FDIC State Profile

Spring 2004

Virginia

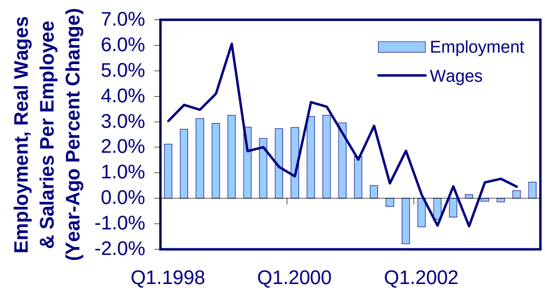
Virginia continues its modest recovery.

- Virginia's economic performance steadily improved throughout 2003 (See Chart 1), in terms of job growth, albeit slowly. Modest job growth has contributed to declines in the rate of unemployment. By the end of 2003, jobless rates were approaching 3.5 percent, which was well below the national average. Similarly, initial unemployment claims have slowly retreated from their peak in mid-2003.

- Economic conditions continued to vary widely across the state. Virtually all of the job growth was concentrated in the Norfolk MSA and Northern Virginia. Typically, jobless rates have been comparatively low in these areas (See Map 1). Roanoke also reported a low unemployment rate; however, this may have been partially the result of declines in the area's labor force as opposed to job growth.

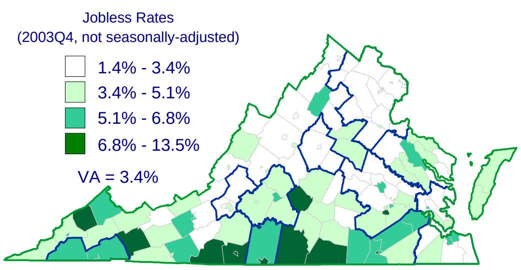
- County jobless rates remained highest in the traditionally manufacturing-dominated counties in the southwest and along the North Carolina border. A number of these counties also have seen jobless rates rise significantly over the past year as layoffs in textiles and furniture industries have continued. Newer industries, however, may not be risk-free either as reflected by Travelocity's recent plans to close its three-year old call center in Dickenson County and layoff 300 employees.

Chart 1: Modest Job Growth in Virginia Continues



Source: Bureau of Labor Statistics, Bureau of Economic Analysis (Haver Analytics)

Map 1: Jobless Rates Vary Widely Across Virginia Counties

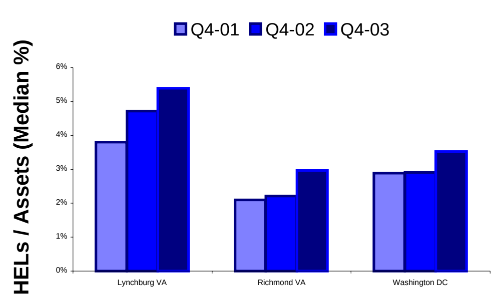


Note: Dark outlined counties are metropolitan areas (1999 definitions).
Source: Bureau of Labor Statistics/Haver Analytics

Commercial real estate markets may be showing some signs of recovery.

- Commercial real estate conditions in the state's major metropolitan markets may have started showing signs of a modest recovery as economic growth slowly returned. Northern Virginia's office market's vacancy rate declined during the first three quarters of 2003, but absorption remains well below levels seen during the tech boom of the late 1990s. Multifamily and retail markets have improved in Norfolk, but office markets are being adversely affected by the movement of employment offshore. Richmond's office market remains mixed as Phillip Morris's announcement to move its headquarters to the state capital was offset by the plans of Circuit City and Capital One to vacate large amounts of space. The

Chart 2: Growth in Home Equity Loans is picking up in Several MSAs



Source: Bank Call Reports: December 31st.

health of Richmond's retail market may depend on the success of two regional malls, which opened in 2003.

- Residential real estate market conditions in Virginia remained healthy in 2003 with home sales and median sales price rising 11.3 percent and 8.4 percent, respectively. Markets locally, however, varied substantially depending on area economic conditions. Northern Virginia and the Dulles areas continued to see home prices and sales increases well into the double-digits with median home values in excess of $300,000. Norfolk and Richmond saw comparatively more modest gains, while markets such as the Dan River and the Martinsville area saw actual declines in median home sales prices in 2003.

- Virginia's budget problems may result in looming tax hikes, despite some recent increases in state tax collections. However, finance officials have reported that revenues have grown more slowly than expected.

Banking conditions at Virginia community banks remain generally sound, but some deterioration in asset quality has started to emerge.

- Net income at Virginia community banks reached a record high $316 million for the year ending December 31, 2003.[1] Despite record net income, both the median return-on-assets (ROA) and net interest margin (NIM) ratios experienced declines, although remaining mostly in line with the national medians at 1.1 percent and 4 percent, respectively. Lower provision expenses and higher noninterest revenues were unable to offset the decline in net interest income for the year. Only 52 percent (59 banks) of Virginia's community banks reported a positive change in ROA, with just over 38 percent (43 banks) reporting a positive change in NIM in 2003.

