

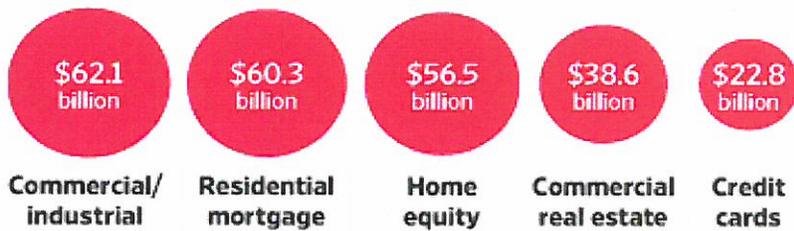
CBA/DFI Roundtable Meeting

April 24, 2009

William S. Haraf
Commissioner
California Department of Financial Institutions

Stressed Out

Potential bank losses assumed in government tests:



Percentage of each sector the Fed assumes will be lost:

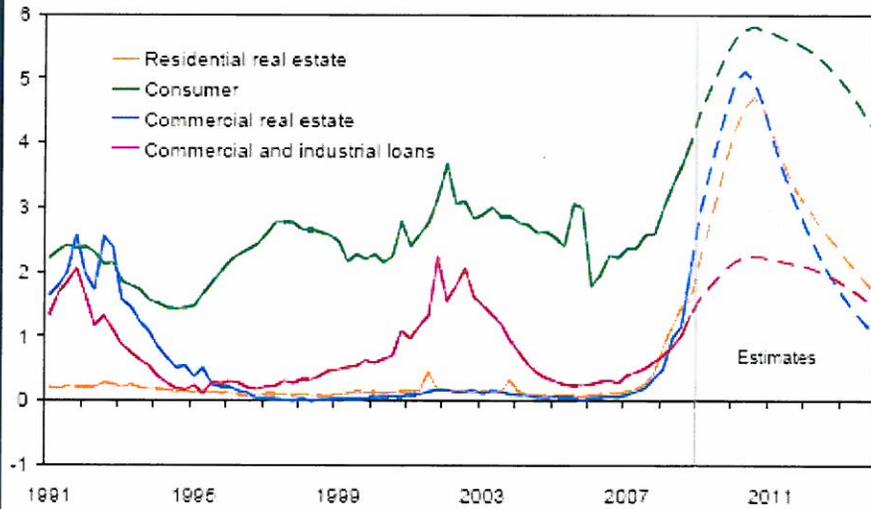


Notes: Cumulative loss assumptions are based upon the most adverse scenario over a two-year period. Banks included in analysis are J.P. Morgan Chase, Citigroup, Bank of America, Wells Fargo, SunTrust, State Street, KeyCorp, USBancorp, Capital One Financial, Bank of New York Mellon, PNC Financial Services Group, Goldman Sachs, and BB&T

Source: Westwood Capital

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

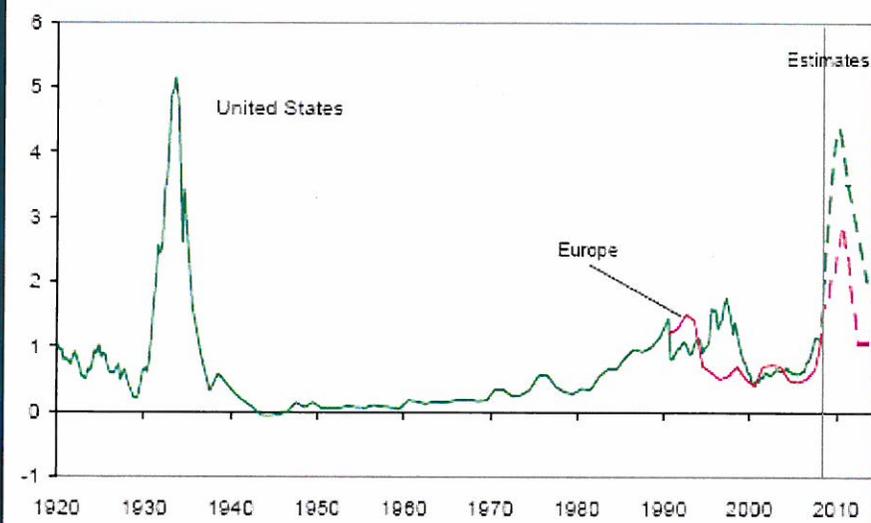
(In percent)



Sources: Federal Reserve; and IMF staff estimates.

