

# **SFBAA Presentation**

**November 1, 2010**

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Department of Financial Institutions**

# Topics for Discussion

- Update on Condition of the Industry
- Observations on the Outlook for the Economy & Credit Conditions
- Where Do We Go from Here with Bank Regulation and Supervision?

# State / National Bank Comparison

## California Headquartered Institutions

(as of 12/31/09)

<b><u>Banks Over 3 Years of Operation by Asset Size</u></b>	<b><u># State</u></b>	<b><u>% of Total</u></b>	<b><u># Nat'l</u></b>	<b><u>% of Total</u></b>
< \$100MM	25	12%	7	13%
\$100MM to \$500MM	107	49%	32	59%
\$500MM to \$2B	40	18%	5	9%
<u>\$2B and &gt;</u>	<u>19</u>	<u>9%</u>	<u>6</u>	<u>11%</u>
<b><u>Banks &lt; 3 Years of Operations</u></b>	<u>26</u>	<u>12%</u>	<u>4</u>	<u>7%</u>
Total	217	100%	54	100%

# State / National Bank Comparison

Total Asset Size  
(as of 12/31/09)

<b><u>Banks Over 3 Years of Operation by Asset Size</u></b>	<b><u>State Banks</u></b>	<b><u>% of Total</u></b>	<b><u>Nat'l Banks</u></b>	<b><u>% of Total</u></b>
< \$100MM	\$1.8B	1%	\$446M	0%
\$100MM to \$500MM	\$24.8B	11%	\$6.9B	4%
\$500MM to \$2B	\$38.8B	16%	\$5.7B	3%
<u>\$2B and &gt;</u>	<u>\$162.8B</u>	<u>69%</u>	<u>\$148.5B</u>	<u>87%</u>
<b><u>Banks &lt; 3 Years of Operations</u></b>	<u>\$8.3B</u>	<u>3%</u>	<u>\$10.4B</u>	<u>6%</u>
Total	\$236.5B	100%	\$171.9B	100%

# 10 Largest US BHCs 1960 vs. 2010

1960

Institution	Total assets (USD billions)	Assets as a percentage of GDP (percent)	Assets as a percentage of total banking sector assets <sup>(b)(c)</sup> (percent)
Bank of America	11.2	2.1	4.4
Chase Manhattan Bank	8.4	1.6	3.3
First National City Bank of New York	8.2	1.6	3.2
Manufacturer's Hanover Trust Company <sup>(e)</sup>	5.9	1.1	2.3
Morgan Guaranty Trust Company	4.1	0.8	1.6
Chemical Bank New York Trust Company	4.1	0.8	1.6
Security First National Bank	3.4	0.7	1.3
Bankers Trust Company	3.1	0.6	1.2
First National Bank of Chicago	3.0	0.6	1.2
Bank of California	0.7	0.1	0.3
<i>Total</i>	<b>52.1</b>	<b>9.9</b>	<b>20.3</b>

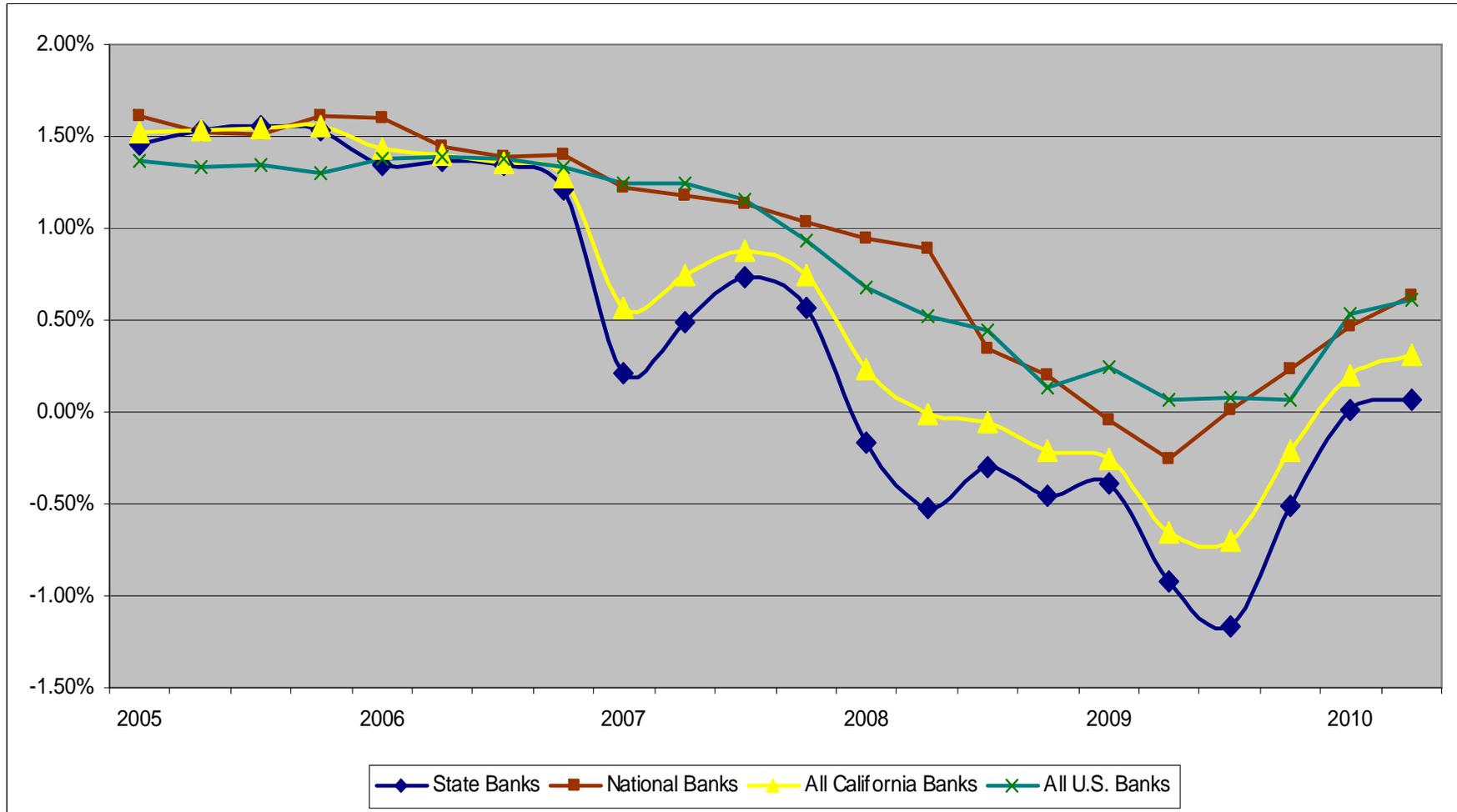
2010

Institution	Total assets (USD billions)	Assets as a percentage of GDP <sup>(d)</sup>	Assets as a percentage of total banking sector assets <sup>(b)(c)</sup> (percent)
Bank of America	2,363.9	16.7	19.7
JP Morgan	2,014.0	14.3	16.8
Citigroup	1,937.7	13.7	16.2
Wells Fargo	1,225.9	8.7	10.2
US Bancorp	283.2	2.0	2.4
PNC Financial Services	261.8	1.9	2.2
Bank of New York Mellon	235.9	1.7	2.0
Suntrust banks	170.7	1.2	1.4
BB&T corporation	155.1	1.1	1.3
State Street	160.7	1.1	1.3
<i>Total</i>	<b>8,809</b>	<b>62.4</b>	<b>73.6</b>

# State / National Bank Comparison

## Return on Assets

### Annualized



# Return on Assets by Quintile\*

## State Chartered Commercial and Industrial Banks

**Annualized year-to-date through June 30, 2010**

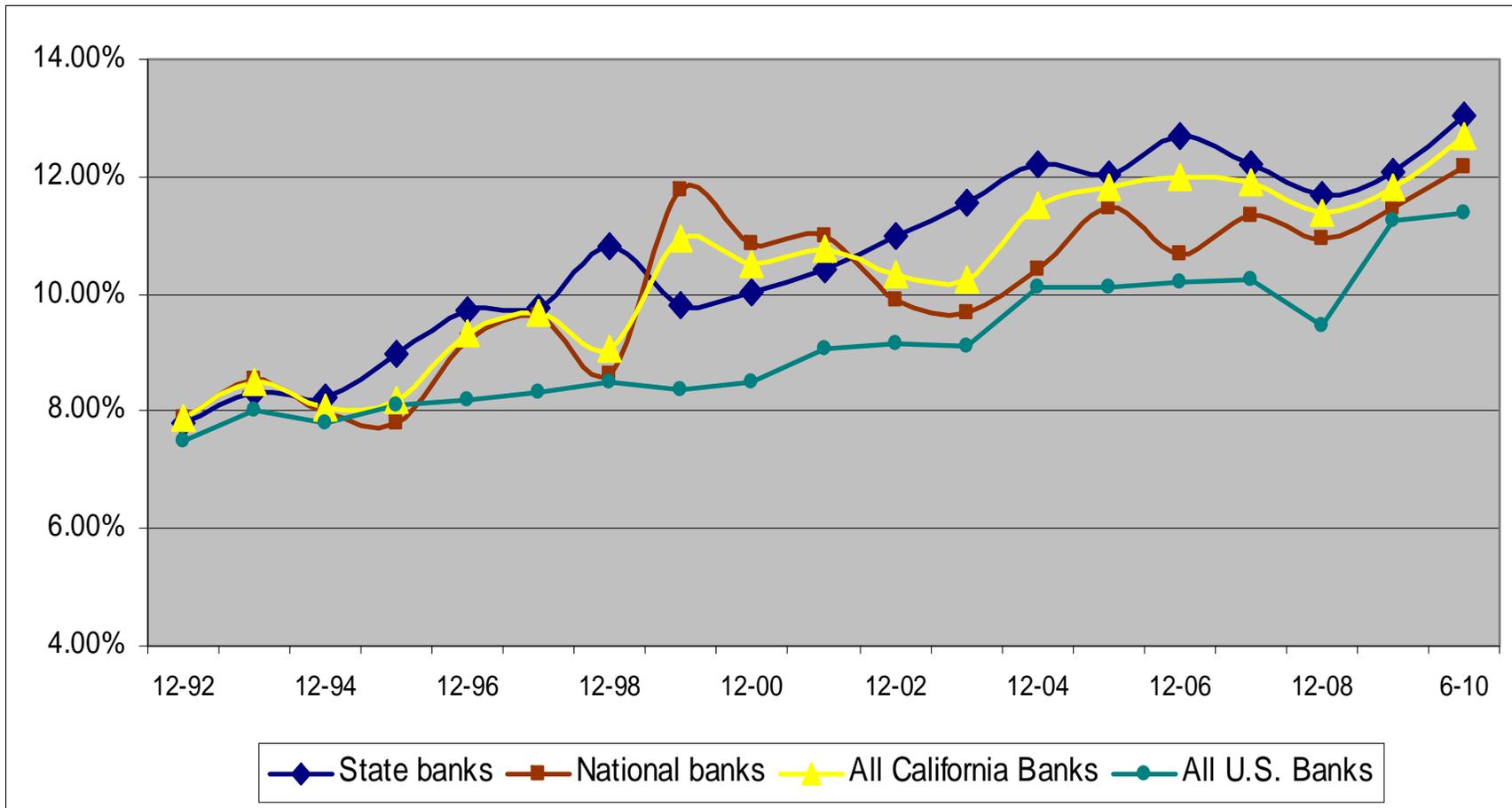
Asset Size	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More**	Total
Number of Banks	32	119	39	18	208
First Quintile	1.0	1.0	1.1	1.0	1.1
Second Quintile	0.3	0.5	0.7	0.6	0.5
Third Quintile	-0.8	0.2	0.3	0.2	0.2
Fourth Quintile	-1.4	-0.7	0.1	-0.9	-0.6
Fifth Quintile	-3.1	-2.6	-0.9		-3.1
Total	-0.9	-0.2	-0.3	0.2	0.1

