

**FIG Partners
West Coast Bank CEO Conference**

February 10, 2011

**William S. Haraf, Commissioner
California Department of Financial Institutions**

Topics for Discussion

1. Update on condition of the industry
2. Observations on commercial real estate, the economy, credit conditions, other risk factors
3. Where do we go from here with bank regulation and supervision?
4. Is the community banking business model at risk?

State / National Bank Comparison

CA Headquartered Institutions

(as of 12/31/10)

<u>Asset Size</u>	<u># State</u>	<u>% of Total</u>	<u># Nat'l</u>	<u>% of Total</u>
< \$100MM	28	14%	6	12%
\$100MM to \$500MM	113	56%	33	66%
\$500MM to \$2B	41	20%	4	8%
<u>\$2B and ></u>	<u>19</u>	<u>9%</u>	<u>7</u>	<u>14%</u>
Total	201	100%	50	100%

State / National Bank Comparison

CA Headquartered Institutions

(as of 12/31/10)

<u>Asset Size</u>	<u>State Banks</u>	<u>% of Total</u>	<u>Nat'l Banks</u>	<u>% of Total</u>
< \$100MM	\$2.0B	1%	\$368M	0%
\$100MM to \$500MM	\$26.2B	10%	\$6.8B	4%
\$500MM to \$2B	\$40.0B	16%	\$4.0B	2%
<u>\$2B and ></u>	<u>\$187.0B</u>	<u>73%</u>	<u>\$164.4B</u>	<u>94%</u>
Total	\$255.1B	100%	\$175.6B	100%

Condition of the Industry in Q4 2010

- ▶ Improvements in ROA, NPL/TL, capital adequacy & other metrics that began in 2009 showed signs of leveling off in Q4
- ▶ Banks in the \$100MM – \$500MM size class underperformed other size classes slightly
- ▶ Since 2009, 37 state-chartered banks in California or their BHCs completed 76 equity offerings that raised \$5.9 billion.
 - 18 were CAMELS 4 banks at time of offering. 20 were CAMELS 5.
 - Number of completed capital raises peaked in Q4 2009, now trending down

Condition of the Industry in Q4 2010 (cont.)

- ▶ Number of bank failures trending down -- 17 in CA in '09, 12 in '10, may be lower in 2011
- ▶ CAMELS downgrades decelerating, but # of problem institutions remains very high
- ▶ TARP/CPP provided critical assistance to some community banks
- ▶ SBLF could have a similar effect. To date, DFI has received 12 SBLF plans for review and comment
- ▶ Much talk of M&A. Not many deals.

CRE As a Risk Factor

- ▶ CA has highest ratio of CRE/Loans in US
- ▶ Highest concentrations in banks with < \$1B assets
- ▶ NOI still falling on most property types and in most markets, but early signs of life in prime markets for prime properties and in multifamily
- ▶ Property values starting to improve – low interest rates have created more investor interest, but more than ½ of all loans coming due through 2014 expected to be underwater at maturity
- ▶ Construction portfolios winding down, but charge-offs will remain elevated for a couple of more years
- ▶ CA RRE markets facing numerous headwinds

Economic Conditions

- ▶ Economy is rebounding. So far, jobs are not.
- ▶ California lagging in terms of spending and job growth
- ▶ Consumer spending improving faster than GDP (but why?)
- ▶ Can the recovery survive a looming monetary and fiscal tightening? Can financial institutions?
- ▶ Global imbalances a risk factor
- ▶ Can the US sustain itself as a high-consumption economy?

Monetary Policy Influences on Asset Prices

- ▶ From This Week's WSJ:
 - "Bonds Flash an Inflation Alert"
 - "Investors Expand Appetite In Hunger for Higher Yields"
 - "Aleris Debt Sale: 'Covenant-Lite'"
 - "CRE Coming Back" "Investors bidding up property values largely because of low interest rates"
 - "Yield on 'Junk' Approaching All-Time Low"

PIMCO on Current Rate Environment

- ▶ A low or negative real interest rate for an “extended period of time” is the most devilish of all policy tools. And the asset class holder that it affects, or better yet, “infects,” is the small saver and institutions such as insurance companies and pension funds that hold long-term fixed income assets....To put it bluntly, they are robbing savers and taking money surreptitiously from longer-term asset holders who are incorrectly measuring future inflation.

--Bill Gross, Pimco's February Letter

Where Do We Go from Here with Bank Regulation and Supervision?

- ▶ DFA was a political reaction to a loss of trust in FIs and markets. Implementation process will be lengthy and uneven.
- ▶ Banks < \$10B fared relatively well. However, reg/sup expectations for community banks rising at the same time as leadership-level support has grown
- ▶ Have markets really accepted the idea that TBTF is over?
- ▶ Will CFPB really protect consumers? Will it be a compliance nightmare? Both? Neither?

Is the Community Banking Business Model At Risk?

- ▶ Challenging revenue environment largely, but not entirely cyclical
 - California Banking in the 1930s
 - Interchange and overdraft fee restrictions not helping
- ▶ How will community banks generate a reasonable ROI?
- ▶ What is the real lesson of the crisis for community bank supervision?
- ▶ Indirect impact of regulation & supervision of large banks and other “SIFIs”

California Banking in 1934

Superintendent Friend William Richardson

“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.”

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(as of 12/31/10)

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Total	\$255.1B	100%	\$175.6B	100%

10 Largest US BHCs 1960 vs. 2010

1960

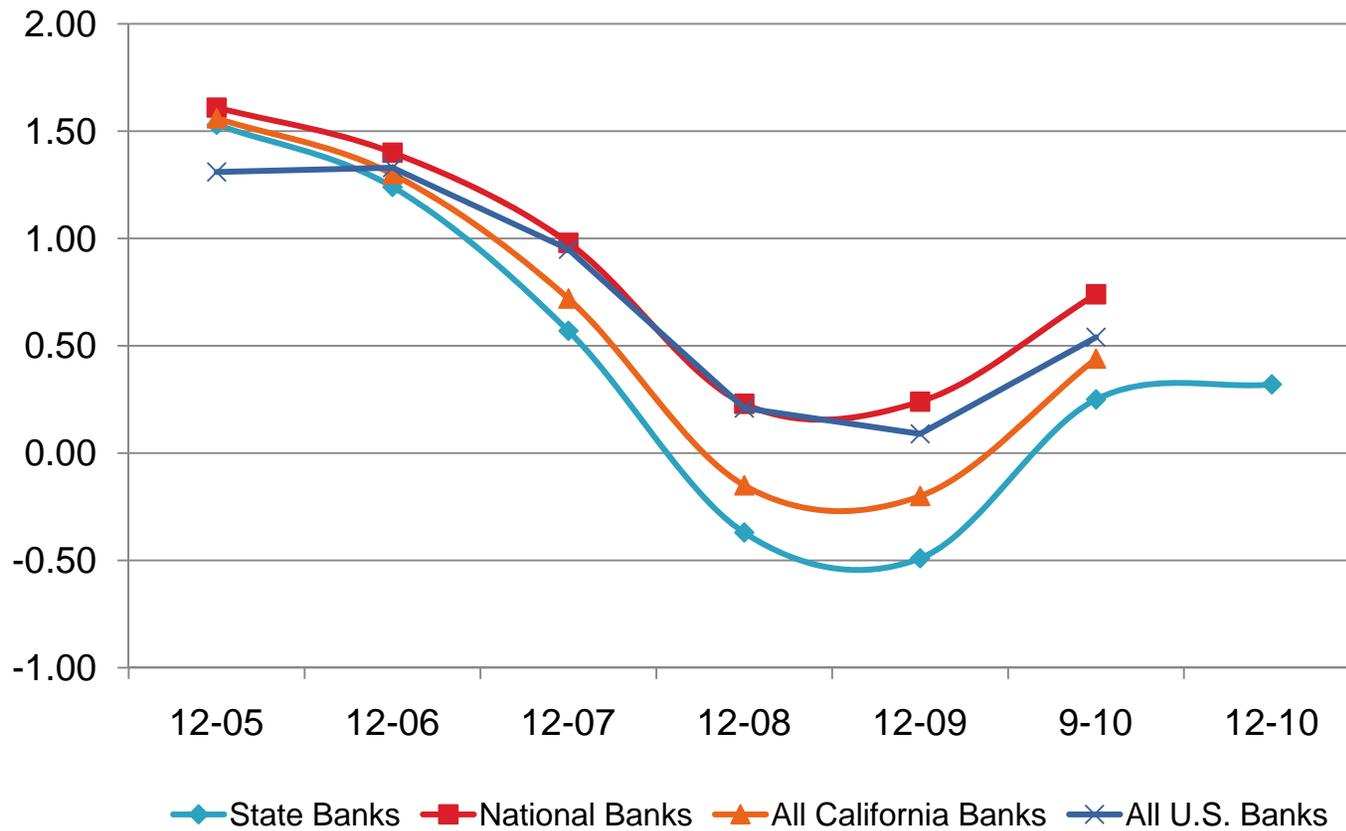
Institution	Total assets (USD billions)	Assets as a percentage of GDP (percent)	Assets as a percentage of total banking sector assets ^{(b)(c)} (percent)
Bank of America	11.2	2.1	4.4
Chase Manhattan Bank	8.4	1.6	3.3
First National City Bank of New York	8.2	1.6	3.2
Manufacturer's Hanover Trust Company ^(e)	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>	52.1	9.9	20.3

