FDIC State Profile

WINTER 2003

Vermont

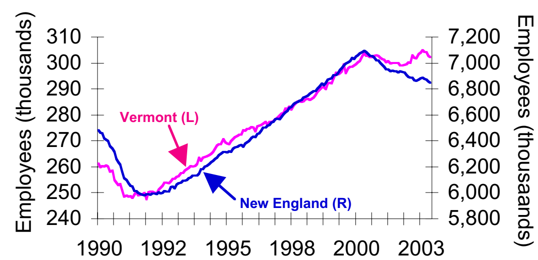
Employment levels in Vermont modestly affected by the recession.

- Vermont continued to be a stable performer, comparatively unaffected by the 2001 recession. Vermont was the least affected of all the New England states during the severe regional recession of the late 1980s and early 1990s (see Chart 1).
- As of the third quarter, payroll employment in Vermont stood slightly ahead of the pre-recession peak reached at the beginning of 2001. The recession's impact on employment was so mild as to be barely observable, but so, too, has been the effect from the subsequent expansion.
- Vermont is vulnerable to employment decisions made by individual firms. IBM is the largest private employer in the state. Its decision to downsize operations at ***Essex Junction,*** just north of ***Burlington,*** has affected the performance of the metropolitan area as well as the state in general. Job losses over the past two years have totaled about 1,800 from this site alone.
- Partly as a result, the Burlington metropolitan area has not fully recovered from earlier job losses, while the ***Barre-Montpelier*** area has. Other areas in Vermont have seen modest gains in employment and have levels of employment above the pre-recession peak.
- There has been no turnaround in manufacturing employment, with almost one in five factory jobs lost over the past two and one-half years. Declines have been distributed throughout the sector, with the exception of food processing. Vermont has an important dairy industry, and processors of dairy and other foods within the state continue to provide relatively stable employment (see Chart 2).

The housing market has performed well, though below its New England neighbors.

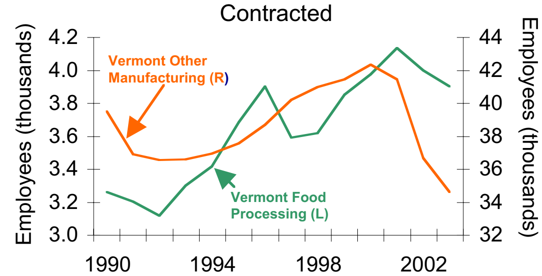
- Similar to other New England states, home construction has proceeded at a relatively moderate pace during the late 1990s and into this decade. Price appreciation, however, has been much less in Vermont than elsewhere in New England. From the fourth quarter of 1999 through the second quarter of this year, prices of conventionally financed houses in Vermont rose by 27 percent. By contrast, prices of houses in all of New England increased by 46 percent over the same period (see Chart 3).

Chart 1: Nonagricultural Employment in Vermont Has Recently Gained Relative to New England



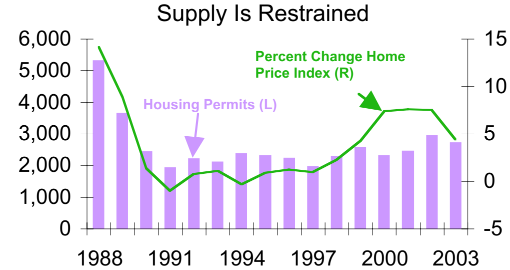
Source: U.S. Bureau of Labor Statistics. Seasonally adjusted data through October 2003.

Chart 2: Food Processing in Vermont Has Expanded over Time as Other Manufacturing Has Contracted



Source: U.S. Bureau of Labor Statistics. 2003 data as of 2nd quarter.

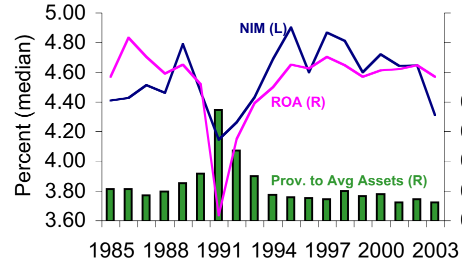
Chart 3: Vermont Home Prices Show Less Strength than Elsewhere in New England and New Supply Is Restrained



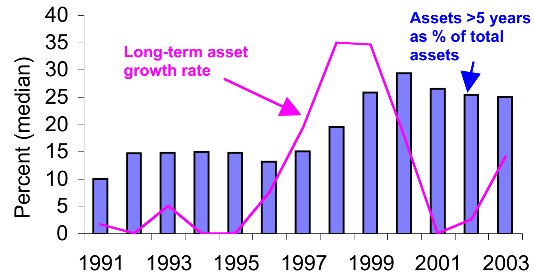
Source: U.S. Census Bureau and Federal Home Loan Mortgage Corporation. 2003 data as of 2nd quarter.

