

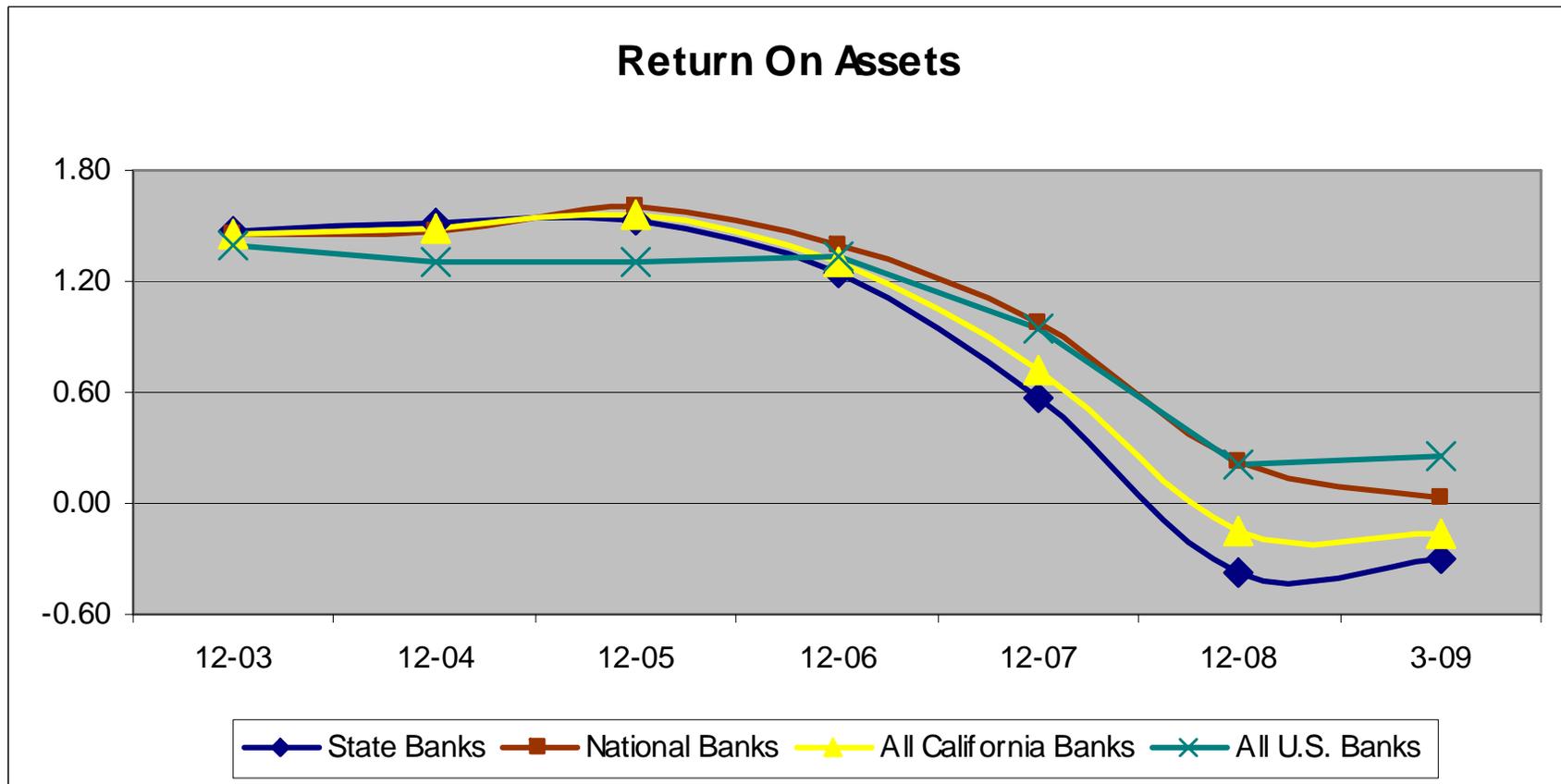
Directors College 2009
Condition of the California Banking Industry
and Future Prospects

William S. Haraf
Commissioner
California Department of Financial Institutions
August 2009

Topics for Today

- Update on industry condition -- Q2 2009
- Economic outlook/impact on banking
- Lessons learned
 - For bank regulators
 - For bank directors
- Obama regulatory reform plan – the way forward?

Return on Assets



Return on Assets by Quintile*

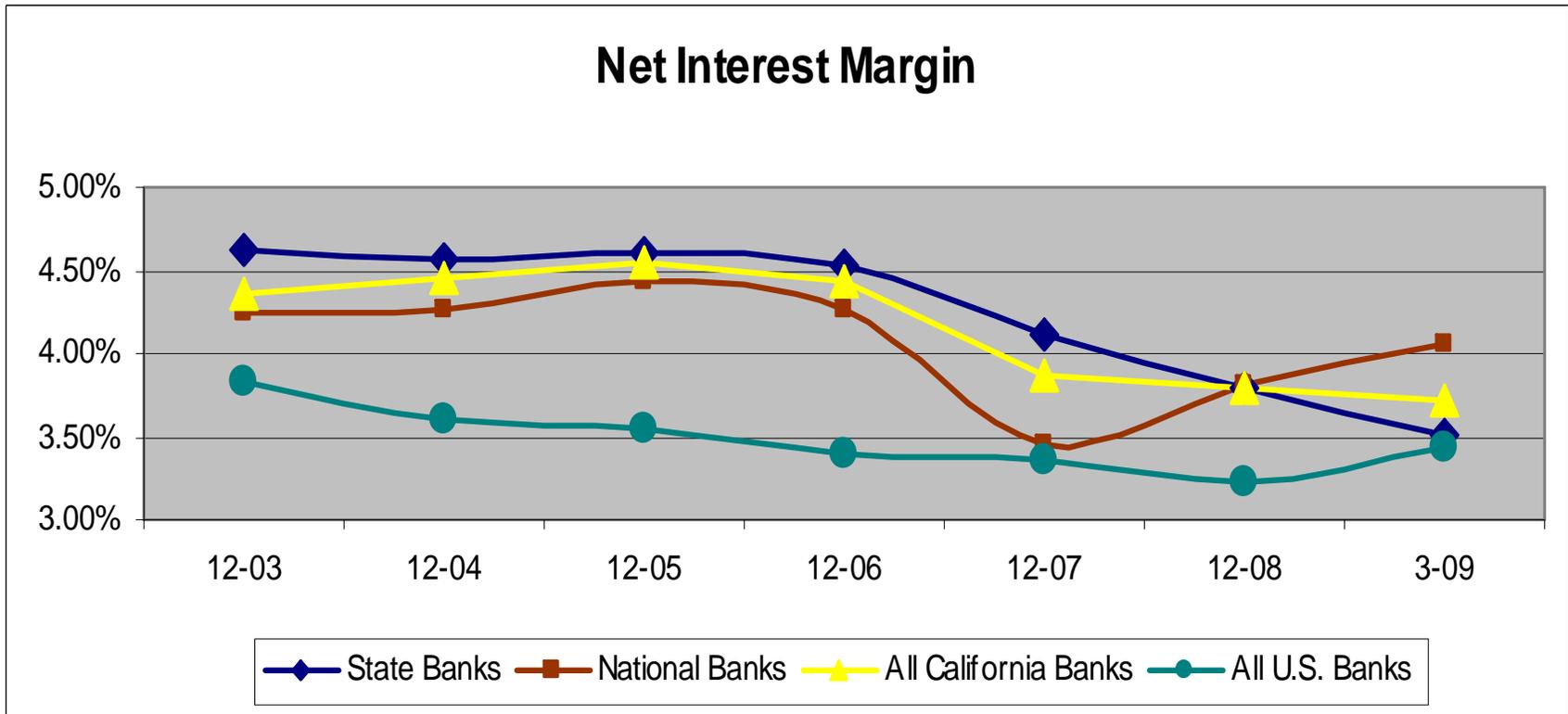
State Chartered Commercial and Industrial Banks

Annualized year-to-date through As of June 30, 2009

Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	0.6	1.2	0.8	1.0	-0.4	0.9
Second Quintile	0.1	0.4	0.3	0.6	-1.6	0.3
Third Quintile	-0.9	-0.1	0.1	0.0	-2.8	-0.3
Fourth Quintile	-1.7	-0.6	-0.8	-1.2	-4.4	-1.4
Fifth Quintile	-5.1	-4.1	-1.8	-4.9	-6.5	-4.9
Total	-1.1	-0.5	-0.4	-0.8	-2.5	-0.8

