FDIC State Profile

Summer 2004

Vermont

Economic conditions showed improvement in Vermont, as most economic indicators stabilized.

- According to official payroll estimates, while Vermont has yet to experience sustained increases in employment, employment levels are slightly higher than levels of a year ago and only moderately below the pre-recession peak reached in early 2001. Also, the unemployment rate, which rose during the recession through mid-2003, steadied late last year at just over 4.5 percent. According to preliminary data, the rate fell to 3.6 percent in April 2004.

- During this period of improvement in the economy, initial unemployment insurance claims were rising as recently as 2003, owing in part to employment losses in the technology sector. Prior to the recession, seasonally adjusted initial unemployment claims were running as low as 2,700 per month, when averaged over six months. At their peak, levels reached 5,000.

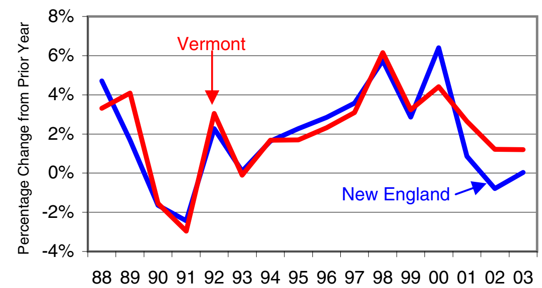
Personal income continued to grow at a strong rate, although slightly lagging the national average.

- Newly released data on the state's personal income performance in 2003 reveal the disparity between Vermont's recent performance in terms of income growth and longer term aspects regarding its economic condition. In terms of *rate of growth* of personal income, Vermont was tied with Maine, and behind Rhode Island, for the second fastest in New England over the past year. Moreover, Vermont outperformed the national growth rate in personal income in 2003, as it had over the prior two years.

- Vermont has not experienced the wide swing in real (inflation-adjusted) personal income per capita experienced in the rest of New England (See Chart 1). Income growth continued through this entire period, though the rate of growth decelerated noticeably in 2002.

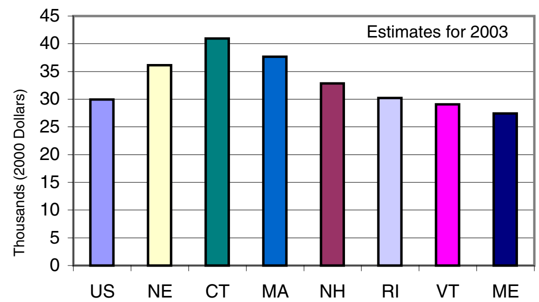
- While personal income growth in Vermont exceeded that in New England over recent years, the *level* of real personal income per capita in Vermont is the second lowest in New England (See Chart 2). Vermont's income level is also slightly below the national level.

Chart 1: Real Per Capita Personal Income has Recently Grown Faster than New England



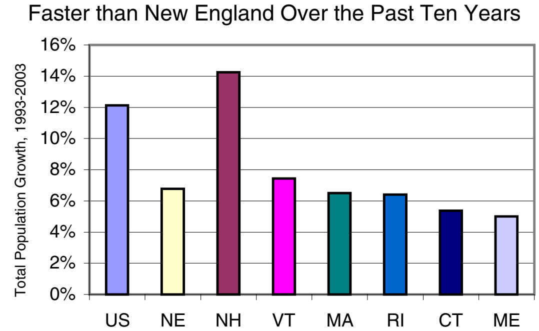
Source: Bureau of Economic Analysis, Haver Analytics

Chart 2: Vermont's Real Per Capita Personal Income is Slightly Below the Nation



Source: Bureau of Economic Analysis, Haver Analytics

Chart 3: Population Growth has been Moderately Faster than New England Over the Past Ten Years



Source: Bureau of the Census, Haver Analytics

Modest population growth will place an upper limit on economic activity.

- Vermont's growth in population is modestly above that of all of New England and about three-fifths as rapid as that of the United States as a whole (See Chart 3). According to New England Economic Partnership estimates, population growth is expected to remain little changed over the years ahead while growth in real personal income per capita accelerates moderately to a pace close to its long-term (fifteen year) average.

Net interest margin compression continues to affect earnings.

- Vermont's community institutions[1] continue to be profitable, but experienced a 13-basis point decline in net earnings during the first quarter of 2004, compared to the same period in 2003 (See Table 1). The low interest rate environment has contributed to the decline in net interest margins as yields on earning assets have declined faster than funding costs. Funding costs are historically low and may have reached effective floors.

- Community institutions strived to maintain profitability in part by improving operating efficiencies and maintaining steady loan-loss provision expenses. These community institutions also continued to utilize gains on the sale of securities.

The number of branches remained relatively stable in Vermont, while out-of-state ownership increased.

- In 1994, there were 261 branches of insured financial institutions in Vermont with none operated by institutions based out-of-state. In 2003, the total number of branches increased slightly to 265 with 89 owned by institutions based elsewhere (See Chart 4).

- Deposits in branches in the state increased from $6.6 billion in 1994 to $9 billion in 2003. Total deposits of Vermont-based institutions declined from $6.6 billion to $6 billion during the same period, as out-of-state institutions increased their presence.

Interest rate risk remains a concern for Vermont's institutions as concentrations of fixed-rate, long-term assets remain high.