Vermont's banks and thrifts continued to be profitable, despite some pressure on net interest margins.

- Vermont's commercial banks reported a median return on assets (ROA) of 1.08 percent as of the second quarter 2003, down from 1.12 percent in the second quarter 2002. Declining net interest income has affected profitability, but Vermont's commercial banks posted steady levels of noninterest income and declining expenses. The state's savings institutions posted a median ROA of 0.96 percent as of second quarter 2003, a five basis point increase since the same period in 2002. Savings institutions also saw net interest income decline but experienced increases in noninterest income.
- The median net interest margin (NIM) in the state's commercial institutions declined 25 basis points in the last year to 4.47 percent as of June 30, 2003, as asset yields declined. Thrifts experienced a 14 basis point decrease to 4.01 percent (see Chart 4).
- Insured institutions continued to utilize gains on the sale of securities to boost earnings. As of June 30, 2003, securities gains represented 20 percent of net income in the state's commercial banks and 40 percent in savings institutions. There are still gains to be taken, at least in the short term, as total unrealized gains amounted to $36 million as of June 30, 2003, representing about 2.00 percent of total securities available for sale in the commercial institutions and 2.61 percent in the savings institutions.
- Loan-loss provisions remained extremely low which helped maintain profitability. Should the economy suffer another downturn, causing a deterioration in credit quality, profitability may be affected as insured institutions increase provisions.



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

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

- The conventional 30-year mortgage rate declined significantly over the past several years, approaching historic lows. Refinancing activity remained strong during the first half of 2003, but started to slow in the second half of 2003 as mortgage interest rates began to rise. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13 percent of originations in July 2003 to almost 24 percent in November 2003. While the shift to adjustable rate mortgages ultimately may allow greater asset repricing, insured institutions still held large volumes of long-term assets at low fixed rates.
- Since the late 1990s, asset maturities lengthened at many institutions, but began to moderate in the last year. The median ratio of long-term assets to total assets remained high at 25 percent (see Chart 5). If the recent rise in mortgage rates is sustained, the average life of mortgage portfolios will extend further and may result in a mismatch of asset and liability repricing for some institutions. Net interest margin compression may occur when short-term interest rates increase as liabilities reprice at a faster rate than assets.

Vermont at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	19	20	23	23	25
Total Assets (in thousands)	7,184,265	6,789,800	8,535,835	8,596,740	8,502,052
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	1

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.10	9.35	8.87	8.56	8.91

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	2.02%	1.92%	2.22%	2.16%	2.65%
Past-Due and Nonaccrual > = 5%	0	0	1	0	0
ALLL/Total Loans (median %)	1.30%	1.29%	1.29%	1.41%	1.48%
ALLL/Noncurrent Loans (median multiple)	1.40	1.46	1.37	1.80	1.41
Net Loan Losses/Loans (aggregate)	0.17%	0.13%	0.24%	0.19%	0.17%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	1	0	0	0	2
Percent Unprofitable	5.26%	0.00%	0.00%	0.00%	8.00%
Return on Assets (median %)	0.97	1.05	1.02	1.01	0.97
25th Percentile	0.67	0.84	0.91	0.80	0.75
Net Interest Margin (median %)	4.31%	4.64%	4.64%	4.72%	4.60%
Yield on Earning Assets (median)	5.89%	7.02%	8.17%	8.25%	8.02%
Cost of Funding Earning Assets (median)	1.58%	2.34%	3.55%	3.52%	3.36%
Provisions to Avg. Assets (median)	0.12%	0.14%	0.12%	0.18%	0.17%
Noninterest Income to Avg. Assets (median)	0.88%	0.70%	0.61%	0.64%	0.54%
Overhead to Avg. Assets (median)	3.53%	3.56%	3.44%	3.41%	3.42%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	82.53%	86.34%	86.36%	86.87%	80.90%
Loans to Assets (median %)	69.51%	70.67%	72.11%	70.16%	68.50%
Brokered Deposits (# of institutions)	2	0	0	1	5
Bro. Deps./Assets (median for above inst.)	0.59%	na	na	1.96%	0.47%
Noncore Funding to Assets (median)	9.21%	11.07%	11.90%	12.03%	9.50%
Core Funding to Assets (median)	78.94%	78.70%	77.78%	77.24%	80.45%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	6	7	7	7	10
National	8	8	11	11	10
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	16	3,158,408	84.21%	43.96%
Burlington VT	3	4,025,857	15.79%	56.04%