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

Net Interest Margin



Net Interest Margin by Quintile*

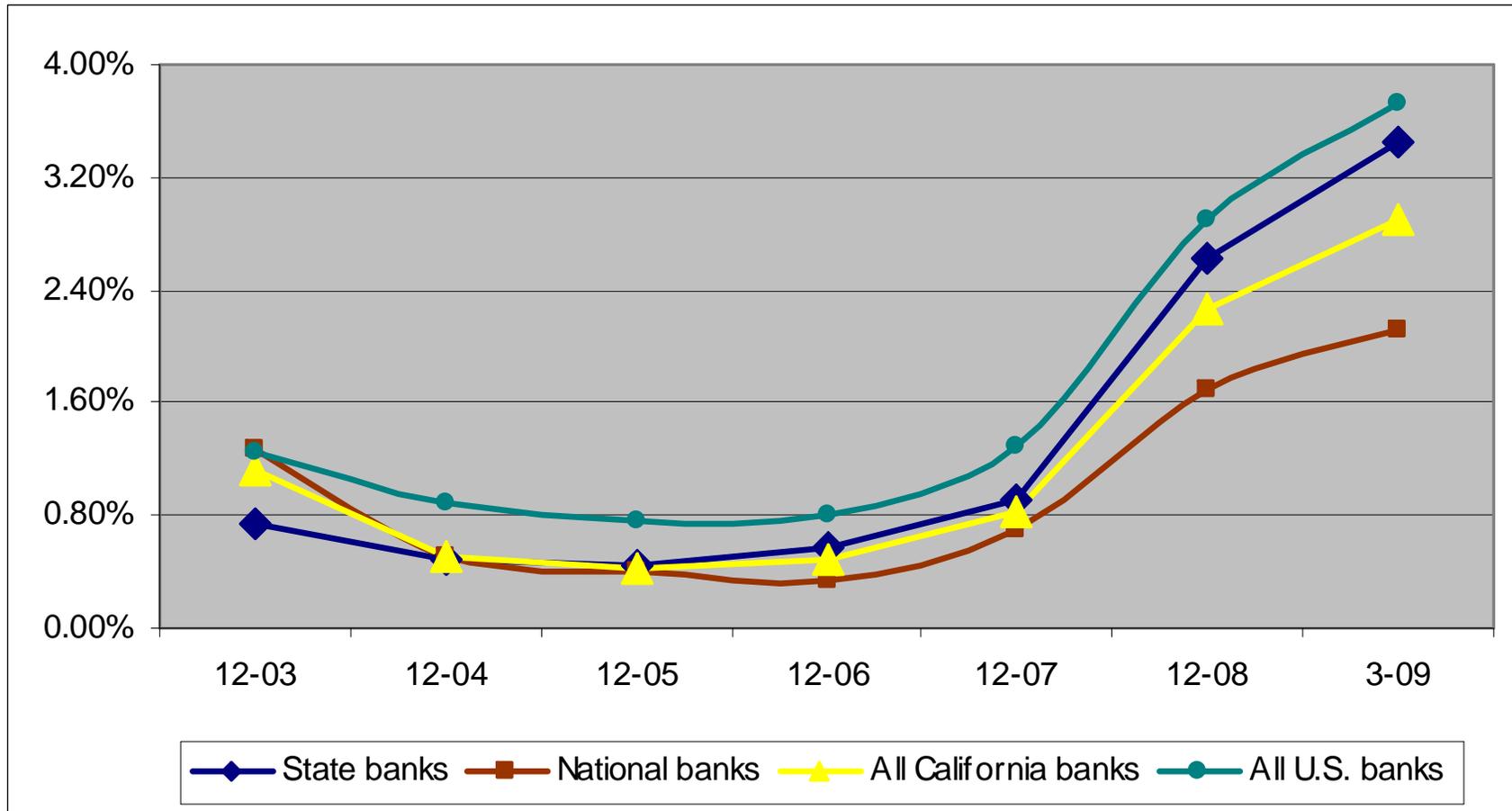
State Chartered Commercial and Industrial Banks

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Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	4.9	5.2	4.4	4.4	4.0	4.8
Second Quintile	4.1	4.1	3.9	3.6	3.5	4.0
Third Quintile	3.7	3.6	3.5	2.8	3.0	3.5
Fourth Quintile	3.4	3.1	3.1	2.6	2.5	3.0
Fifth Quintile	1.8	2.2	2.5	2.1	1.5	2.0
Total	4.0	3.6	3.7	3.0	2.9	3.2

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

Noncurrent Loans and Leases to Total Loans and Leases



Total Past Due Loans & Leases/ Total Loans & Leases by Quintile*

State Chartered Commercial and Industrial Banks

As of June 30, 2009

Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	9.3	14.0	10.6	12.1	5.3	12.3
Second Quintile	6.2	6.7	6.8	5.6	2.4	5.8
Third Quintile	3.9	3.5	4.5	4.4	0.3	3.5
Fourth Quintile	2.5	2.2	3.4	3.3	0.0	2.0
Fifth Quintile	0.8	0.6	1.9	2.2	0.0	0.3
Total	4.5	5.2	5.8	5.6	2.2	5.5

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

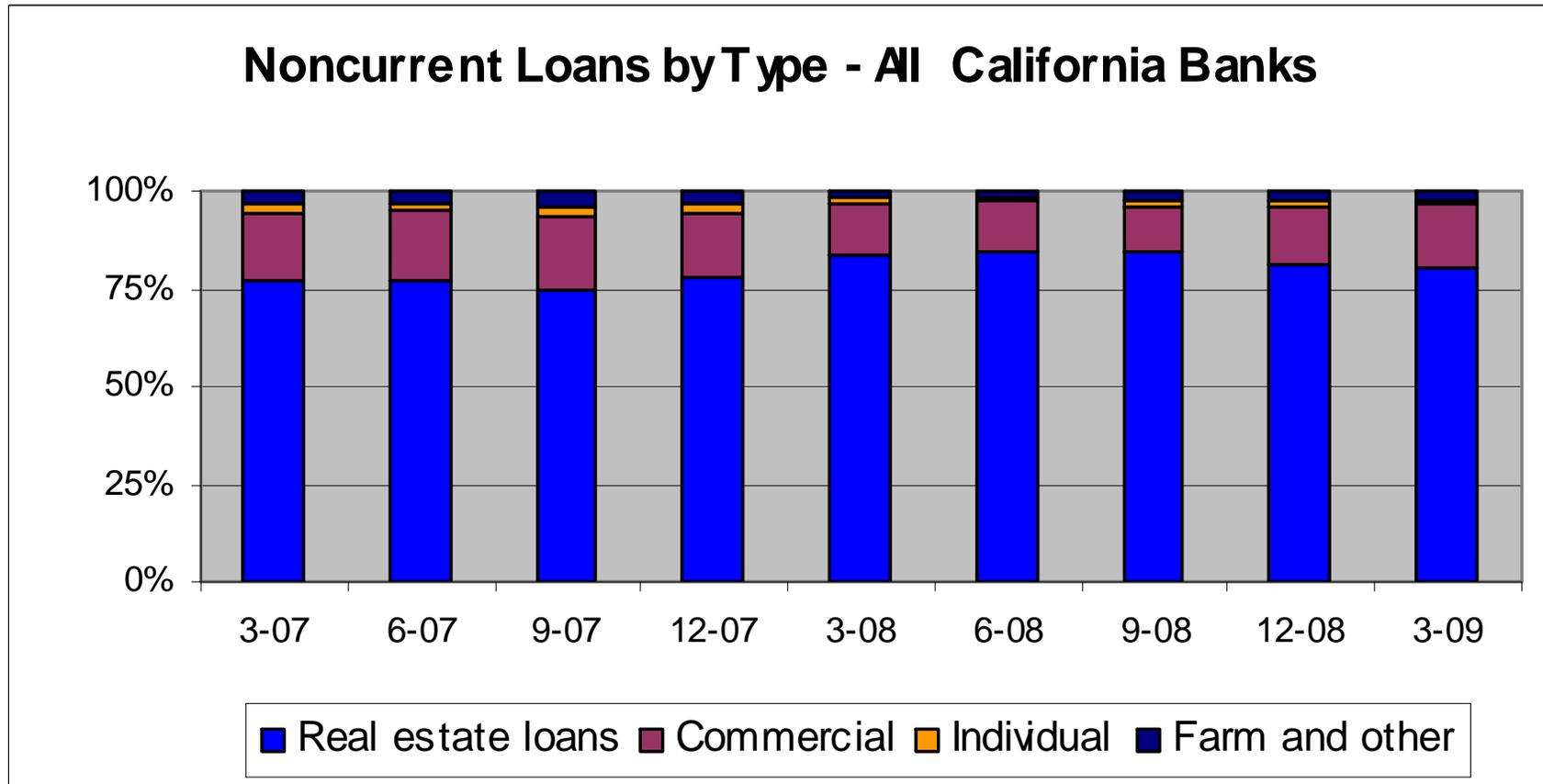
Crystal Ratio by Quintile*
[(Past Due Loans + Other Real Estate Owned)/(Capital + ALLL)]
State Chartered Commercial and Industrial Banks