- The conventional 30-year mortgage rate has declined significantly over the past several years and is still historically low. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13.5 percent of originations in December 2002 to almost 28 percent as of March 2004. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates.

- As of March 31, 2004, the median ratio of long-term assets to total assets was 26 percent. With the large volume of long term assets on the books, insured institutions may be faced with a mismatch of asset and liability repricing. Net interest margin compression may occur, when short-term interest rates increase, as liabilities reprice at a faster rate than assets (See Chart 5).

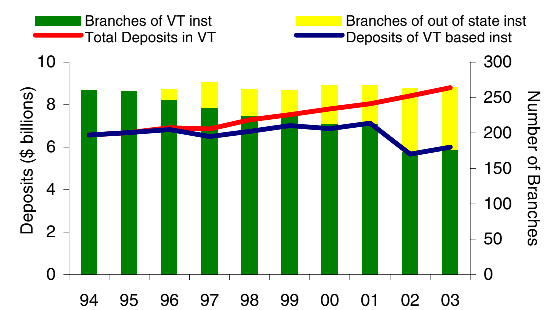
[1] Insured institutions with assets less than $1 billion, excluding institutions less than three years old and specialty institutions.

Table 1: Earnings Hampered by Net Interest Margin Compression

Percentage of Average Assets	First Quarter 2003	First Quarter 2004	Basis Point Change
Net Interest Income	4.02	3.90	-0.12
Total Noninterest Income	0.92	0.82	-0.10
Noninterest Expense	3.50	3.42	-0.08
Provision Expense	0.09	0.09	0.00
Security Gains & Losses	0.14	0.09	-0.05
Income Taxes	0.41	0.35	-0.06
Net Income (ROA)	1.08	0.95	-0.13
Net Interest Margin (NIM)	4.36	4.24	-0.12

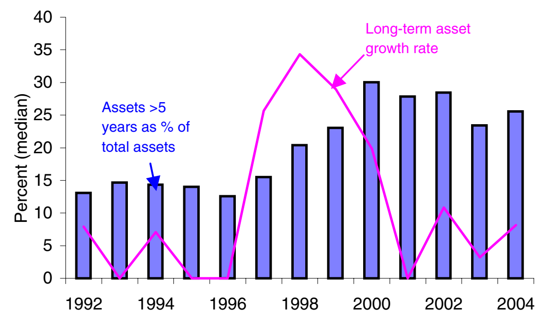
Source: Bank and Thrift Call Reports. Aggregate data for institutions with assets <$1 billion. Excludes specialty institutions and de novos.

Chart 4: Number of Branches Stable but Out-of-State Ownership Increasing



Source: Summary of Deposits. Data as of 2nd quarter.

Chart 5: Long-Term Assets Still Exhibiting Strong Growth



Source: Bank Call Reports, Data as of 1st quarter.

Vermont at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	19	20	20	23	24
Total Assets (in thousands)	7,415,588	7,119,566	6,808,792	8,548,224	8,504,171
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	1

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	8.79	9.16	9.46	8.85	8.83

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.57%	2.32%	2.27%	2.46%	2.27%
Past-Due and Nonaccrual >= 5%	0	0	1	1	1
ALLL/Total Loans (median %)	1.23%	1.27%	1.30%	1.31%	1.42%
ALLL/Noncurrent Loans (median multiple)	1.57	1.67	1.31	1.69	1.70
Net Loan Losses/Loans (aggregate)	0.09%	0.16%	0.09%	0.22%	0.17%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	1	1	0	0	1
Percent Unprofitable	5.26%	5.00%	0.00%	0.00%	4.17%
Return on Assets (median %)	0.84	0.97	1.02	0.99	0.93
25th Percentile	0.61	0.73	0.88	0.78	0.77
Net Interest Margin (median %)	4.25%	4.29%	4.59%	4.66%	4.69%
Yield on Earning Assets (median)	5.44%	5.95%	7.02%	8.19%	8.20%
Cost of Funding Earning Assets (median)	1.06%	1.69%	2.45%	3.65%	3.50%
Provisions to Avg. Assets (median)	0.07%	0.13%	0.13%	0.12%	0.17%
Noninterest Income to Avg. Assets (median)	0.73%	0.82%	0.70%	0.59%	0.59%
Overhead to Avg. Assets (median)	3.47%	3.59%	3.47%	3.42%	3.41%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	82.23%	86.16%	84.47%	84.48%	85.03%
Loans to Assets (median %)	66.69%	70.86%	71.02%	71.78%	69.89%
Brokered Deposits (# of Institutions)	3	1	0	0	5
Bro. Deps./Assets (median for above inst.)	0.14%	1.11%	na	na	0.42%
Noncore Funding to Assets (median)	12.15%	11.67%	11.08%	11.81%	11.67%
Core Funding to Assets (median)	77.56%	78.23%	78.43%	77.18%	78.17%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	6	7	7	7	10
National	8	8	8	11	9
State Member	0	0	0	0	0
S&L	1	1	1	1	1
Savings Bank	1	1	1	1	1
Stock and Mutual SB	3	3	3	3	3

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	16	3,306,597	84.21%	44.59%
Burlington VT	3	4,108,991	15.79%	55.41%