through 3rd Quarter

Although overall asset quality was relatively unchanged during the third quarter, certain loan delinquencies increased and could become more pronounced with the weak economy.

- The median past-due ratio remained stable during the third quarter of 2002; however, residential, consumer and commercial delinquencies increased at many Vermont institutions during the quarter. The median past-due ratio also remains the highest among all New England states (see **Chart 5**).
- Over forty-five 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 (292 percent), 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 third quarter 2002 (352 percent).
- Residential real estate concentrations continue to rise throughout the state. Fifty-five percent the state's institutions reported residential concentrations to capital greater than 300 percent as of third quarter 2002, and the median has risen to 342 percent. Should household financial conditions weaken, residential past-due levels could increase further.

Chart 5: Credit Quality Has Deteriorated in Certain Loan Categories in Vermont Insured Institutions



Source: Bank and Thrift Call Reports

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

Vermont at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	20	23	23	25	26
Total Assets (in thousands)	7,233,971	8,828,557	8,621,037	8,657,224	8,273,374
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	1	2

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.19	8.90	8.61	8.75	8.54

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	1.91%	2.04%	2.19%	1.92%	2.78%
Past-Due and Nonaccrual ≥ 5%	0	0	0	0	1
ALLL/Total Loans (median %)	1.25%	1.31%	1.43%	1.42%	1.44%
ALLL/Noncurrent Loans (median multiple)	1.80	1.52	1.81	1.50	1.06
Net Loan Losses/Loans (aggregate)	0.14%	0.28%	0.20%	0.27%	0.36%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	1	0	2	1	
Percent Unprofitable	0.00%	4.35%	0.00%	8.00%	3.85%
Return on Assets (median %)	1.02	1.02	0.96	1.00	1.01
25th Percentile	0.82	0.90	0.81	0.78	0.82
Net Interest Margin (median %)	4.70%	4.62%	4.62%	4.67%	4.80%
Yield on Earning Assets (median)	6.90%	8.01%	8.28%	8.05%	8.40%
Cost of Funding Earning Assets (median)	2.24%	3.40%	3.69%	3.35%	3.77%
Provisions to Avg. Assets (median)	0.13%	0.13%	0.18%	0.18%	0.20%
Noninterest Income to Avg. Assets (median)	0.72%	0.60%	0.60%	0.52%	0.70%
Overhead to Avg. Assets (median)	3.50%	3.41%	3.35%	3.46%	3.70%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	83.74%	84.26%	83.66%	81.70%	79.59%
Loans to Assets (median %)	71.34%	70.15%	69.36%	68.57%	68.82%
Brokered Deposits (# of institutions)	0	0	1	5	6
Bro. Deps./Assets (median for above inst.)	na	na	1.88%	0.57%	0.36%
Noncore Funding to Assets (median)	10.92%	12.14%	12.08%	9.83%	10.16%
Core Funding to Assets (median)	78.88%	77.74%	77.82%	80.68%	79.61%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
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	3,089,115	85.00%	42.70%
Burlington VT	3	4,144,856	15.00%	57.30%