

22nd ANNUAL MANAGEMENT AND DIRECTORS SEMINAR

“THE CREDIT AND COMPLIANCE CRUNCH: NEW PRIORITIES”

December 12, 2007 – Palace Hotel, San Francisco
December 13, 2007 – Hyatt Regency, Orange County



Current California Banking Issues

Presented by:

Craig Carlson, Senior Deputy Commissioner & Chief Examiner
California Department of Financial Institutions

Current California Banking Issues

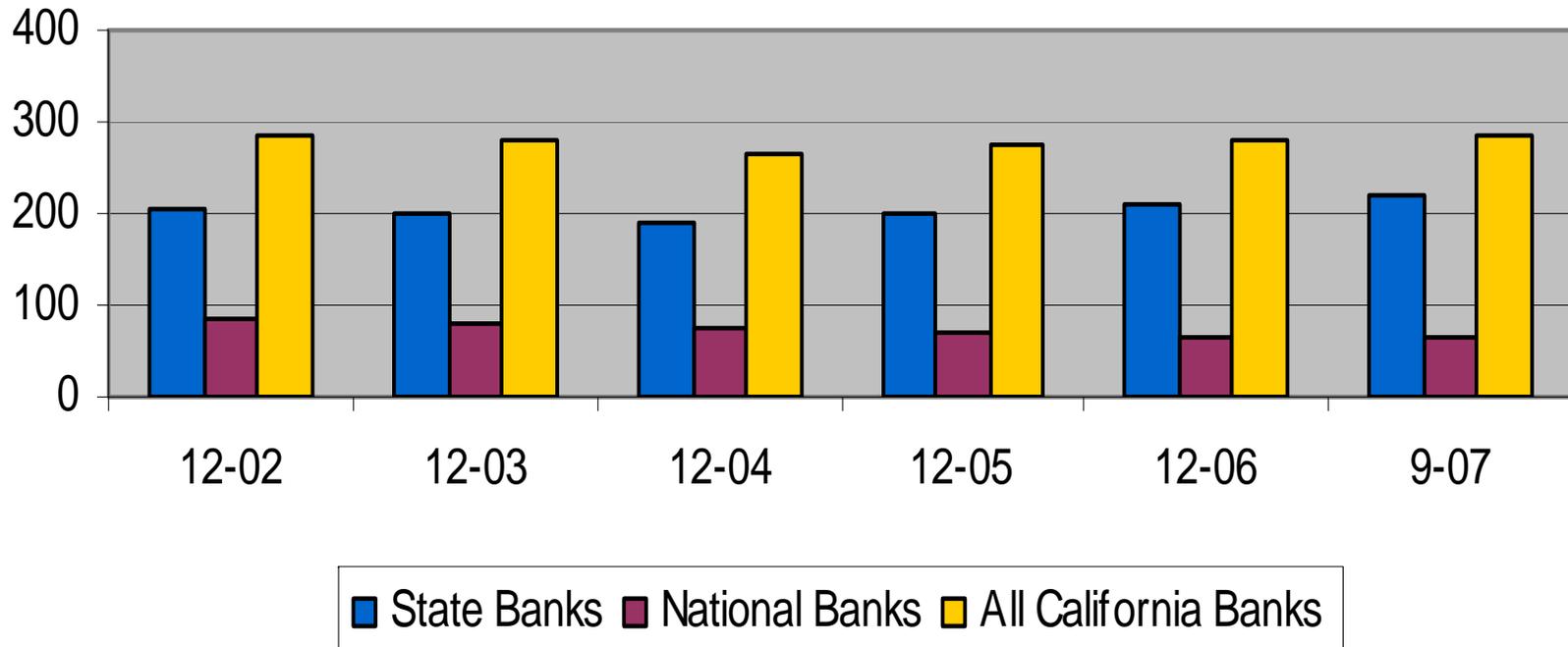
- Financial Highlights as of 9/30/07
- Subprime/NTM Issues
- Examination Trends
- De Novo Bank Activity
- Looking Forward - Priorities & Discussion Points
- Q & A



Financial Highlights as of September 30, 2007

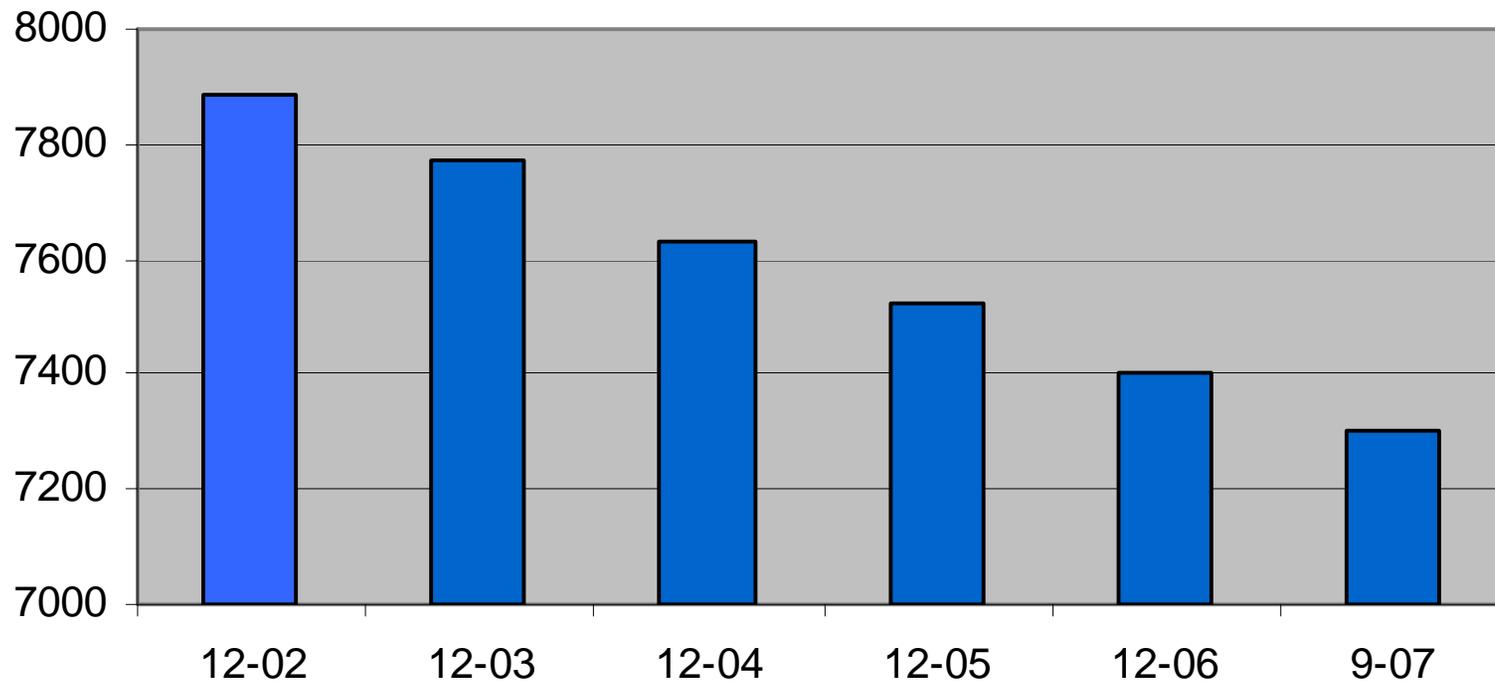
Summary Items

Number of Banks - California



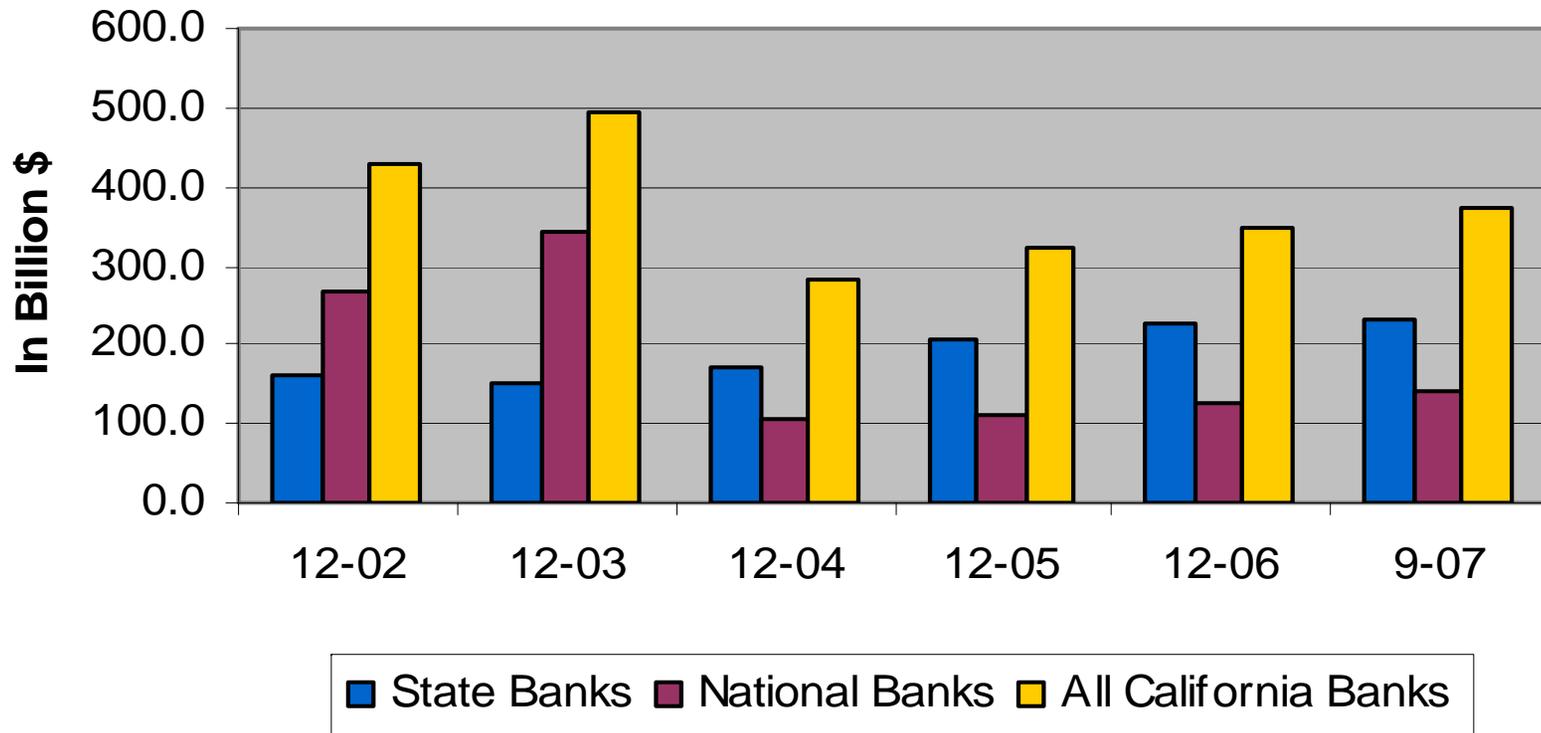
Summary Items

Number of Banks - All U.S.