- Loan growth at Virginia community banks surged in 2003. The median loan-to-asset ratio grew to 78.8 percent, a gain of 190 basis points from a year earlier. The loan portfolio was driven higher primarily by increases in commercial real estate (CRE) loans.[2] Despite the robust growth in the CRE loan portfolio, some deterioration in asset quality was reported by community banks as noncurrent loan levels rose noticeably across all sectors of CRE.

Commercial real estate loan growth continues to be robust.

- Commercial real estate (CRE) lending continues to grow at many banks in the state. During 2003, rapid growth occurred at banks in the Richmond-Petersburg MSA and Roanoke MSA. Notable expansions were reported at banks in metro Washington, D.C. and the Norfolk-Virginia Beach MSA. Exposure levels at banks in the Roanoke MSA and Richmond-Petersburg MSA are well above the national urban levels.

- Construction and development (C&D) lending grew at a more modest pace. Leading the way were banks in metro Washington, D.C. and those in the Richmond market. Slight declines occurred at banks in Roanoke and those in the Norfolk-Virginia Beach MSA. However, the exposure levels in all of the major markets of the state are above the national urban level.

- At urban community banks in the state, median home equity loans (HEL) jumped 47 basis points over the past two years, increasing to 3.2 percent of assets at December 31, 2003. Growth in this loan category was driven primarily by banks located in the Lynchburg MSA, where HELs as a percentage of assets rose by 1.6 percentage points since December 31, 2001 (See Chart 2). Generally, weak wage and salary growth in the state may contribute to borrowers using their home equity to support consumption. If so, prolonged weakness in the labor markets and higher interest rates could impair debt service capacity, should the rise in home values slow.

- Median Tier 1 capital remains in good condition at 8.5 percent, although below the national median of 9.1 percent. While median reserve levels fell during the year, the reserve coverage remained a healthy 2.4 times noncurrent loans at year-end 2003, comfortably above the national median of 1.9 times.

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[1] Community banks have assets less than $1billion.

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

Virginia at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	141	146	154	162	168
Total Assets (in thousands)	181,593,283	151,322,453	106,817,095	91,189,054	102,760,122
New Institutions (# < 3 years)	8	9	17	26	24
New Institutions (# < 9 years)	40	39	37	38	34

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	8.50	8.30	8.33	8.93	9.04

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	1.52%	1.26%	1.75%	1.71%	1.41%
Past-Due and Nonaccrual >= 5%	8	14	16	14	11
ALLL/Total Loans (median %)	1.21%	1.21%	1.15%	1.17%	1.11%
ALLL/Noncurrent Loans (median multiple)	2.36	3.01	2.52	2.23	2.12
Net Loan Losses/Loans (aggregate)	1.80%	1.24%	1.11%	1.03%	0.58%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	11	14	14	15	25
Percent Unprofitable	7.80%	9.59%	9.09%	9.26%	14.88%
Return on Assets (median %)	1.07	1.09	0.90	1.09	1.09
25th Percentile	0.68	0.80	0.53	0.61	0.57
Net Interest Margin (median %)	3.97%	4.16%	3.97%	4.28%	4.29%
Yield on Earning Assets (median)	5.95%	6.68%	7.64%	8.19%	7.74%
Cost of Funding Earning Assets (median)	1.93%	2.52%	3.83%	4.03%	3.58%
Provisions to Avg. Assets (median)	0.20%	0.23%	0.19%	0.19%	0.16%
Noninterest Income to Avg. Assets (median)	0.64%	0.64%	0.65%	0.62%	0.59%
Overhead to Avg. Assets (median)	2.91%	2.92%	3.01%	2.96%	3.03%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	79.88%	77.77%	77.84%	79.59%	79.12%
Loans to Assets (median %)	66.67%	65.58%	66.42%	67.02%	65.54%
Brokered Deposits (# of Institutions)	30	31	26	18	19
Bro. Deps./Assets (median for above inst.)	2.75%	2.86%	5.59%	8.42%	2.87%
Noncore Funding to Assets (median)	16.41%	16.27%	15.42%	15.52%	13.55%
Core Funding to Assets (median)	72.56%	72.90%	73.98%	73.62%	75.34%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	18	19	20	20	22
National	38	37	36	35	35
State Member	69	74	82	88	90
S&L	3	3	3	4	5
Savings Bank	13	13	12	14	15
Stock and Mutual SB	0	0	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	59	15,318,399	41.84%	8.44%
Washington DC-MD-VA-WV PMSA	32	108,911,012	22.70%	59.98%
Richmond-Petersburg VA	16	48,276,989	11.35%	26.59%
Norfolk-Virginia Bch-Newport News VA-NC	15	4,430,688	10.64%	2.44%
Roanoke VA	6	1,469,008	4.26%	0.81%
Lynchburg VA	5	925,068	3.55%	0.51%
Danville VA	4	1,203,905	2.84%	0.66%
Charlottesville VA	3	519,190	2.13%	0.29%
Johnson City-Kingsport-Bristol TN-VA	1	539,024	0.71%	0.30%