FDIC State Profile

FALL 2003

Vermont

The economic outlook for Vermont continues to improve throughout 2003.

- A cyclical trough in employment was reached in September 2002. Since then, the state has posted moderate job gains during 2003, rising more than 1 percent in the first half of the year.
- During the past decade, Vermont's employment mix has shifted away from manufacturing and into health care (see Chart 1), which provided stability during the downturn and an earlier recovery relative to most New England states.
- Vermont's weakest industries during the recession were manufacturing and tourism. The manufacturing sector shed 8,700 jobs, or nearly 20 percent. Tourism employment declined during most of 2002, but has been rising since December. The share of tourism jobs remains at about 10 percent of employment.

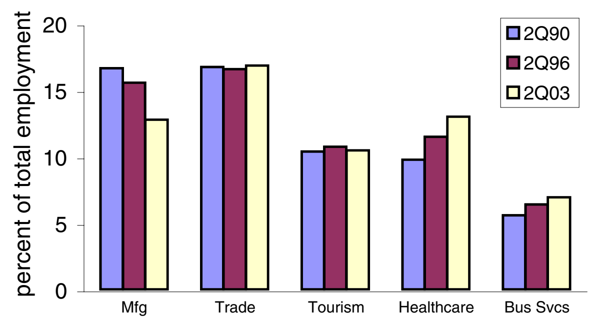
Dependence on tourism renders the state vulnerable to weak national and regional economic conditions.

- Following the September 11 terrorist attacks, tourist traffic in the state held steady and was not as affected by the decline in air traffic as other destinations such as Florida and Las Vegas, as the state tends to attract visitors from within the region.
- However, due to the prolonged recession in most Northeast states and lackluster national recovery, the tourism industry experienced weak activity through 2002 (see Chart 2).
- The industry reported a strong winter season during the first quarter of 2003, but tourist traffic was down early in the summer season compared to the same period in 2002. This will likely lead to lower hotel room revenue.

Vermont's housing market continues to exhibit strength.

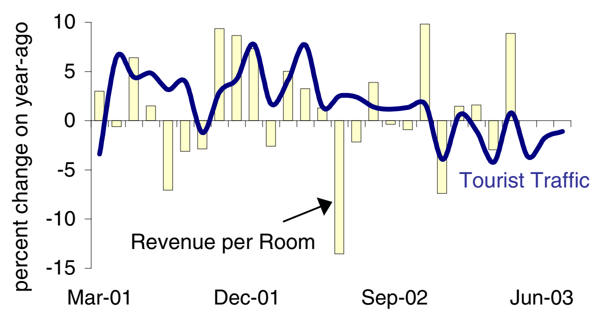
- Existing home sales were robust during 2002, rising 11 percent from the previous year. Vermont also reported the strongest single family permit growth in New England during the first half of 2003.
- Home prices continue to rise in Vermont, albeit at a slower rate than the nation (see Chart 3). As the demand for second homes soared during the late 90s and into 2000, price appreciation was the highest since the late 1980s. Price growth has since fallen in line with long-term trends.

Chart 1: Following Manufacturing Losses during the 90s, Health Care Employment Expanded in Vermont



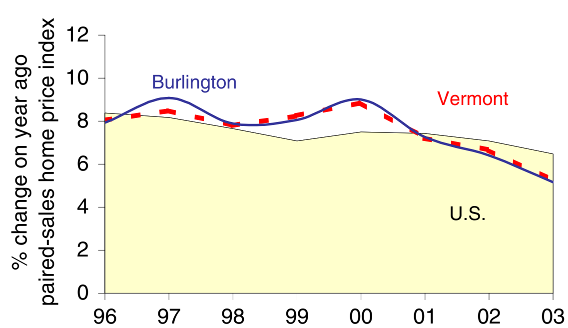
Source: Bureau of Labor Statistics

Chart 2: Tourist Traffic and Lodging Revenue Growth Stagnated in 2002 and Remains Lackluster in 2003



Source: Vermont Department of Employment and Training; revenue data available through March 2003.

Chart 3: Home Price Growth in Vermont Was Less than the National Rate and Weakest in New England



Source: OFHEO, data through first quarter 2003.

- Vermont's housing markets should remain strong through 2003, with moderate job growth and modest gains in income during the first half of the year. However, rising mortgage rates could temper demand for housing.

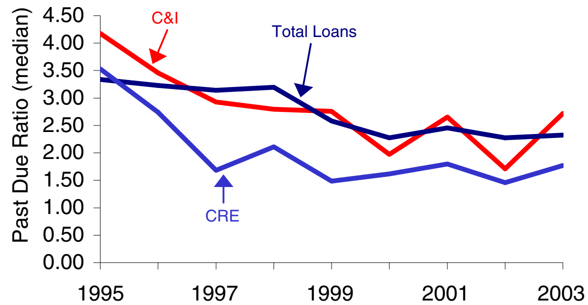
Vermont's banks and thrifts reporting the highest past due loan levels in New England.