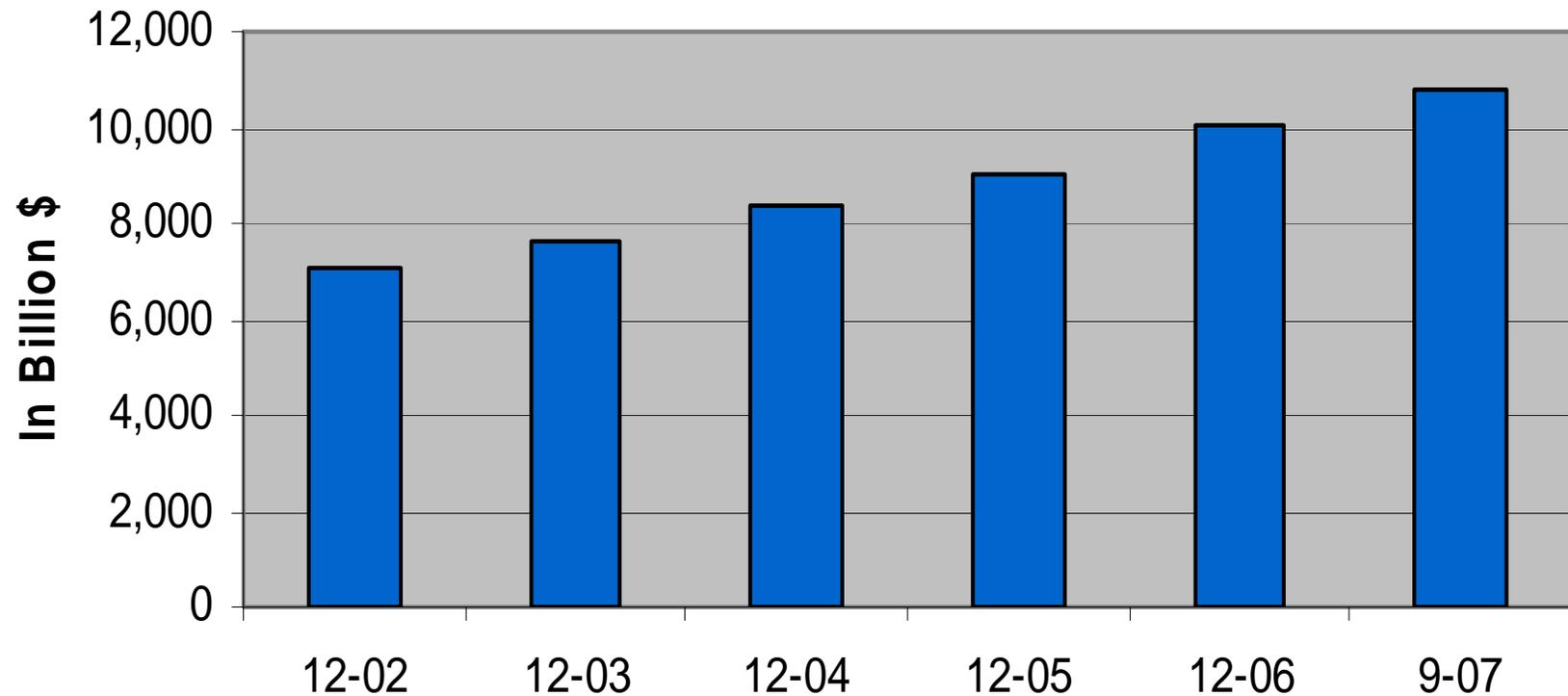
Summary Items

Total Assets - California



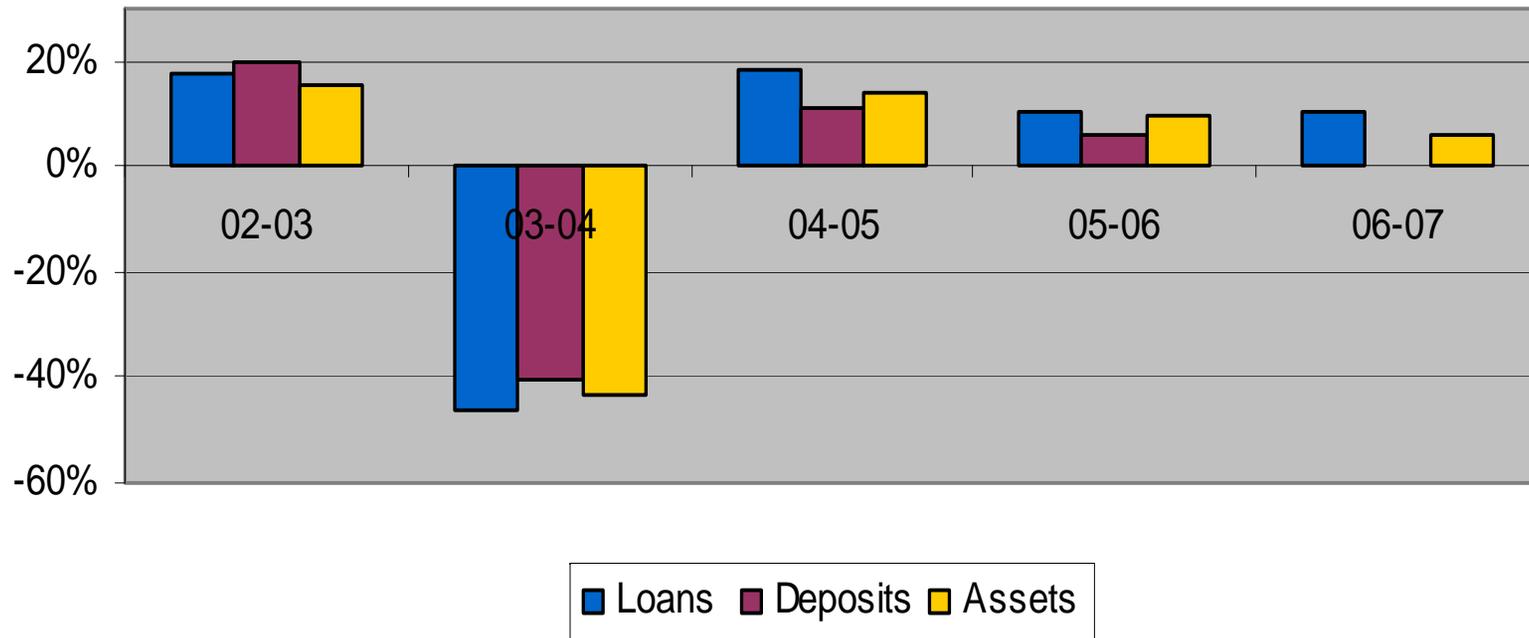
Summary Items

Total Assets - All U.S. Banks



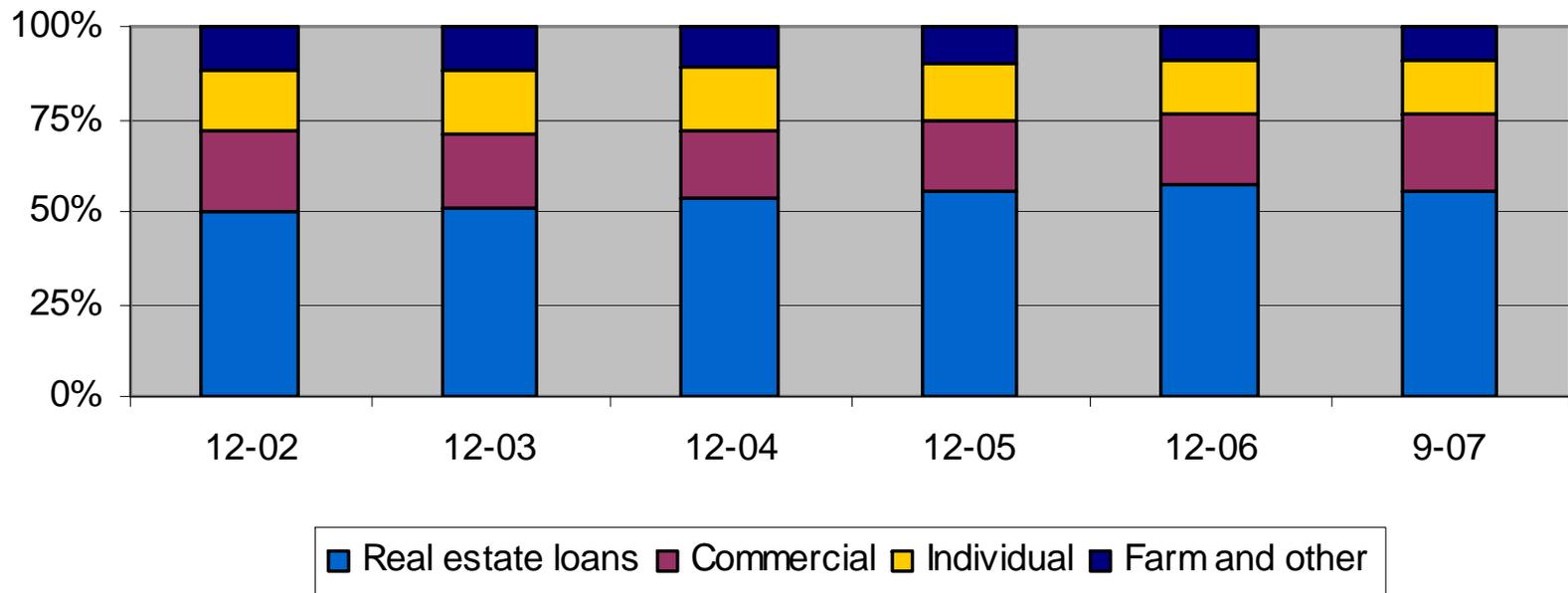
Balance Sheet Highlights

Growth Rates - Loans, Deposits and Assets All California Banks



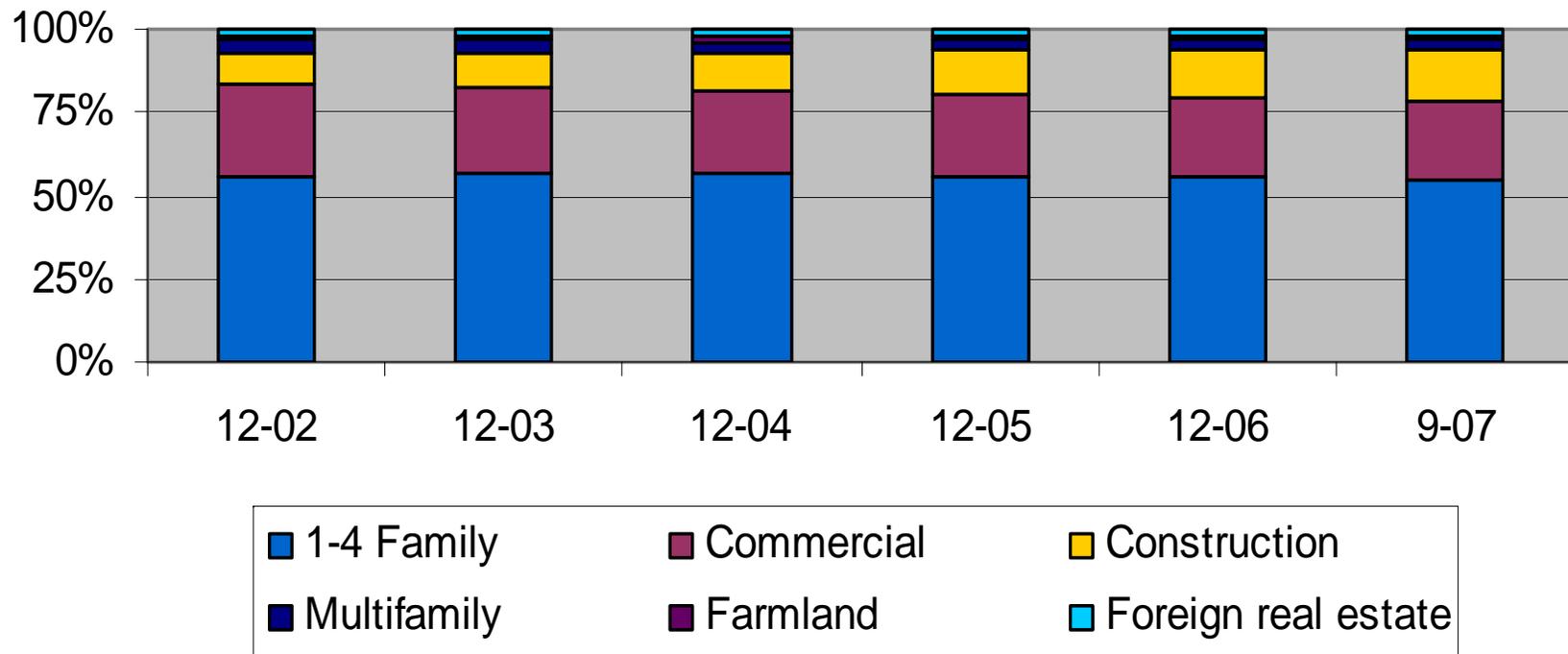
Balance Sheet Highlights