As of June 30, 2009

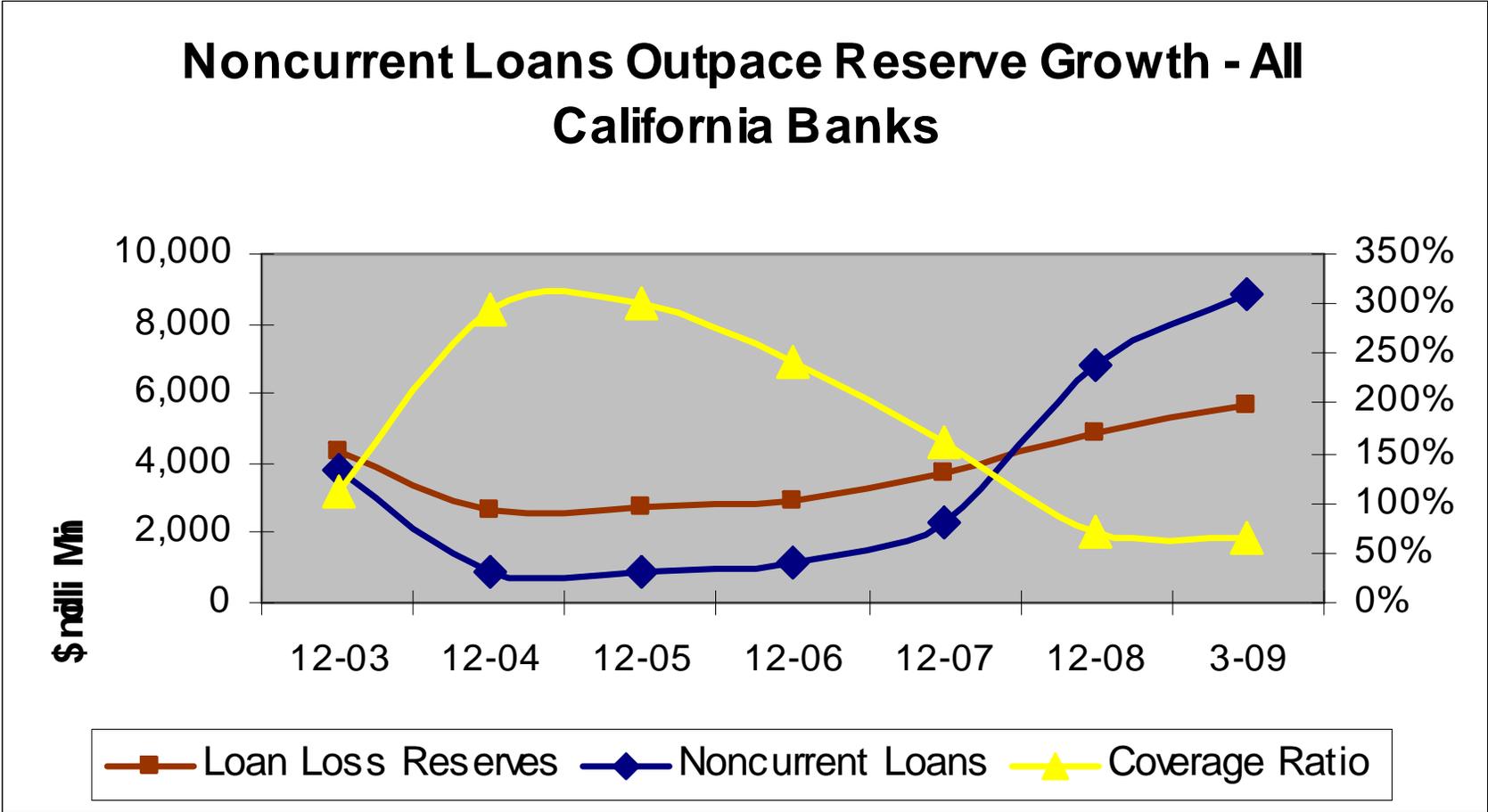
Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	62.9	97.8	83.8	97.3	28.3	87.1
Second Quintile	37.1	47.0	42.5	37.8	11.0	36.7
Third Quintile	22.5	24.1	28.5	26.9	1.6	22.6
Fourth Quintile	11.9	17.0	21.5	20.3	0.0	13.6
Fifth Quintile	3.8	3.8	14.5	12.9	0.0	1.3
Total	25.1	33.1	39.3	31.4	8.4	31.5

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

Noncurrent Loans by Type – All California Banks



Loan Loss Reserves vs. Noncurrent Loans and Leases



Reserves for Loans/Noncurrent Loans & Leases by Quintile*

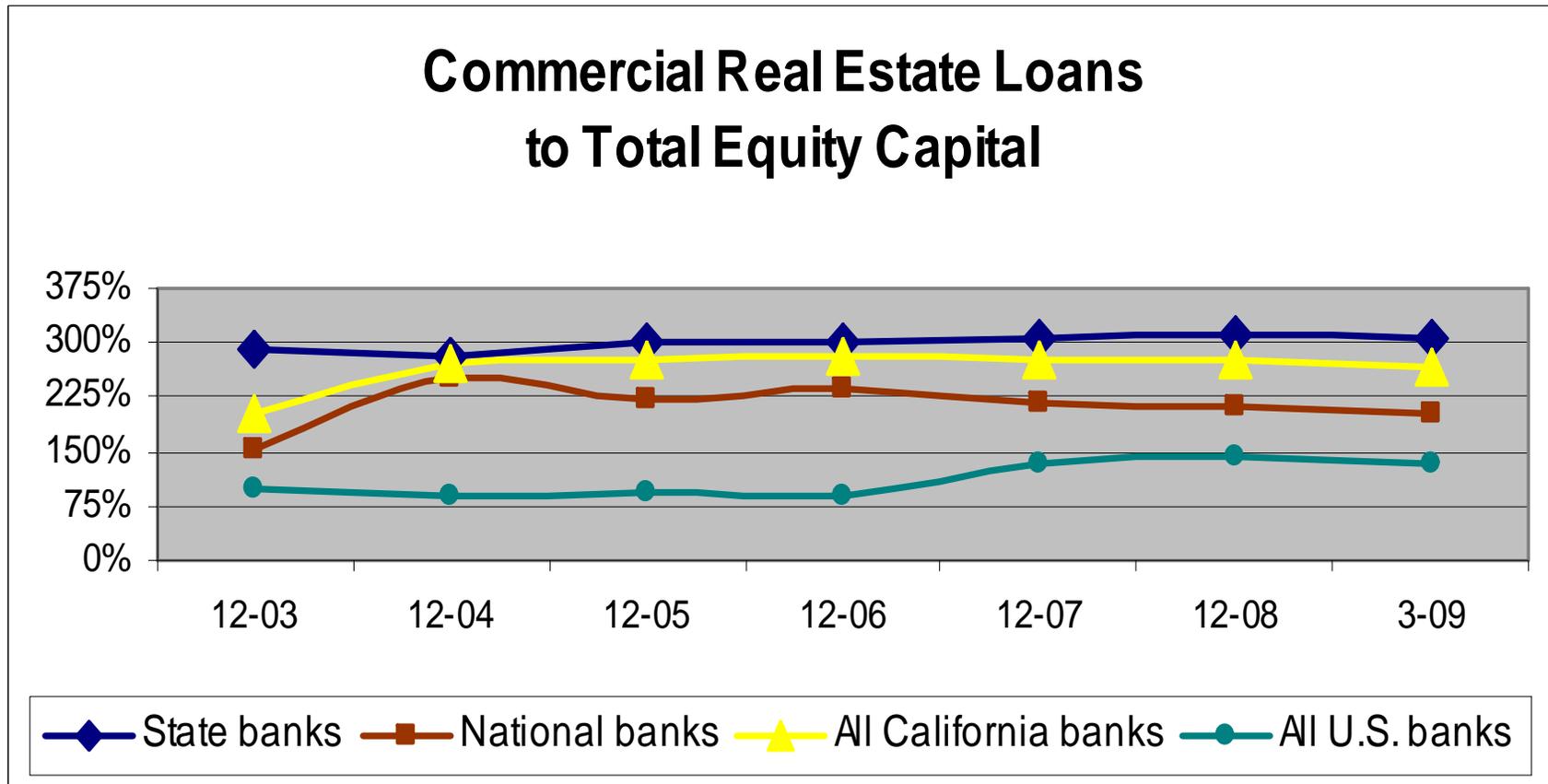
State Chartered Commercial and Industrial Banks