- Vermont's insured institutions report higher levels of past due loans than insured institutions in the other New England states. The median ratios are still well below highs reached in the early 1990s and are also, in most cases, lower than levels reached in 2001. As of March 31, 2003, the median past due loan ratio was 2.32 percent (see Chart 4).
- As of March 31, 2003, Vermont's insured institutions experienced an increase in the median past-due commercial loan ratio to 2.72 percent from 1.71 percent in March 2002. During the same timeframe, the median past due ratio for commercial real estate loans increased 31 basis points to 1.77 percent.

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

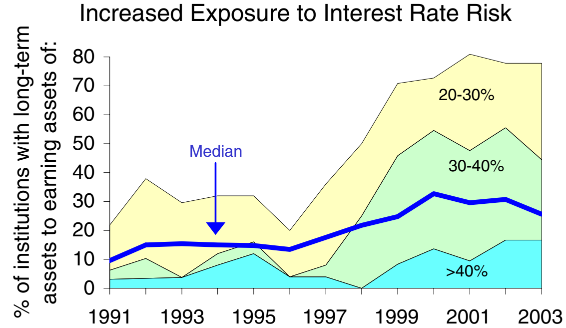
- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002 until recently. Refinancing activity remained strong during the first half of 2003 but started to slow in July and August as mortgage interest rates began to rise. According to the Mortgage Bankers Association, 86 percent of the refinancing activity completed in the first seven months of 2003 was into fixed-rate products.
- During the late 1990s, asset maturities began to lengthen at many institutions. Median long-term assets to earning assets began to moderate in the last year but remain high with 45 percent of Vermont's insured institutions having long-term asset concentrations greater than 30 percent and 78 percent reporting concentrations greater than 20 percent (see Chart 5).

Chart 4: Past Due Commercial and Commercial Real Estate Loans Increasing in Vermont



Source: Bank and Thrift Call Reports, data through 1st quarter 2003.

Chart 5: Long-Term Asset Concentrations Are Still High in Many Institutions in Vermont, Suggesting Increased Exposure to Interest Rate Risk



Source: Bank Call Reports, data through 1st quarter 2003.

- The average life of mortgage portfolios will extend if the recent rise in mortgage rates is sustained. Earnings could be pressured at institutions with large concentrations of fixed-rate assets as 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	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	20	20	23	24	26
Total Assets (in thousands)	7,119,566	6,808,792	8,548,224	8,504,171	8,442,473
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	1	1

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.16	9.46	8.85	8.83	8.68

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	2.32%	2.27%	2.46%	2.27%	2.58%
Past-Due and Nonaccrual >= 5%	0	1	1	1	4
ALLL/Total Loans (median %)	1.27%	1.30%	1.31%	1.42%	1.44%
ALLL/Noncurrent Loans (median multiple)	1.67	1.31	1.69	1.70	1.51
Net Loan Losses/Loans (aggregate)	0.16%	0.09%	0.22%	0.17%	0.16%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	1	0	0	1	1
Percent Unprofitable	5.00%	0.00%	0.00%	4.17%	3.85%
Return on Assets (median %)	0.97	1.02	0.99	0.93	0.89
25th Percentile	0.73	0.88	0.78	0.77	0.74
Net Interest Margin (median %)	4.29%	4.59%	4.66%	4.69%	4.50%
Yield on Earning Assets (median)	5.99%	7.02%	8.19%	8.20%	7.96%
Cost of Funding Earning Assets (median)	1.69%	2.45%	3.65%	3.50%	3.44%
Provisions to Avg. Assets (median)	0.13%	0.13%	0.12%	0.17%	0.16%
Noninterest Income to Avg. Assets (median)	0.78%	0.70%	0.59%	0.59%	0.59%
Overhead to Avg. Assets (median)	3.59%	3.47%	3.42%	3.41%	3.29%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	86.16%	84.47%	84.48%	85.03%	78.61%
Loans to Assets (median %)	70.86%	71.02%	71.78%	69.89%	67.30%
Brokered Deposits (# of institutions)	1	0	0	5	6
Bro. Deps./Assets (median for above inst.)	1.11%	na	na	0.42%	0.55%
Noncore Funding to Assets (median)	11.67%	11.08%	11.81%	11.67%	9.71%
Core Funding to Assets (median)	78.23%	78.43%	77.18%	78.17%	79.44%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	7	7	7	10	10
National	8	8	11	9	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	3,121,014	85.00%	43.84%
Burlington VT	3	3,998,552	15.00%	56.16%