Loan Mix - All U.S. Banks



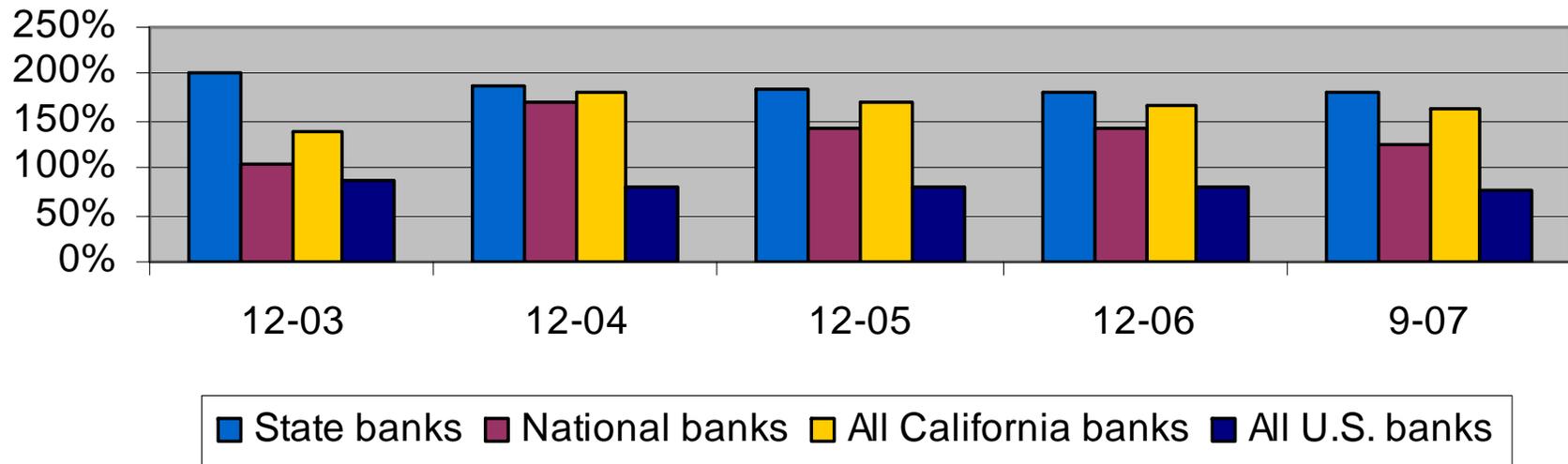
Balance Sheet Highlights

Real Estate Loan Mix - All U.S. Banks



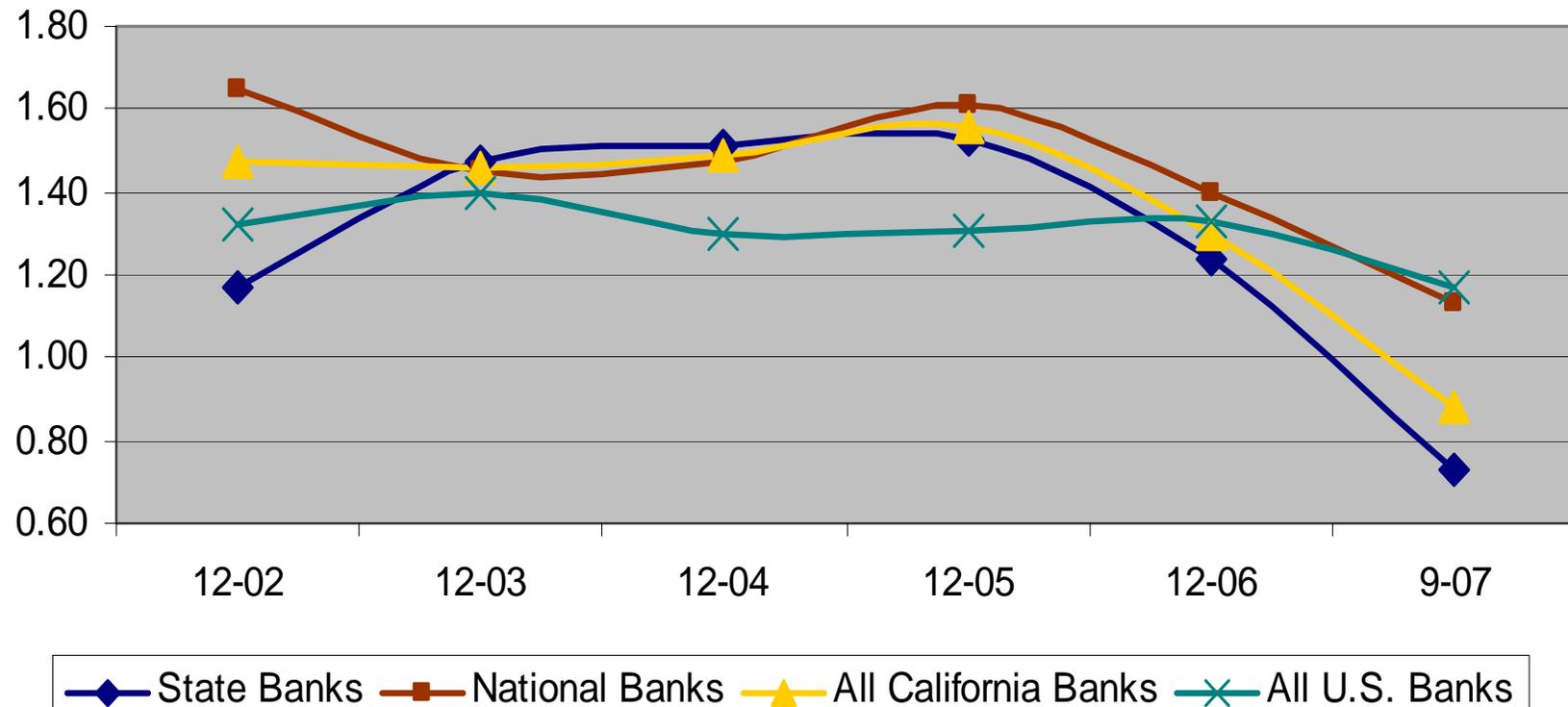
Performance Measures

Commercial Real Estate Loans to Total Equity Capital



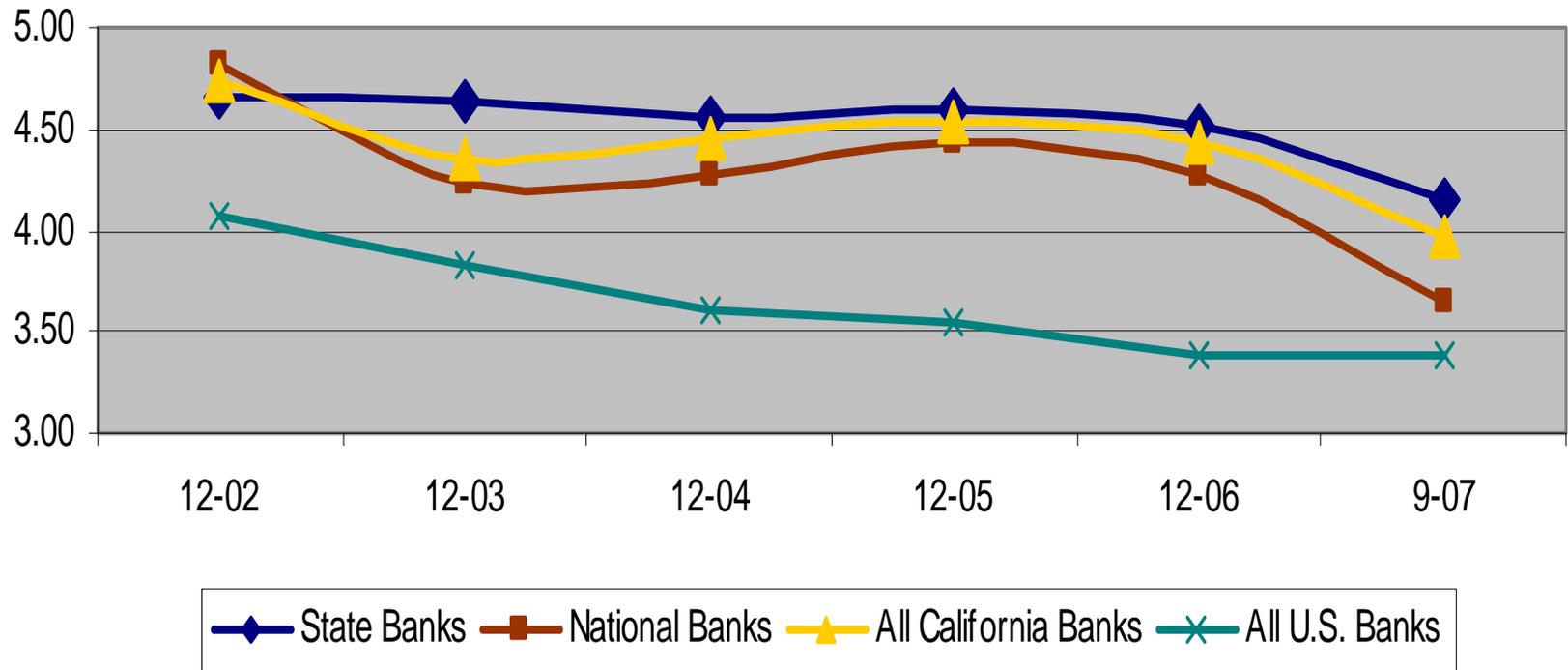
Performance Measures

ROA has been trending down to lowest level since 2002.