2010

Institution	Total assets (USD billions)	Assets as a percentage of GDP ^(d)	Assets as a percentage of total banking sector assets ^{(b)(c)} (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>	8,809	62.4	73.6

Appendix

Return on Assets



Return on Assets by Quintile*

State Chartered Commercial and Industrial Banks

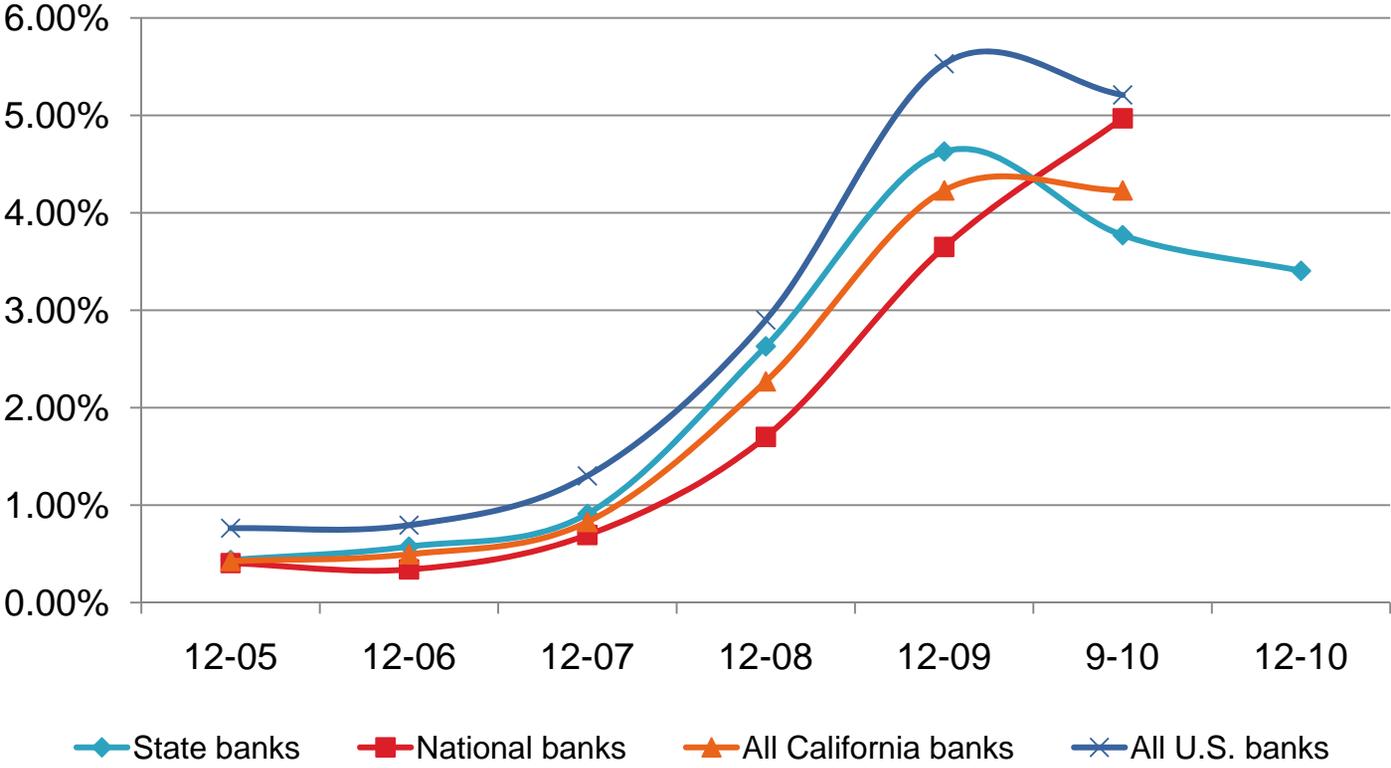
As of December 31, 2010

Asset Size	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More**	Total
Number of Banks	28	113	41	19	201
First Quintile	0.7	1.2	1.0	1.1	1.4
Second Quintile	0.2	0.6	0.6	0.8	0.6
Third Quintile	-0.6	0.3	0.3	0.4	0.3
Fourth Quintile	-1.7	-0.2	-0.2	-0.4	-0.4
Fifth Quintile	-3.1	-2.5	-3.1		-3.0
Total	-0.9	0.1	-0.2	0.5	0.3

* 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.

Noncurrent Loans and Leases to Total Loans and Leases



Noncurrent Loans & Leases / Total Loans & Leases by Quintile*

State Chartered Commercial and Industrial Banks

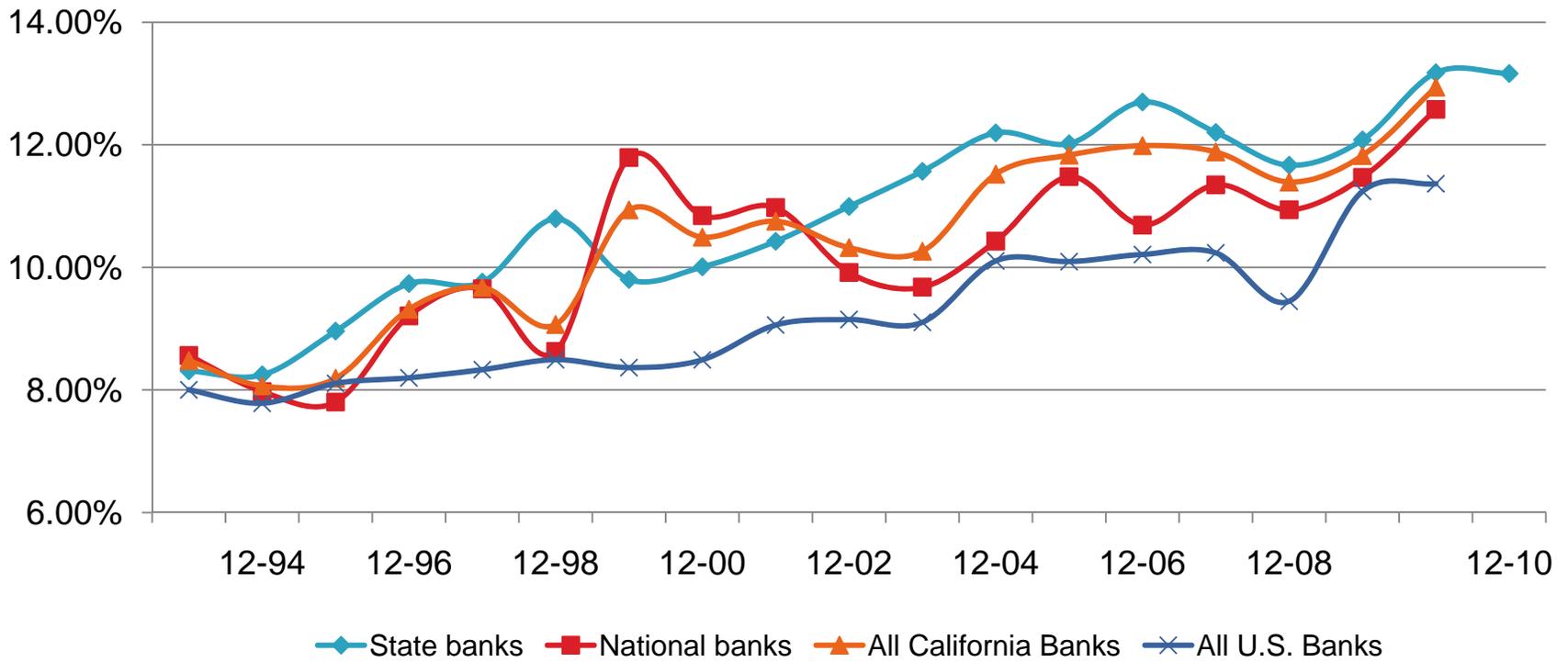
As of December 31, 2010

Asset Size	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More**	Total
Number of Banks	28	113	41	19	201
First Quintile	6.3	9.5	8.5	5.2	9.2
Second Quintile	2.1	5.0	5.0	3.9	4.8
Third Quintile	0.6	2.9	3.1	3.3	2.9
Fourth Quintile	0.1	1.6	1.8	2.0	1.4
Fifth Quintile	0.0	0.3	0.4		0.2
Total	2.1	3.8	3.9	3.3	3.4

* 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.

