FDIC State Profile

Summer 2004

Virginia

Northern areas of the state continue a modest recovery while the Southern region experiences little improvement.

- Virginia's economic performance steadily improved in first quarter 2004 with modest job growth contributing to declines in the rate of unemployment (See Chart 1). In the first quarter of 2004, jobless rates were approaching 3.6 percent—the third lowest rate in the nation. Likewise, initial unemployment claims have slowly retreated from their mid-2003 peak.

- Jobless rates fell across most counties and metropolitan areas in the state. Much of the job growth was concentrated in Northern Virginia, which had the sixth highest growth rate in the nation, and in the Norfolk MSA. Virginia has created more new jobs in the nation over the past year than any other state except Florida.

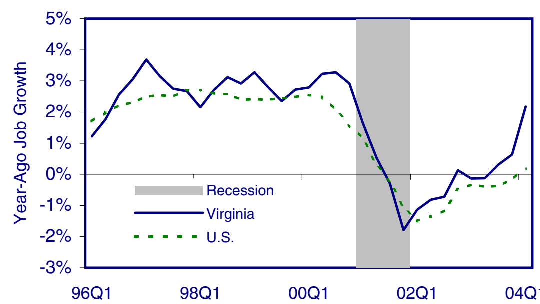
- County jobless rates remained highest in the traditionally manufacturing-dominated counties in the southwest and along the North Carolina border (See Map 1). The Danville MSA and nearby counties experienced stagnant labor market growth, continuing a long-term trend of higher unemployment. A number of these counties also have seen jobless rates rise significantly over the past year as layoffs in textiles and furniture industries have continued.

- State tax collections are beginning to recover from large percentage decreases in 2002, indicating general improvement in the economy. However, the state's General Assembly agreed to raise taxes by $1.36 billion in 2004 in order to cover existing budget shortfalls. Higher taxes could create a drag on the state's economic recovery.

- First quarter residential building permit issuance has significantly increased from year-ago levels with growth in the Roanoke, Richmond, and Charlottesville MSAs. Accompanying increases in permit issuance, employment in building construction industries accelerated in the first quarter 2004.

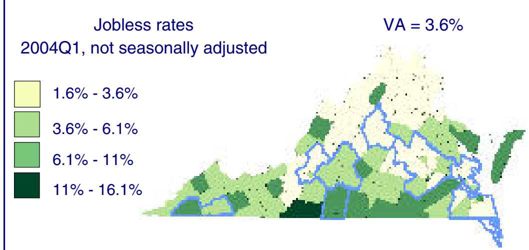
- Residential real estate market conditions in Virginia remained healthy through the first quarter 2004 with home sales and median sales prices rising well above the national average (See Chart 2). Markets varied

Chart 1: Employment Growth in Virginia Has Risen Significantly



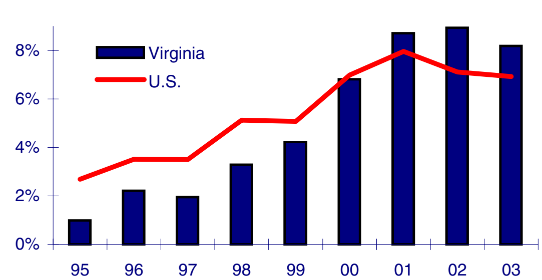
Source: Bureau of Labor Statistics/Haver Analytics

Map 1: Virginia's Northern Area had the Sixth Highest Growth Rate in the Nation



Note: Blue outlined counties are metropolitan areas (1999 definitions)
Source: Bureau of Labor Statistics / Economy.com

Chart 2: Virginia Home Prices are Growing at a Pace Well Above the National Average



Source: Office of Housing Enterprise Oversight, Haver Analytics substantially depending on area economic conditions. Northern Virginia continued to see home prices and sales increases well into the double-digits with median home values in excess of $300,000, while Richmond saw comparatively modest gains in median home sales prices in 2003. Borrowers may be coming under increasing stress as bankruptcy filings are increasing and mortgage delinquencies are down only slightly from year ago levels. The recent rise in interest rates may further aggravate borrowers' ability to meet debt service obligations.

Despite lower earnings, banking conditions at Virginia community banks remained fairly sound.

- Net income at Virginia community banks declined more than 11 percent from the $85 million reported first quarter 2003, to $76 million during first quarter 2004. Median return-on-assets (ROA) dropped by 15 basis points to just under 1 percent, while NIM experienced a 13 basis-point decline to 3.97 percent. Both ratios were slightly lower than national medians. Improved efficiencies were not enough to offset a combined reduction in net interest and noninterest revenues.

- The median loan-to-asset ratio at Virginia community banks jumped 177 basis points over the year earlier period to 67.3 percent as of March 31, 2004. The increase was driven primarily by increases in commercial real estate (CRE) loans.[1] Some deterioration in asset quality was reported in the construction and development (C&D) and multifamily components of CRE.

