# FDIC State Profile

**SUMMER 2003**

## Vermont

**The economic outlook for Vermont improved in late 2002. Still, a slump in US business investment remains an obstacle to the state's economic growth.**

- A cyclical trough in employment was reached in September, 2002. Since then, the state posted strong job gains during the beginning of 2003 (see Chart 1). The unemployment rate has shown the smallest increase of all states in the Region, reaching 4.1 percent in March 2003 compared to 5.2 percent for New England.
- Vermont's tourism and manufacturing industries experienced the weakest conditions during the recession. While tourism rebounded late in 2002, computer and furniture manufacturing employment levels continue to decline, depressed by weak business investment.
- The consumer sector remains stable, as Vermont showed modest per capita income growth during 2002, compared to other New England states such as Massachusetts and Connecticut, where per capita income actually declined during the year. The state's per capita bankruptcy filing rate also remains lowest in New England.

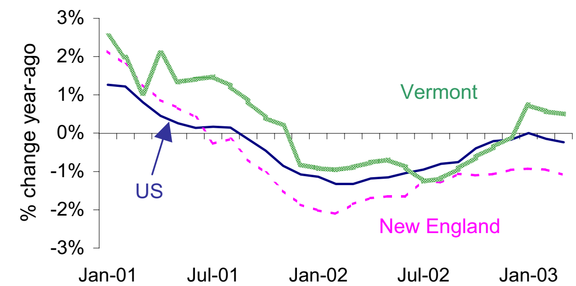
**A drop in state spending and payrolls may occur given reduced tax receipts.**

- Declines in capital gains and employment levels led to unexpected decreases in income tax revenue collections during the past two years (see Chart 2). Absent an offsetting decrease in expenditures, the state is projecting a budget deficit for fiscal year 2004.
- Although the state is not required by law to balance the budget annually, cuts in state spending occurred to balance the current budget, and additional cuts are planned to eliminate the fiscal year 2004 deficit.
- Government employment levels already declined towards year-end 2002. Given the state's dependence on state and local government employment, further spending reductions may impede the economic recovery.

**Vermont's housing market continues to exhibit strength.**

- Existing home sales were robust during 2002, rising 11 percent from the previous year. Home price appreciation also held steady, keeping pace with the national average (see Chart 3).

Chart 1: Vermont Employment Growth Recently Indicated Signs of An Economic Recovery

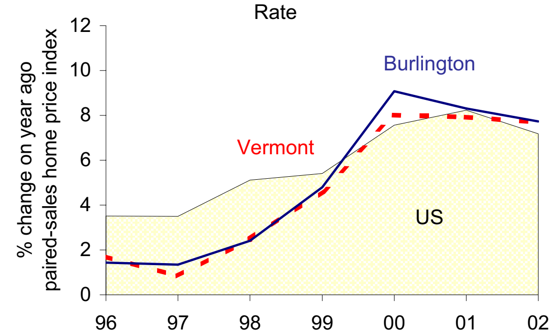



Source: BLS, Data through March 2003

Chart 2: State Tax Revenues Plummeted During the Downturn, Followed By Sluggish Growth in Late 2002


Source: Rockefeller Institute, Data through 4th quarter 2002.

Chart 3: Home Price Appreciation Held Steady in Vermont during 2002, Slightly Higher than the National Rate




Source: OFHEO

- Vermont's housing markets should remain strong through 2003, with renewed job growth in the first quarter and modest gains in income during 2002. However, rising mortgage rates could temper demand if national conditions remain weak.
- Prospects for the 2003 Vermont economy will depend on resumed strength in the national economy, including renewed corporate profitability and expanding business investment.

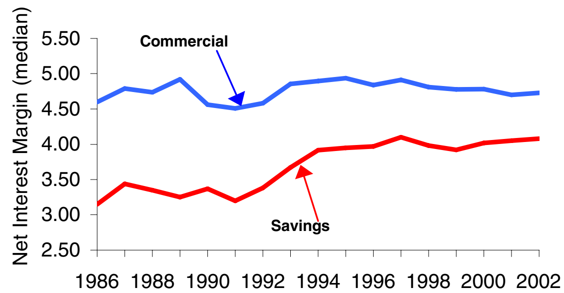
**Vermont's insured institutions continued to be profitable despite some pressure on net interest margins.**

- Vermont's commercial banks reported a median 1.06 percent return on assets (ROA) at year-end 2002, a slight increase from the 1.04 percent return realized one-year earlier. Profitability has been undermined by declining levels of net interest income and noninterest income, partially offset by decreased expenses and gains on the sales of securities. The state's savings institutions posted a median 0.83 percent ROA at year-end 2002, a six-basis point increase since year-end 2001. These institutions enjoyed increased net interest income as interest expenses continued to decline.
- The median net interest margin in the state's commercial institutions increased slightly to 4.73 percent in 2002 after falling since 1997. The savings institutions experienced minor increases in net interest margins in each of the last three years (see Chart 4).
- Overhead expenses continued to reduce the profitability of the state's savings institutions as the median ratio of noninterest expenses to average assets increased over the last three years, climbing to 3.68 percent as of year-end 2002. Overhead costs for the state's commercial banking industry also increased over the last two years, rising to 3.45 percent as of December 31, 2002.
- Loan-loss provisions remain extremely low and should the economy suffer another downturn with a deterioration in credit quality, profitability may be affected.