As of June 30, 2009

Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	823.2	∞	202.9	138.4	∞	∞
Second Quintile	334.6	141.1	85.4	75.7	∞	205.3
Third Quintile	88.7	73.1	64.8	56.0	∞	78.3
Fourth Quintile	52.2	46.3	49.6	43.4	91.6	50.5
Fifth Quintile	34.5	27.6	36.6	26.6	42.7	31.6
Total	83.2	55.7	68.0	56.6	104.3	59.4

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

Commercial Real Estate Loans to Total Equity Capital



Commercial Real Estate Loans / Tier 1 Capital by Quintile*

State Chartered Commercial and Industrial Banks

As of June 30, 2009

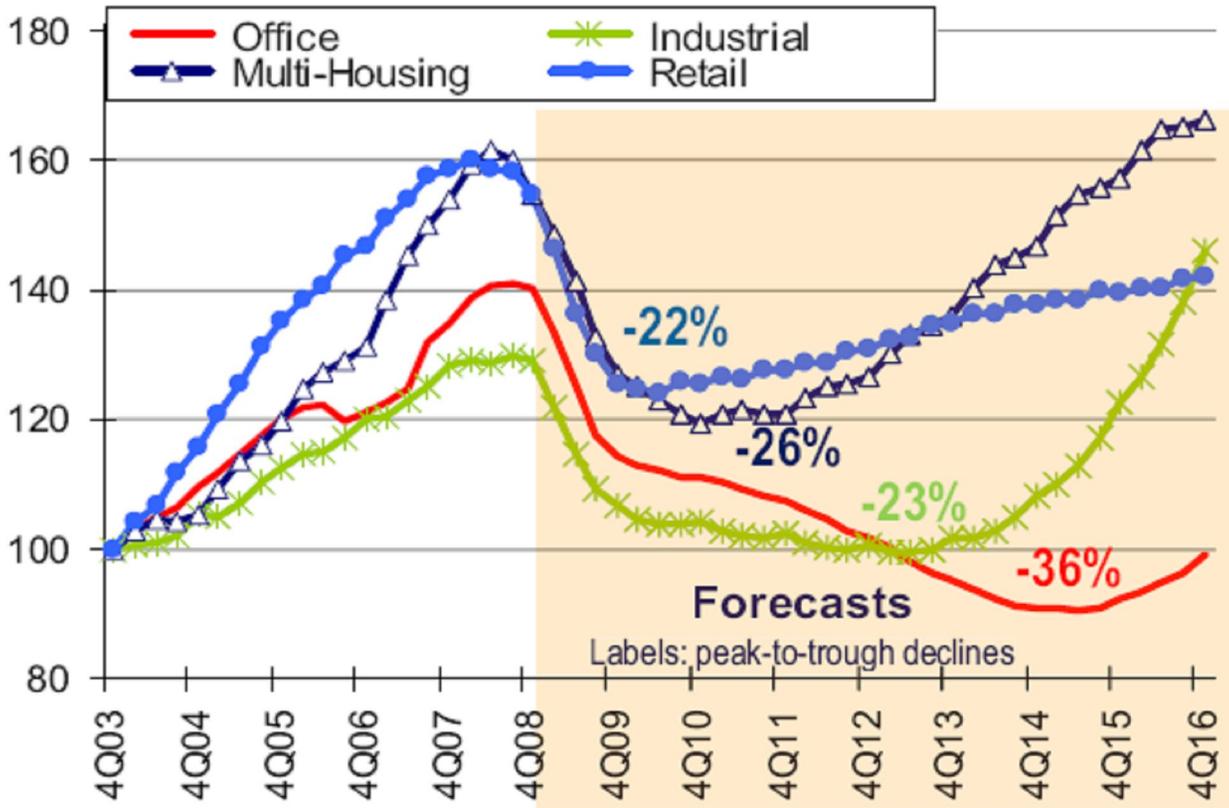
Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	618.8	809.6	873.7	825.0	401.3	789.6
Second Quintile	456.7	564.7	585.9	588.7	295.5	535.1
Third Quintile	394.3	478.8	506.2	482.1	204.7	418.7
Fourth Quintile	264.3	364.1	369.3	377.1	167.0	309.2
Fifth Quintile	58.2	196.4	250.5	208.4	85.5	128.9
Total	332.1	454.6	432.7	397.1	202.5	396.6

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CRE Property Values to Drop Sharply

Peak-to-trough Declines of 36% Expected for Office Sector

National Data - Index 2003 = 100



- Drivers:**
- CMBS market failure
 - Deleveraging - LTVs of 60% instead of 80%
 - High spreads
 - Amortizing loans
 - Cap rates rising



Cap rates already rising (Apt)
Real Capital Analytics

Source: Torto Wheaton Research Investment Outlook, Spring 2009 Base Case Forecast; FRBSF

Construction and Land Development Loans / Tier 1 Capital by Quintile* State Chartered Commercial and Industrial Banks

As of June 30, 2009

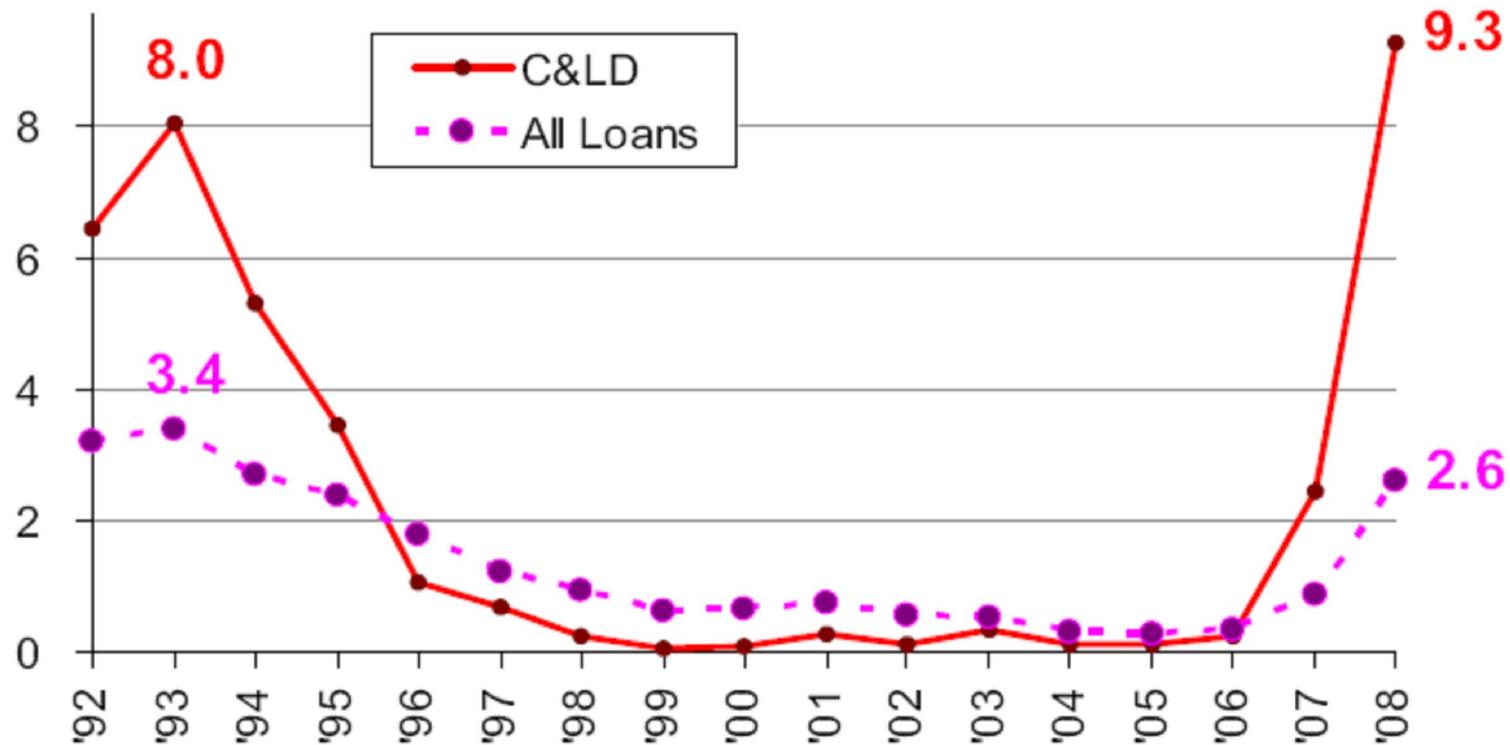
Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	21	100	39	21	43	224
First Quintile	177.0	229.2	222.5	200.4	114.3	211.7
Second Quintile	78.9	131.1	121.1	107.6	66.9	114.7
Third Quintile	48.4	79.8	92.9	59.4	34.4	68.0
Fourth Quintile	36.8	44.4	57.7	34.0	12.1	36.4
Fifth Quintile	0.4	11.2	13.8	13.5	0.8	6.1
Total	65.9	88.3	93.2	82.9	48.1	82.8