\* 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.

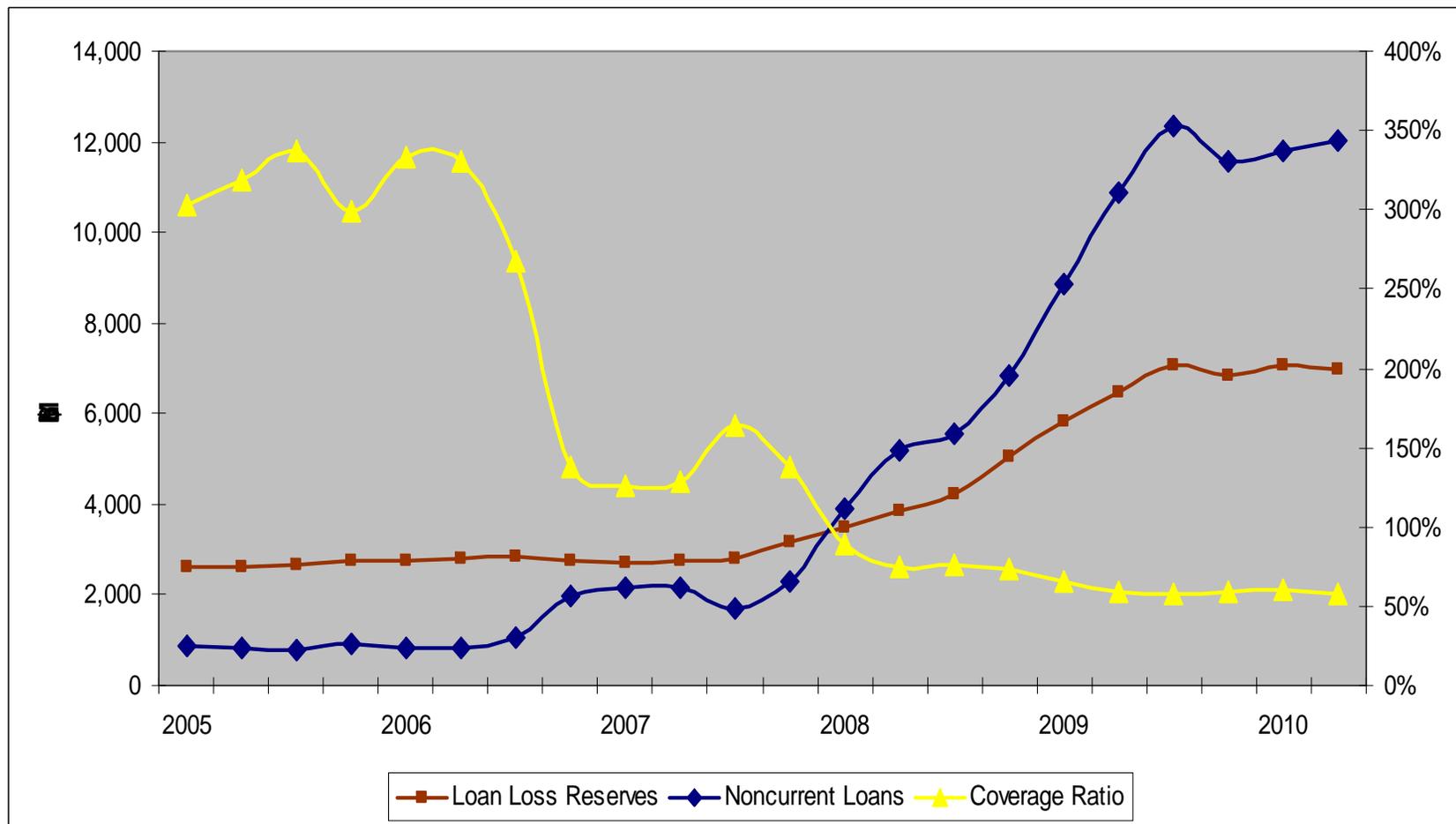
\*\* Due to the small population in this category, it was divided into four equal sized groups.

