FDIC State Profile

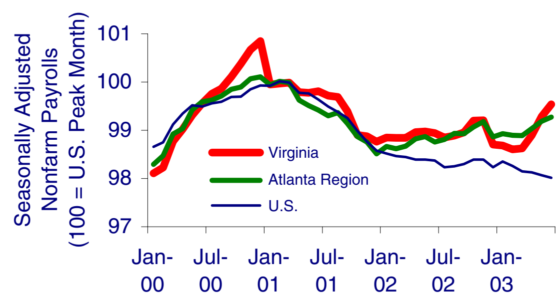
FALL 2003

Virginia

Economic growth in the state of Virginia remains weak.

- Although continuing to struggle, the Virginia economy posted job growth by mid-year 2003 (see Chart 1), and jobless rates have fallen below 4.0 percent. Employment, however, remains below the cyclical peak and continues to decline in the private sector. A resurgence in initial unemployment insurance claims to above levels seen during the recent recession may indicate that unemployment rates will increase in the future as well. Most metropolitan areas in the state, particularly the ***Danville, Lynchburg,*** and ***Roanoke*** MSAs, continued to post year-over-year job losses in June 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 and 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 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.
- The recent recession has substantially affected the state's finances but improving economic performance may have helped recent revenue collections. In March 2003, fiscal year-to-date (FYTD) collections in the state were up 1.2 percent from the previous FYTD period. Gains were seen in both personal and corporate collections, while sales tax revenues continued to lag. Despite improving conditions, revenue collections have failed to keep pace with the 2.2 percent rate of inflation.

Chart 1: Employment in Virginia Remains Flat



Source: Bureau of Labor Statistics/Haver Analytics

- The recent recession adversely affected Northern Virginia commercial real estate markets as absorption rates declined. From a low of 3.2 percent in second quarter 2000, the office vacancy rate in Northern Virginia has risen sharply to 17.9 percent as of first quarter 2003. Vacancy rates in submarkets, such as ***Herndon, Reston,*** and ***Springfield***, continued to exceed 25 percent in early 2003. Vacancy rate increases remain the norm in Northern Virginia industrial submarkets as well. In contrast, Northern Virginia's limited- and full-service hotel market saw some improvement as revenue per available room has rebounded slightly from year-ago levels, but remains well below the cyclical peaks of the late 1990s.

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 March 31, 2003. On a merger-adjusted basis, net income grew 28 percent year-over-year to $85 million, up from $66 million a year earlier. Nevertheless, profitability measures at these banks were mixed as net interest margins fell 6 basis points to 4.11 percent and the return-on-assets ratio increased 13 basis points to 1.19 percent. Gains in noninterest income along with declining noninterest and provision expenses contributed to the increase.
- After slowing for two straight years, assets and the loan portfolio grew 14 percent during the 12 months ending March 31, 2003, with the loan-to-assets ratio remaining around 66 percent. Among community banks headquartered in Virginia, nonresidential loans comprised close to 19 percent of these assets at March 31, 2003, up from 18 percent a year ago.
- Loan portfolio earnings were augmented by the shift into higher-yielding commercial real estate (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,*** Roanoke, and ***Washington, DC-MD-VA-WV*** MSAs appear most vulnerable to a slowdown in real estate conditions. As of first quarter 2003, institutions in these MSAs with concentrations in CRE (25 percent or more of total assets) accounted for 24 percent of the banks in the state. Although noncurrent CRE loan levels and charge-offs were manageable, rising office vacancy rates, similar to those reported in the Northern Virginia market, could disproportionately hurt delinquency levels among community banks in these particular MSAs.

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

Virginia at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	147	144	162	168	170
Total Assets (in thousands)	156,649,829	111,800,669	95,945,751	76,889,575	91,147,472
New Institutions (# < 3 years)	9	15	26	25	18
New Institutions (# < 9 years)	40	36	37	35	26

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.49	8.63	8.72	9.26	8.92

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.24%	1.32%	1.51%	1.48%	1.94%
Past-Due and Nonaccrual >= 5%	16	11	12	13	18
ALLL/Total Loans (median %)	1.20%	1.18%	1.12%	1.11%	1.18%
ALLL/Noncurrent Loans (median multiple)	2.99	2.99	2.35	2.48	1.78
Net Loan Losses/Loans (aggregate)	2.14%	1.03%	1.15%	0.77%	0.47%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	8	9	14	18	14
Percent Unprofitable	5.44%	6.25%	8.64%	10.71%	8.24%
Return on Assets (median %)	1.14	1.01	0.99	1.12	1.12
25th Percentile	0.75	0.68	0.63	0.62	0.73
Net Interest Margin (median %)	4.10%	4.12%	4.08%	4.37%	4.23%
Yield on Earning Assets (median)	6.11%	6.92%	8.13%	7.94%	7.71%
Cost of Funding Earning Assets (median)	2.08%	2.80%	4.18%	3.77%	3.62%
Provisions to Avg. Assets (median)	0.17%	0.18%	0.14%	0.14%	0.12%
Noninterest Income to Avg. Assets (median)	0.62%	0.60%	0.60%	0.56%	0.56%
Overhead to Avg. Assets (median)	2.90%	2.92%	2.93%	2.98%	2.98%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	77.70%	77.72%	79.01%	79.80%	73.99%
Loans to Assets (median %)	65.97%	66.60%	67.14%	66.95%	62.92%
Brokered Deposits (# of institutions)	33	26	22	20	18
Bro. Deps./Assets (median for above inst.)	2.70%	5.64%	4.18%	3.46%	1.47%
Noncore Funding to Assets (median)	16.58%	15.77%	15.17%	13.85%	12.04%
Core Funding to Assets (median)	72.71%	73.56%	74.11%	74.85%	76.54%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	19	20	21	22	22
National	37	35	35	35	30
State Member	75	73	88	90	97
S&L	3	3	3	5	5
Savings Bank	13	12	14	15	15
Mutually Insured	0	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	61	14,805,542	41.50%	9.45%
Washington DC-MD-VA-WV PMSA	33	95,042,801	22.45%	60.67%
Richmond-Petersburg VA	18	35,221,620	12.24%	22.48%
Norfolk-Virginia Bch-Newport News VA-NC	14	5,057,980	9.52%	3.23%
Roanoke VA	7	2,866,641	4.76%	1.83%
Lynchburg VA	5	861,472	3.40%	0.55%
Danville VA	4	1,172,560	2.72%	0.75%
Charlottesville VA	3	473,147	2.04%	0.30%
Johnson City-Kingsport-Bristol TN-VA	2	1,148,066	1.36%	0.73%