

FDIC State Profile

Fall 2004

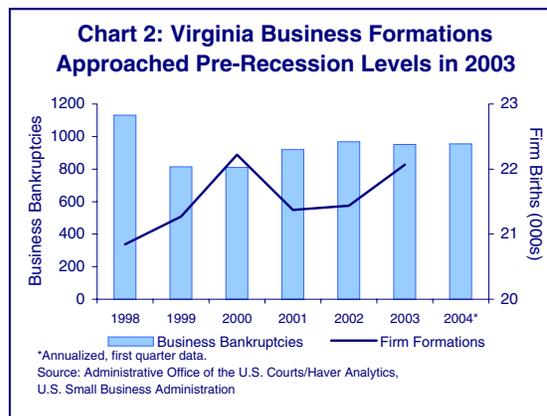
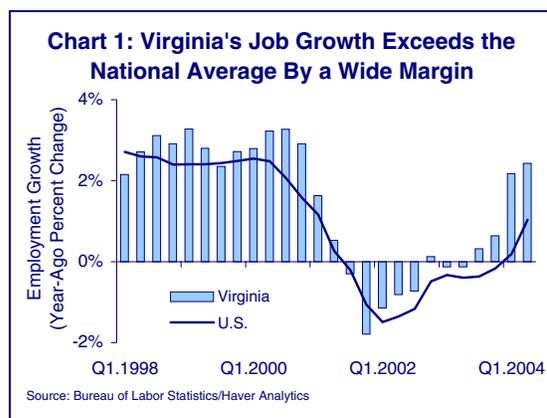
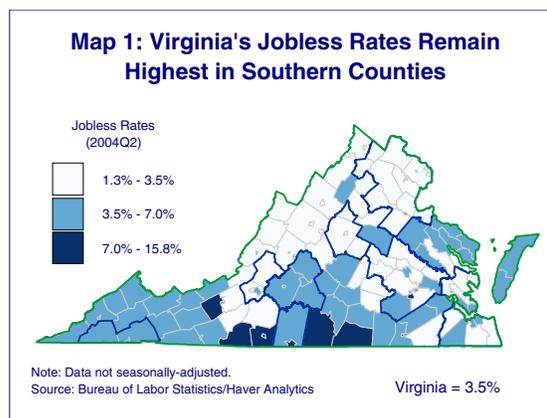
Virginia

Virginia continues to outshine the nation in job growth.

- Virginia's economic performance continued to improve through the first half of 2004. Jobless rates, at 3.5 percent in second quarter 2004, were the third lowest in the nation and nearly 2 percentage points below the national average. The state's economic strength lies in the northern portion of the state, and preliminary data for the third quarter suggests no signs of slowing (See Map 1).
- Employment set an all-time record of more than 3.618 million jobs in June 2004, surpassing the pre-recession high in December 2000 of 3.597 million. Positive job growth in the state re-emerged in July 2003, well in advance of the nation, which did not see a return to year-over-year gains until March 2004.¹ The most impressive job growth remains concentrated in the **Northern Virginia** metropolitan area, which ranked eighth highest in the nation, and in the **Norfolk** and **Charlottesville** metropolitan areas. Virginia's job growth exceeded the national average by a wide margin (See Chart 1).

Statewide jobless claims continue to drop, but labor markets remain weak in areas where traditional manufacturing is located.

- Virginia residents drawing unemployment benefits in June 2004 numbered 35,000 compared to year ago filings of 50,000.² Record job creation provided greater opportunities for new graduates and summer workers than in most other areas of the nation. The 52-week moving average on initial unemployment insurance claims has trended downward since the end of the 2001 recession.
- Although the state's unemployment rate is low compared to the nation, weakness in the textiles, apparel and furniture industries has adversely affected labor market conditions in areas along the North Carolina border. County jobless rates remained highest in the traditionally manufacturing-dominated counties of **Floyd, Patrick, Henry, Halifax** and **Mecklenburg Counties**.



¹Commonwealth of Virginia, Virginia Employment Commission, Press release, July 22, 2004.
²Ibid.

State Profile

Active hurricane season may affect the state's economy.

- Flooding caused by Tropical Storm Gaston devastated parts of downtown Richmond. Recent activity may be part of a trend in increasingly frequent and severe storms in the Atlantic basin. From the 1960s through the mid-1990s, hurricane activity (with notable exceptions) was generally moderate. A higher probability of storm strikes, combined with greater physical exposure, may result in a greater likelihood of large economic losses in the future.

Improving economic conditions support new business formations in Virginia.

- Supported by improving economic conditions, new business creation in Virginia has posted modest gains following two lackluster years (See Chart 2). A total of 22,069 new businesses were formed in 2003, which is comparable to the volume of pre-recession levels. Business bankruptcies have held relatively steady since 2002, but are down significantly since 2001.

Home price appreciation varies widely across the state, and housing related lending is growing rapidly.

- Home price appreciation has tracked economic conditions. Some areas in Northern Virginia have seen median sales prices rise by more than 20 percent over the past year, in contrast to outright declines in areas such as **Martinsville-Henry County** in southern Virginia. Affordability issues in some markets are contributing to an increased usage of adjustable rate mortgage products. Debt service ability may be reduced in a rising interest rate environment.
- Construction and development (C&D) and home equity loans continued to be the fastest growing loan segments during this period, increasing 45 and 34 percent, respectively (See Chart 3). Among the larger MSAs, **Richmond** and **Roanoke** have been some of the most active markets in terms of C&D exposures. As of June 30, 2004, these markets ranked 49th and 52nd nationally out of 227 markets, respectively, for C&D loans relative to capital.