# State / National Bank Comparison

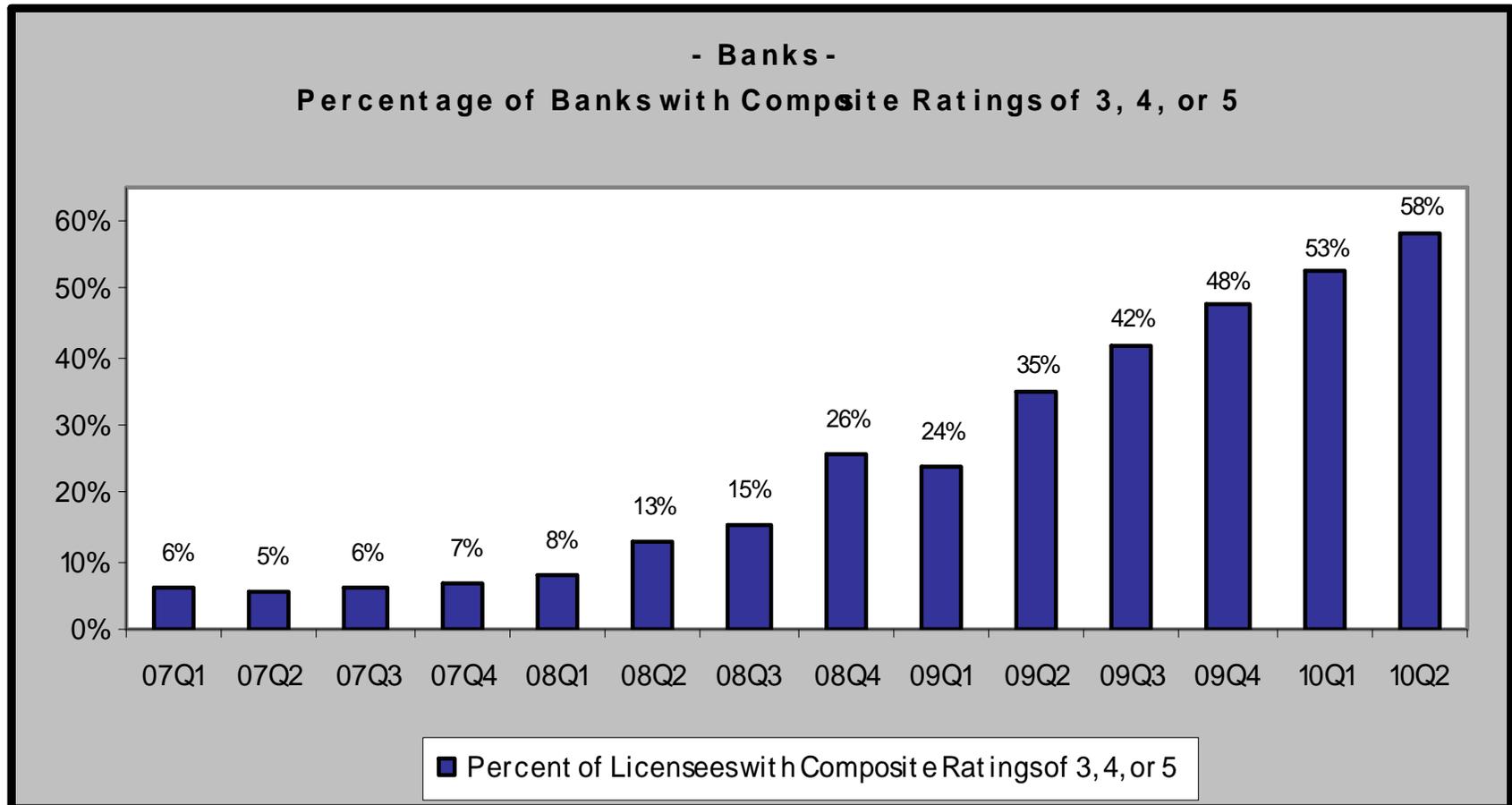
## Total Bank Equity / Total Assets



# Loan Loss Reserves vs. Noncurrent Loans and Leases All California Banks



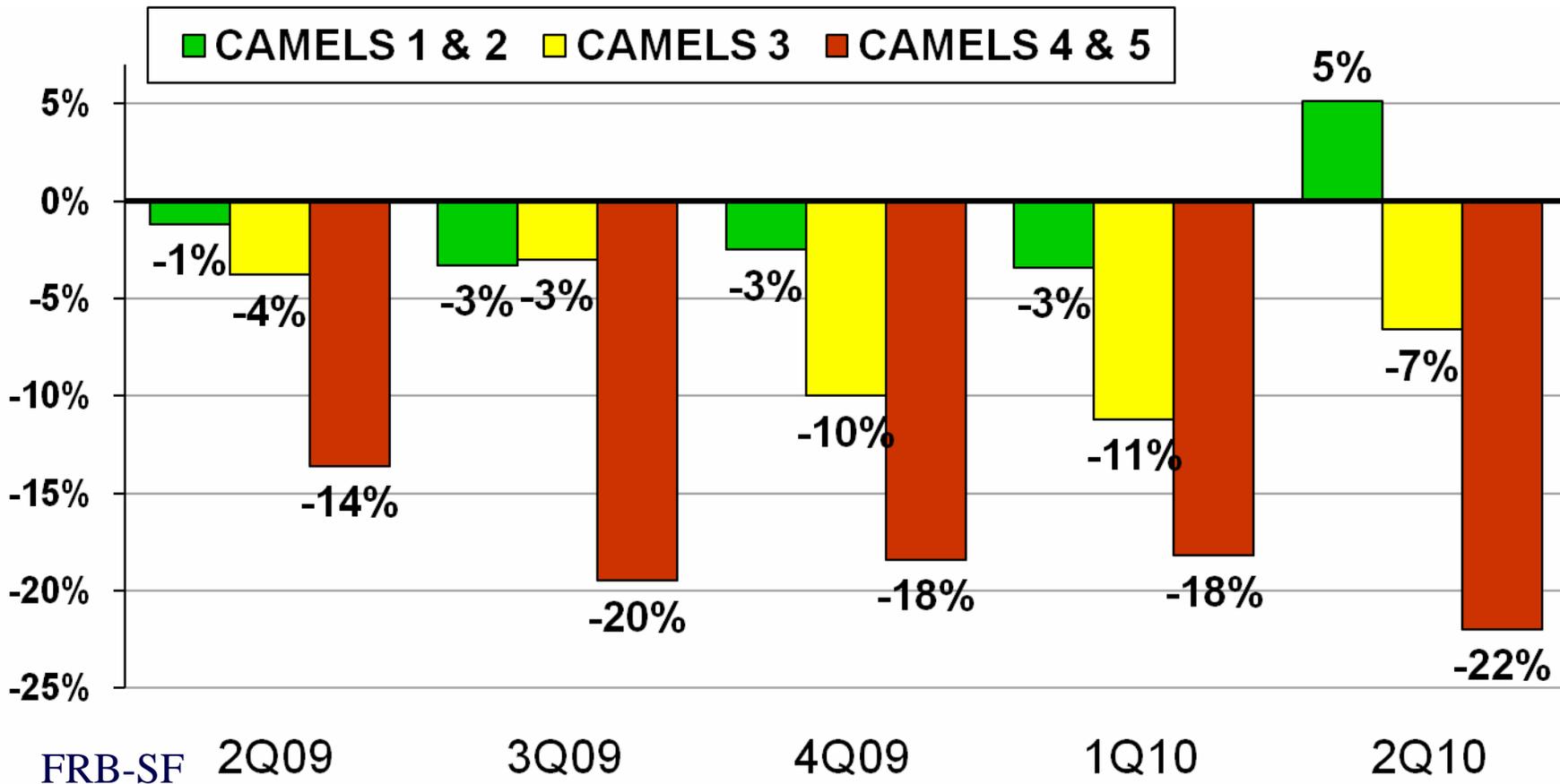
# Increase in Problem Banks



# 2Q10 Loan Growth Turned Positive for Banks in Good Condition

*Well Over Half of "1" and "2" Rated Banks Grew their Loans in 2Q2010*

Aggregate quarterly loan growth rates, annualized



Based on a panel of District commercial banks with assets < \$50B; excludes non-lead bank subsidiaries of very large out-

# California Bank and Thrift Failures 2009 – Present

<u>Name</u>	<u>Type</u>	<u>City</u>	<u>Total Assets (000)*</u>	<u>Date Closed</u>
1st Centennial Bank	State	Redlands	797,959	1/23/09
Alliance Bank	State	Culver City	1,113,361	2/6/09
County Bank	State	Merced	1,711,552	2/6/09
IndyMac Federal Bank, F.S.B.	FSB	Pasadena	23,477,908	3/19/09
First Bank of Beverly Hills	State	Calabasas	1,260,354	4/24/09
MetroPacific Bank	State	Irvine	75,316	6/26/09
Mirae Bank	State	Los Angeles	480,619	6/26/09
Temecula Valley Bank	State	Temecula	1,396,622	7/17/09
Vineyard Bank, National Association	National	Rancho Cucamonga	1,638,378	7/17/09
Affinity Bank	State	Ventura	1,211,431	8/28/09
San Joaquin Bank	State	Bakersfield	766,359	10/16/09
California National Bank	National	Los Angeles	7,781,100	10/30/09
Pacific National Bank	National	San Francisco	2,319,263	10/30/09
San Diego National Bank	National	San Diego	3,594,544	10/30/09

\* Total assets are as of quarter-end prior to failure.

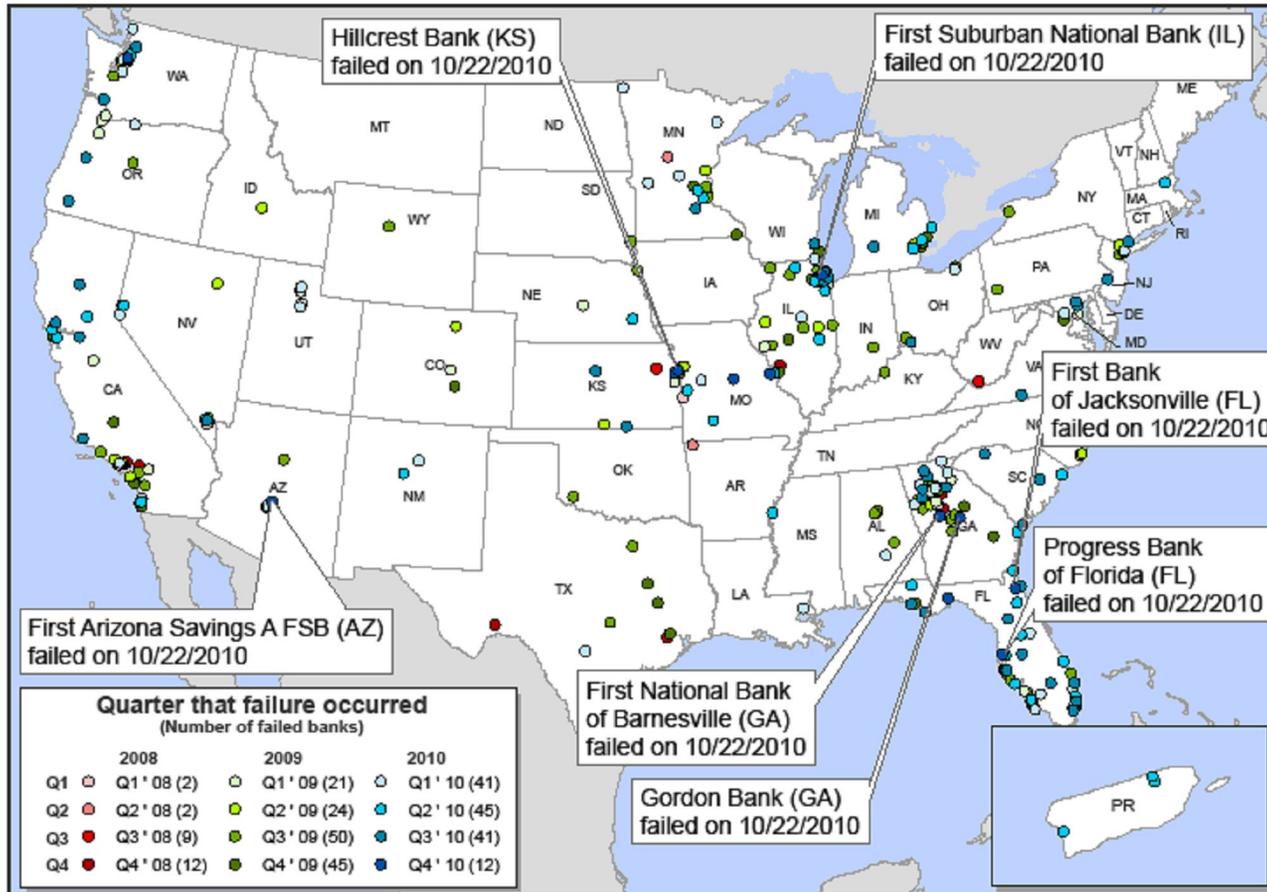
# California Bank and Thrift Failures 2009 – Present (Continued)

<u>Name</u>	<u>Type</u>	<u>City</u>	<u>Total Assets (000)*</u>	<u>Date Closed</u>
United Commercial Bank	State	San Francisco	10,895,336	11/6/09
Pacific Coast National Bank	National	San Clemente	131,418	11/13/09
First Federal Bank of California	FSB	Santa Monica	6,143,903	12/18/09
Imperial Capital Bank	State	La Jolla	4,046,888	12/18/09
First Regional Bank	State	Los Angeles	2,082,684	1/29/10
La Jolla Bank, FSB	FSB	La Jolla	3,646,071	2/19/10
Innovative Bank	State	Oakland	268,891	4/16/10
Tamalpais Bank	State	San Rafael	628,903	4/16/10
1st Pacific Bank of California	State	San Diego	335,798	5/7/10
Granite Community Bank, N.A.	National	Granite Bay	102,913	5/28/10
Butte Community Bank	State	Chico	498,751	8/20/10
Los Padres Bank	FSB	Solvang	901,516	8/20/10
Pacific State Bank	State	Stockton	312,077	8/20/10
Sonoma Valley Bank	State	Sonoma	337,113	8/20/10

\* Total assets are as of quarter-end prior to failure.