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Capital Adequacy



Equity Capital / Assets by Quintile*

State Chartered Commercial and Industrial Banks

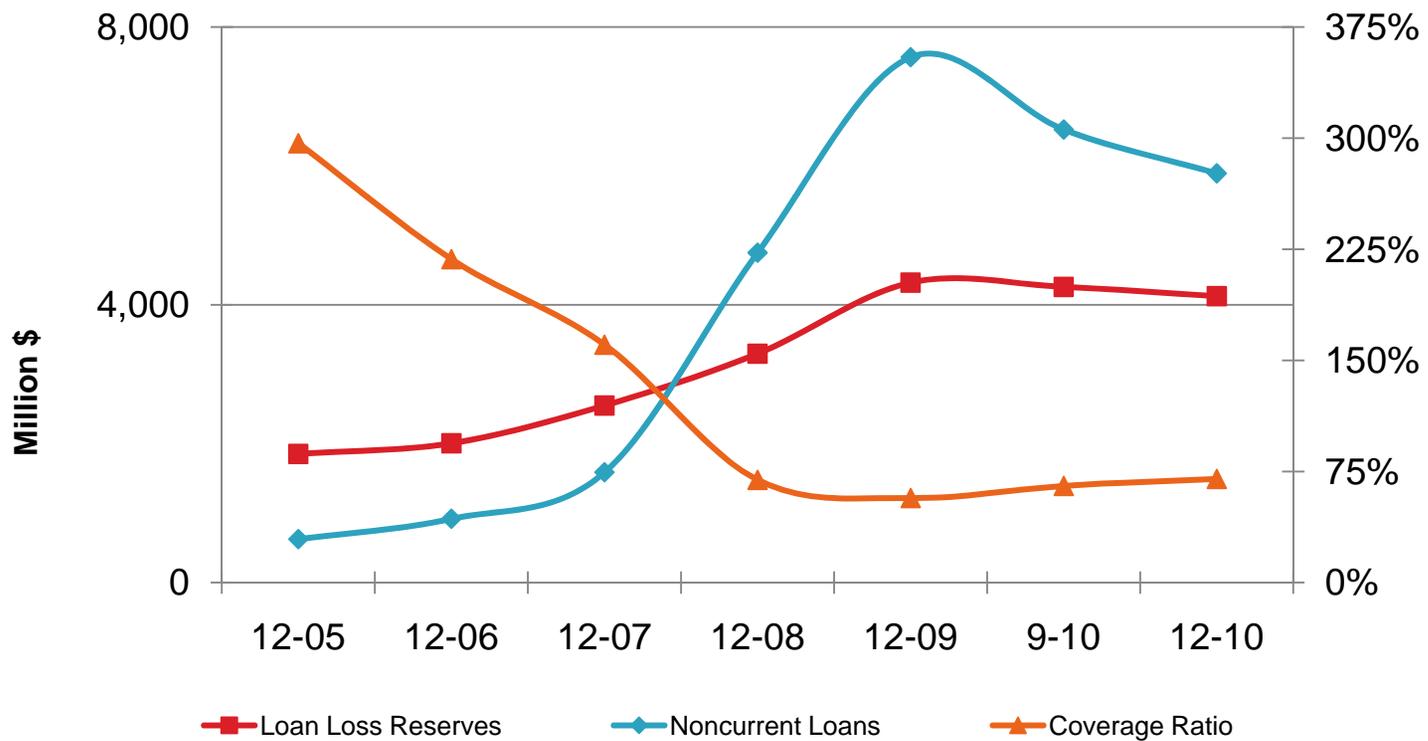
As of December 31, 2010

Asset Size	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More**	Total
Number of Banks	28	113	41	19	201
First Quintile	28.2	17.5	19.7	13.7	23.7
Second Quintile	17.5	12.8	12.9	11.6	13.3
Third Quintile	12.3	11.2	11.3	10.4	11.4
Fourth Quintile	10.5	10.1	10.1	9.1	10.1
Fifth Quintile	8.6	7.9	8.0		7.8
Total	15.8	13.0	13.1	13.2	13.2

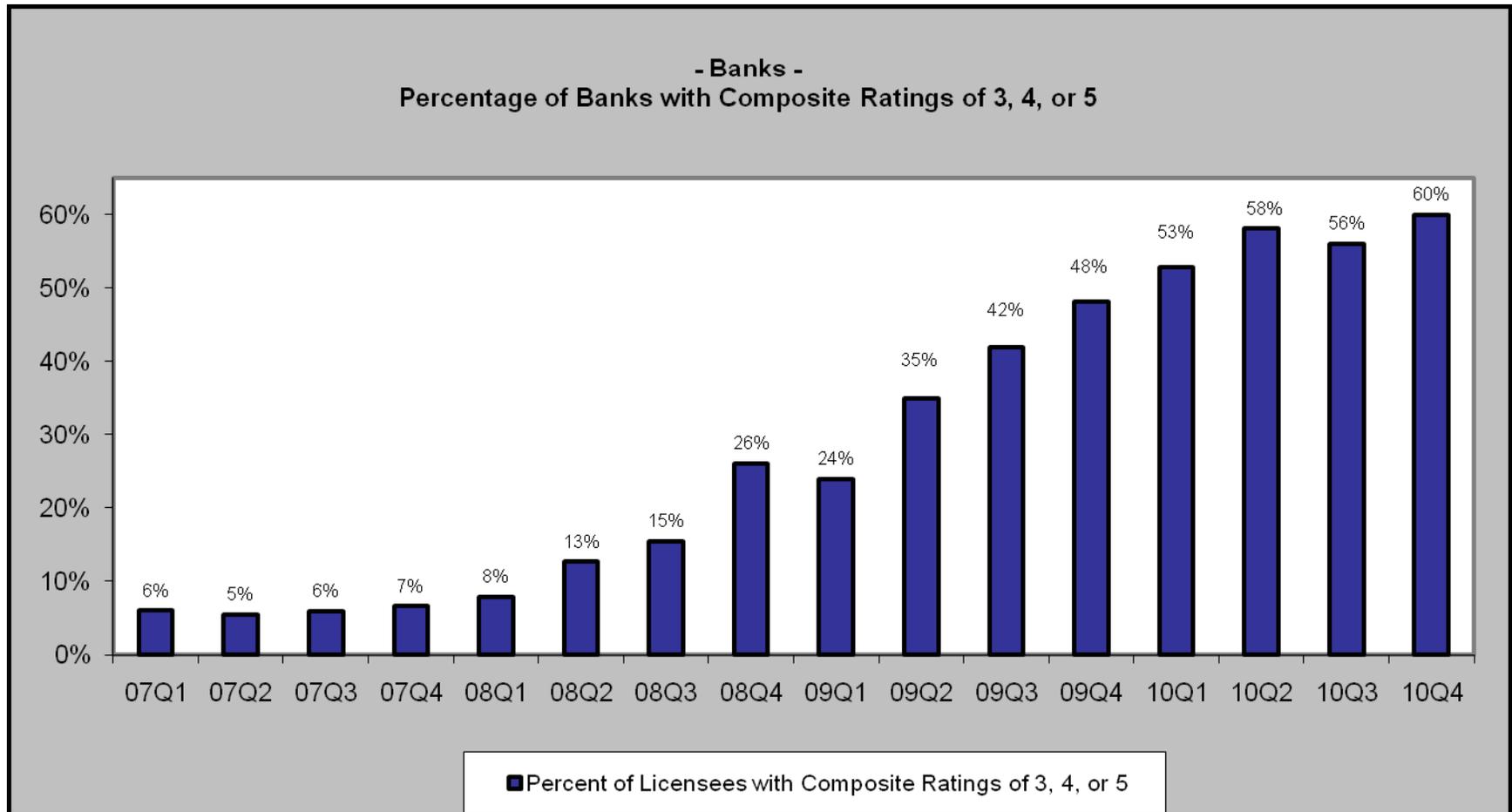
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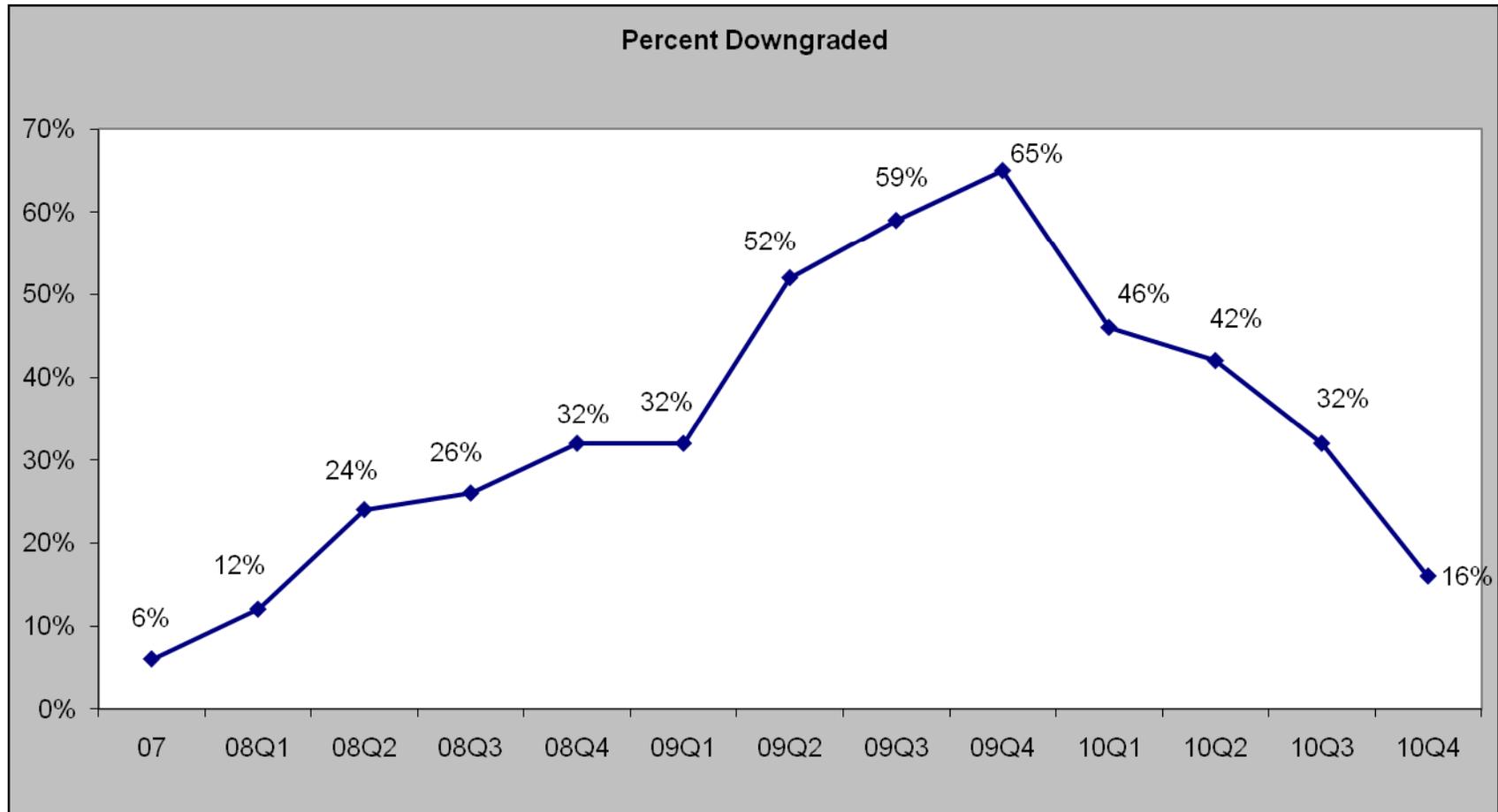
Loan Loss Reserves vs. Noncurrent Loans and Leases