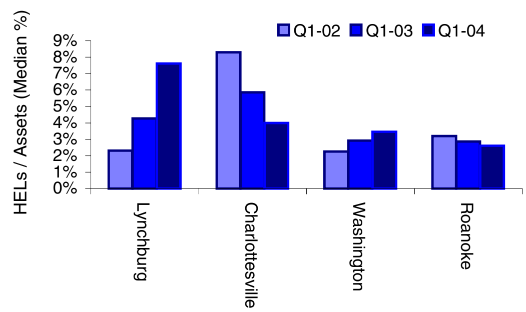
- Trends in C&D lending vary among the state's major metro areas. Modest growth occurred at banks in metro Washington, D.C. and Roanoke, while slight declines were reported in the Richmond market and by banks in the Norfolk-Virginia Beach MSA. Still, the median concentration of C&D loans in all of these markets remains above the national urban level.

- In some urban areas in the state, median home equity loans reached levels greater than 3 percent of assets at March 31, 2004. The strongest growth was reported by banks located in the Lynchburg MSA, where HELs as a percentage of assets grew by more than 3 percentage points since March 31, 2003 (See Chart 3) to 7.6 percent. HELs as percentage of assets were at least 2 times the national median in several of the other large MSAs including Charlottesville and Washington, DC. While rebounding employment levels are a positive and may lead to faster wage gains, rising interest rates could lower debt service capacity and slow the appreciation of housing values.

[1]Commercial real estate loans consist of nonresidential, construction and development, and multifamily loans.

- Median Tier 1 capital remains in good condition at 8.8 percent as of March 31, 2004, although below the national median of 9.3 percent. While declining, reserve coverage remained a healthy 2.3 times noncurrent loans and comfortably above the national median of 1.9 times.

Chart 3: Home Equity Lending Continued to Increase in Some MSAs



Source: Bank Call Reports: March 31st.

Virginia at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	142	147	144	162	168
Total Assets (in thousands)	190,317,958	156,644,241	111,800,669	95,945,751	76,889,575
New Institutions (# < 3 years)	10	9	15	26	25
New Institutions (# < 9 years)	41	40	36	37	35

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	8.78	8.49	8.63	8.72	9.26

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.41%	1.24%	1.32%	1.51%	1.48%
Past-Due and Nonaccrual >= 5%	11	16	11	12	13
ALLL/Total Loans (median %)	1.19%	1.20%	1.18%	1.12%	1.11%
ALLL/Noncurrent Loans (median multiple)	2.49	2.98	2.99	2.35	2.48
Net Loan Losses/Loans (aggregate)	1.15%	2.15%	1.03%	1.15%	0.77%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	12	8	9	14	18
Percent Unprofitable	8.45%	5.44%	6.25%	8.64%	10.71%
Return on Assets (median %)	0.95	1.14	1.01	0.99	1.12
25th Percentile	0.62	0.75	0.68	0.63	0.62
Net Interest Margin (median %)	3.92%	4.10%	4.12%	4.08%	4.37%
Yield on Earning Assets (median)	5.57%	6.11%	6.92%	8.13%	7.94%
Cost of Funding Earning Assets (median)	1.66%	2.08%	2.80%	4.18%	3.77%
Provisions to Avg. Assets (median)	0.14%	0.17%	0.18%	0.14%	0.14%
Noninterest Income to Avg. Assets (median)	0.58%	0.63%	0.60%	0.60%	0.56%
Overhead to Avg. Assets (median)	2.85%	2.92%	2.92%	2.93%	2.98%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	80.74%	77.70%	77.72%	79.01%	79.80%
Loans to Assets (median %)	67.68%	65.97%	66.60%	67.14%	66.95%
Brokered Deposits (# of Institutions)	30	33	26	22	20
Bro. Deps./Assets (median for above inst.)	4.96%	2.70%	5.64%	4.18%	3.46%
Noncore Funding to Assets (median)	16.24%	16.58%	15.77%	15.17%	13.85%
Core Funding to Assets (median)	72.36%	72.71%	73.56%	74.11%	74.85%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	17	19	20	21	22
National	38	37	35	35	35
State Member	70	75	73	88	90
S&L	3	3	3	3	5
Savings Bank	14	13	12	14	15
Stock and Mutual SB	0	0	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	59	15,614,456	41.55%	8.20%
Washington DC-MD-VA-WV PMSA	32	115,126,323	22.54%	60.49%
Richmond-Petersburg VA	17	50,174,964	11.97%	26.36%
Norfolk-Virginia Bch-Newport News VA-NC	15	4,662,365	10.56%	2.45%
Roanoke VA	6	1,487,255	4.23%	0.78%
Lynchburg VA	5	952,925	3.52%	0.50%
Danville VA	4	1,201,159	2.82%	0.63%
Charlottesville VA	3	550,614	2.11%	0.29%
Johnson City-Kingsport-Bristol TN-VA	1	547,897	0.70%	0.29%