# Bank and Thrift Failures Since 2008

Bank and thrift failures since 2008



As of: Oct. 22, 2010  
Source: SNL Financial

# California Chartered Institutions

## Completed Capital Offerings

### 2009 – Present

<u>Name</u>	<u>City</u>	<u>Date</u>	<u>Funding Type</u>	<u>Offering Amount (\$000)</u>
PacWest Bancorp	San Diego	1/14/09	Common Stock	100,000
Valley Republic Bank	Bakersfield	2/2/09	Common Stock	24,619
Preferred Bank	Los Angeles	2/11/09	Senior Debt	26,000
Pacific Valley Bank	Salinas	2/19/09	Common Stock	1,502
Bank of the West	San Francisco	3/23/09	Senior Debt	1,000,000
East West Bancorp, Inc.	Pasadena	7/14/09	Common Stock	27,500
East West Bancorp, Inc.	Pasadena	7/20/09	Common Stock	69,850
CVB Financial Corp.	Ontario	7/21/09	Common Stock	115,245
PacWest Bancorp	San Diego	8/25/09	Common Stock	50,000
Sierra Bancorp	Porterville	8/28/09	Common Stock	21,285
Hanmi Financial Corporation	Los Angeles	9/4/09	Common Stock	6,946
Preferred Bank	Los Angeles	9/9/09	Common Stock	17,029
Cathay General Bancorp	El Monte	9/30/09	Common Stock	32,379

# California Chartered Institutions

## Completed Capital Offerings

### 2009 – Present (Continued)

<u>Name</u>	<u>Location</u>	<u>Date</u>	<u>Funding Type</u>	<u>Offering Amount (\$000)</u>
Pacific Valley Bank	Salinas	9/30/09	Common Stock	1,900
Cathay General Bancorp	El Monte	10/13/09	Common Stock	70,435
Nara Bancorp, Inc.	Los Angeles	10/21/09	Common Stock	75,000
Pacific Premier Bancorp, Inc.	Costa Mesa	11/4/09	Common Stock	15,000
East West Bancorp, Inc.	Pasadena	11/6/09	Preferred Stock	335,047
East West Bancorp, Inc.	Pasadena	11/6/09	Common Stock	164,953
SVB Financial Group	Santa Clara	11/18/09	Common Stock	300,300
Center Financial Corporation	Los Angeles	11/30/09	Common Stock	1,510
Center Financial Corporation	Los Angeles	11/30/09	Common Stock	11,271
Pacific Mercantile Bancorp	Costa Mesa	12/3/09	Preferred Stock	1,650
American River Bankshares	Rancho Cordova	12/7/09	Common Stock	22,000
Pacific Mercantile Bancorp	Costa Mesa	12/9/09	Preferred Stock	5,250
Pacific Mercantile Bancorp	Costa Mesa	12/18/09	Preferred Stock	950

# California Chartered Institutions

## Completed Capital Offerings 2009 – Present (Continued)

<u>Name</u>	<u>Location</u>	<u>Date</u>	<u>Funding Type</u>	<u>Offering Amount (\$000)</u>
Pacific Mercantile Bancorp	Costa Mesa	12/21/09	Preferred Stock	200
Central Valley Community Bancorp	Fresno	12/23/09	Common Stock	6,641
Central Valley Community Bancorp	Fresno	12/23/09	Preferred Stock	1,359
Cathay General Bancorp	El Monte	12/24/09	Common Stock	12,550
Citizens Bancorp	Nevada City	12/28/09	Common Stock	1,576
Sierra Vista Bank	Folsom	12/30/09	Common Stock	1,232
Center Financial Corporation	Los Angeles	12/31/09	Preferred Stock	73,500
Circle Bancorp	Novato	12/31/09	Preferred Stock	650
Mission Valley Bancorp	Sun Valley	12/31/09	Preferred Stock	4,580
Pacific Valley Bank	Salinas	12/31/09	Common Stock	500
Cathay General Bancorp	El Monte	2/1/10	Common Stock	115,000
Pacific Mercantile Bancorp	Costa Mesa	2/26/10	Preferred Stock	500
Pacific Valley Bank	Salinas	3/1/10	Common Stock	3,000

# California Chartered Institutions

## Completed Capital Offerings 2009 – Present (Continued)

<u>Name</u>	<u>Location</u>	<u>Date</u>	<u>Funding Type</u>	<u>Offering Amount (\$000)</u>
Saehan Bancorp	Los Angeles	3/9/10	Common Stock	60,573
Heritage Oaks Bancorp	Paso Robles	3/12/10	Preferred Stock	52,088
Heritage Oaks Bancorp	Paso Robles	3/12/10	Preferred Stock	3,866
First California Financial Group, Inc.	Westlake Village	3/18/10	Common Stock	36,000
Bank of Commerce Holdings	Redding	3/23/10	Common Stock	30,600
Pacific Mercantile Bancorp	Costa Mesa	3/31/10	Preferred Stock	300
Seacoast Commerce Bank	Chula Vista	3/31/10	Common Stock	3,200
Community Bank of the Bay	Oakland	4/5/10	Common Stock	5,000
North Valley Bancorp	Redding	4/20/10	Preferred Stock	40,000
Mission Community Bancorp	San Luis Obispo	4/27/10	Common Stock	10,000
Circle Bancorp	Novato	4/30/10	Preferred Stock	2,870
Citizens Bancorp	Nevada City	4/30/10	Common Stock	100
Pacific Mercantile Bancorp	Costa Mesa	5/7/10	Preferred Stock	805

# California Chartered Institutions

## Completed Capital Offerings 2009 – Present (Continued)

Name	Location	Date	Funding Type	Offering Amount (\$000)
Ventura County Business Bank	Oxnard	5/19/10	Common Stock	9,359
Heritage Oaks Bancorp	Paso Robles	6/8/10	Preferred Stock	4,072
Mission Community Bancorp	San Luis Obispo	6/15/10	Common Stock	15,000
First Republic Bank	San Francisco	6/18/10	Common Stock	1,862,004
Heritage Commerce Corp	San Jose	6/21/10	Preferred Stock	53,996
Heritage Commerce Corp	San Jose	6/21/10	Preferred Stock	21,004
Preferred Bank	Los Angeles	6/21/10	Preferred Stock	77,000
Pacific Mercantile Bancorp	Costa Mesa	6/30/10	Preferred Stock	1,250
Seacoast Commerce Bank	Chula Vista	6/30/10	Common Stock	1,800
Valley Republic Bank	Bakersfield	6/30/10	Common Stock	11,956
Community Bank of the Bay	Oakland	7/19/10	Common Stock	7,700
Plaza Bank	Irvine	7/22/10	Common Stock	15,000
Hanmi Financial Corporation	Los Angeles	7/26/10	Common Stock	210,000

# California Chartered Institutions

## Completed Capital Offerings

### 2009 – Present (Continued)

<u>Name</u>	<u>Location</u>	<u>Date</u>	<u>Funding Type</u>	<u>Offering Amount (\$000)</u>
Hanmi Financial Corporation	Los Angeles	7/27/10	Common Stock	47,282
Hanmi Financial Corporation	Los Angeles	7/27/10	Common Stock	72,718
Bay Commercial Bank	Walnut Creek	8/5/10	Common Stock	18,000
Pacific Mercantile Bancorp	Costa Mesa	8/12/10	Preferred Stock	1,750
SVB Financial Group	Santa Clara	9/15/10	Senior Debt	350,000
Security California Bancorp	Riverside	9/16/10	Common Stock	20,000
Sierra Bancorp	Porterville	10/13/10	Common Stock	23,250
<b>Total</b>				<b>5,787,452</b>

# Equity Offerings by California State Chartered Banks Since 2009

- 34 state-chartered banks in California or their BHCs completed 69 equity offerings that raised \$4.4 billion.
- Number of completed offerings by CAMELS rating at the time of the offering:

<u>CAMELS</u>	<u>Rating at Offering Date</u>
1	0
2	16
3	23
4	25
5	3
<u>Unrated</u>	<u>2</u>
Total	69

Transaction Report  
 Capital Purchase Program  
 all California Banks  
 for the period ending October 29, 2010

<u>Type of Bank</u>	<u>#</u>	<u>Total Purchase Amount</u>	<u>Total Capital Repayment Amount</u>	<u>Total Treasury CPP Investment Amount</u>
State Banks	53	1,948.8	489.0	1,459.8
National Banks*	15	686.7	402.6	284.1
Federal Savings Banks	4	46.5	4.9	41.6
<b>Total</b>	<b>72</b>	<b>\$2,682.0</b>	<b>\$896.5</b>	<b>\$1,785.5</b>