Figure 1.30 Commercial Bank Loan Charge-Offs

(In percent of total loans)



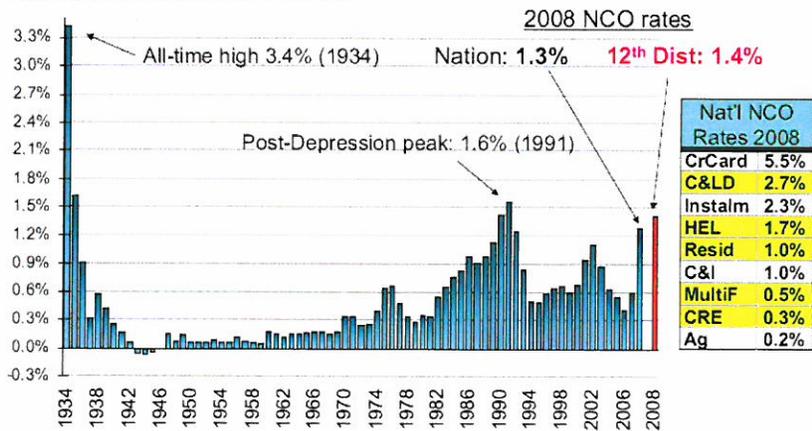
Source: IMF staff estimates.

Table 1.3. Estimates of Financial Sector Potential Writedowns (2007-2010) as of April 2009
(In billions of U.S. dollars)

	Outstanding	Estimated Writedowns					Implied Cumulative Loss Rate (Percent)
		October 2008 GFSR	April 2009 GFSR	Banks ¹	Insurers	Other ²	
United States							
Loans							
Residential mortgage	5,117	170	431	206	22	204	8.4
Commercial mortgage	1,913	90	187	116	9	62	9.8
Consumer	1,914	45	272	169	14	89	14.2
Corporate	1,895	120	98	61	5	32	5.2
Municipal	2,669	...	80	50	4	26	3.0
Total for loans	13,507	425	1,068	601	53	414	7.9
Securities							
Residential mortgage	6,940	580	990	604	99	287	14.3
Commercial mortgage	640	160	223	136	22	65	34.8
Consumer	677	...	96	59	10	28	14.2
Corporate	4,790	240	335	204	33	97	7.0
Total for securities	13,047	980	1,644	1,002	164	477	12.6
Total for loans and securities	26,554	1,405	2,712	1,604	218	890	10.2

Nat'l Net Charge-off Rate for Banks Nearly Back to '90-'91 Levels... and Likely Rising

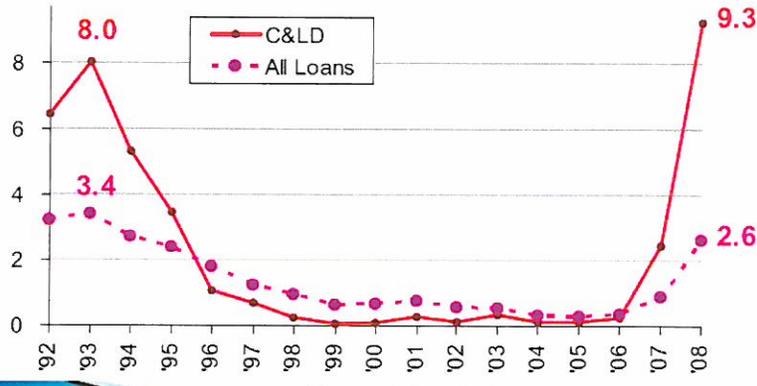
Aggregate National NCO Rate (%)



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

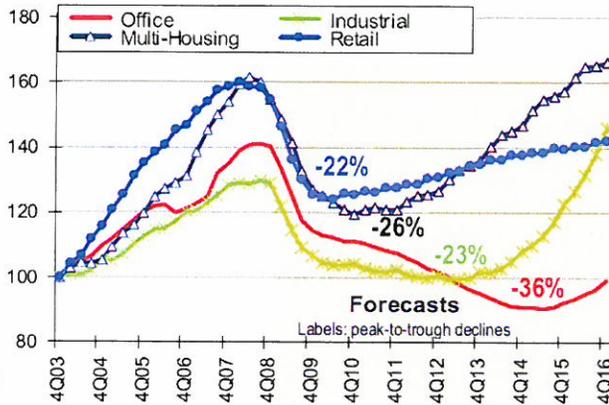
Outlook for CRE & Banking

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CRE Property Values to Drop Sharply

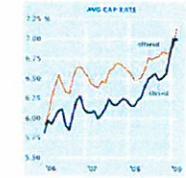
Peak-to-trough Declines of 36% Expected for Office Sector

National Data - Index 2003 = 100



Drivers:

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



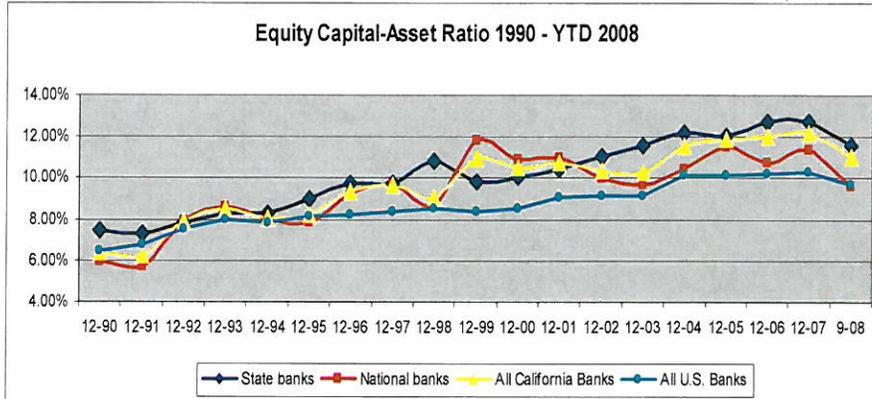
Cap rates already rising (Apt) Real Capital Analytics

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

Outlook for CRE & Banking

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Capital Adequacy



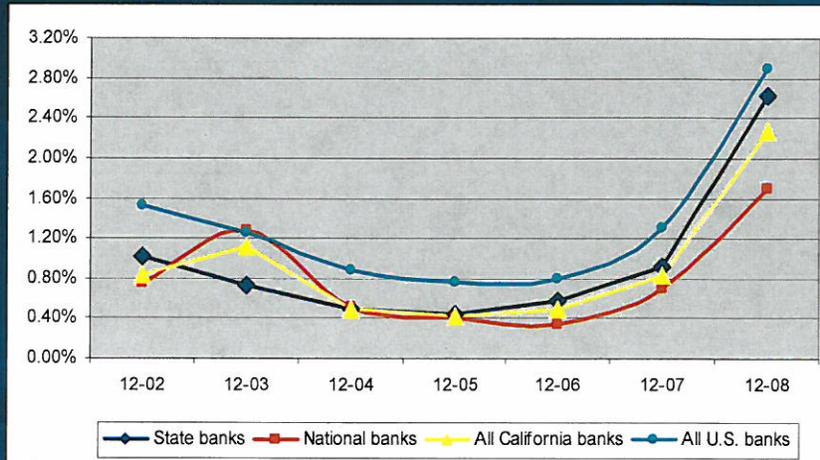
Equity Capital / Assets by Quintile* State Chartered Commercial and Industrial Banks

As of December 31, 2008

Asset Size	Over 3 years of operation				< 3 yrs ops. All asset sizes	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More		
Number of Banks	23	95	43	22	47	230
First Quintile	16.1	19.1	12.4	12.9	55.1	30.6
Second Quintile	13.7	12.8	10.5	11.9	26.7	14.0
Third Quintile	12.5	11.1	9.5	10.8	20.3	11.7
Fourth Quintile	11.4	9.6	8.5	9.6	15.7	9.9
Fifth Quintile	9.9	8.3	5.2	8.4	12.7	7.6
Total	13.8	12.4	9.5	11.8	17.4	11.7

* 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

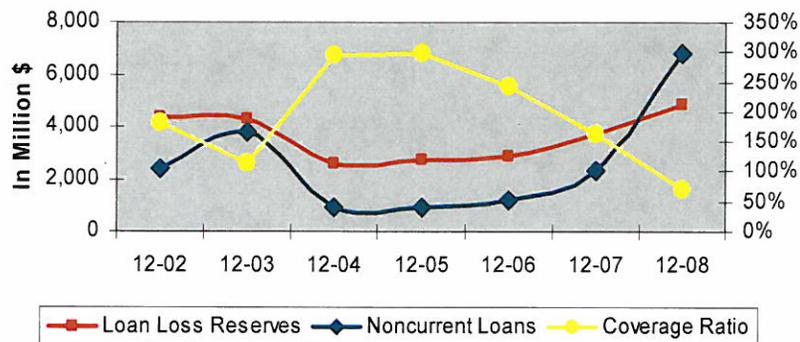
As of December 31, 2008

Asset Size	Over 3 years of operation				< 3 yrs ops. All asset sizes	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More		
Number of Banks	23	95	43	22	47	230
First Quintile	7.3	9.3	11.1	8.1	6.1	10.4
Second Quintile	4.9	5.1	6.5	4.3	1.4	4.8
Third Quintile	3.6	2.9	4.3	2.9	0.2	2.8
Fourth Quintile	2.4	1.7	2.7	2.0	0.0	1.3
Fifth Quintile	0.2	0.3	1.1	1.4	0.0	0.1
Total	4.9	4.0	5.7	3.9	1.4	4.2

* 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.