Increase in Problem Banks



Downgrades Decelerating



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
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, N. A.	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

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

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>
San Diego National Bank	National	San Diego	3,594,544	10/30/09
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

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

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>
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
First Vietnamese American Bank	State	Westminster	51,877	11/5/2010
Western Commercial Bank	State	Woodland Hills	110,603	11/5/2010

Total Bank Failures

2009:

17

\$ 20,552,319

Total Bank Failures

2010:

12

\$ 9,277,197

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

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
First Republic Bank	San Francisco	10/15/09	Common Stock	100
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

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	12/18/09	Preferred Stock	950
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

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	3/1/10	Common Stock	3,000
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

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	5/7/10	Preferred Stock	805
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
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
Valley Republic Bank	Bakersfield	6/28/10	Common Stock	11,956
Pacific Mercantile Bancorp	Costa Mesa	6/30/10	Preferred Stock	1,250
Seacoast Commerce Bank	Chula Vista	6/30/10	Common Stock	1,800
First Republic Bank	San Francisco	7/1/10	Common Stock	1,862,000
Community Bank of the Bay	Oakland	7/19/10	Common Stock	7,700
Plaza Bank	Irvine	7/22/10	Common Stock	15,000

California Chartered Institutions

Completed Capital Offerings

2009 – Present (Continued)

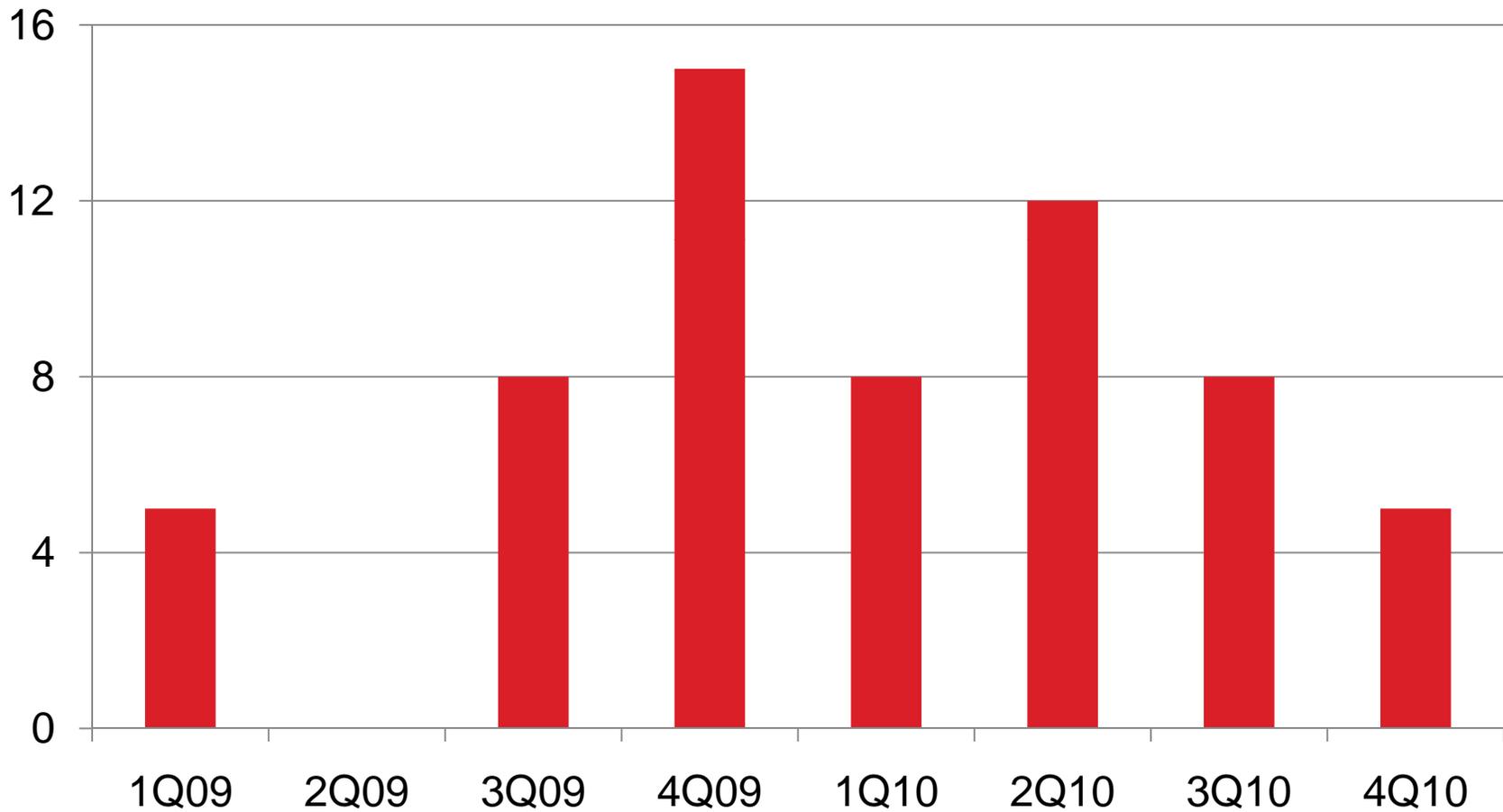
<u>Name</u>	<u>Location</u>	<u>Date</u>	<u>Funding Type</u>	<u>Offering Amount (\$000)</u>
Hanmi Financial Corporation	Los Angeles	7/27/10	Common Stock	47,282
Hanmi Financial Corporation	Los Angeles	7/27/10	Common Stock	72,718
Bay Commercial Bank	Walnut Creek	8/5/10	Common Stock	18,000
Pacific Mercantile 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
NorCal Community Bancorp	Alameda	11/12/10	Common Stock	7,450
Santa Cruz County Bank	Santa Cruz	11/19/10	Common Stock	2,501
First Republic Bank	San Francisco	12/8/10	Common Stock	280,500
Mission Community Bancorp	San Luis Obispo	12/15/10	Common Stock	3,743
Total				5,871,742

Equity Offerings by California State Chartered Banks Since 2009

- ▶ 37 state-chartered banks in California or their BHCs completed 76 equity offerings that raised \$5.9 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	22
3	30
4	18
5	2
<u>Unrated</u>	<u>4</u>
Total	76