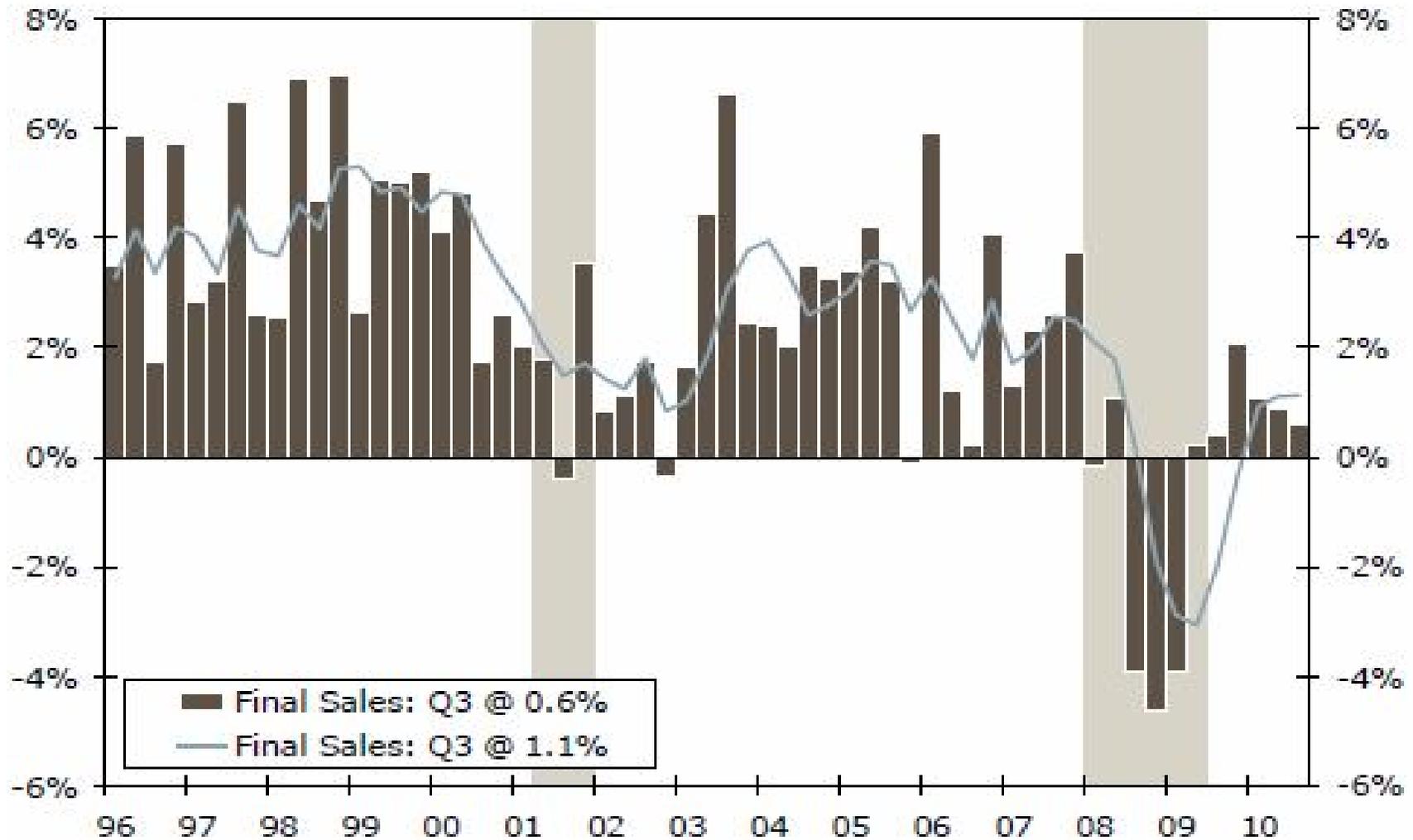
\* Excludes \$25 billion TARP investment in Wells Fargo & Company

# Observations on the Outlook

- Economic Conditions
- Credit Outlook
- Revenue Prospects
- Impact of Regulatory Reform

# Real Final Sales to Domestic Purchasers

Bars = Q/Q % change annualized, Line = Y/Y % change

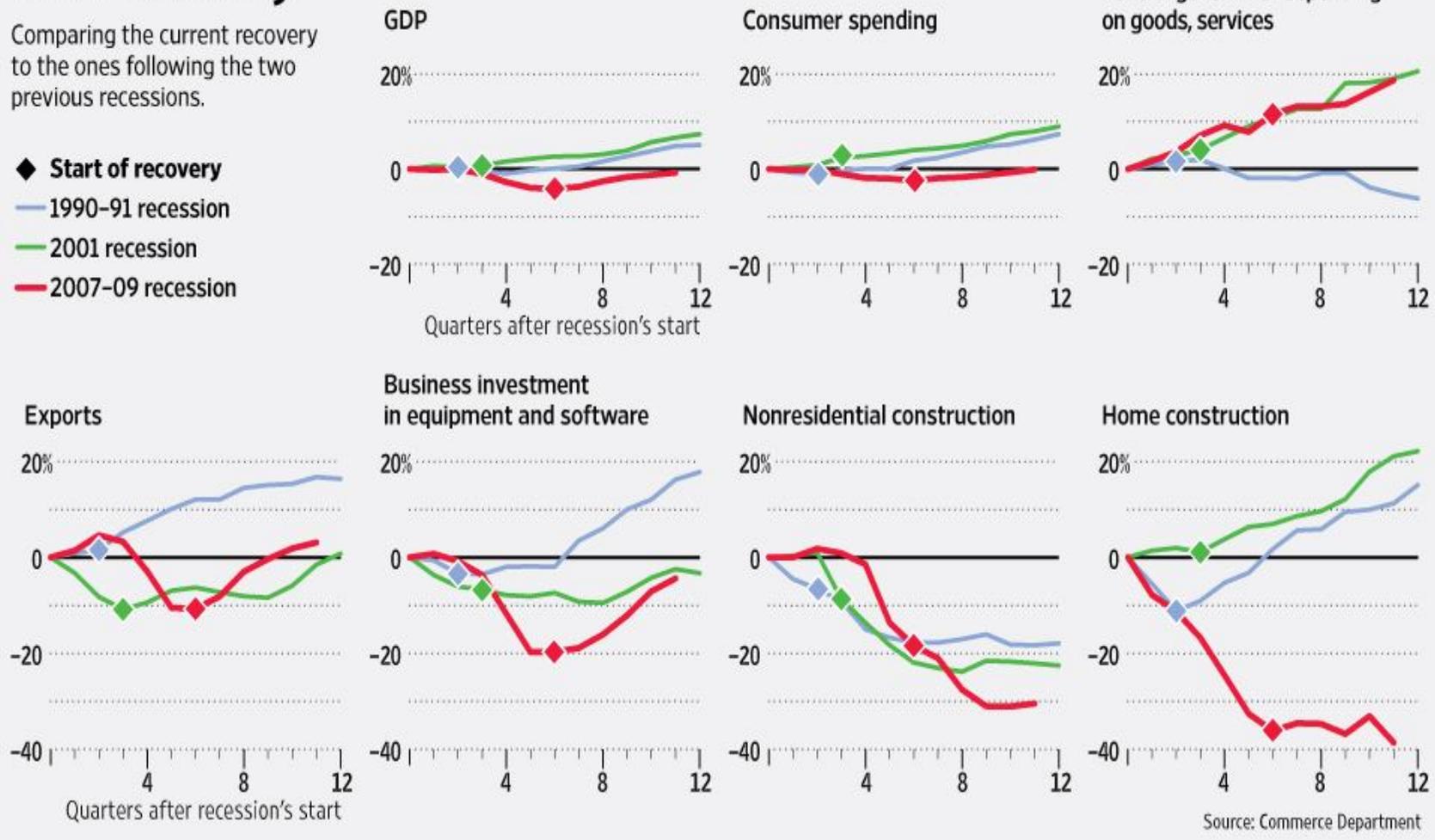


# GDP Components in Current vs. Prior Recoveries

## Slow Recovery

Comparing the current recovery to the ones following the two previous recessions.