Loan Loss Reserves vs. Noncurrent Loans and Leases

Growth in Noncurrent Loans Outpaces Reserve Growth - All California Banks



Reserves for Loans/Noncurrent Loans & Leases by Quintile* State Chartered Commercial and Industrial Banks

As of December 31, 2008

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	23	95	43	22	47	230
First Quintile	739.4	∞	379.7	202.8	∞	∞
Second Quintile	190.2	184.9	96.8	116.0	∞	940.2
Third Quintile	88.7	85.1	58.1	82.5	∞	96.6
Fourth Quintile	59.6	57.1	43.7	62.5	403.3	58.1
Fifth Quintile	32.8	32.5	30.4	48.6	51.4	32.5
Total	67.6	66.4	59.8	73.0	123.4	69.7

* 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 / Tier 1 Capital by Quintile*
State Chartered Commercial and Industrial Banks**

As of December 31, 2008

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	23	95	43	22	47	230
First Quintile	578.0	805.7	1089.1	718.9	338.4	924.4
Second Quintile	474.6	569.1	721.2	573.9	247.2	539.3
Third Quintile	392.2	478.2	511.8	469.7	180.1	415.1
Fourth Quintile	347.5	363.5	412.5	380.2	137.2	291.1
Fifth Quintile	138.9	187.7	248.6	252.0	60.7	105.0
Total	363.3	455.5	506.7	383.9	168.3	397.0

* 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.

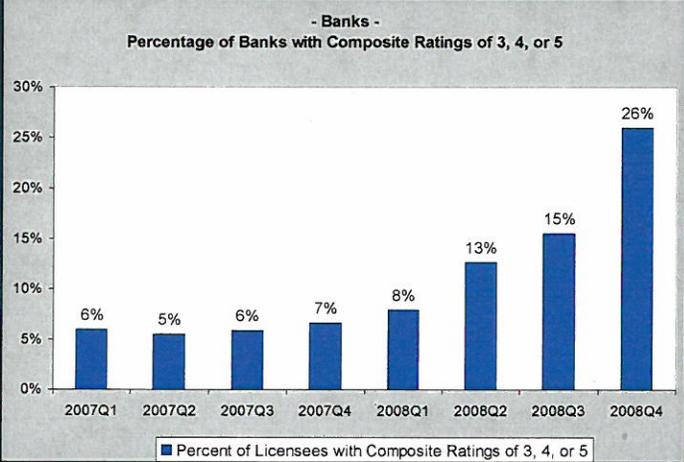
**Construction and Land Development Loans / Tier 1 Capital by Quintile*
State Chartered Commercial and Industrial Banks**

As of December 31, 2008

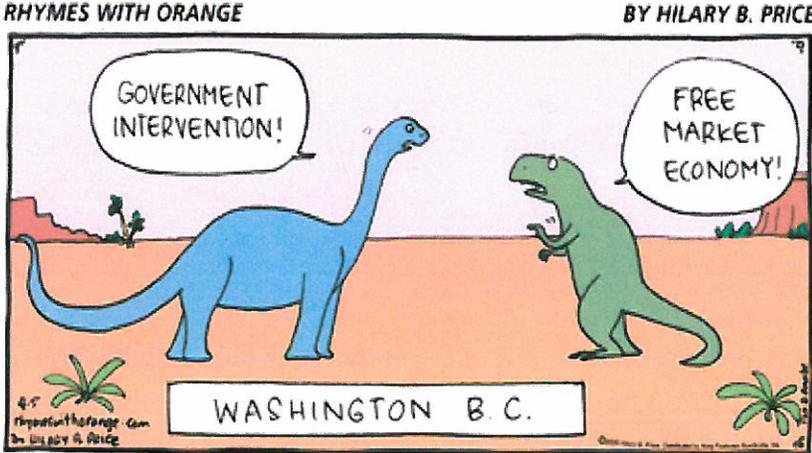
Asset Size	Over 3 years of operation				< 3 yrs ops.	Total
	Less than \$100MM	\$100 to \$500MM	\$500MM to \$2 Billion	\$2 Billion and More	All asset sizes	
Number of Banks	23	95	43	22	47	230
First Quintile	167.8	228.7	337.0	172.9	114.6	302.9
Second Quintile	127.9	142.0	179.8	117.5	64.3	129.3
Third Quintile	85.3	91.2	114.9	67.2	40.1	80.6
Fourth Quintile	53.8	52.7	68.0	40.3	17.1	41.8
Fifth Quintile	10.8	11.2	18.2	17.8	1.4	6.6
Total	88.6	96.3	134.1	90.8	49.9	95.8

* 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.

Increase in Problem Banks



Who Wins?



Bank Stocks 1930s vs. 2007-2009