* Quintiles of equal sizes are created by dropping off first the highest then the lowest ratio in each group until the number of institutions is divisible by 5.

Might Early '90s California Serve as a Model for this Cycle?

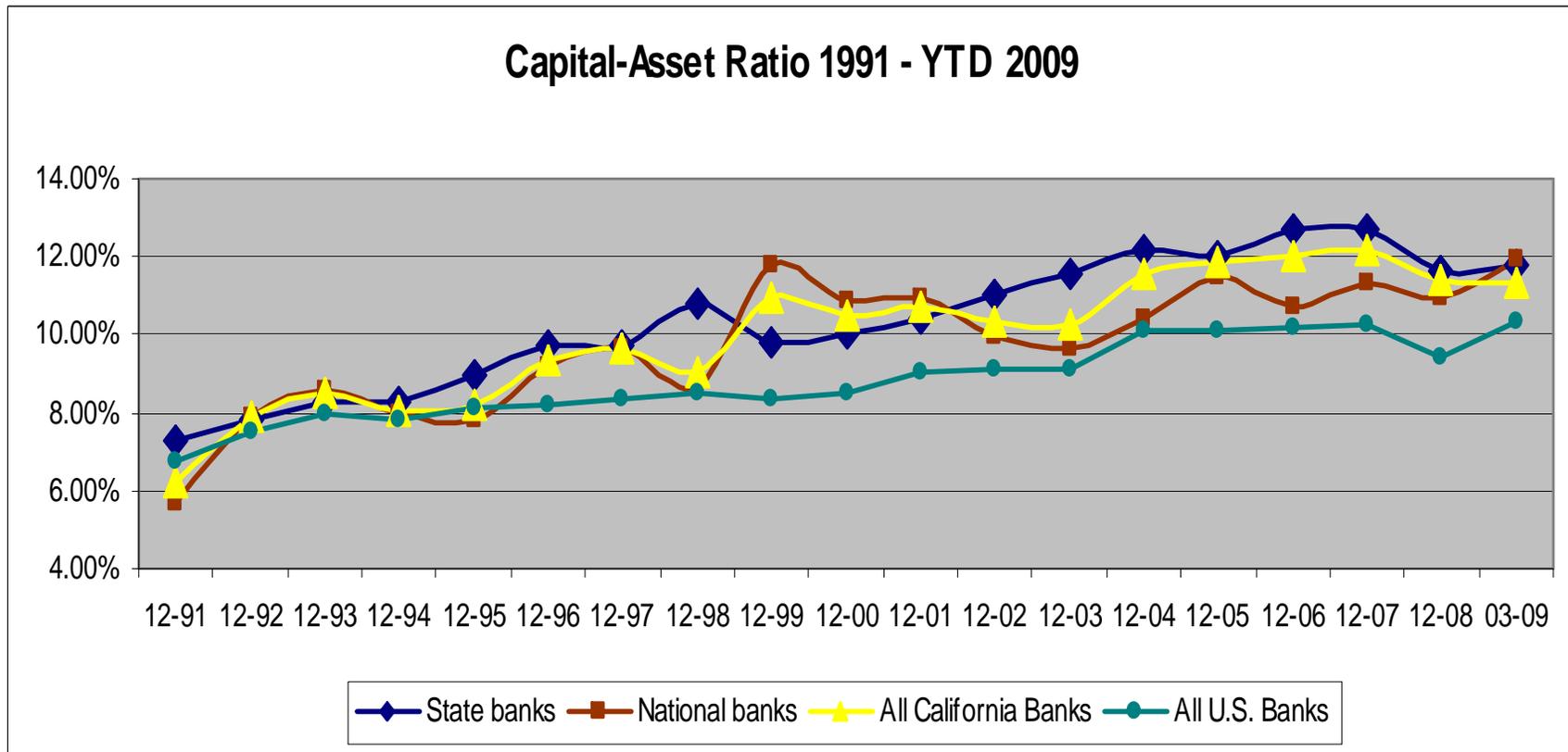
Calif. Noncurrent Rates -- Similar Now to '90s

CALIFORNIA Pct of loans that are 90+ day past due or on nonaccrual (%)



Adj. avgs. (10% trim) for CA commercial banks, excluding De Novos; C&LD=construction & land development

Capital Adequacy



Equity Capital / Assets by Quintile*

State Chartered Commercial and Industrial Banks

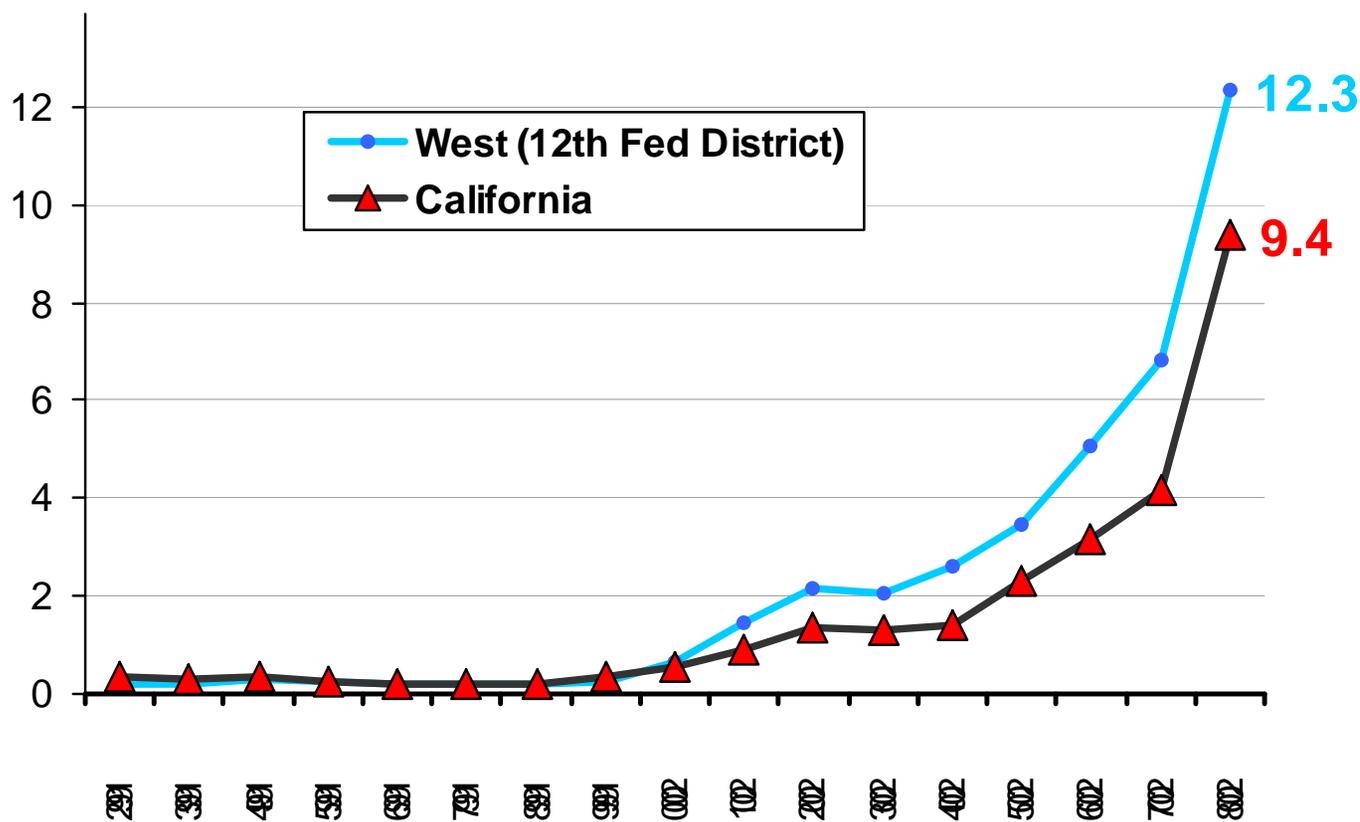
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Number of Banks	21	100	39	21	43	224
First Quintile	19.4	19.7	13.2	12.9	34.2	23.3
Second Quintile	14.0	12.5	11.0	11.2	22.9	13.5
Third Quintile	11.6	10.9	10.0	10.0	18.0	11.3
Fourth Quintile	10.4	9.5	9.1	9.3	14.5	9.9
Fifth Quintile	8.3	8.0	7.4	7.2	11.5	8.1
Total	14.0	12.1	10.4	11.8	16.7	11.8