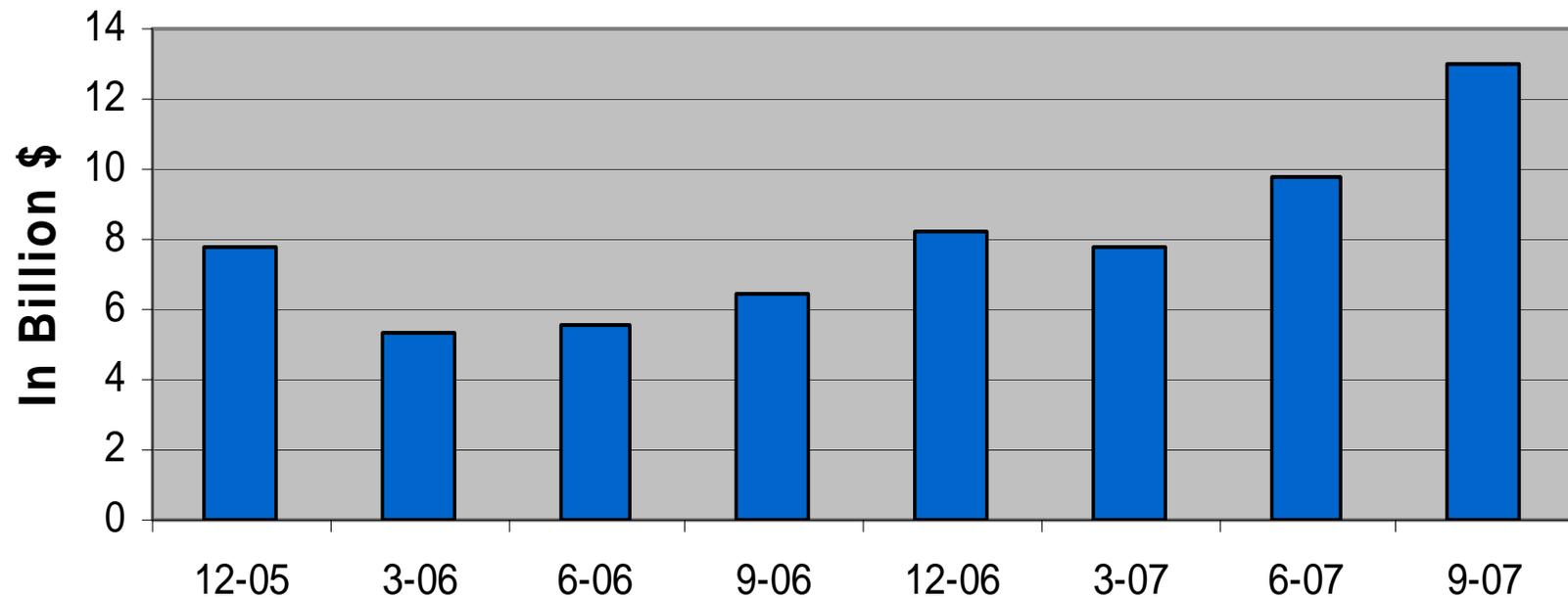
Performance Measures

Net Interest Margin



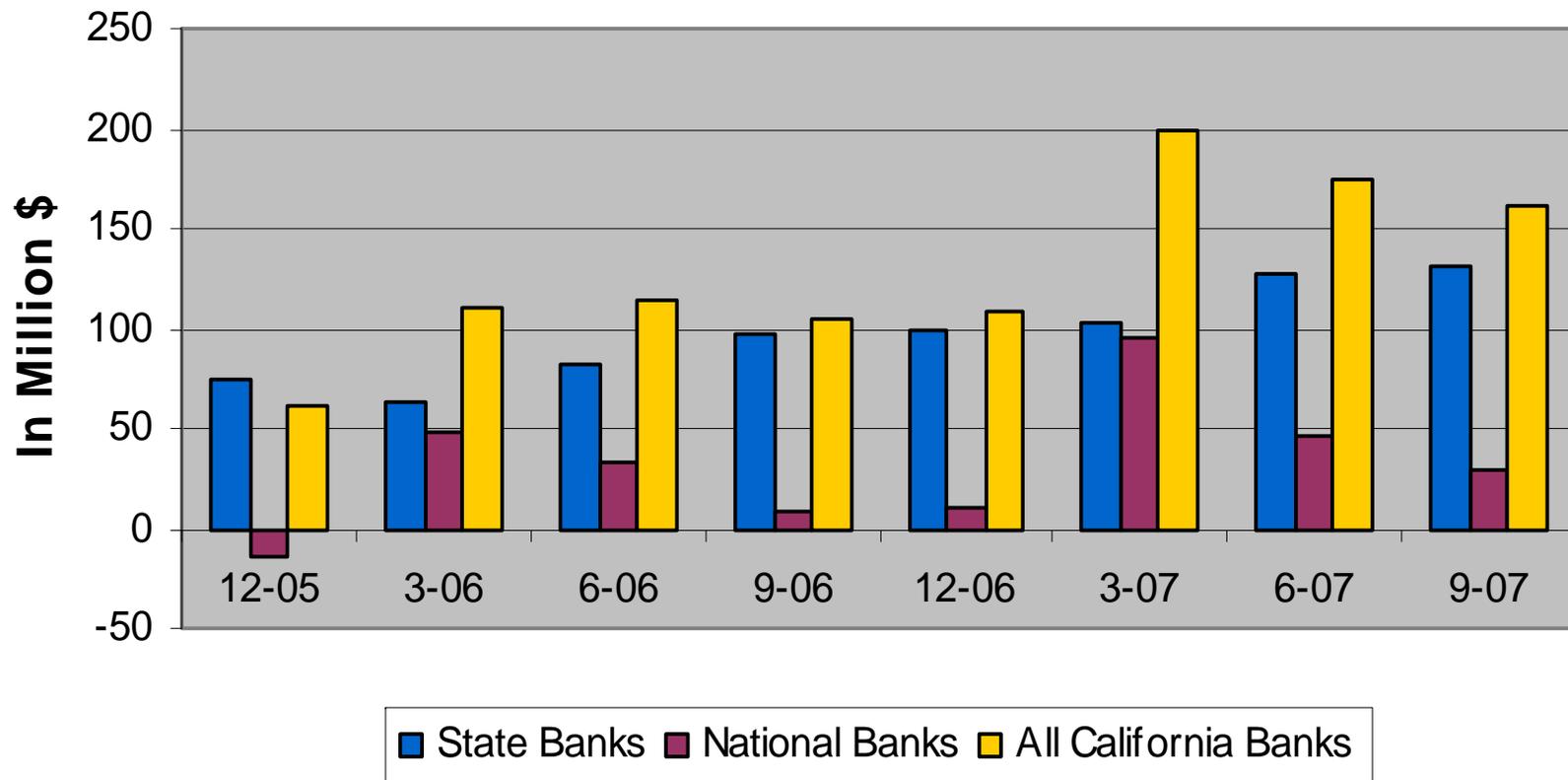
Performance Measures

Quarterly Provision for Loan Losses
All U.S. Banks



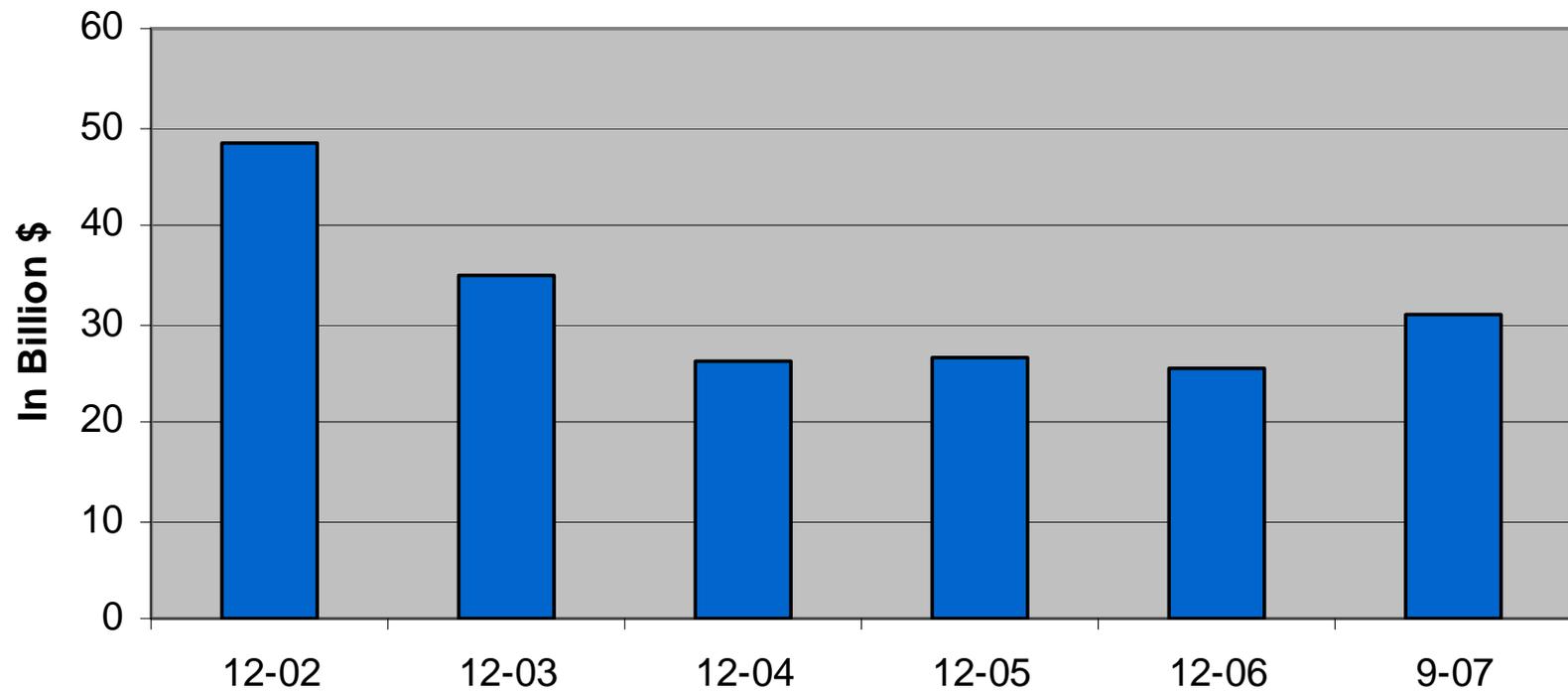
Performance Measures

Quarterly Provision for Loan Losses



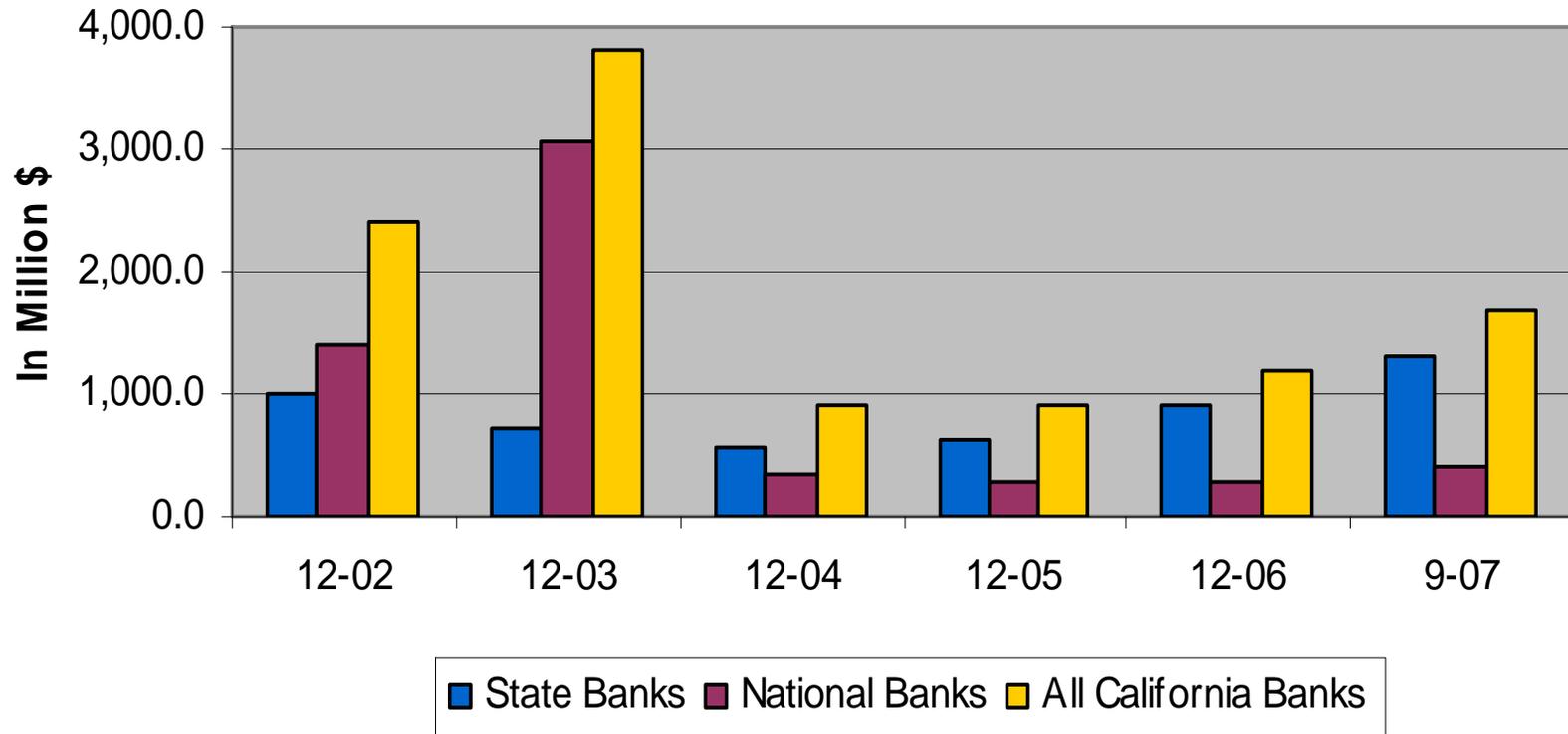
Asset Quality

Noncurrent Loans and Leases - All U.S. Banks



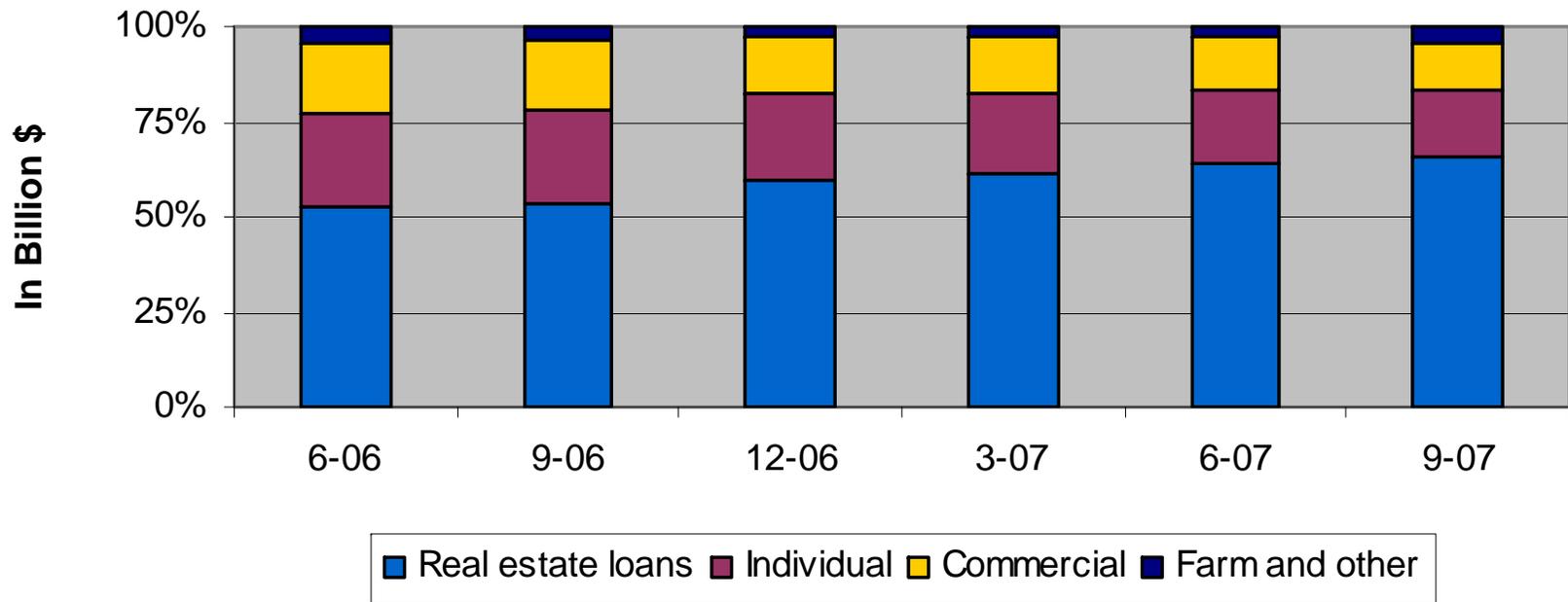
Asset Quality

Noncurrent Loans and Leases



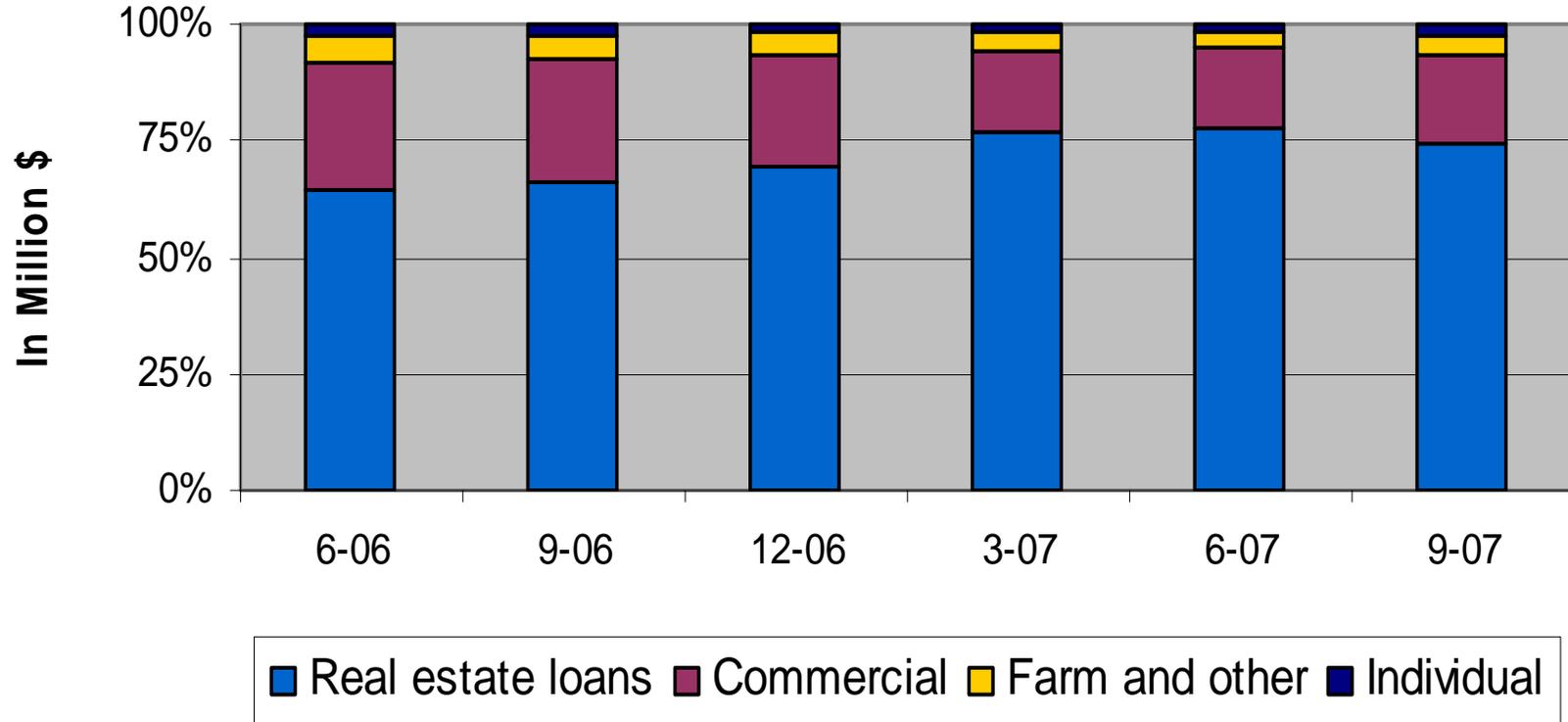
Asset Quality

