FDIC State Profile

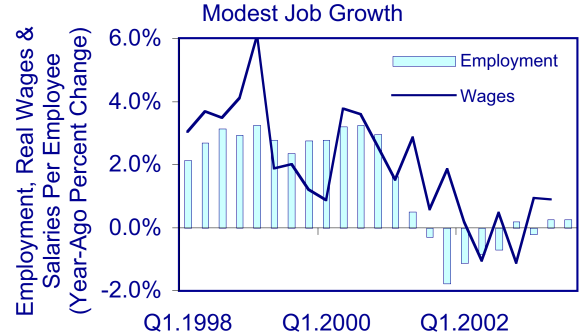
WINTER 2003

Virginia

Virginia continues to add jobs, albeit at a weak pace.

- Although continuing to struggle, the Virginia economy posted job growth in both the second and third quarters of 2003 (see Chart 1), and jobless rates have slipped to just below 4.0 percent. Employment, however, remains below the cyclical peak. Most metropolitan areas in the state, particularly the ***Danville, Charlottesville, Lynchburg***, and ***Roanoke*** MSAs, continued to post sizable year-over-year job losses in September 2003.
- Although labor market conditions varied across the state, county unemployment rates were highest during second quarter 2003 in south-central areas of the state, where key manufacturing industries, such as textiles and apparel as well as furniture, have been hit hard by the recession. Although this part of the state traditionally has experienced high rates of unemployment, levels have risen by more than one percentage point in some of these areas during the year ending second quarter 2003. In contrast, jobless rates in some southwestern counties declined significantly during the past year. These declines, however, may not be the result of improving economic conditions. Rather, employment data suggest it may be due to a shrinking labor force as some of the unemployed moved out of the area.
- A return to modest economic growth statewide eventually may help boost state tax collections, although they remain well below their pre-recession peaks. Collections in the state fell by nearly 8 percent in 2002. In second quarter 2003, collections were down 2.6 percent from year-ago levels. Sustained wage and job growth will be needed to provide for a recovery in tax revenues.

Chart 1: Virginia's Economy Posts Modest Job Growth



Source: Bureau of Labor Statistics, Bureau of Economic Analysis (Haver Analytics)

- The recent recession adversely affected Northern Virginia commercial real estate (CRE) markets as absorption rates declined. From a low of 3.2 percent in second quarter 2000, the office vacancy rate in Northern Virginia stood at 16.8 percent in second quarter 2003. Vacancy rates in submarkets, such as ***Herndon, Sterling,*** and ***Tysons Corner***, continued to exceed 20 percent in mid-year 2003 while vacancy rates in several other submarkets remained well into the double-digits. In contrast to Northern Virginia CRE conditions, other areas of the state, such as ***Hampton Roads***, have been comparatively unscathed by the effects of the recent recession.

Insured institutions headquartered in Virginia reported solid earnings performance, but deterioration in asset quality may be emerging.

- Earnings growth was solid among community banks[1] based in Virginia during the 12 months ending June 30, 2003. On a merger-adjusted basis, net income grew 24 percent year-over-year to $175 million, up from $141 million a year earlier. Net interest margins fell 13 basis points to 4.11 percent, while the return-on-assets ratio increased 10 basis points to 1.21 percent. Gains in noninterest income along with declining noninterest and provision expenses contributed to the increase in ROA.
- After slowing for two straight years, the loan portfolio grew 14 percent during the 12 months ending June 30, 2003, but the loan-to-assets ratio slipped to just under 66 percent as assets grew at a 15 percent clip. Among community banks headquartered in Virginia, CRE loans[2] comprised 26 percent of these assets at June 30, 2003, up from 22 percent two years earlier. Loan portfolio earnings were augmented by the shift into higher-yielding CRE loans. While the increased exposure has bolstered profitability, community banks headquartered in the state also may have heightened balance sheet risk.
- Among MSAs with at least five community institutions, the ***Norfolk, Richmond***, ***Roanoke,*** and ***Washington, DC-MD-VA-WV*** MSAs appear most vulnerable to a slowdown in real estate conditions. As of second quarter 2003, institutions in these MSAs with concentrations in CRE (25 percent or more of total assets) accounted for 29 percent of the banks in the state. Although rising, noncurrent CRE loan levels and charge-offs were manageable. The effects of an increase in office vacancy rates could disproportionately hurt delinquency levels among community banks in these particular MSAs.
- For the most part, capital levels were relatively solid during the past 12 months and finished June 30, 2003 at 8.50 percent, but have fallen in four consecutive years and remained below the regional average of 8.89 percent. Nevertheless, there should be adequate room to absorb any sudden spike in delinquencies and charge-offs, should they occur. Furthermore, reserve levels are also in fairly good shape at 1.22 percent, but were below the region's level of 1.37 percent at the end of the second quarter 2003.