California Chartered Institutions Completed Capital Offerings by Quarter



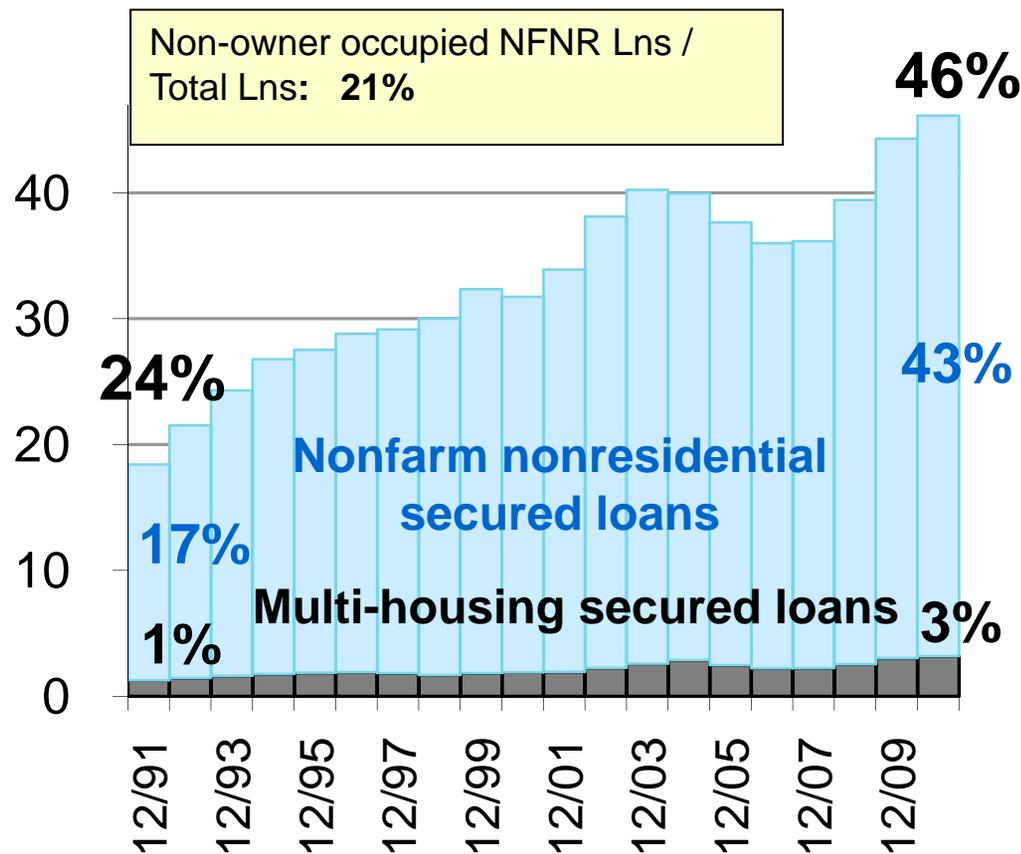
Capital Purchase Program -- All CA Banks

Period Ending 12/30/2010 (in million \$s)

<u>Type of Bank</u>	<u>Number</u>	<u>Initial \$</u>	Repaid	Remaining CPP \$
State Banks	53	1,948.8	798.9	1,150.0
National Banks	15	686.7	402.6	284.1
Federal Savings Banks	5	46.5	24.2	22.3
Total	73	2,682.0	1,225.6	1,456.4

Rapid Growth in Income Property Loans, with Highest Concentrations in the 12th District – Some of the Growth was from Matured C&LD Loans Converted to Mini-Perms

12th District CRE Income Property Loans / Total Loans (avg. %)



NFNR Lns / Total Lns 06/10 (%)

Dist	Avg.
12	43%
6	32%
5	31%
3	29%
2	28%
11	24%
1	24%
4	23%
8	23%
7	21%
9	20%
10	18%

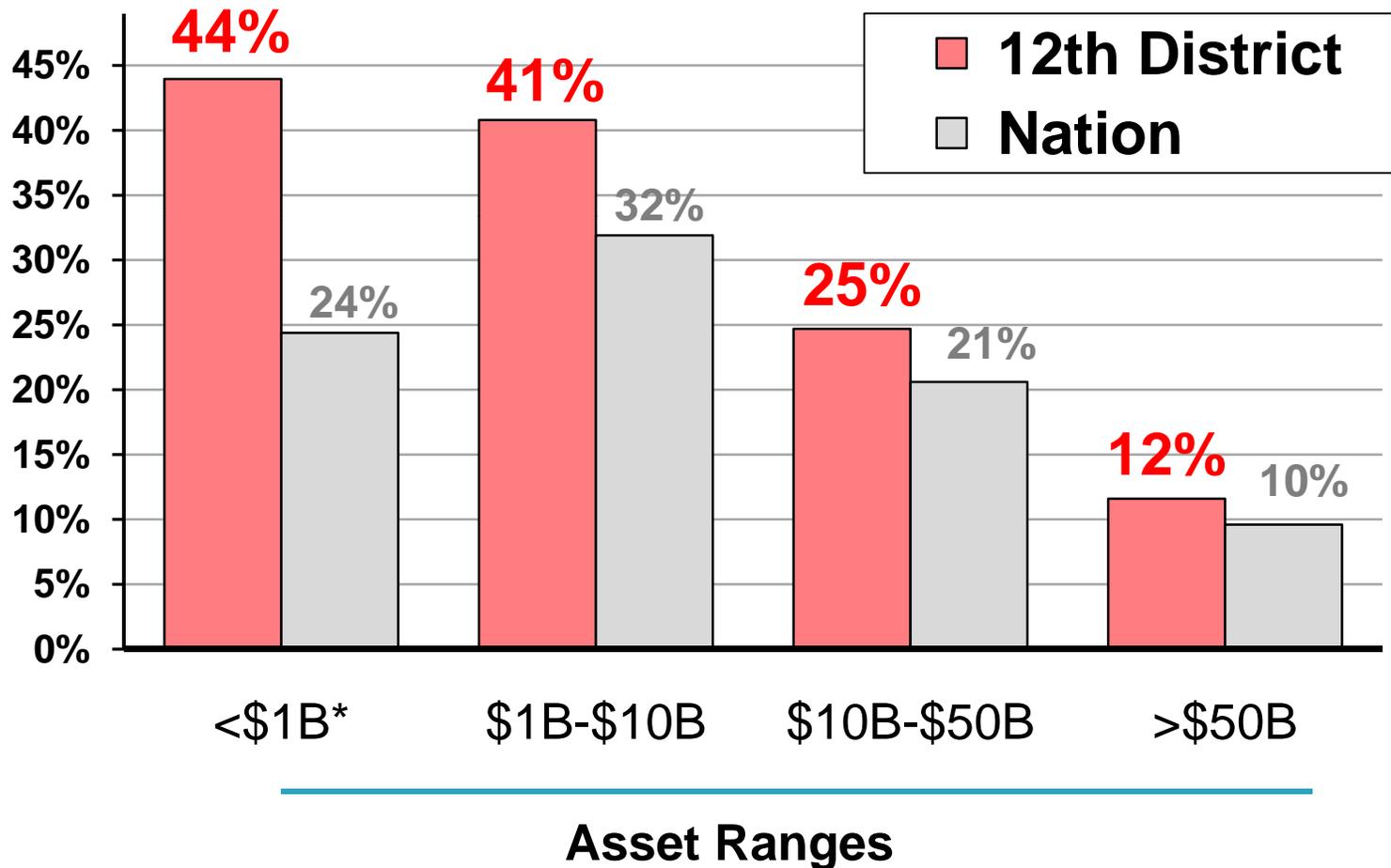
St	Avg.	rank
CA	48%	1
NV	47%	2
AZ	46%	3
OR	42%	5
AK	41%	6
WA	36%	9
ID	32%	15
HI	28%	20
UT	27%	24
Dist	43%	
Nat	25%	