Despite a slowdown in earnings, banks in Virginia report solid performance.

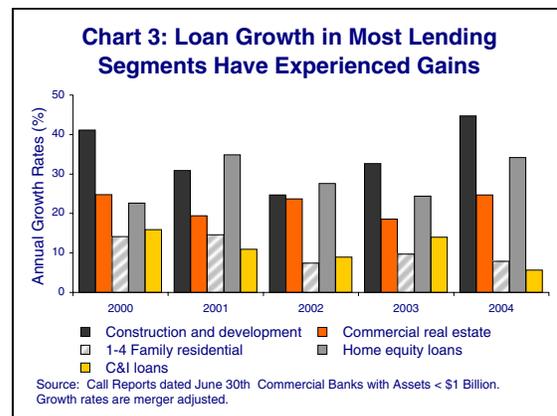
- Virginia community banks remained in solid condition.³ Despite slowing earnings growth, net income levels eclipsed their previous year's high. At the end of the second quarter 2004, net revenue reached \$149 million, up from \$145 million in the previous year. Improved

efficiencies were able to mitigate declines in both interest and noninterest income, which added to earnings.

- Nevertheless, profitability measures were lower during the 12 months ending June 30, 2004, as both net interest margins (NIM) and return on assets experienced declines. NIM fell 11 basis points as earning asset yields dropped more than funding cost.

Securities portfolios suffered due to rising interest rates as loan portfolio quality measures improved.

- A spike in interest rates during the second quarter had significant adverse implications for security portfolio market valuation for Virginia headquartered institutions. After reporting *appreciation* of 0.97 percent in the first quarter, banks reported *depreciation* of 1.9 percent during the subsequent quarter—a negative swing of more than 250 basis points. Security portfolio valuations are likely to fluctuate further because of the anticipated changes in the interest rate environment.
- Asset quality measures improved during the 12 months ending June 30, 2004, to finish the period at 1.72 percent, down from 1.82 percent a year earlier. Capital levels were sufficient to handle any unexpected problems with asset quality, but remained lower than the national average at 9.01 percent. Tier 1 leverage capital for the nation is 9.7 percent.



³Community banks have assets less than \$1 billion dollars in assets and exclude thrifts.

Virginia at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	141	146	143	163	169
Total Assets (in thousands)	199,997,852	164,330,451	118,010,016	98,896,947	82,734,942
New Institutions (# < 3 years)	12	9	12	23	24
New Institutions (# < 9 years)	42	41	37	37	36
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	8.61	8.63	8.66	8.78	9.11
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.18%	1.22%	1.39%	1.44%	1.47%
Past-Due and Nonaccrual >= 5%	9	13	15	15	7
ALLL/Total Loans (median %)	1.19%	1.20%	1.16%	1.10%	1.13%
ALLL/Noncurrent Loans (median multiple)	3.05	3.15	3.46	2.74	2.12
Net Loan Losses/Loans (aggregate)	1.06%	2.06%	1.21%	1.10%	0.83%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	13	10	15	15	19
Percent Unprofitable	9.22%	6.85%	10.49%	9.20%	11.24%
Return on Assets (median %)	1.00	1.15	1.08	0.95	1.13
25th Percentile	0.69	0.77	0.77	0.49	0.68
Net Interest Margin (median %)	3.90%	4.03%	4.14%	4.00%	4.34%
Yield on Earning Assets (median)	5.56%	6.02%	6.90%	7.92%	8.04%
Cost of Funding Earning Assets (median)	1.67%	2.03%	2.71%	4.12%	3.83%
Provisions to Avg. Assets (median)	0.15%	0.17%	0.20%	0.16%	0.14%
Noninterest Income to Avg. Assets (median)	0.60%	0.64%	0.62%	0.64%	0.61%
Overhead to Avg. Assets (median)	2.87%	2.89%	2.91%	2.97%	2.97%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	83.10%	77.78%	78.92%	79.28%	81.56%
Loans to Assets (median %)	69.46%	65.85%	67.11%	67.25%	67.57%
Brokered Deposits (# of Institutions)	30	33	26	23	20
Bro. Deps./Assets (median for above inst.)	5.06%	2.74%	4.21%	3.99%	7.21%
Noncore Funding to Assets (median)	16.80%	15.99%	15.94%	15.48%	14.79%
Core Funding to Assets (median)	72.28%	73.35%	73.78%	73.85%	73.78%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	17	18	20	21	21
National	38	38	34	36	35
State Member	70	74	74	88	92
S&L	3	3	3	3	5
Savings Bank	13	13	12	14	15
Stock and Mutual SB	0	0	0	1	1
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	59	16,073,573	41.84%	8.04%	
Washington DC-MD-VA-WV PMSA	32	123,182,768	22.70%	61.59%	
Richmond-Petersburg VA	17	51,275,972	12.06%	25.64%	
Norfolk-Virginia Bch-Newport News VA-NC	14	4,640,553	9.93%	2.32%	
Roanoke VA	6	1,539,711	4.26%	0.77%	
Lynchburg VA	5	946,628	3.55%	0.47%	
Danville VA	4	1,190,467	2.84%	0.60%	
Charlottesville VA	3	601,492	2.13%	0.30%	
Johnson City-Kingsport-Bristol TN-VA	1	546,688	0.71%	0.27%	