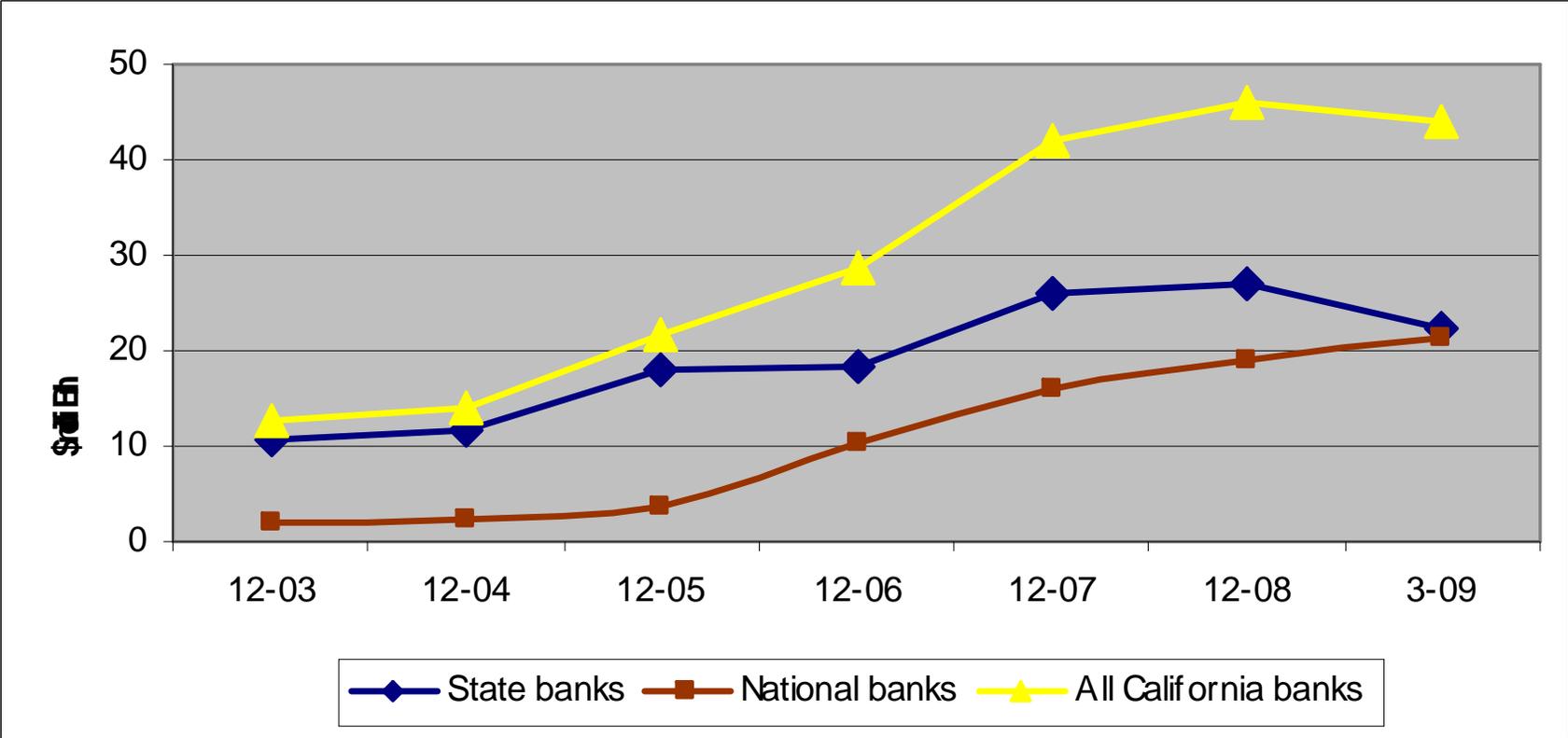
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Liquidity & Funding

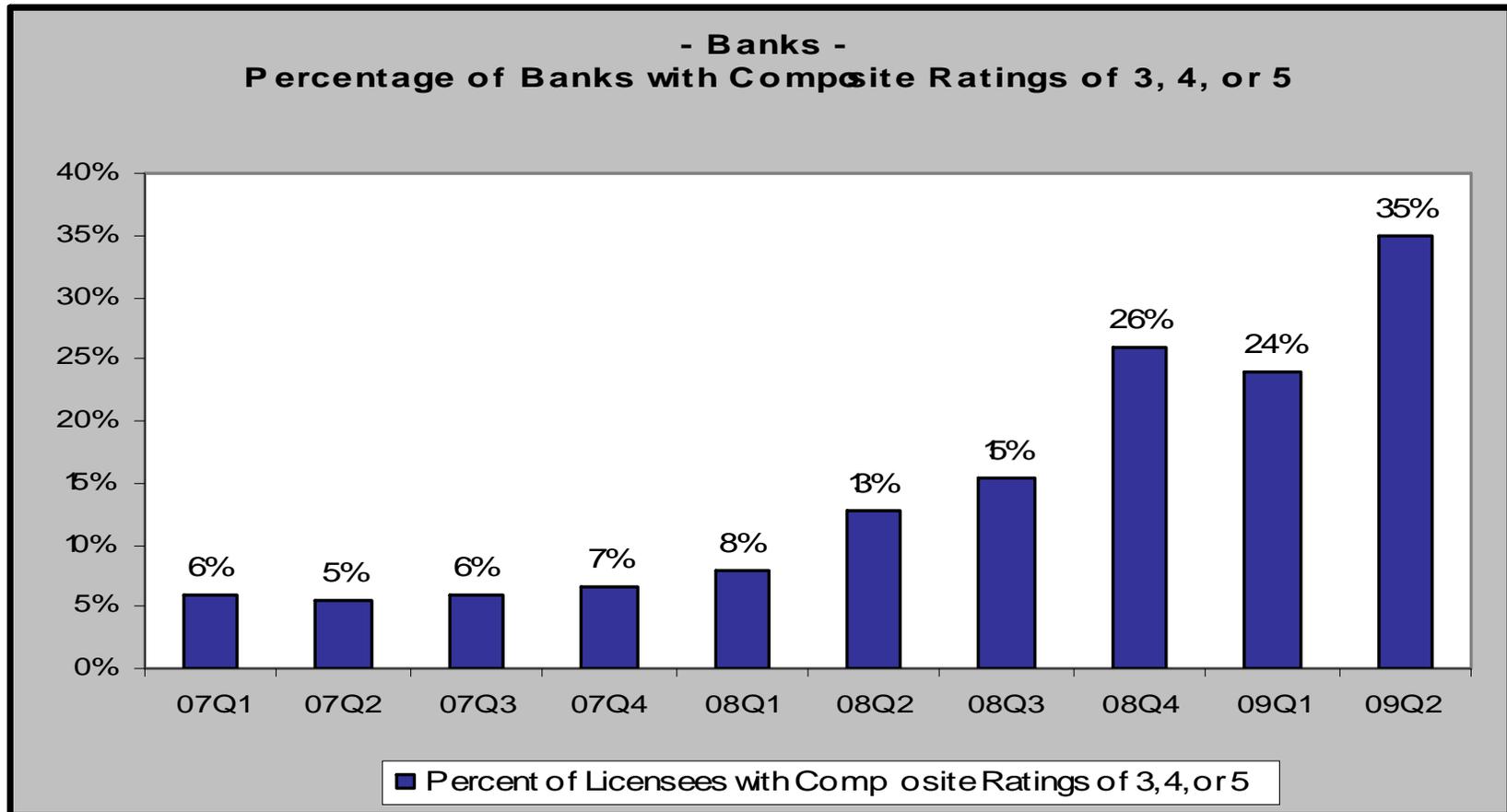
Brokered Deposits Have Become More Popular in West