Adj. Avgs. for all 12th District commercial banks

Commercial Real Estate Concentrations

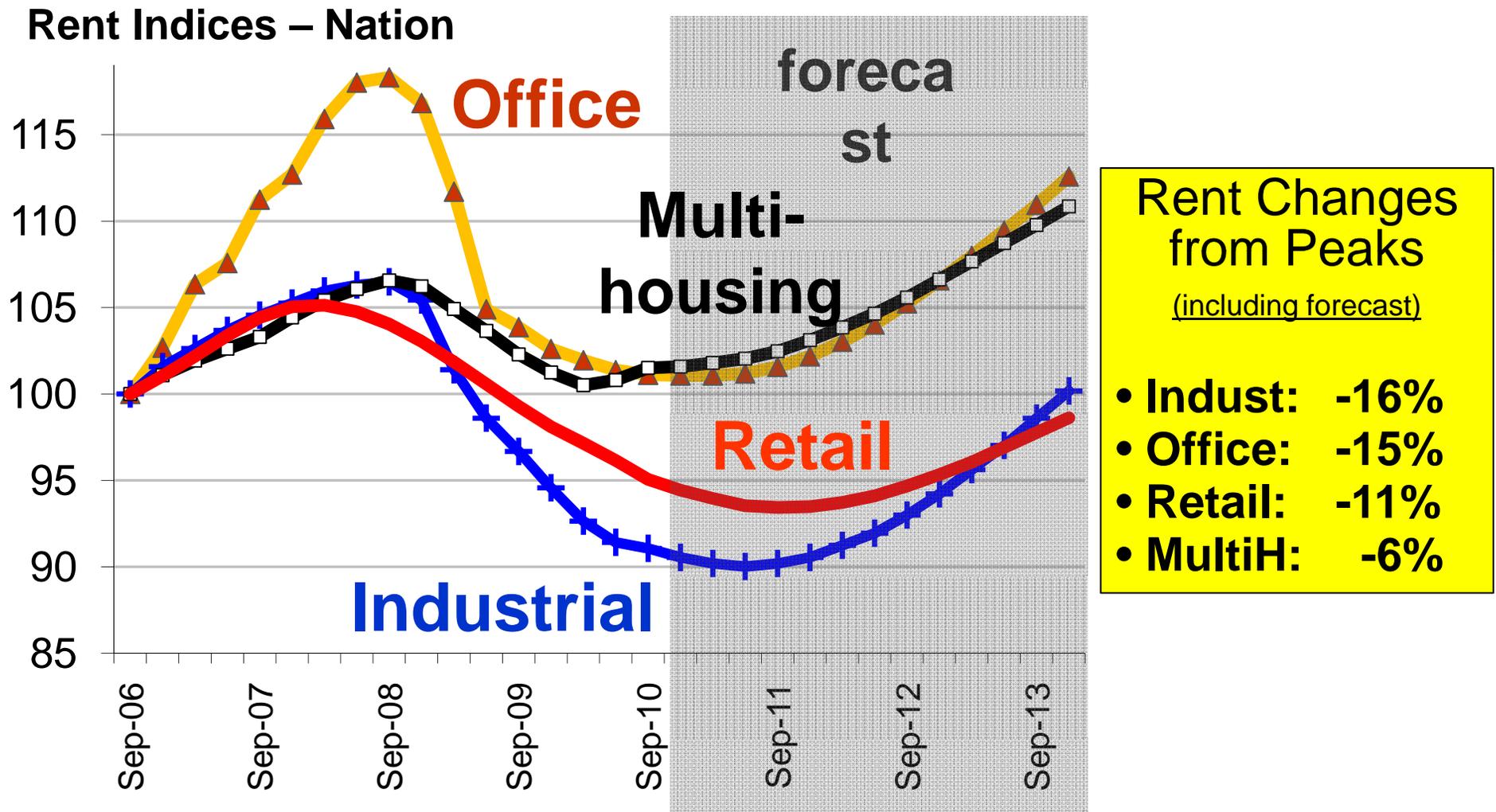
By Bank Size

Nonfarm Nonresidential Loans / Total Loans – Adj. Avgs for All Banks



NFNR = Nonfarm Nonresidential secured loans; the <\$1B group excludes bank with assets under \$100M; Adjusted Avgs: Trimmed means; data as of 6/30/2010.

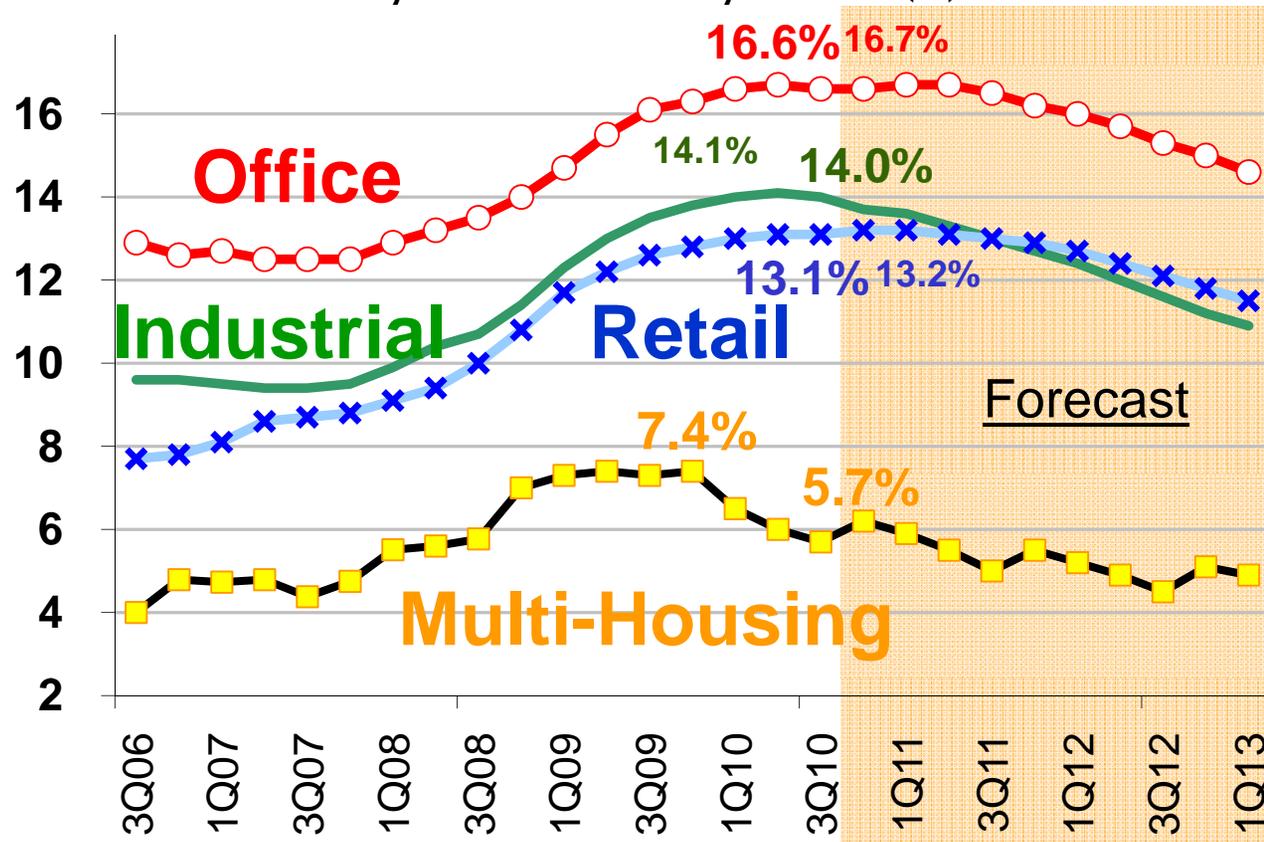
CRE Rental Rates Down Sharply



Source: CBRE Econometric Advisors, Winter 2011 Outlook; indices of effective rents, indexed to 100 at 9/30/2006

CRE Vacancy Rates Nearing or At Peak

National Vacancy or Availability Rates (%)



Nation All-Time Highs	
Office:	19.1% (1991)
Indust:	14.1% (2Q10)
Retail:	13.2% (4Q10)
MH:	7.4% (2Q09)
<i>Currently at or near peak</i>	

Highest forecast vacancy or avail. rates in 3Q10

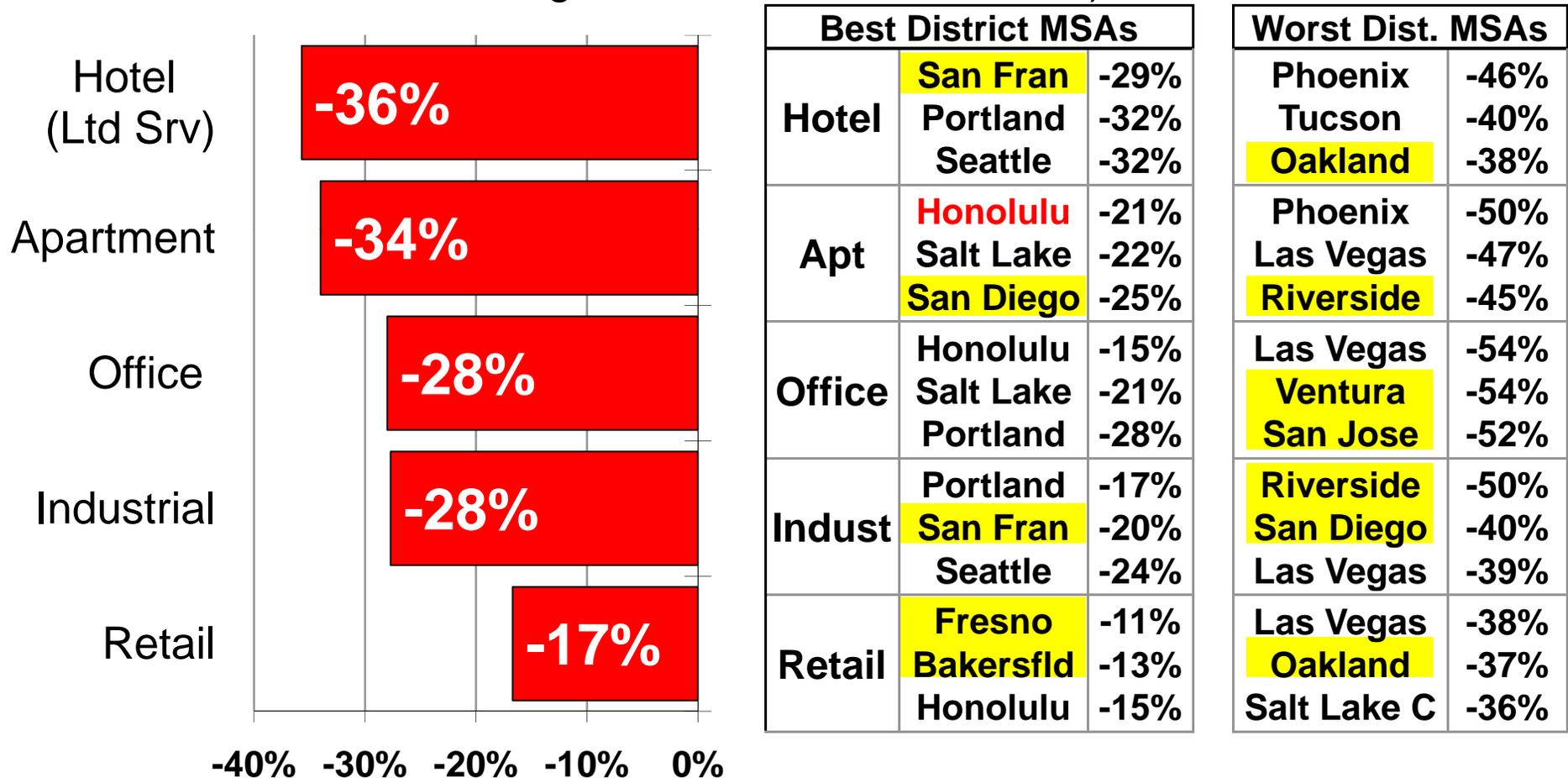
Office		
Rnk	MSA	%
1	Phoenix	26%
2	Detroit	25%
3	Las Vegas	25%