Noncurrent Loans by Type - All U.S. Banks



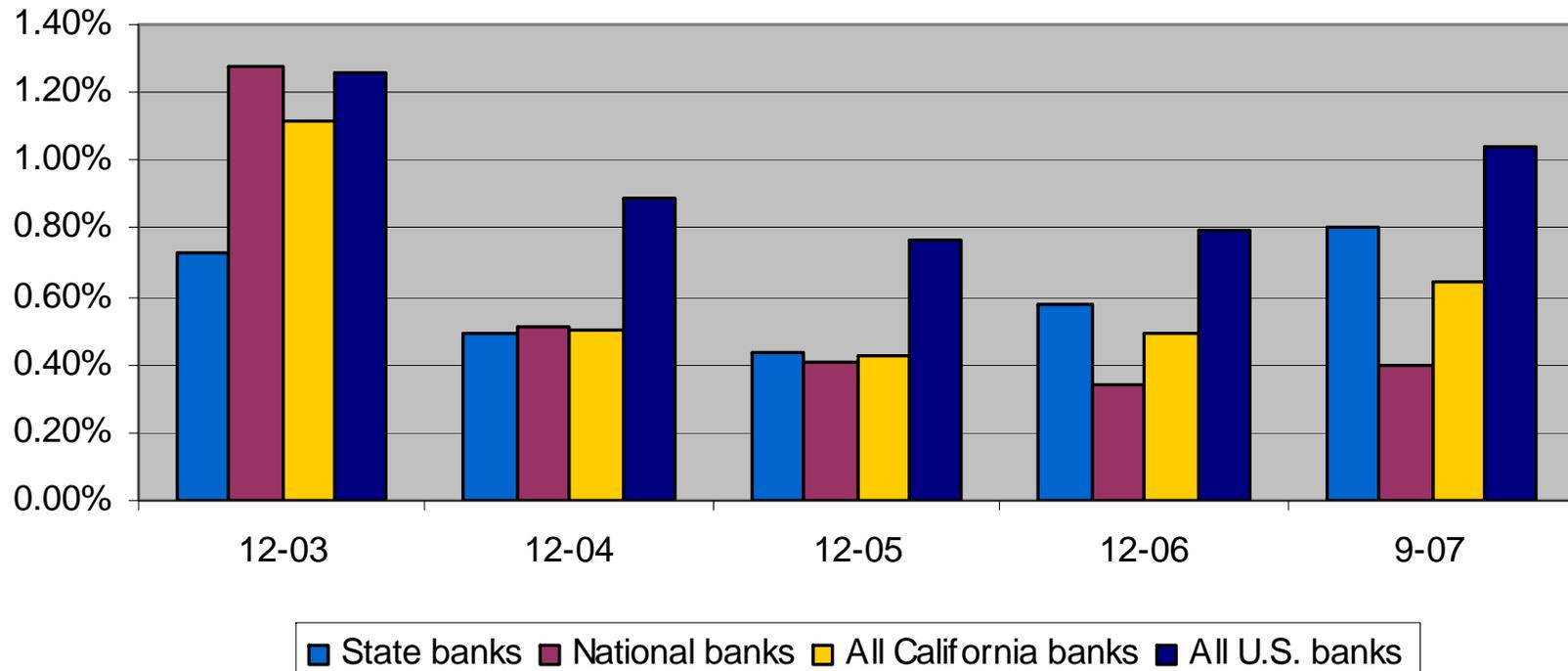
Asset Quality

Noncurrent Loans by Type - All California Banks



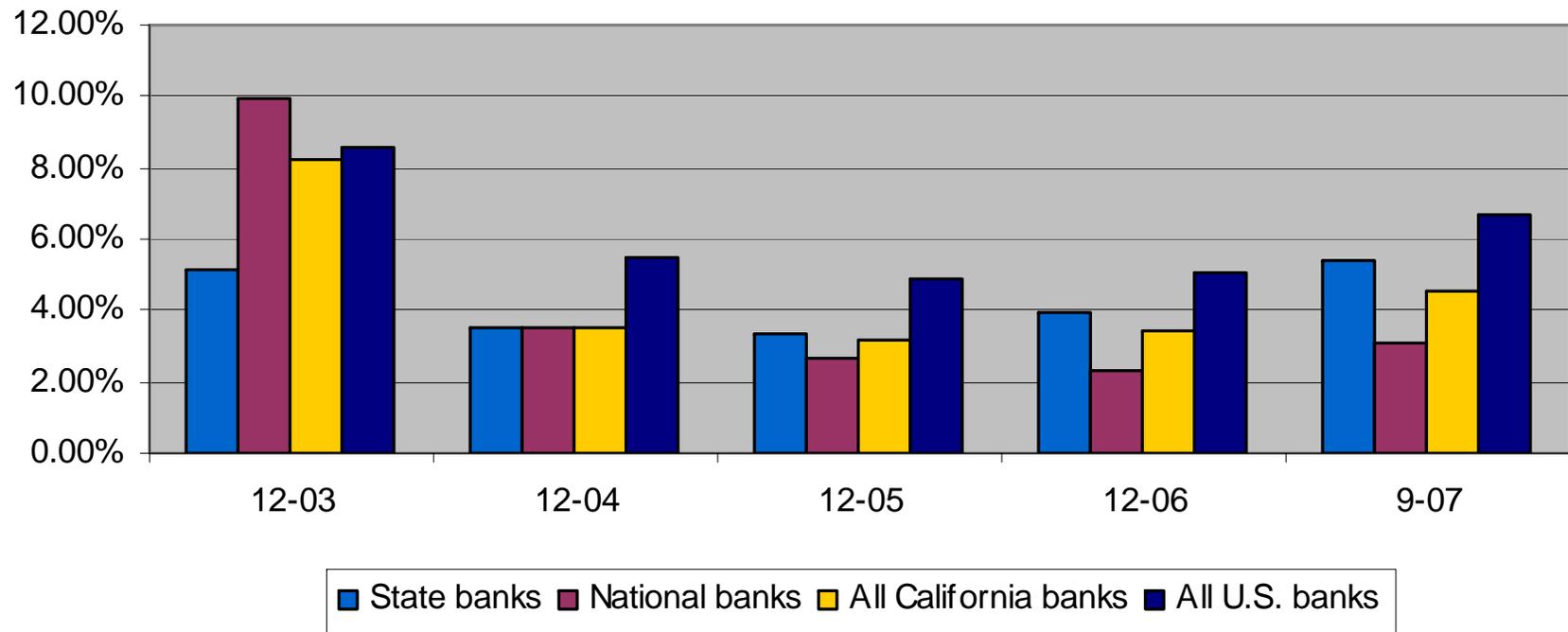
Asset Quality

Noncurrent Loans to Total Loans



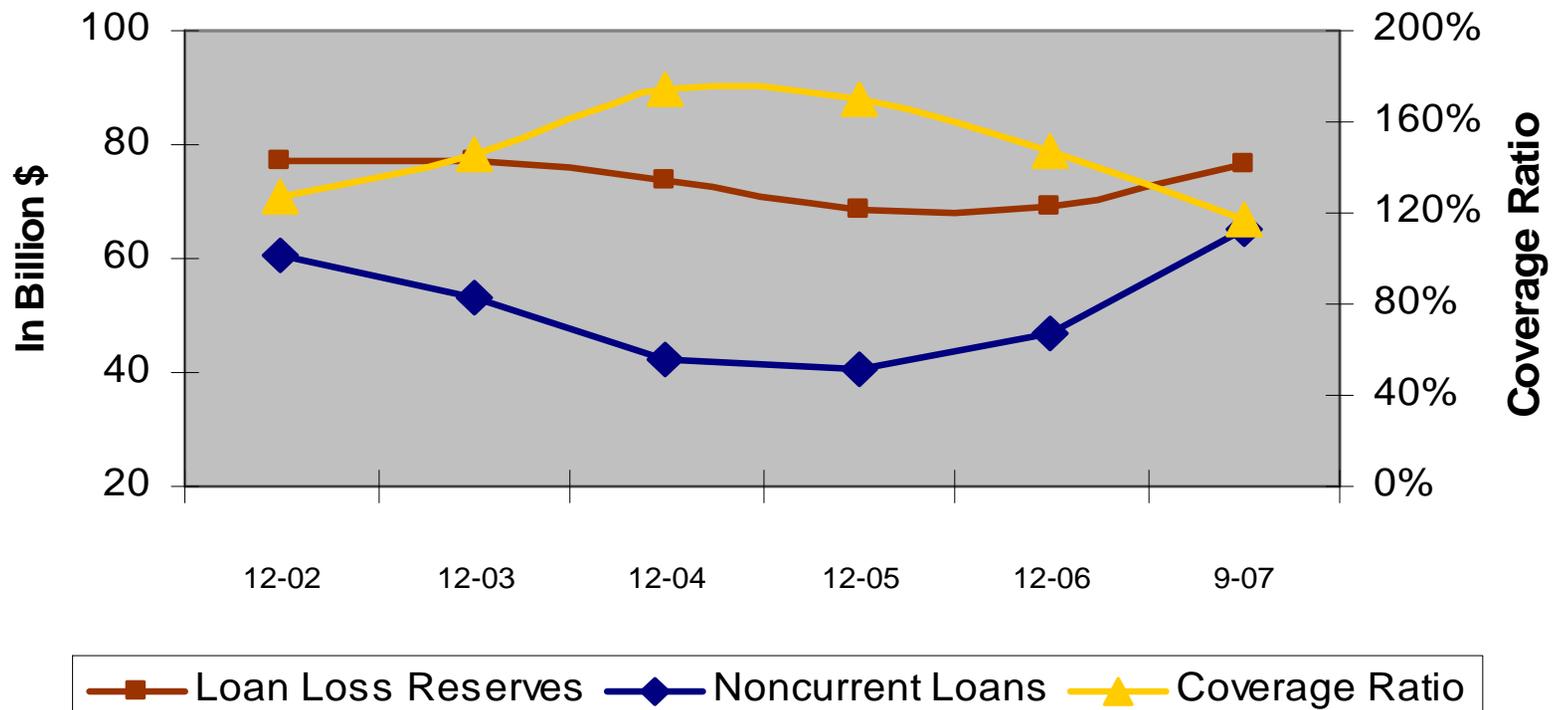
Asset Quality

Noncurrent Loans + ORE to Total Equity Capital



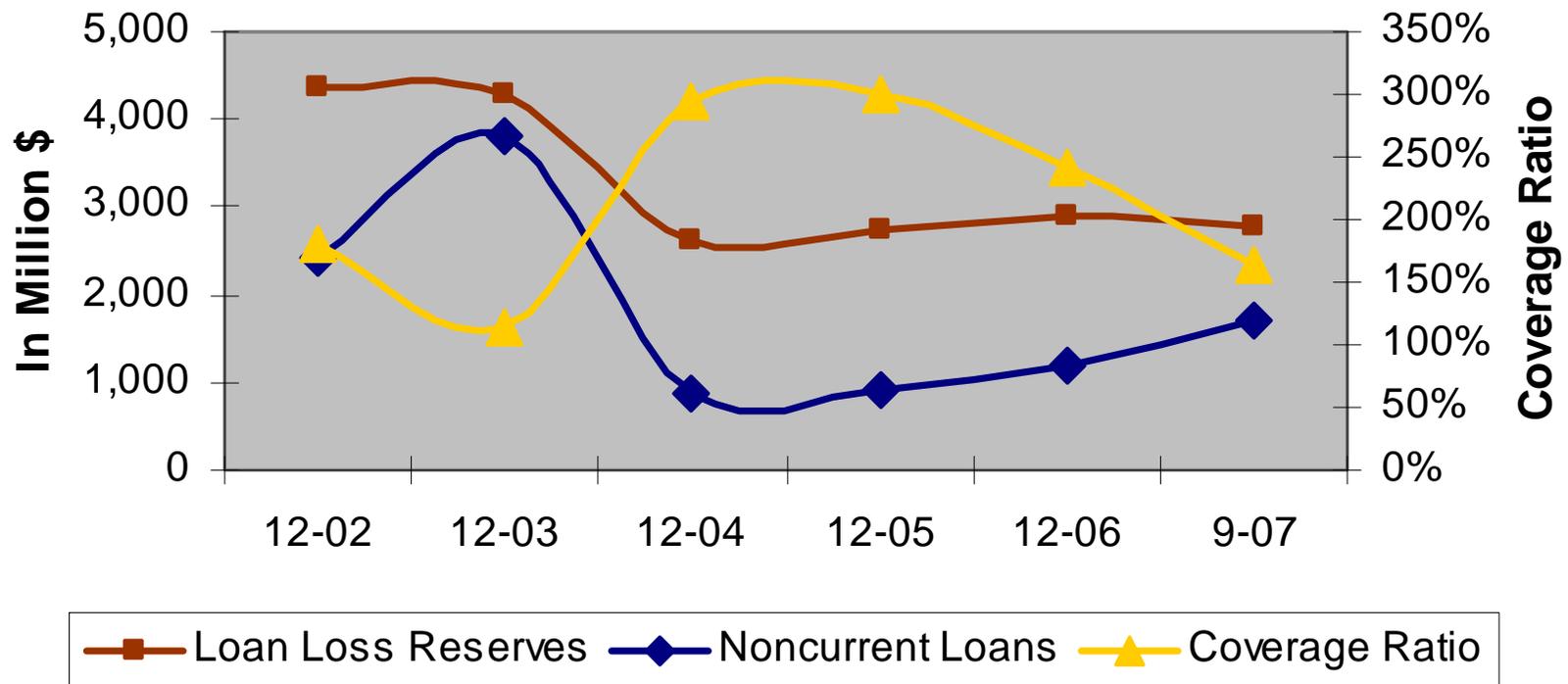
Asset Quality

Growth in Noncurrent Loans Outpaces Reserve Growth - All U.S. Banks



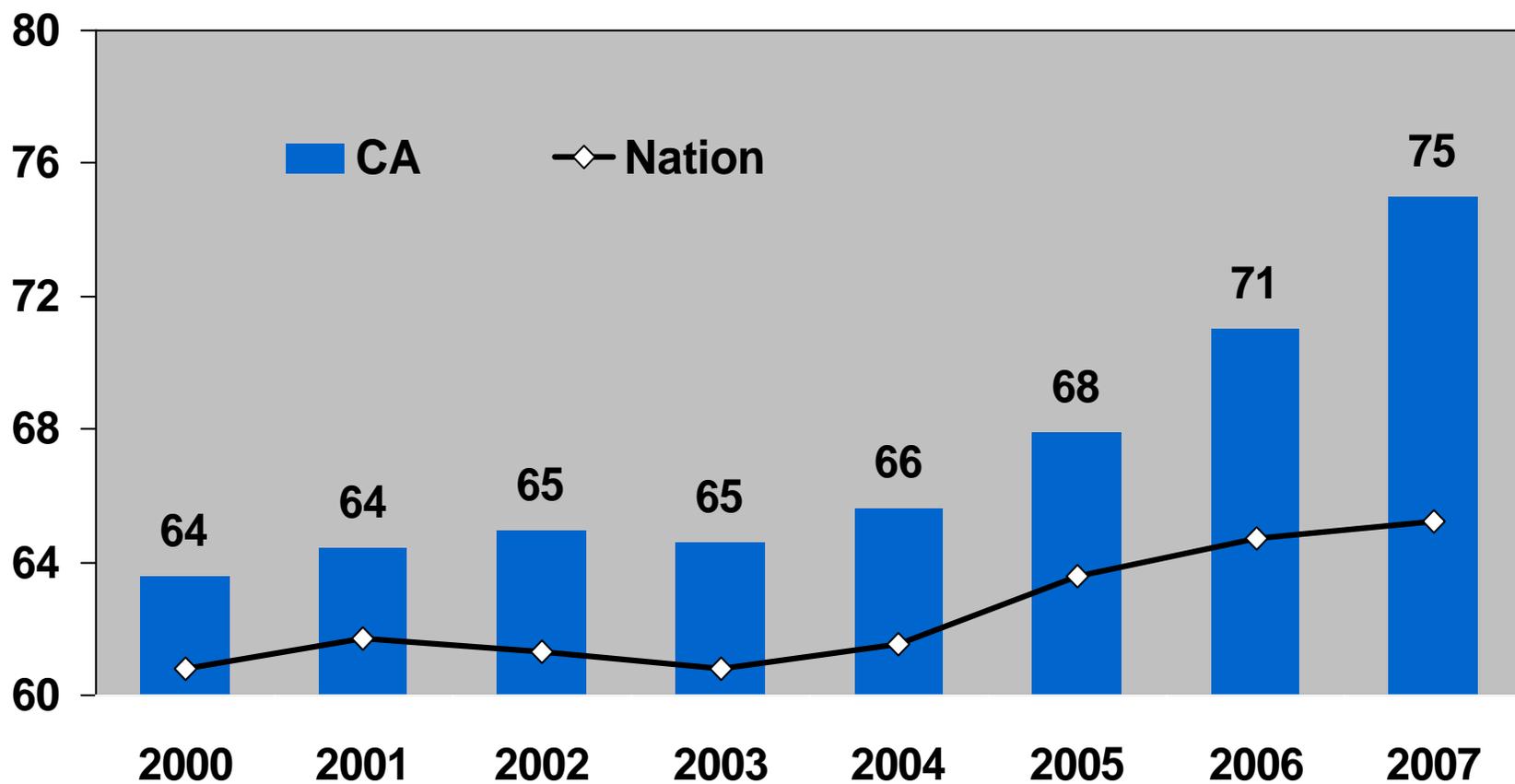
Asset Quality

Growth in Noncurrent Loans Outpaces Reserve Growth - All California Banks