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

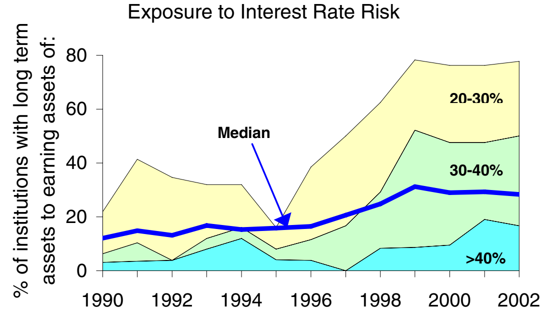
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002. Refinancing activity has remained strong through the end of 2002 and will likely continue to be strong as borrowers lock in long-term, fixed-rate loans at lower rates.

Chart 4: Net Interest Margins in Vermont's Insured Institutions Holding Steady




Source: Bank and Thrift Call Reports, Data Through 4th Quarter

Chart 5: Long Term Asset Concentrations Have Risen In Many Institutions in Vermont, Suggesting Increased Exposure to Interest Rate Risk




Source: Bank Call Reports, Data Through 4th Quarter

According to the Mortgage Bankers Association, 85 percent of the refinancing activity completed in 2002 was into fixed-rate products.

- Since 1998, maturities have lengthened at some institutions. Median long-term assets to earning assets has fallen slightly but remains high, as just over half of Vermont's institutions had long-term asset concentrations greater than 30 percent as of year-end 2002 (see Chart 5).
- Earnings could be pressured at institutions with large concentrations in fixed-rate assets as margin compression may occur if interest rates should rise.

# Vermont at a Glance

| General Information | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Institutions (#) | 20 | 23 | 23 | 25 | 26 |
| Total Assets (in thousands) | 7,214,651 | 8,989,650 | 8,621,689 | 8,591,047 | 8,540,132 |
| New Institutions (# < 3 years) | 0 | 0 | 0 | 0 | 0 |
| New Institutions (# < 9 years) | 0 | 0 | 0 | 1 | 1 |

| Capital | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median) | 9.04 | 8.97 | 8.74 | 8.98 | 8.77 |

| Asset Quality | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual (median %) | 2.25% | 2.43% | 2.17% | 2.15% | 2.36% |
| Past-Due and Nonaccrual >= 5% | 0 | 2 | 0 | 2 | 1 |
| ALLL/Total Loans (median %) | 1.21% | 1.33% | 1.30% | 1.43% | 1.40% |
| ALLL/Noncurrent Loans (median multiple) | 1.54 | 1.97 | 2.11 | 1.83 | 1.41 |
| Net Loan Losses/Loans (aggregate) | 0.16% | 0.28% | 0.19% | 0.25% | 0.35% |

| Earnings | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Unprofitable Institutions (#) | 0 | 1 | 0 | 2 | 1 |
| Percent Unprofitable | 0.00% | 4.35% | 0.00% | 8.00% | 3.85% |
| Return on Assets (median %) | 0.97 | 1.01 | 1.01 | 1.01 | 1.02 |
| 25th Percentile | 0.83 | 0.83 | 0.81 | 0.81 | 0.75 |
| Net Interest Margin (median %) | 4.70% | 4.64% | 4.65% | 4.72% | 4.78% |
| Yield on Earning Assets (median) | 6.73% | 7.87% | 8.32% | 8.05% | 8.37% |
| Cost of Funding Earning Assets (median) | 2.17% | 3.19% | 3.78% | 3.39% | 3.74% |
| Provisions to Avg. Assets (median) | 0.16% | 0.14% | 0.16% | 0.18% | 0.19% |
| Noninterest Income to Avg. Assets (median) | 0.73% | 0.63% | 0.62% | 0.55% | 0.71% |
| Overhead to Avg. Assets (median) | 3.50% | 3.42% | 3.35% | 3.48% | 3.71% |

| Liquidity/Sensitivity | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-98 |
|---|---|---|---|---|---|
| Loans to Deposits (median %) | 82.91% | 81.59% | 85.19% | 83.13% | 77.81% |
| Loans to Assets (median %) | 69.66% | 69.66% | 70.09% | 70.32% | 66.95% |
| Brokered Deposits (# of Institutions) | 0 | 0 | 0 | 5 | 6 |
| Bro. Deps./Assets (median for above inst.) | na | na | na | 0.48% | 0.49% |
| Noncore Funding to Assets (median) | 11.25% | 11.89% | 11.48% | 10.50% | 9.63% |
| Core Funding to Assets (median) | 78.71% | 78.10% | 76.95% | 79.41% | 80.06% |

| Bank Class | Dec-02 | Dec-01 | Dec-00 | Dec-99 | Dec-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 | 1 | 2 |
| Savings Bank | 1 | 1 | 1 | 1 | 0 |
| Mutually Insured | 3 | 3 | 3 | 3 | 3 |

| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets |
|---|---|---|---|---|
| No MSA | 17 | 3,099,383 | 85.00% | 42.96% |
| Burlington VT | 3 | 4,115,268 | 15.00% | 57.04% |