- ◆ Start of recovery
- 1990-91 recession
- 2001 recession
- 2007-09 recession

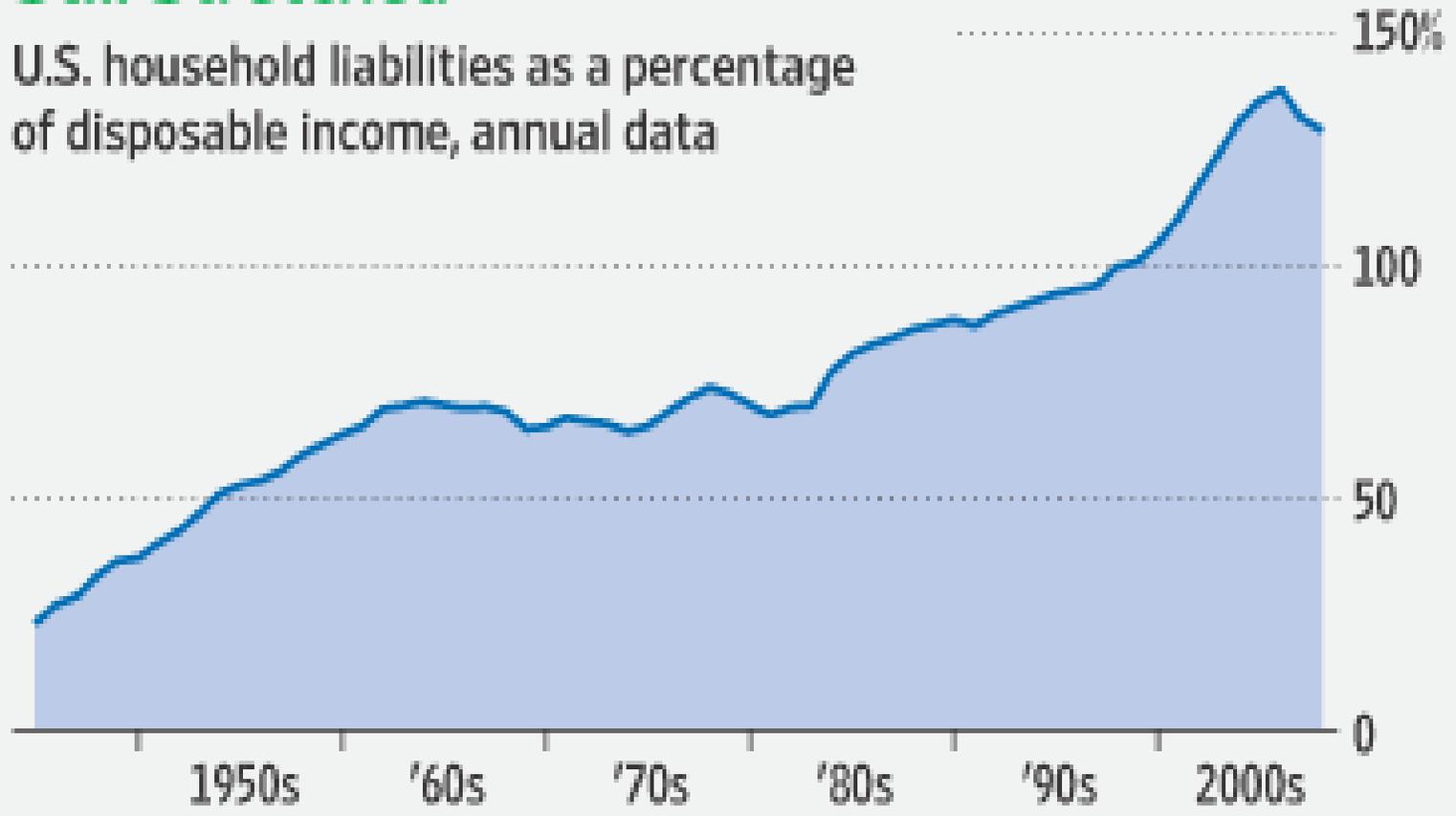


# Characteristics of Post-crisis Economies

- These are not normal cyclical events. Postwar U.S. experience with recessions and recoveries is not a good guide.
- Balance sheet damage from a collapse in valuations produces a slow, protracted recovery.
- Normal tools of monetary and fiscal policy less effective or unavailable.
- “Sovereign” risk and crises are part of the landscape.
- =>Prepare for a Slow, Potentially Bumpy Recovery

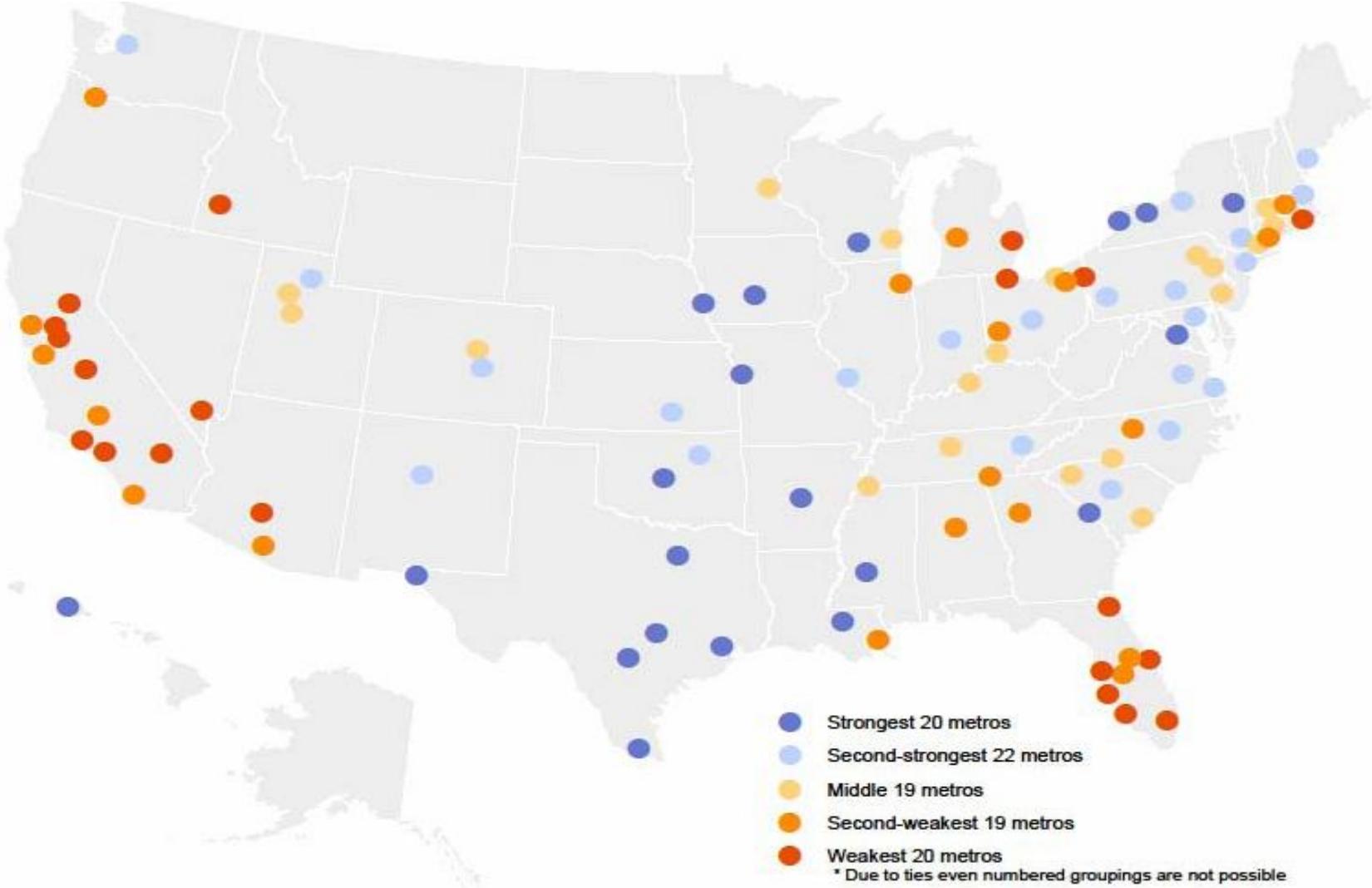
## Still Stretched

U.S. household liabilities as a percentage of disposable income, annual data



Notes: Includes nonprofit organizations; 2009 figure is for the second quarter  
Source: U.S. Federal Reserve

# Economic Performance by SMA

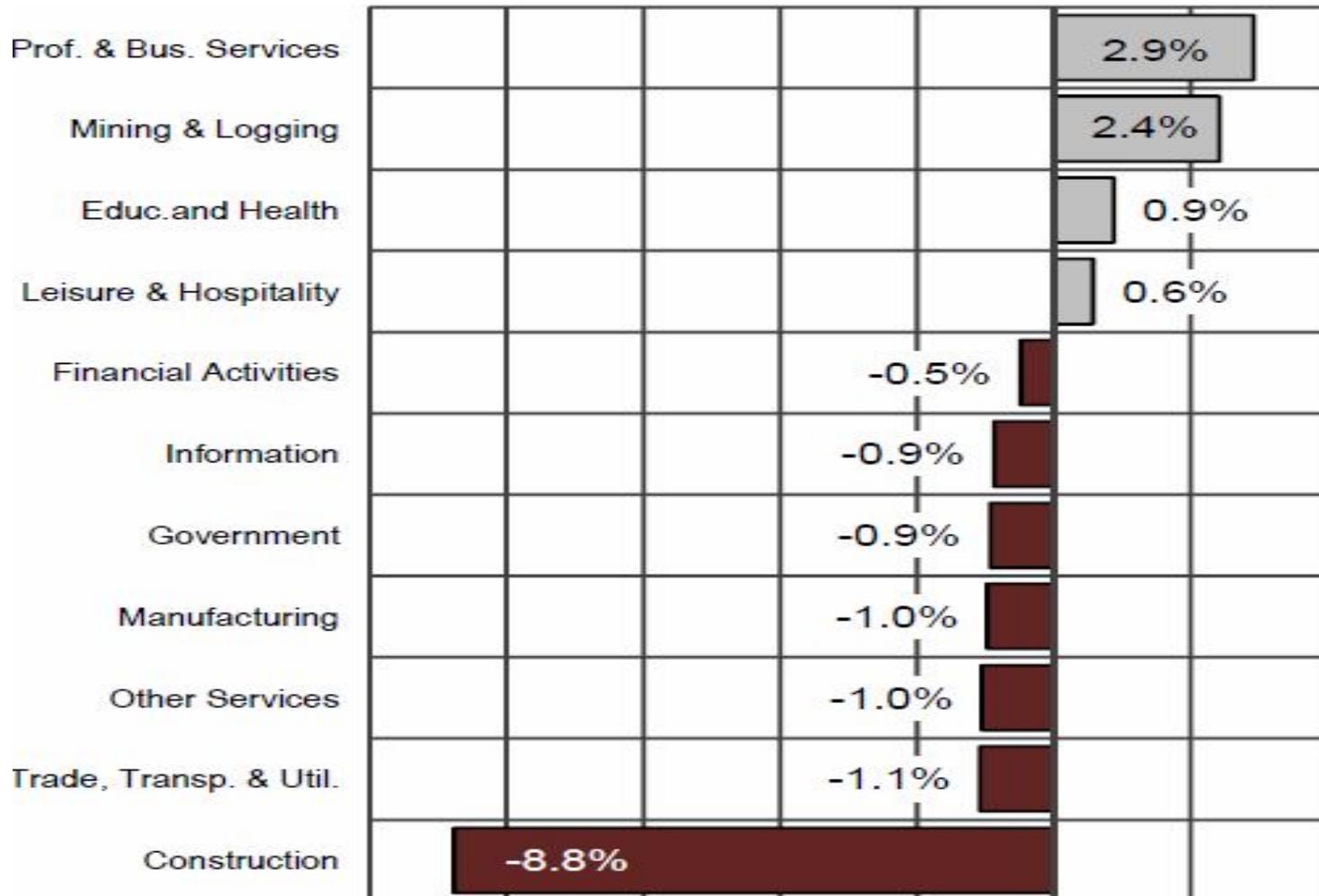


# Best/Worst Metro Areas

The 20 strongest-performing metro areas		The 20 weakest-performing metro areas	
Albany, NY	Jackson, MS	Boise City, ID	Oxnard, CA
Augusta, GA-SC	Kansas City, MO-KS	Cape Coral, FL	Palm Bay, FL
Austin, TX	Little Rock, AR	Detroit, MI	Phoenix, AZ
Baton Rouge, LA	Madison, WI	Fresno, CA	Providence, RI-MA
Buffalo, NY	McAllen, TX	Jacksonville, FL	Riverside, CA
Dallas, TX	Oklahoma City, OK	Las Vegas, NV	Sacramento, CA
Des Moines, IA	Omaha, NE-IA	Los Angeles, CA	Stockton, CA
El Paso, TX	Rochester, NY	Miami, FL	Tampa, FL
Honolulu, HI	San Antonio, TX	Modesto, CA	Toledo, OH
Houston, TX	Washington, DC-VA-MD-WV	North Port, FL	Youngstown, OH-PA