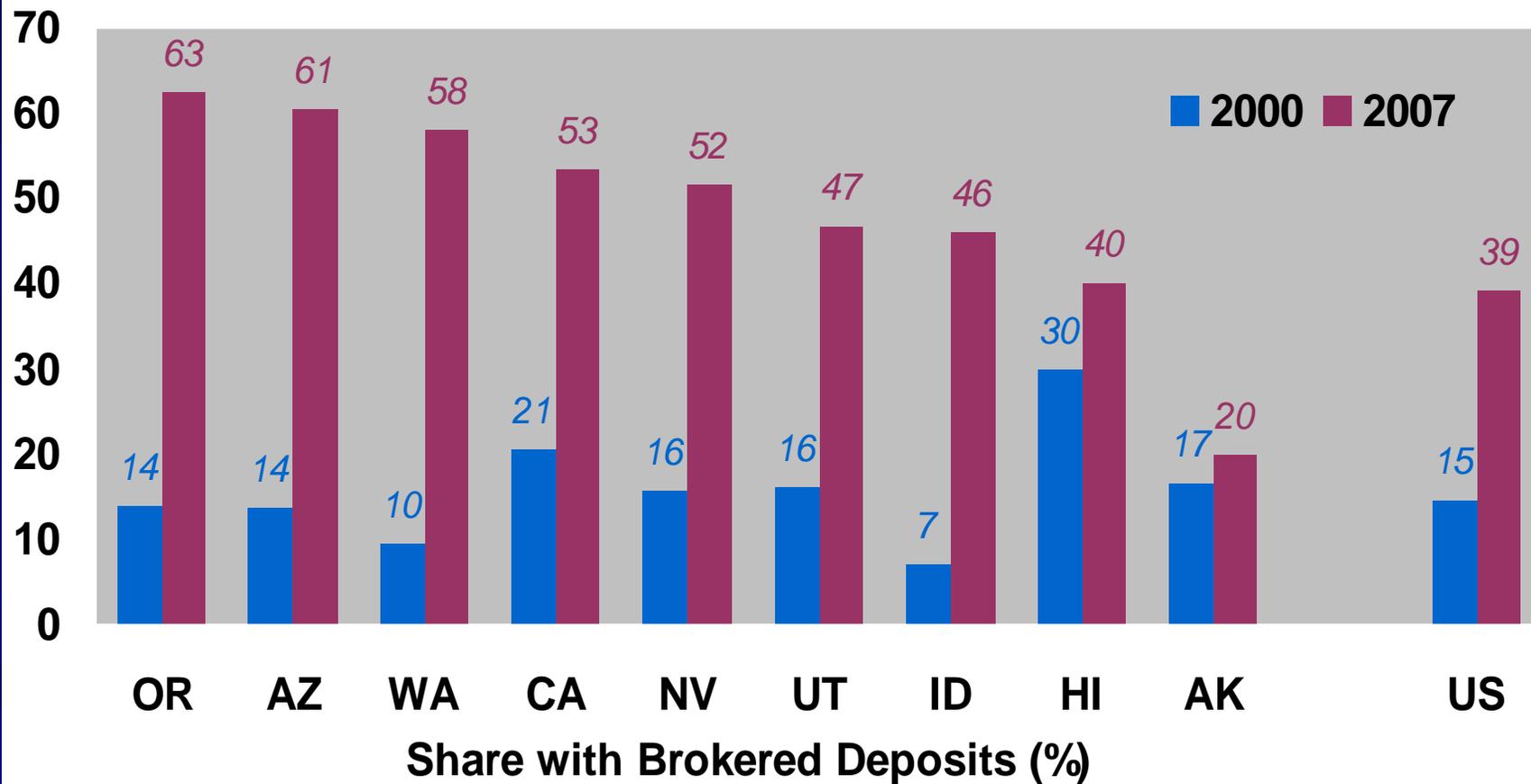
Liquidity & Funding

Banks Pushed Up Loan-to-Asset Ratios



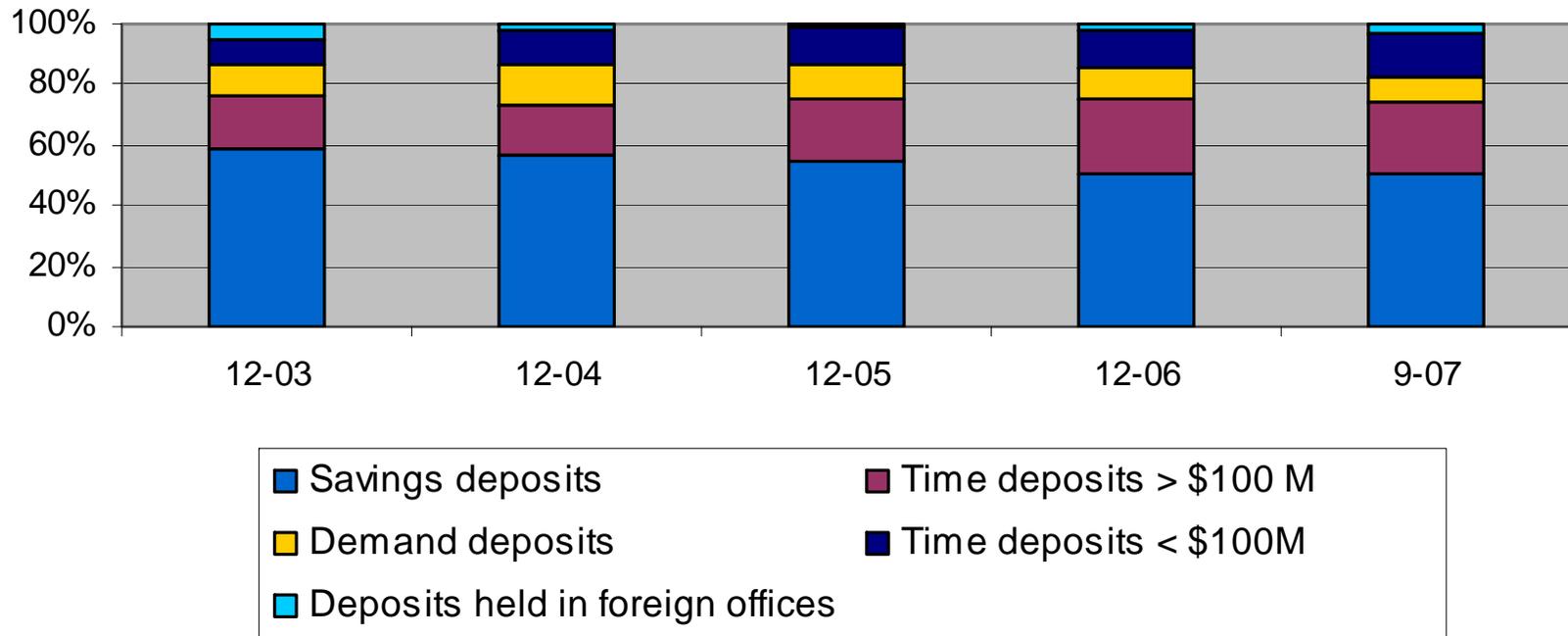
Liquidity & Funding

Brokered Deposits Have Become More Popular in West



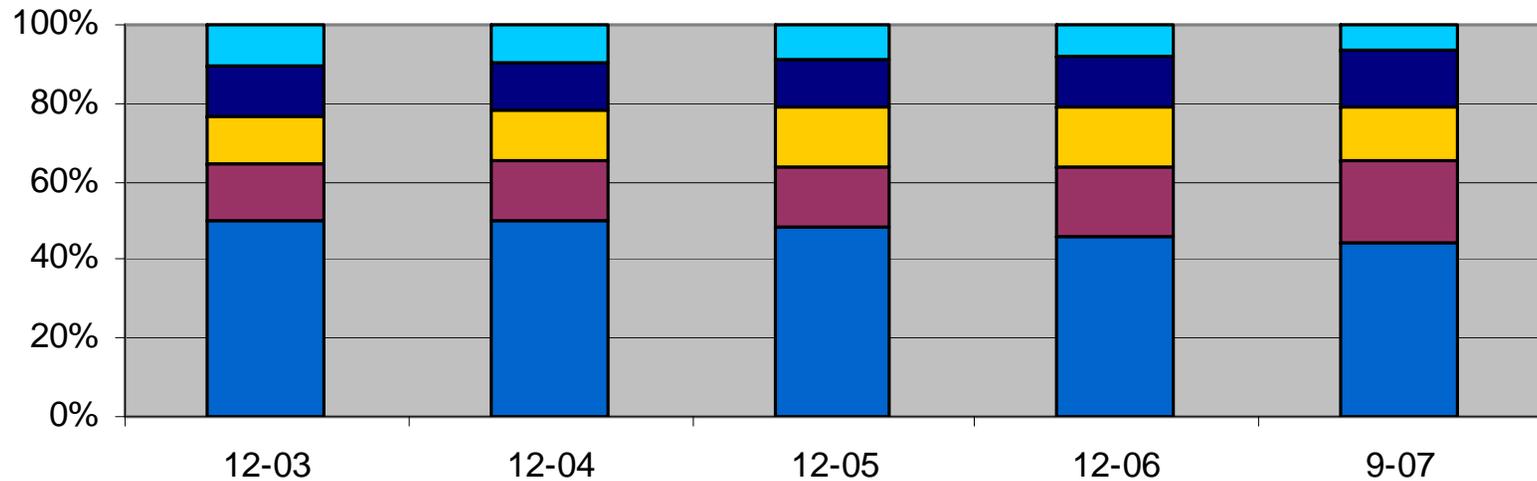
Liquidity & Funding

Deposit Mix - All California Banks



Liquidity & Funding

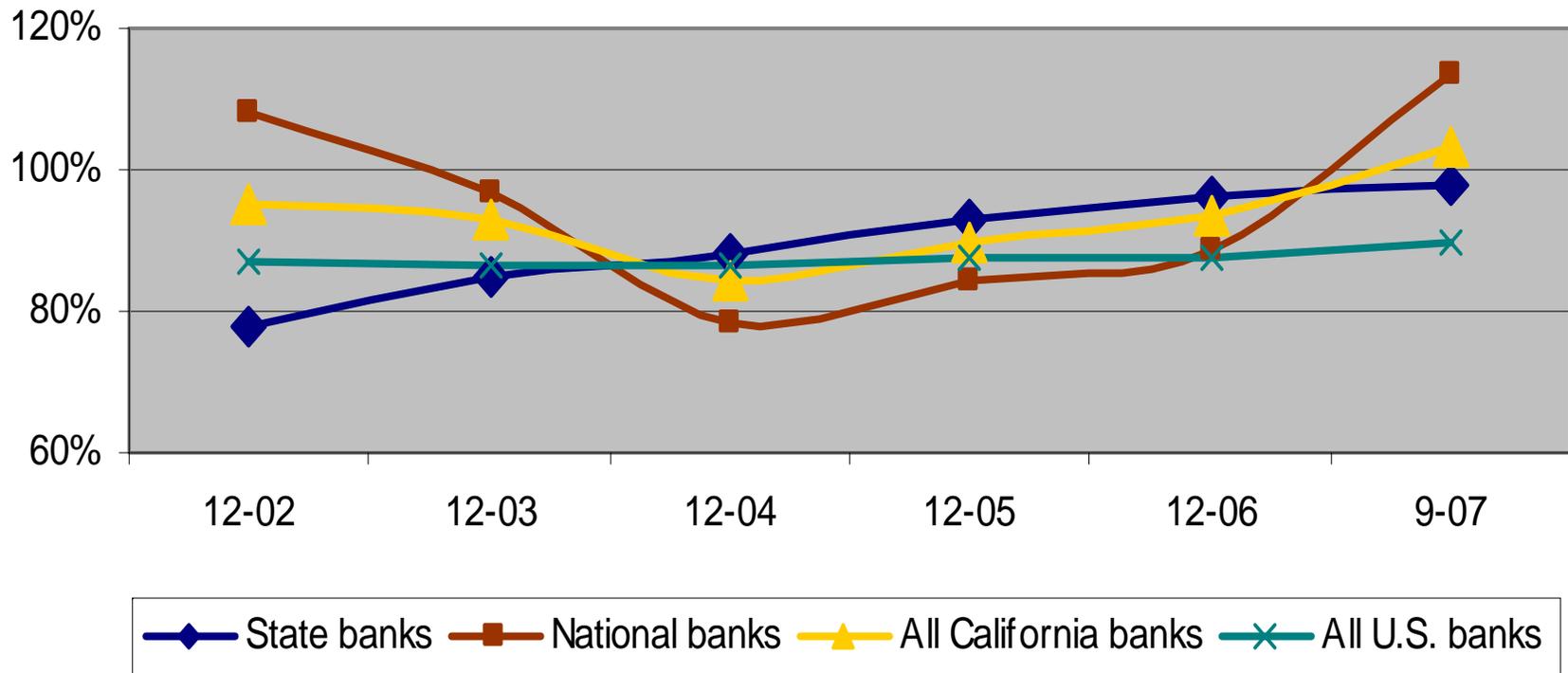
Deposit Mix - All U.S. Banks



■ Savings deposits ■ Deposits held in foreign offices ■ Time deposits > \$100 M
■ Time deposits < \$100 M ■ Demand deposits