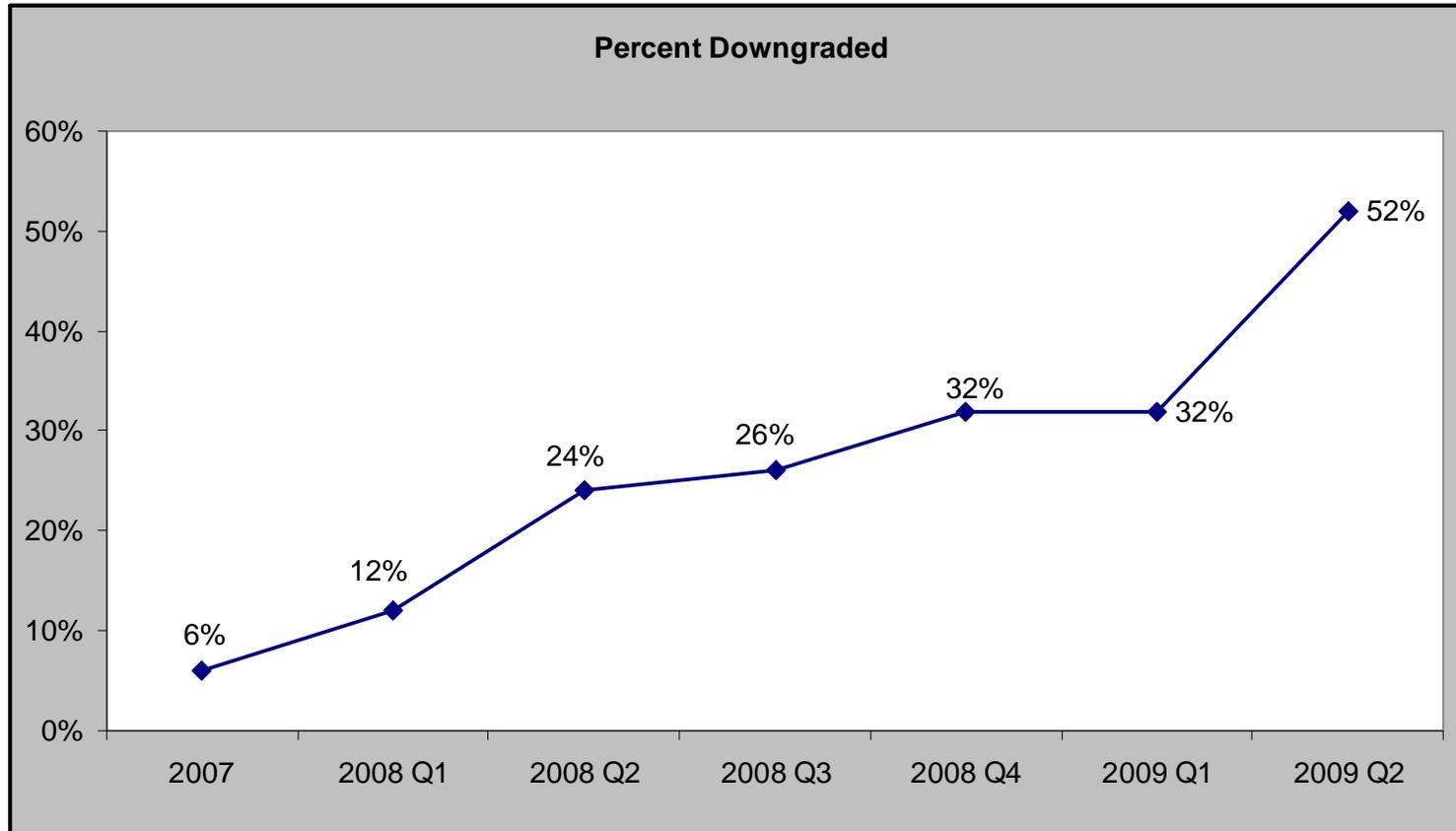
FHLB Advances



Increase in Problem Banks



Downgrades Accelerating



Enforcement Actions are UP

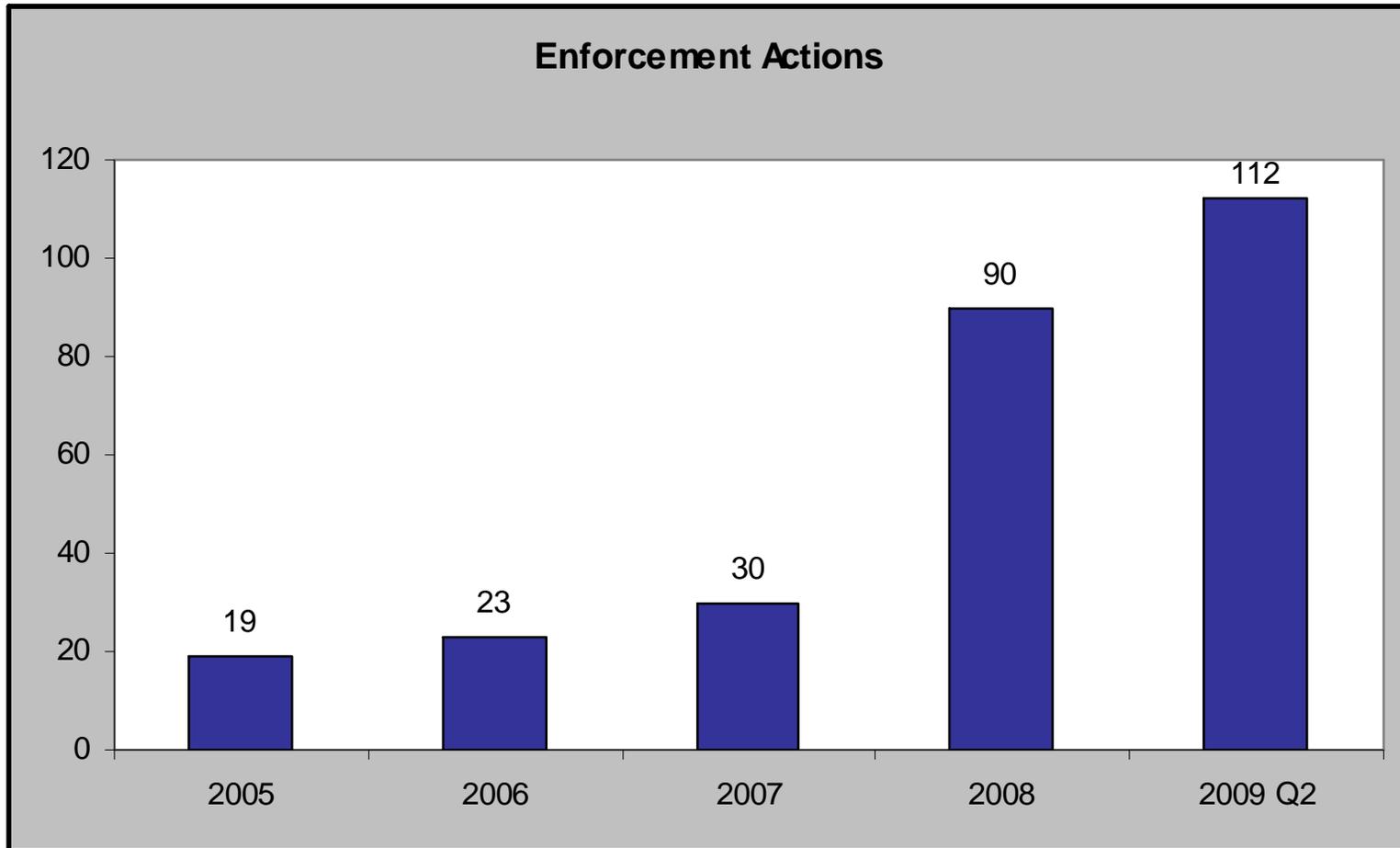
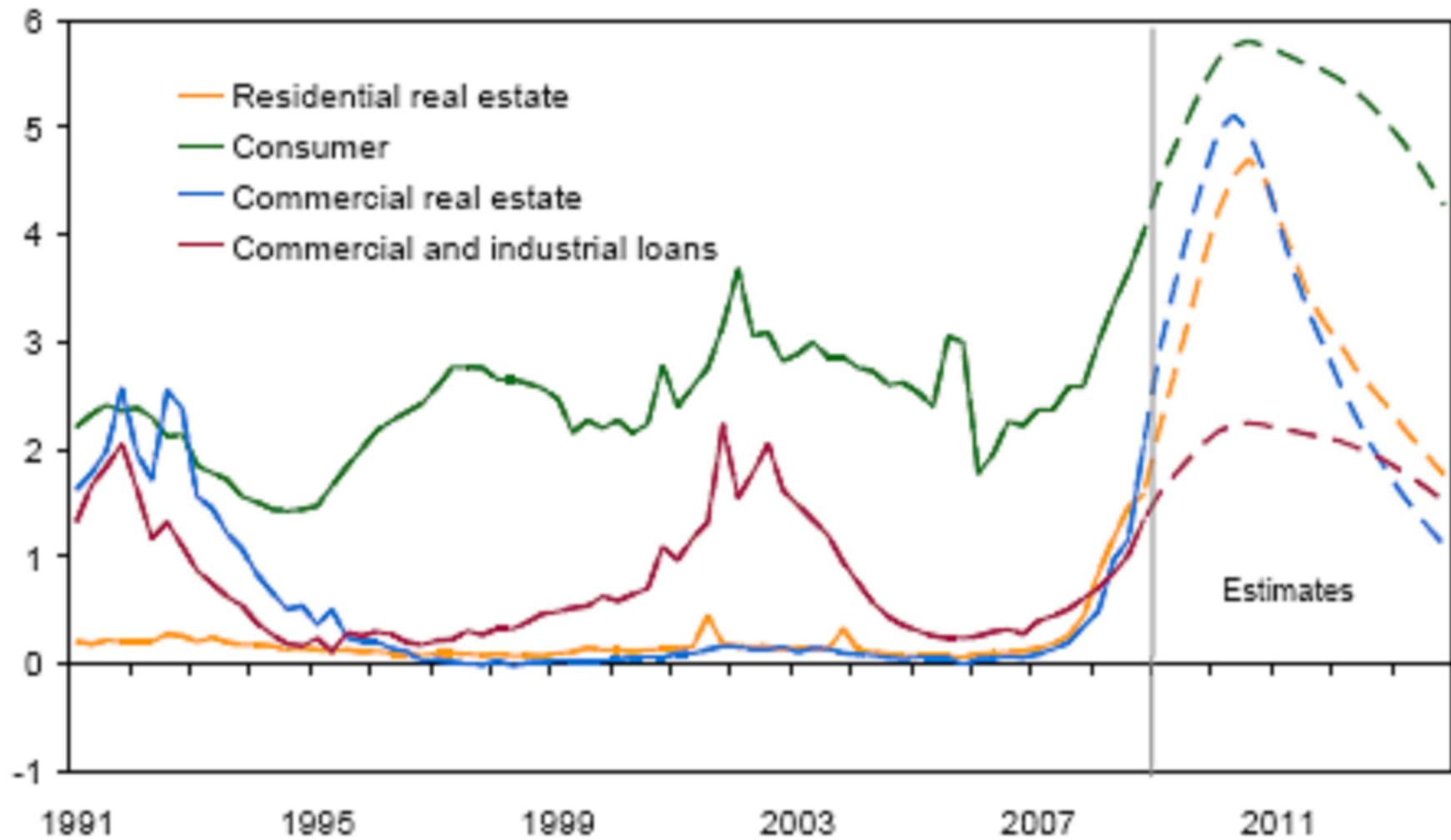


Figure 1.20. U.S. Loan Charge-Off Rates: Baseline

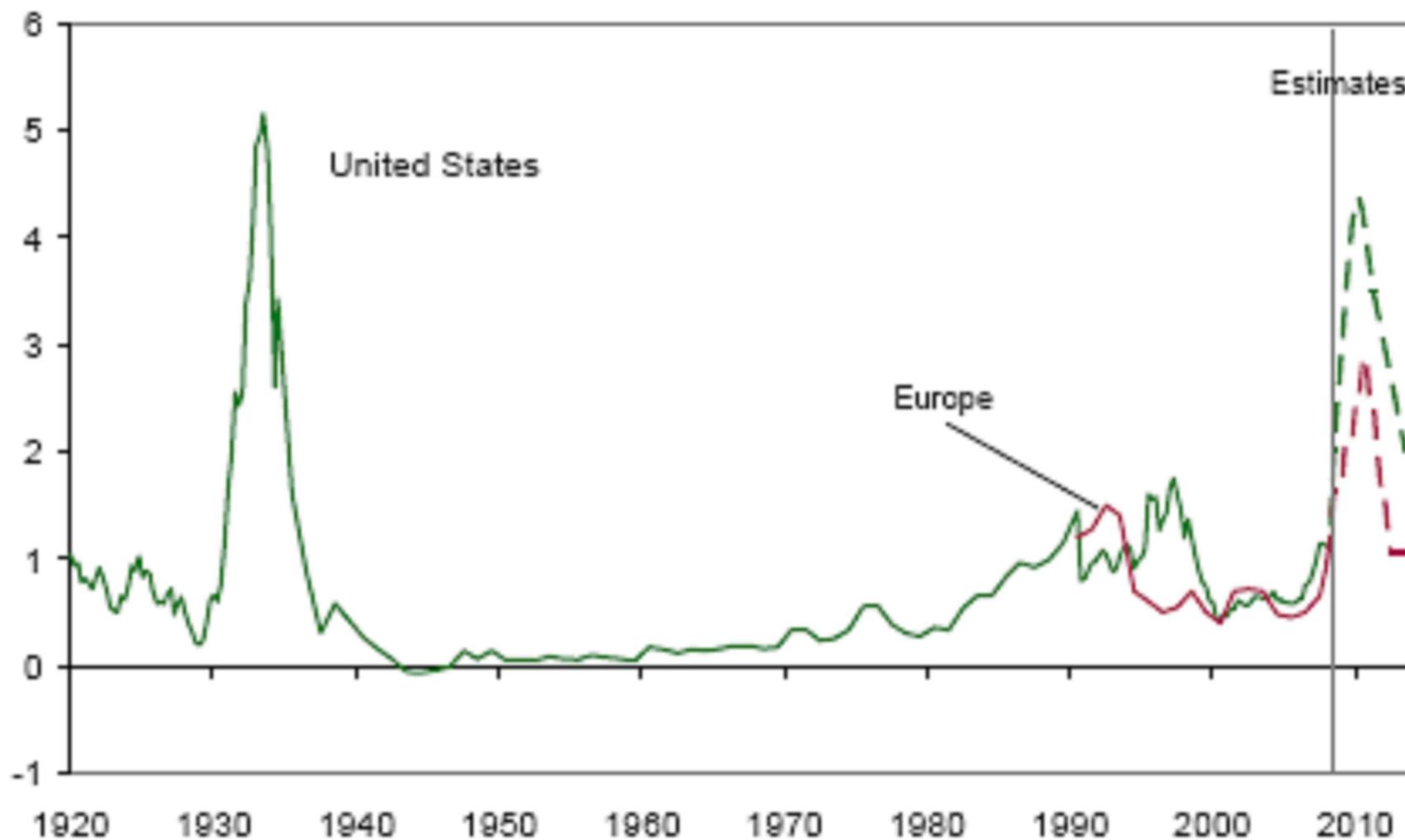
(In percent)



Sources: Federal Reserve; and IMF staff estimates.

Figure 1.30 Commercial Bank Loan Charge-Offs

(In percent of total loans)



Source: IMF staff estimates.

How are we responding?

- Risk Based Exam Scheduling
- Longer Exam Duration -- Larger Loan Scoping/More Loan Write-ups
- More Enforcement Actions
- Liquidity Issues Loom Large As Troubles Mount
- More Failures -- When Failures Occur, “Whole Bank with Loss Share” Is a DFI Goal
- Thinking About Lessons Learned

Bank Stocks 1930s vs. 2007-2009