# California Job Growth By Industry

## % Change from a Year Earlier

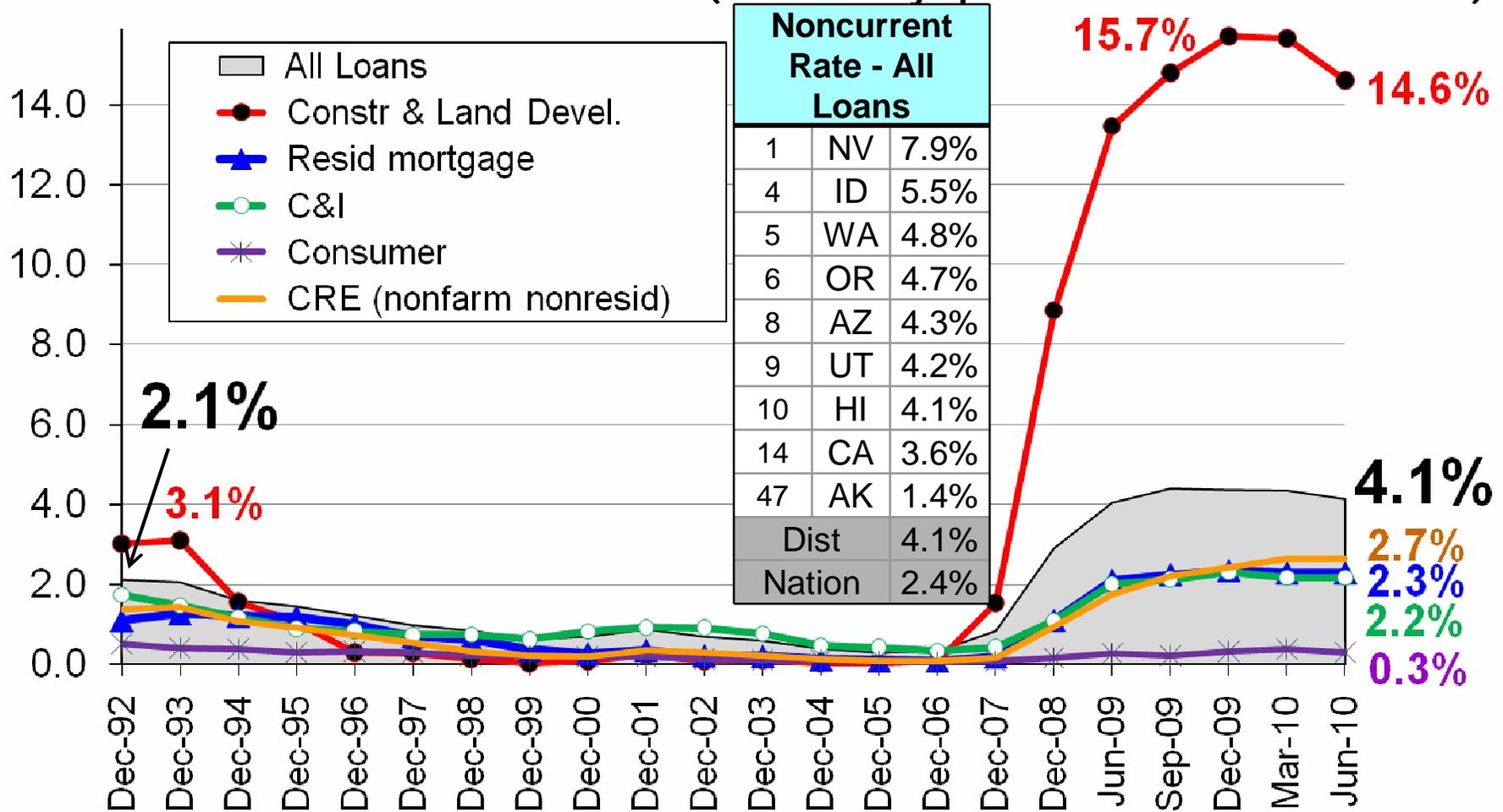


# Credit Conditions

# Noncurrent Loan Rates Edged Downward, Due Largely to C&LD Loan Charge-offs

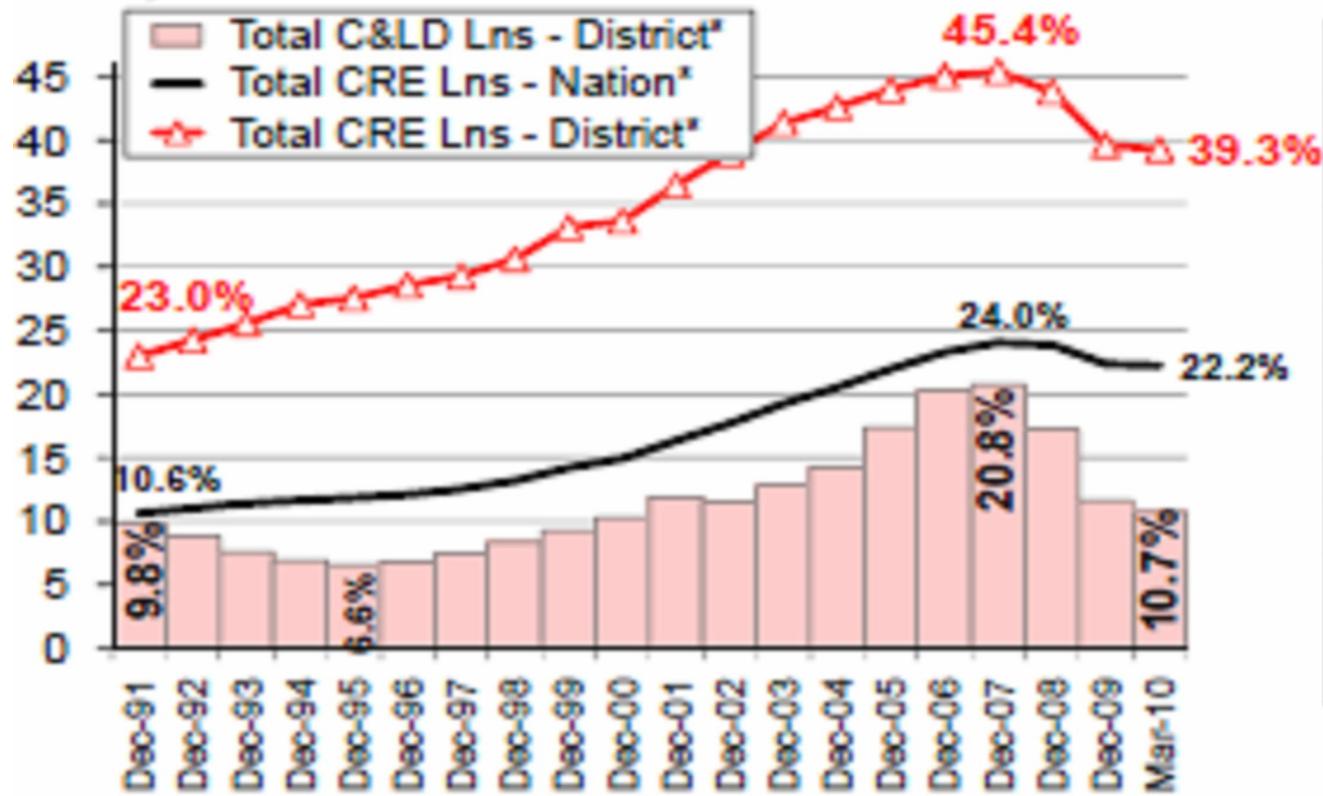
*CRE Income Property Noncurrent Rates Continue to Rise in 1H10*

12<sup>th</sup> District Bank Noncurrent Loan Rates (Pct 90+ days past due or on nonaccrual -%)



## District Avg. Total CRE Loan Concentrations Have Declined But are Still Well Above the Nation

Average Loan Concentrations as a Pct of Total Loans – %



CRE Lns / Tot. Lns excl. owner occupied NFNR		
U.S. Rank	State	State Avg
1	NV	46%
2	CA	42%
5	AZ	38%
6	WA	38%
7	OR	37%
10	HI	34%
11	UT	34%
16	AK	31%
17	ID	30%
12 <sup>th</sup> District		38%
Nation		22%