Industrial		
Rnk	MSA	%
1	Trenton	-21%
2	Memphis	-21%
3	Detroit	-21%

Source: CBRE Econometric Advisors. Office & multi-housing vacancy rates; industrial & retail availability rates; Retail = Neighborhood & Community Centers; actual data as of 3Q10 offic/indust; 2Q10 retail/multihousing

3) CRE Value Declines – a Factor Driving Risks Higher on Income Property Loans

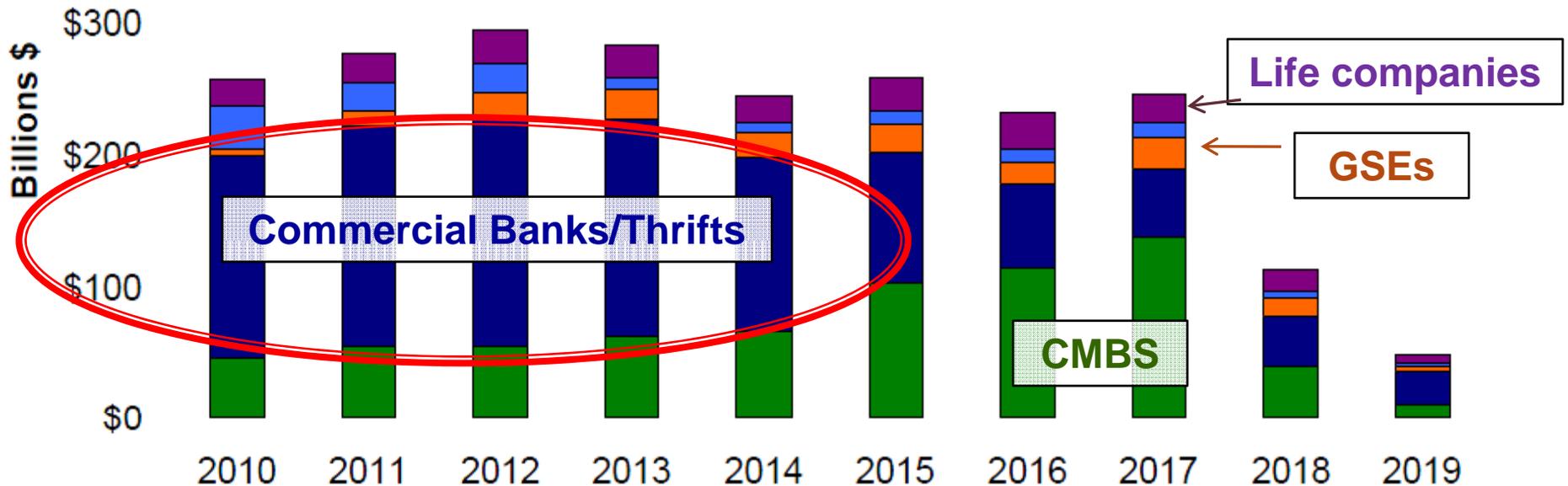
Peak to Trough* Value Declines in the West (based on an appraisal-based index – this data tends to lag transaction-based indices)



Source: Derived from CBRE Econometric Advisors Investment Fundamentals, Winter 2011;
 * Trough for most sectors occurs within 6 months of 3Q10; retail and industrial sectors have forecast troughs in 2011 and 2012 respectively

Maturing CRE Loans – High Percent are Projected to be Underwater

Includes C&LD and other CRE loans



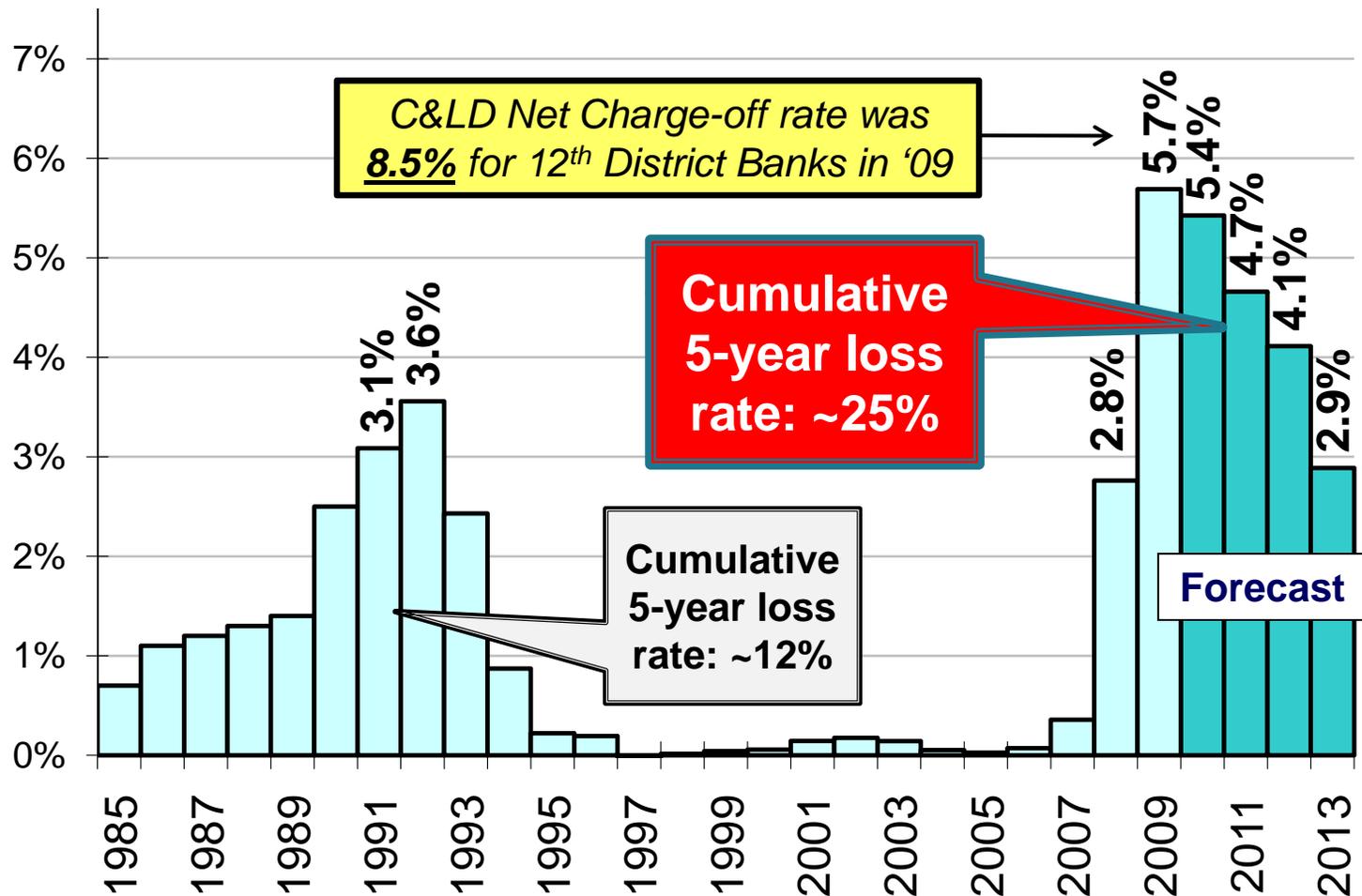
36% **49%** **63%** **61%** ← **Projected to be underwater by maturity year**
~\$59B **\$83B** **\$107B** **\$98B**

✓ **High Refinance Risk** – Many maturing loans will have LTVs that exceed new tightened policy standards – requiring more equity or loan modification