[1] Community banks have assets less than $1 billion and exclude de novo, specialty institutions and thrifts.

[2] Commercial real estate consists of construction and development, nonresidential, and multifamily loans.

Virginia at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	146	143	163	169	171
Total Assets (in thousands)	164,322,327	118,010,016	98,896,947	82,734,942	94,105,363
New Institutions (# < 3 years)	9	12	23	24	21
New Institutions (# <; 9 years)	41	37	37	36	29

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.63	8.66	8.78	9.11	8.93

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.23%	1.39%	1.44%	1.47%	1.72%
Past-Due and Nonaccrual > = 5%	13	15	15	7	12
ALLL/Total Loans (median %)	1.20%	1.16%	1.10%	1.13%	1.17%
ALLL/Noncurrent Loans (median multiple)	3.15	3.46	2.74	2.12	1.87
Net Loan Losses/Loans (aggregate)	2.06%	1.21%	1.10%	0.83%	0.49%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	10	15	15	19	14
Percent Unprofitable	6.85%	10.49%	9.20%	11.24%	8.19%
Return on Assets (median %)	1.16	1.08	0.95	1.13	1.11
25th Percentile	0.77	0.77	0.49	0.68	0.80
Net Interest Margin (median %)	4.03%	4.14%	4.00%	4.34%	4.24%
Yield on Earning Assets (median)	6.02%	6.90%	7.92%	8.04%	7.69%
Cost of Funding Earning Assets (median)	2.03%	2.71%	4.12%	3.83%	3.59%
Provisions to Avg. Assets (median)	0.17%	0.20%	0.16%	0.14%	0.13%
Noninterest Income to Avg. Assets (median)	0.64%	0.62%	0.64%	0.61%	0.57%
Overhead to Avg. Assets (median)	2.90%	2.91%	2.97%	2.97%	2.98%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	77.78%	78.92%	79.28%	81.56%	75.86%
Loans to Assets (median %)	65.78%	67.11%	67.25%	67.57%	63.74%
Brokered Deposits (# of institutions)	33	26	23	20	19
Bro. Deps./Assets (median for above inst.)	2.74%	4.21%	3.99%	7.21%	2.02%
Noncore Funding to Assets (median)	15.99%	15.94%	15.48%	14.79%	12.62%
Core Funding to Assets (median)	73.36%	73.78%	73.85%	73.78%	76.37%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	18	20	21	21	22
National	38	34	36	35	33
State Member	74	74	88	92	96
S&L	3	3	3	5	5
Savings Bank	13	12	14	15	14
Mutually Insured	0	0	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	60	15,267,586	41.10%	9.29%
Washington DC-MD-VA-WV PMSA	33	100,892,145	22.60%	61.40%
Richmond-Petersburg VA	17	36,291,977	11.64%	22.09%
Norfolk-Virginia Bch-Newport News VA-NC	15	5,306,413	10.27%	3.23%
Roanoke VA	7	2,896,150	4.79%	1.76%
Lynchburg VA	5	875,866	3.42%	0.53%
Danville VA	4	1,187,927	2.74%	0.72%
Charlottesville VA	3	487,582	2.05%	0.30%
Johnson City-Kingsport-Bristol TN-VA	2	1,116,681	1.37%	0.68%