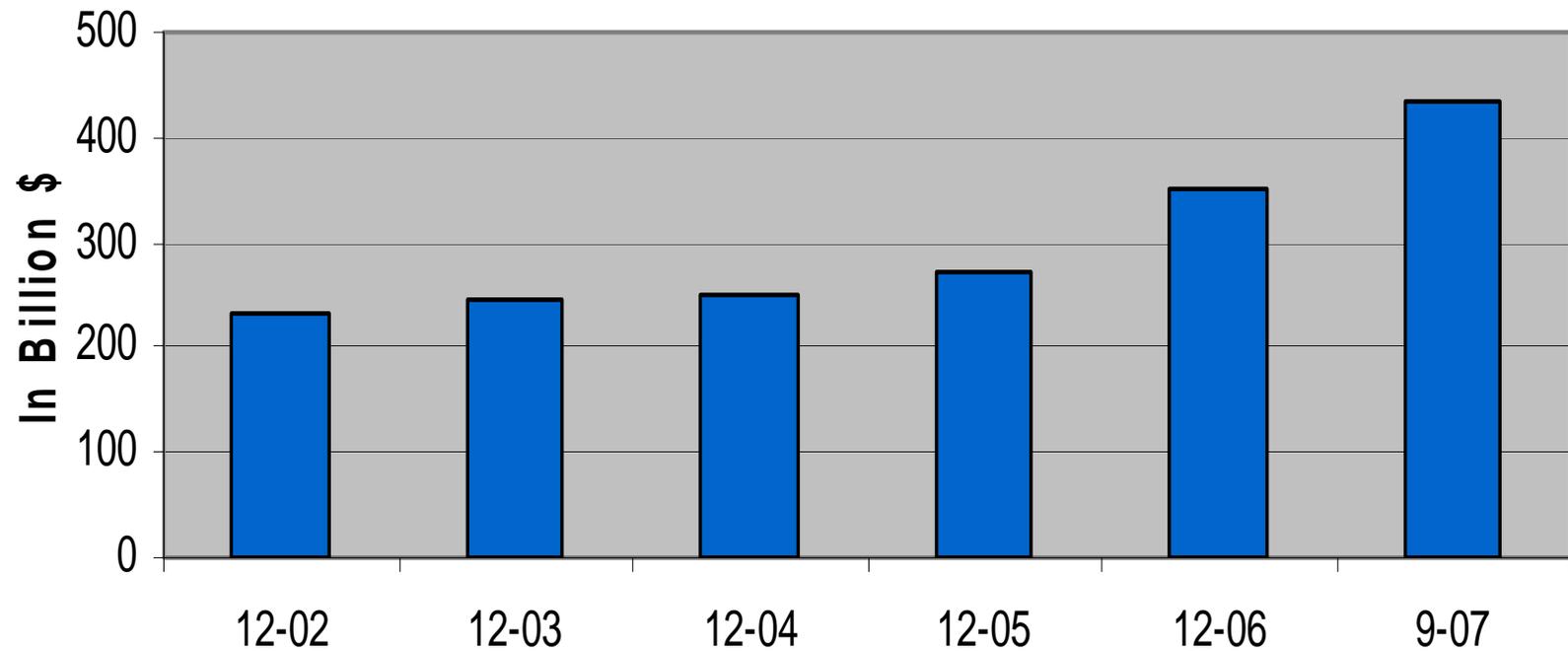
Liquidity & Funding

Loan to Deposit Ratio



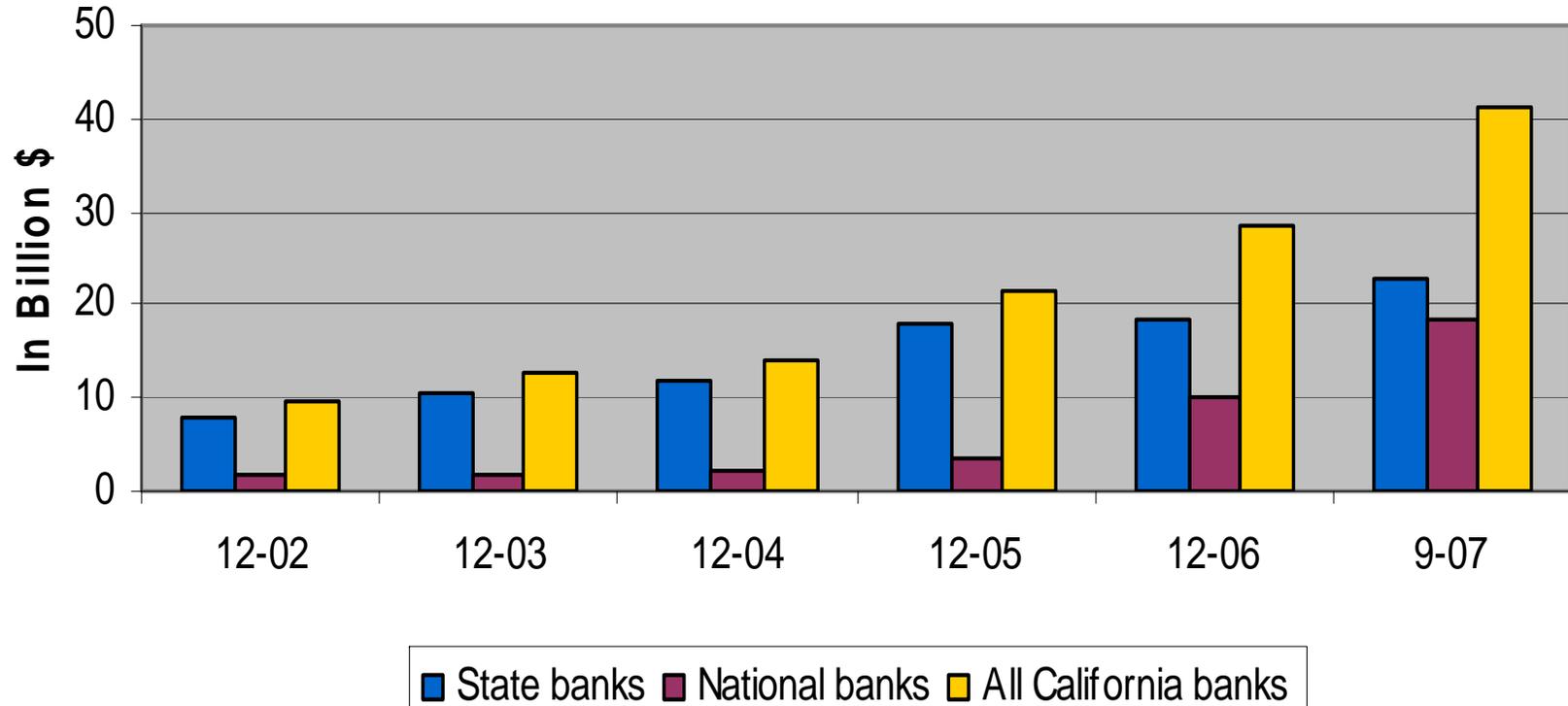
Liquidity & Funding

FHLB Advances - All U.S. banks



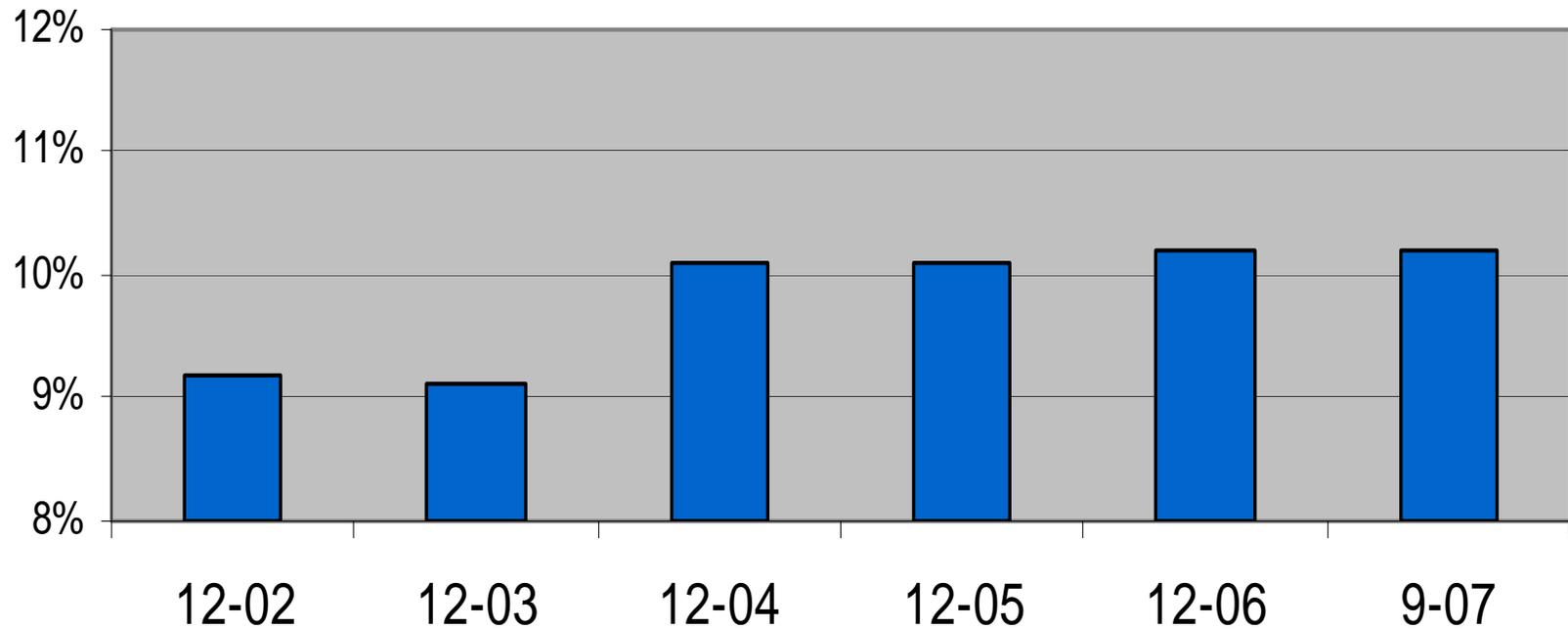
Liquidity & Funding

FHLB Advances



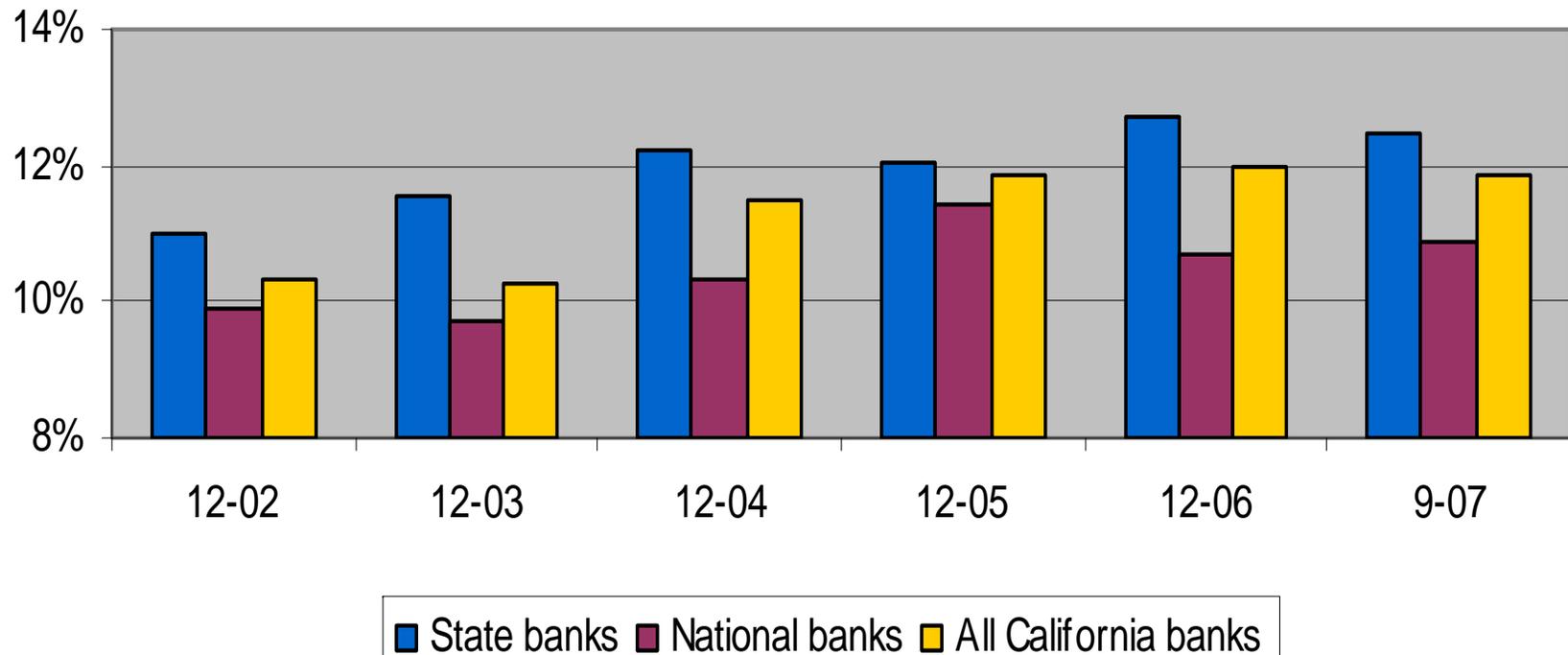
Capital Adequacy

Capital to Asset Ratio - All U.S. banks



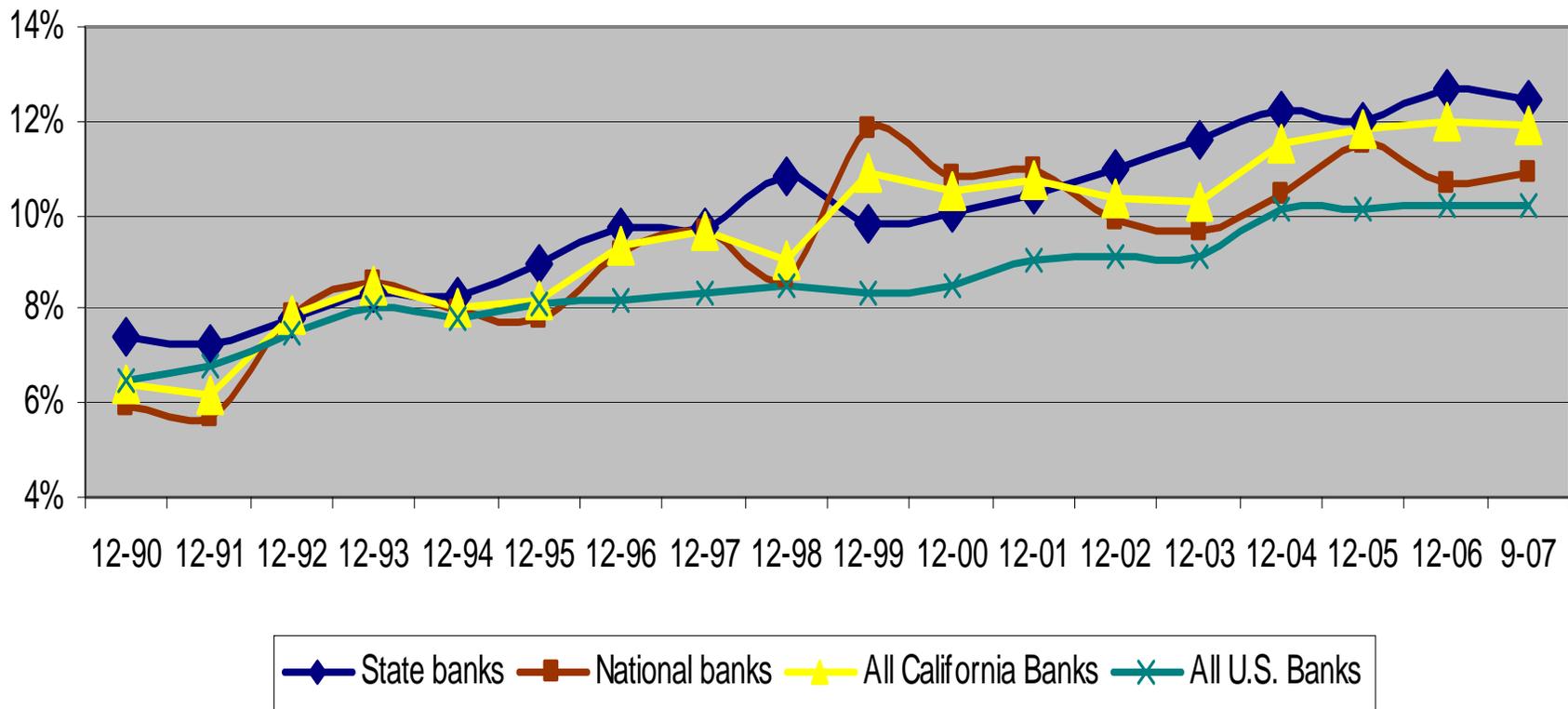
Capital Adequacy

Capital to Assets Ratio



Capital Adequacy

Capital-Asset Ratio 1990 - YTD 2007

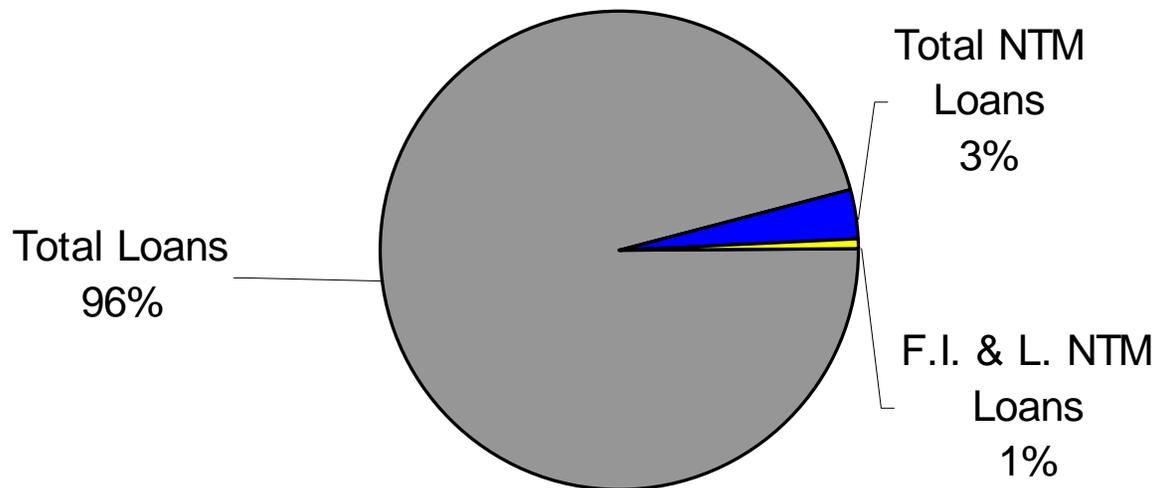




Subprime/NTM Crisis

Subprime/NTM Crisis

Percentages of NTM Holdings



■ Total Loans ■ Total NTM Loans ■ Fremont Investment & Loan NTM Loans



Examination Trends

Examination Trends

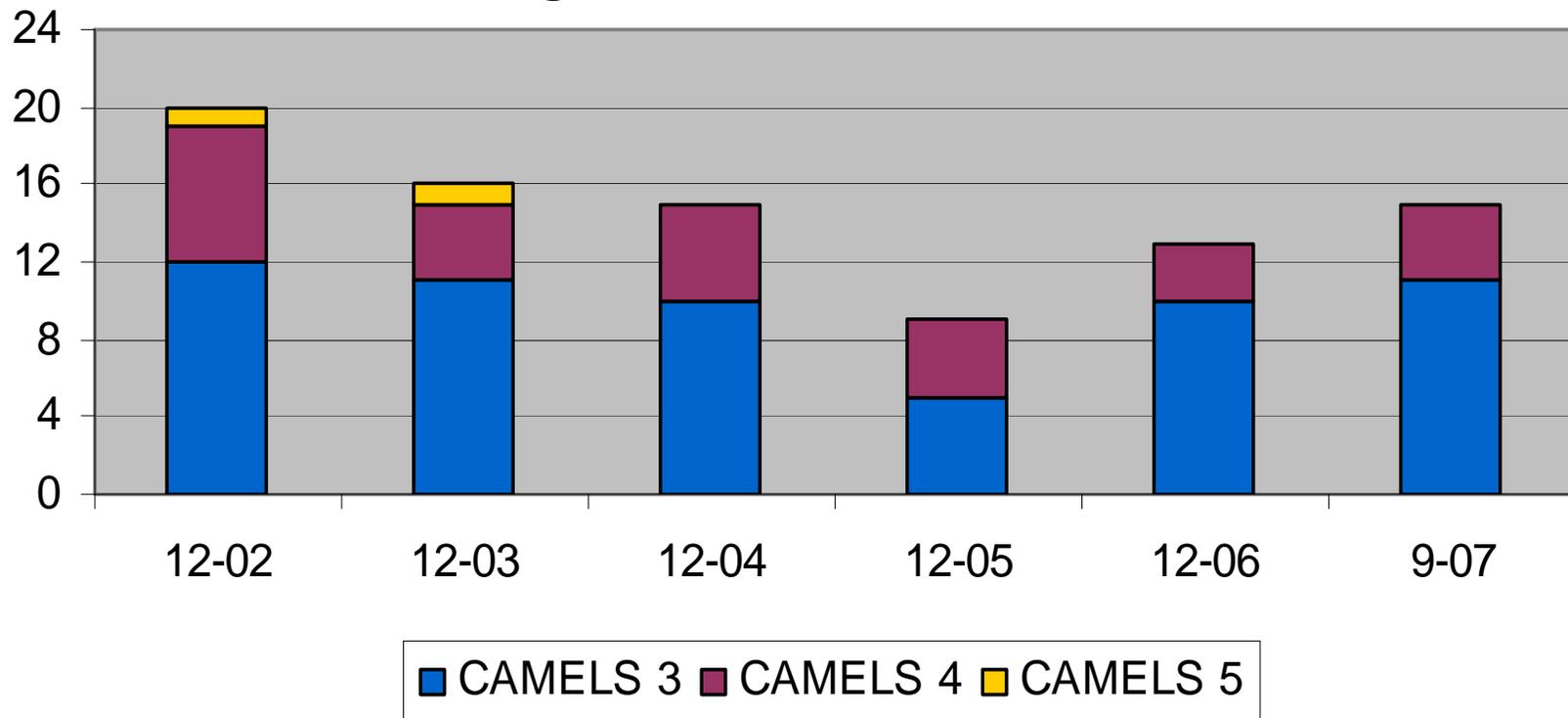
CAMELS RATING MIGRATION GRID

		CURRENT RATING				
		1	2	3	4	5
PRIOR RATING	1	18	5	0	0	0
	2	8	123	6	3	0
	3	0	5	2	0	0
	4	0	0	2	1	0
	5	0	0	0	0	0



Examination Trends

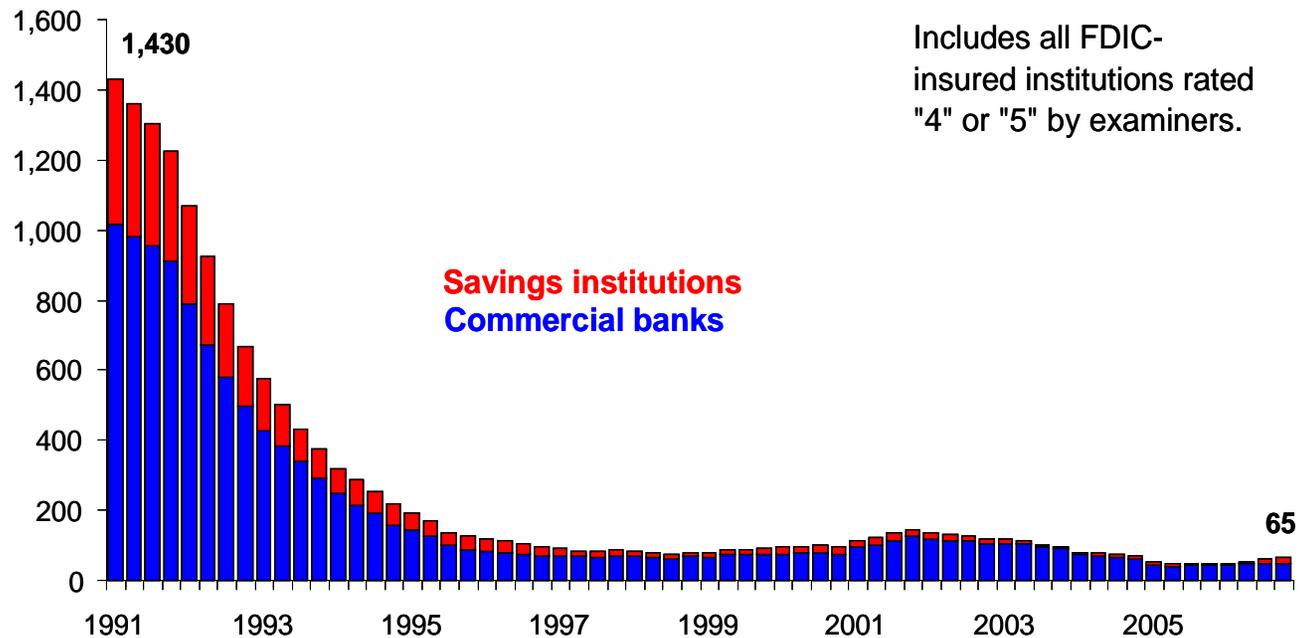
Camel 3, 4 & 5 rated state-chartered banks are also starting to increase from historic lows.



Examination Trends

The number of FDIC-insured "problem institutions" is now rising from a historic low.

Number of FDIC-insured "Problem Institutions"



Source: FDIC

Examination Trends

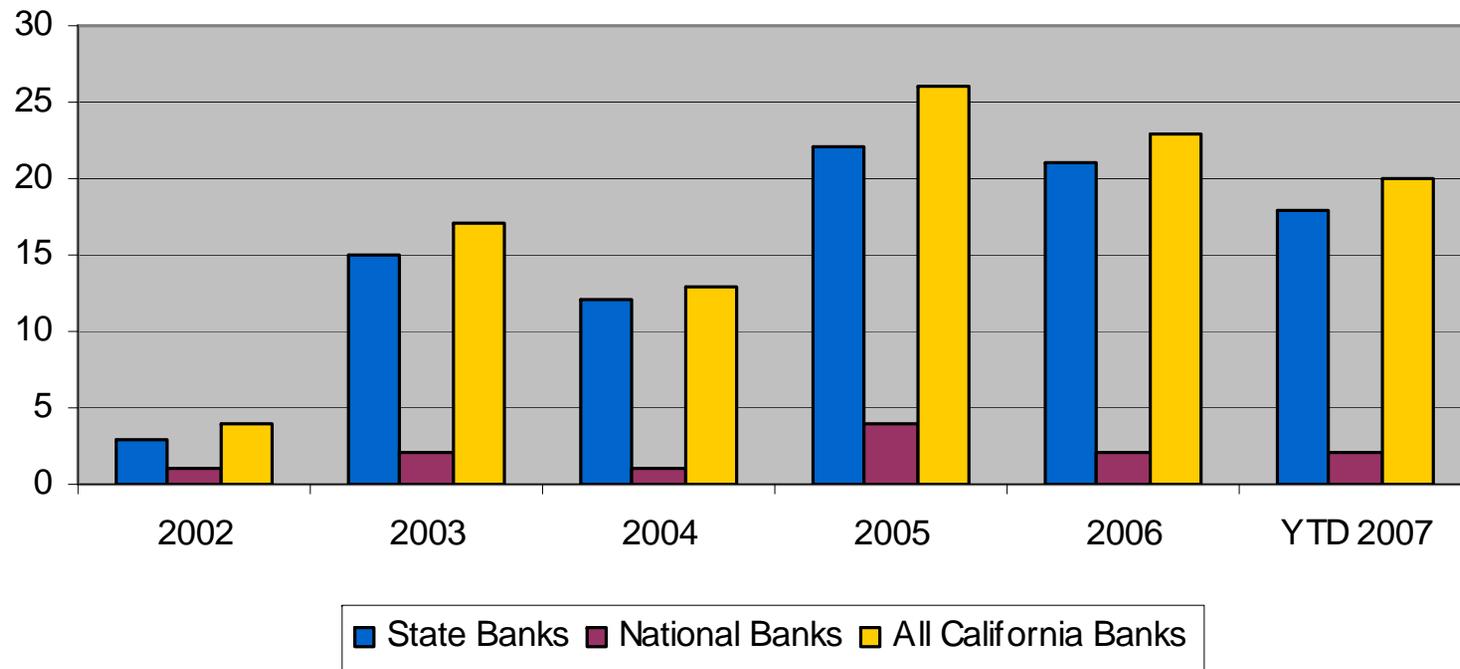
- Some deterioration in credit quality with asset classifications starting to rise.