Sources: Foresight Analytics, Marcus & Millichap

C&LD Loan Net Charge-off Rates Expected to Remain High

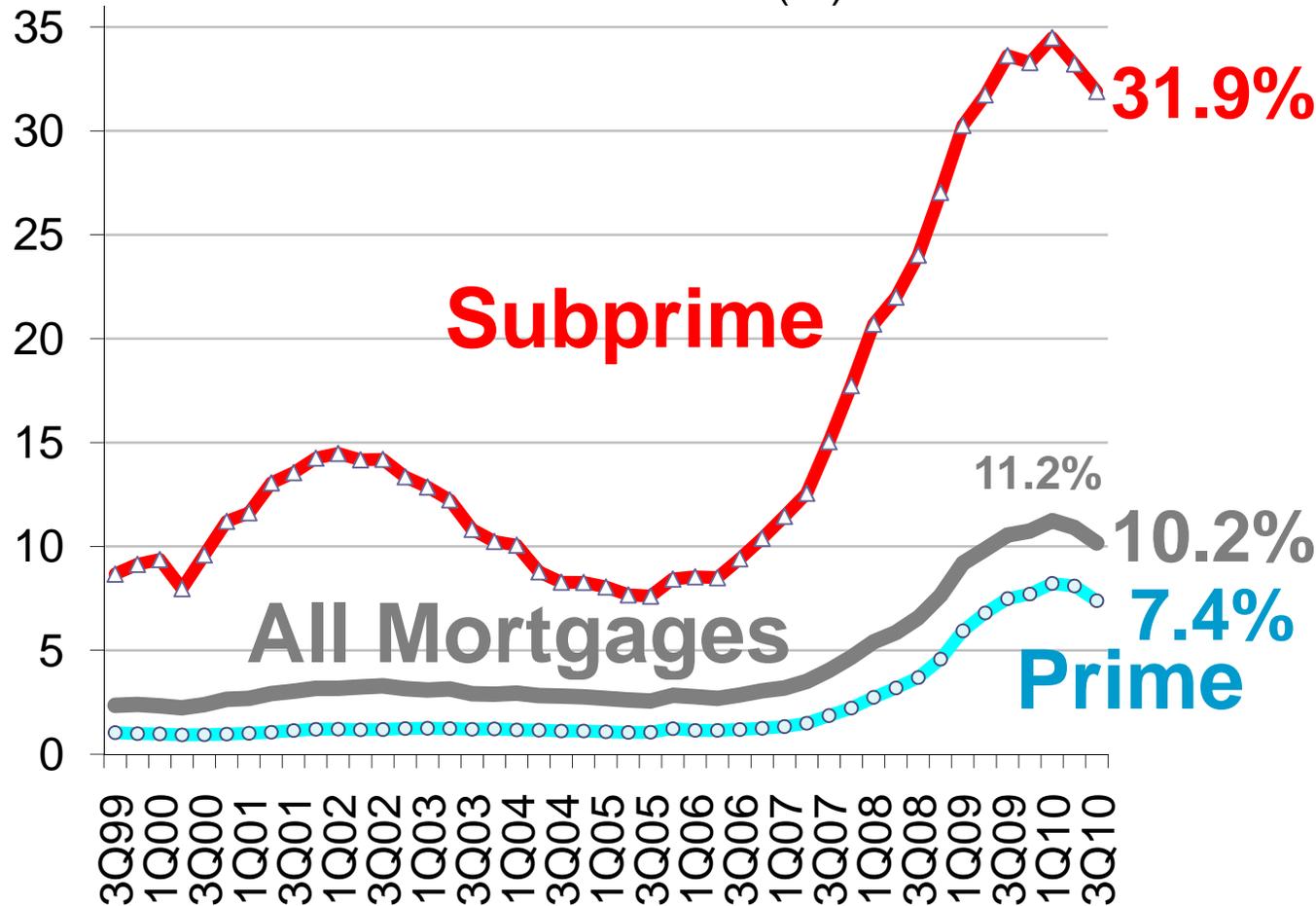
Aggregate nationwide bank NCO rate on Construction & Land Development Loans



Sources: Aggregate nationwide Call report data, commercial banks only; est. NCO rates prior to 1991 and forecast rates 2009-2013 derived from Zelman & Associates "Wonder-Loans" reports (forecast based on Zelman's 6/2008 "base case" forecast, which has been very accurate so far).

Problem Mortgages at Unprecedented Levels

Conventional Mortgages Past-Due 60+ Days or in Legal Process of Foreclosure – nationwide (%)



Problem Mortgage Rates 9/10 (60+ days PD or in foreclosure)

1 – FL	21.2%
2 – NV	19.5%
3 – AZ	12.5%
4 – IL	12.3%
5 – CA	11.6%
HI	8.9%
UT	8.1%
ID	7.5%
WA	7.5%
OR	7.0%
AK	3.6%
Nation	10.2%

Red > 10%; Yellow 5%-10%

Source: Mortgage Banker's Assoc. National Delinquency Survey (national data is seasonally adjusted, state data is not seasonally adjusted, Haver Analytics)

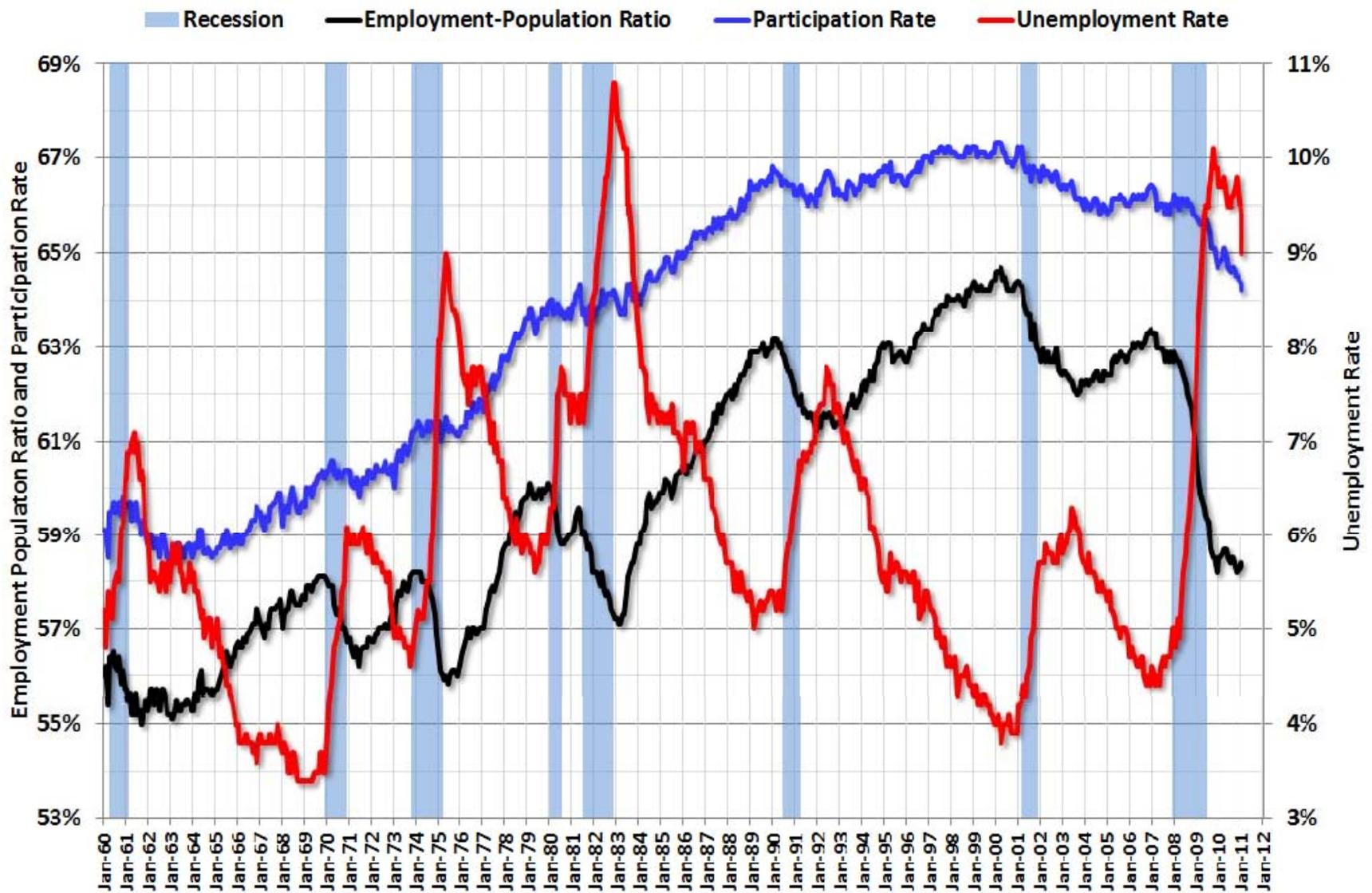
Home Prices Expect to Fall Another 6–8%

Forecast Price Change / Trough Date

- ▶ **Down 6-7% / Spring 2011** (Zelman & Assoc; 5% on a seasonally adjusted basis, 12/2/2011)
- ▶ **Down 7% / 1Q2011** (FannieMae; based on FHFA purchase only index, Nov 2011)
- ▶ **Down 7% / Summer 2011** (Fiserv; NV: -12%; -11% AZ, 11/15/2010)
- ▶ **Down 8% / 3Q2011** (Mark Zandi, Economy.com, 11/2010)

=> Number of Underwater Homeowners Expected to Peak at 16 Million in Early 2011 (Moody's, May 2010)

Employment Population Ratio, Participation and Unemployment Rates



<http://www.calculatedriskblog.com/>

Percent Job Losses in Post WWII Recessions