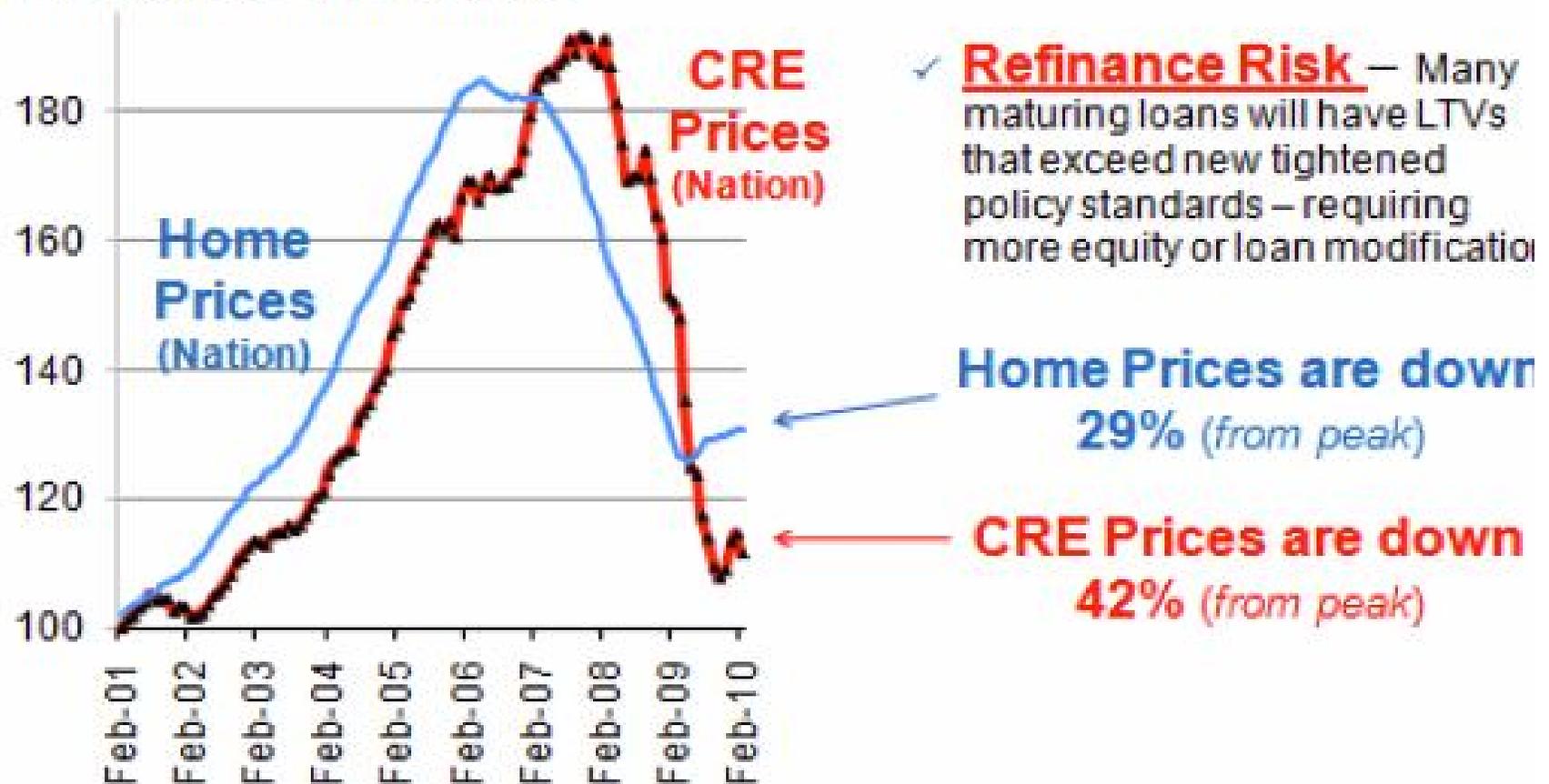
FRB-SF

Commercial banks only (excludes industrials); trimmed means; \* Total CRE loans include C&LD loans, and exclude owner-occupied nonfarm nonresidential secured loans, as estimated prior to 2008, preliminary 2/2010 data.

## 5) CRE Property Values Down Even More Than Housing

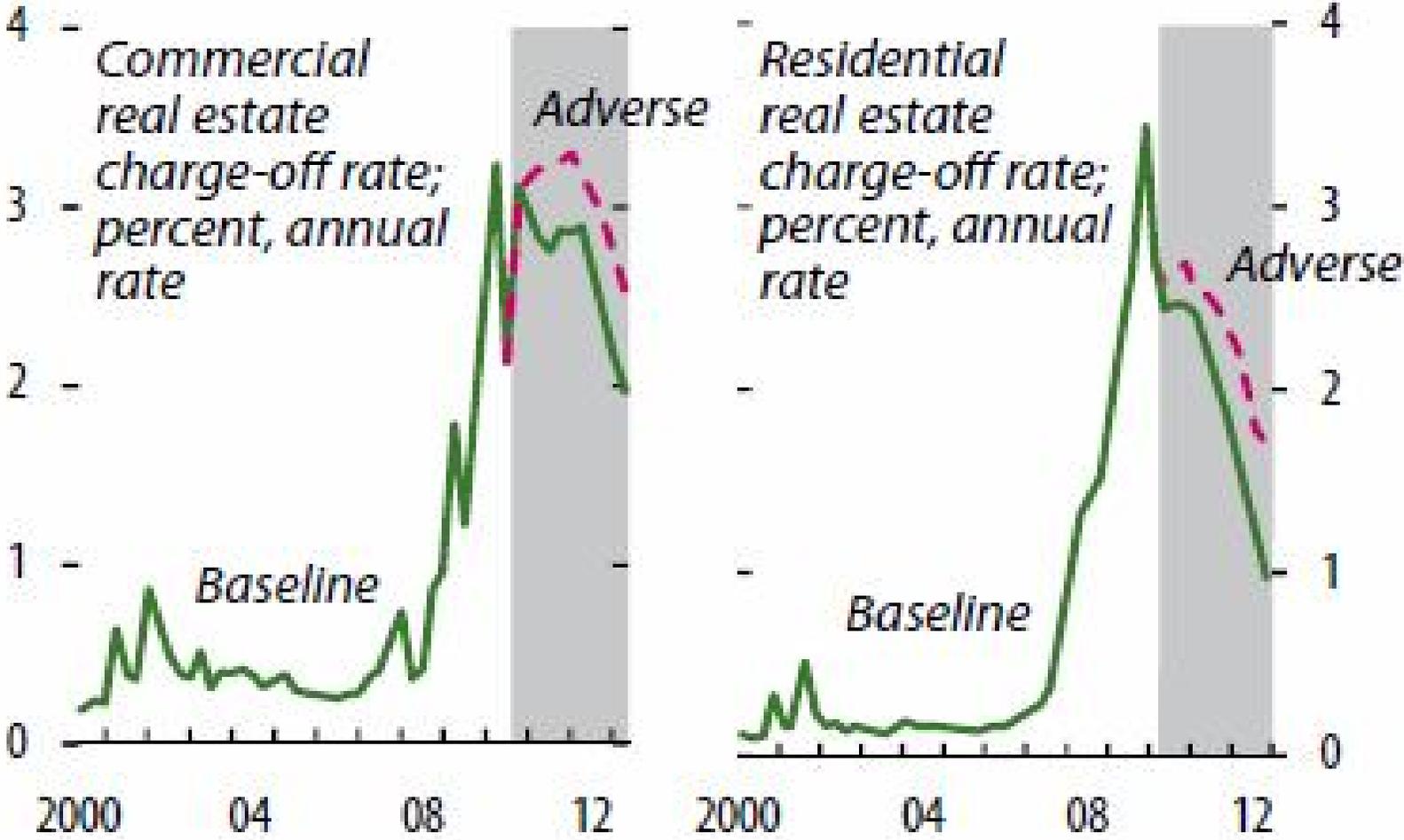
Maturing CRE Loans Increasingly to Require Extensions & Restructuring

### Home and CRE Price Indices



Sources: Moody's/REAL Commercial Property Index; S&P Case-Shiller Home Price Composite 20 Index, SA; Haver Analytics; re-indexed to 100 at Dec 2000. Note: the CRE index is based on very few transactions -- the value decline may be overstated

# IMF Forecast: U.S. Real Estate Loan Charge-Offs



Back to the Future?

California Banking in the 1930s

Excerpts from the reports of  
California State Bank Superintendants

# Superintendent Friend William Richardson, 1934

- *the combined statements submitted herewith give a factual demonstration of the urgent problem faced uniformly by all banks--earning assets in the form of good loans are not available in sufficient amounts to take up the increase in deposits. The only outlet is government bonds at extremely low rates--in fact lower than the prevailing rates on time deposits... Even the acquisition of government bonds on a low yield basis may cause future embarrassment should prevailing rates increase due either to declining public confidence in government issues or to the flotation of more attractive private issues.*

# Impact of Dodd-Frank + Heightened Regulatory Expectations

- Dodd-Frank will touch every corner of the financial system, but its biggest impact will be on largest financial institutions.
- Direct and indirect impacts on community and regional banks are difficult to assess at this time.
  - Key provisions: increase in deposit insurance coverage now permanent, interest payable on DDA, Fed to regulate interchange fees
- CFPB creates major new uncertainties.
- Roll-back of OCC's preemption authority invites new state-level consumer financial legislation.
- Basle III initiative could be at least as significant as Dodd-Frank and should be watched closely.

# Financial Stability Oversight Council Membership

## Voting

- Secretary of the Treasury
- Chair of FRB
- Comptroller
- Director of CFPB
- Chair of SEC
- Chair of FDIC
- Chair of CFTC
- Director of FHFA
- Chair of NCUA
- Insurance representative appointed by President

## Nonvoting

- Director of office of financial research
- Director of federal insurance office
- State insurance commissioner
- State banking commissioner
- State securities commissioner

# Financial Stability Oversight Council -- Purposes

- To identify risks to financial stability that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected BHCs or nonbanks.
- To promote market discipline by eliminating expectations on the part of shareholders, creditors and counterparties...that the government will shield them from losses in the event of failure.
- To respond to emerging threats to financial stability

# Financial Stability Oversight Council -- Duties

- Information gathering and sharing
- Recommending supervisory priorities/prudential standards
- Identifying gaps in regulation
- Identify nonbank FIs that may pose risks to the financial system for supervision by FRB
- Identify systemically important financial utilities and payment, clearing and settlement activities
- Reporting to Congress & testimony by Chair annually
- Statements by voting members