- CRE concentration continues for most.
- Management and risk management issues.
- Financial indicators exhibiting stress.
- De Novos not meeting projections.



De Novo Bank Activity

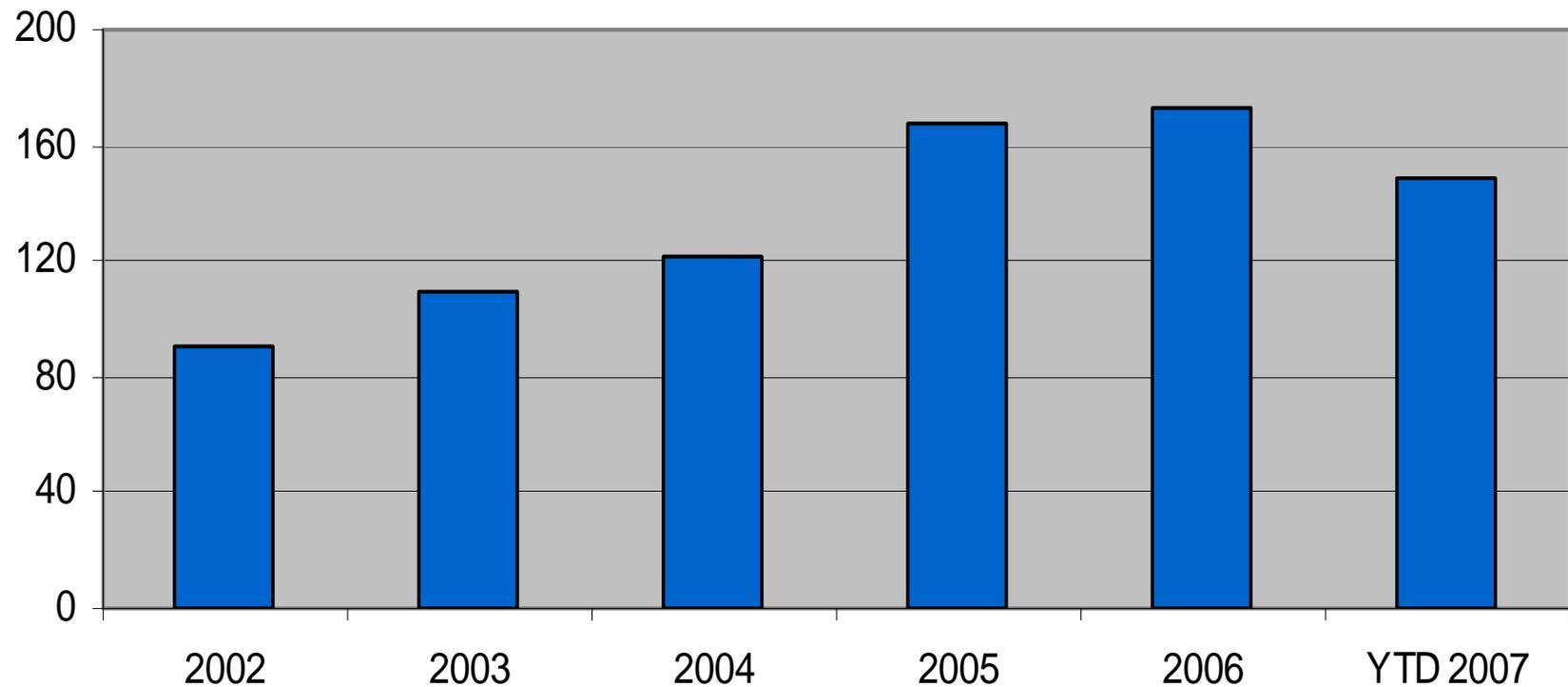
De Novo Bank Activity

Banks Opened 2002 - YTD 2007 California



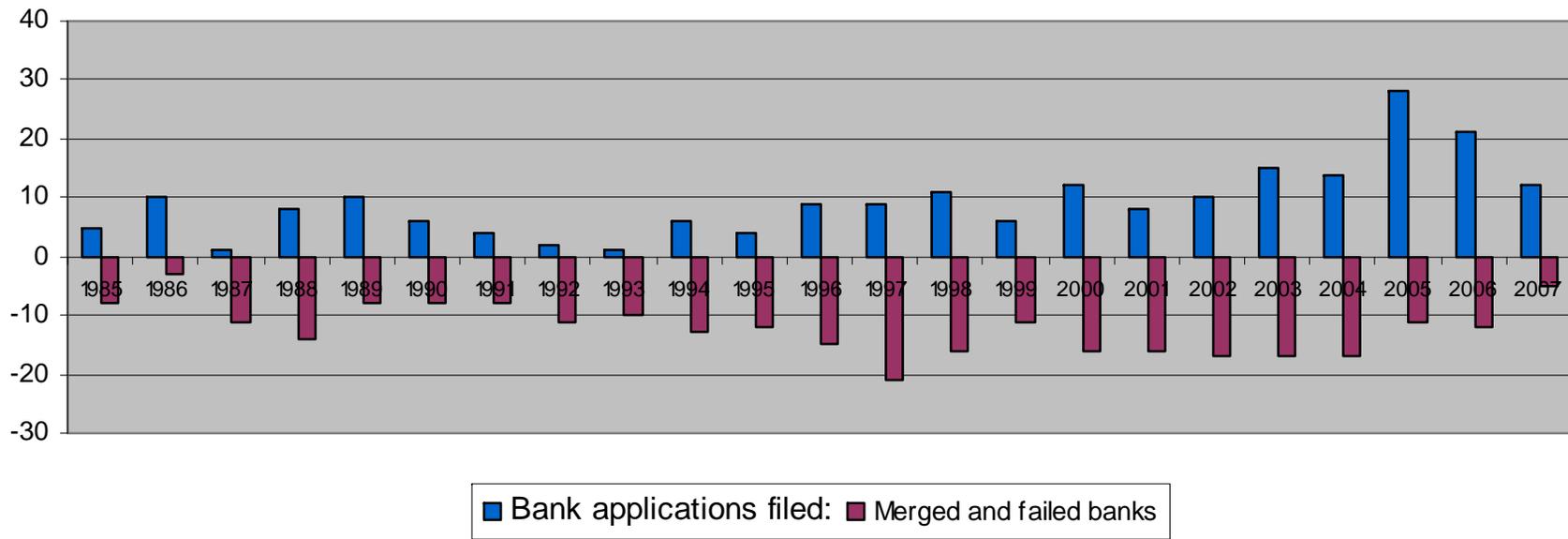
De Novo Bank Activity

Banks Opened 2002 - YTD 2007 - All U.S.



De Novo Bank Activity

New Banks and Extinct Banks 1985 - YTD 2007



Industry Priorities

- Focus on basics
- Prompt identification of developing problems
- Appropriate Risk Diversification
- Reassess Product Lines - Look for Opportunities
- Sound Underwriting - LTV's, Appraisals, DTI Ratios, Cash Flows, Etc.
- Strong Compliance Programs - BSA/AML
- Attention to Data Security
- Capital is King

Regulatory Priorities

- Focus on Basics – Risk Focused
- Training and Development
- Expanded Loan Reviews
- Loan Write Ups – If Problems
- Longer Examination Duration
- Larger Exam Reports



Questions?

Craig Carlson

619-987-9460

ccarlson@dfi.ca.gov



Thank You!

San Francisco

111 Pine Street, Suite 1100
San Francisco, CA 94111
(415) 263-8500

Los Angeles

300 South Spring Street, Suite 15513
Los Angeles, CA 90013
(213) 897-2085

Sacramento

1810 13th Street
Sacramento, CA 95814
(916) 322-5966

San Diego

7575 Metropolitan Drive, Suite 108
San Diego, CA 92108
(619) 682-7227