

First Glance 12L

A First Look at the Financial Performance of
Banks in the West – as of 6/30/2010

A Set of Charts with a High Level Summary

Based on Preliminary* 2Q2010 Call & Income
Report Data for Banks Headquartered within
“12L” (the 12th Federal Reserve District)



August 17, 2010

* Preliminary bank Call & Income report data are occasionally revised resulting in minor changes to final District statistics. Most charts reflect “trimmed mean” statistics (the highest 10% and the lowest 10% of ratio values are dropped prior to averaging) for all commercial and industrial banks in existence for at least 3 years.

This report has been prepared to provide a quick snapshot of banking conditions for use primarily by bank supervisors and bankers. Analysis and opinions are those of the authors.

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“First Glance 12L” – Second Quarter 2010

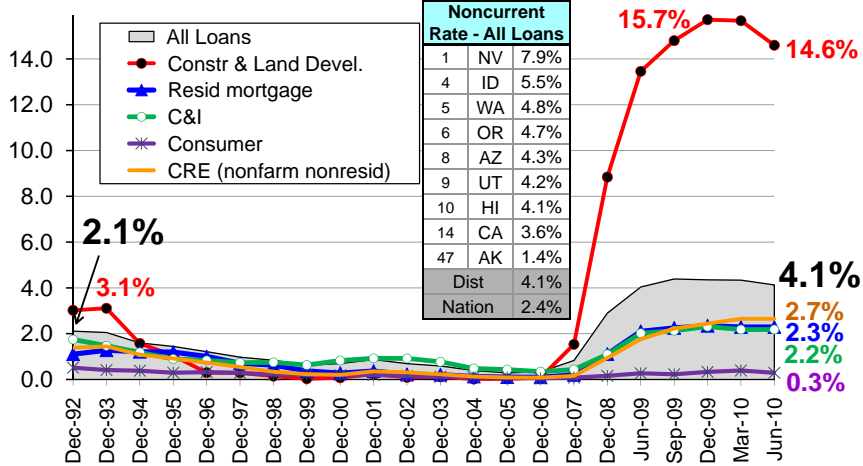
12th District Banks – Further Signs of Stabilization

- ❑ **Asset Quality–Turning the Corner?** While significant headwinds persist, loan quality at banks across the District appears to be stabilizing. Average noncurrent loan and “Texas” ratios (Slides 3–5) declined modestly for two quarters, although they remain extraordinarily high. Aggressive charge-offs and loan restructurings (Slides 6, 8, 32) led to the improvements, “helped” by the removal of many of the most troubled banks and their bad assets from the population via failure (Slide 31). Improved credit quality was evident across most loan categories, including construction & land development loans, which finally experienced a decline in average noncurrent rates by over 100 basis points in the quarter to a still painfully high 14.6%.
- ❑ **CRE Income Property Loans–More Pain to Come:** The only major loan categories still weakening are nonfarm nonresidential and multifamily secured loans with average noncurrent rates well above peaks from the early 1990s, and credit loss rates on the rise. Losses almost certainly will worsen over the next year or so as banks address maturing and other loans impacted by weakened market conditions. So while the improving trends in other lending areas should continue, as long as the economy continues to grow (albeit slowly), overall District credit loss rates likely will not see significant improvement before 2012.
- ❑ **Profits Remain in the Red, but Improved:** Hefty loss provisions and weak net interest margins led to seven consecutive quarterly operating losses for District banks on average (Slide 10). Based on the typical cyclical loss pattern in banking downturns (Slide 11), we anticipate further losses through the end of 2010, but we’re hopeful that profitability will be the norm in 2011. Banks headquartered in Arizona, Nevada, Washington and Idaho have struggled most, although improving profitability trends are noted in those states as well (Slides 12–13). Small banks (<\$1B) underperformed larger bank groups in the first half of this year (slide 14).
- ❑ **Loans Fell, but Healthy Banks Appear to Have Resumed Loan Growth:** Total District bank loans fell at a 5.6% annual rate as of 6/2010, a rate of decline that was moderated from the prior quarter (Slide 21). Residential construction loans are now down nearly 70% from the 2007 peak (Slide 22). Healthy banks (CAMELS 1 or 2 ratings) reported second quarter 2010 loan growth (annualized) of 5%, the first such increase in several quarters (Slide 24), possibly indicating a resumption in lending for these banks.
- ❑ **Significant Capital Raising is Possible!** Over the past 12 months, 46 banks (9.6% of the District) received new capital amounting to 3% or more of assets, the largest number of significant capital injections in at least 3 years (Slide 27). This contributed to improved capital ratios for District banks on average (Slide 28).
- ❑ **CAMELS 3s, 4s and 5s** Nearly 60% of District banks are rated 3, 4 or 5 (less than satisfactory), as the lagged impact of the recession and housing crash continue to be felt. However, the final 1Q10 data reflect the re-emergence of CAMELS upgrades (7% of exams were upgrades – the highest since 4Q07) (Slides 29–30). We anticipate that as District banking conditions continues to stabilize from the worst banking downturn in decades, upgrades will climb, and may approach the number of downgrades within a few quarters.

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

CRE Income Property Noncurrent Rates Continue to Rise in 1H10

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



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Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means, preliminary 1H10 data

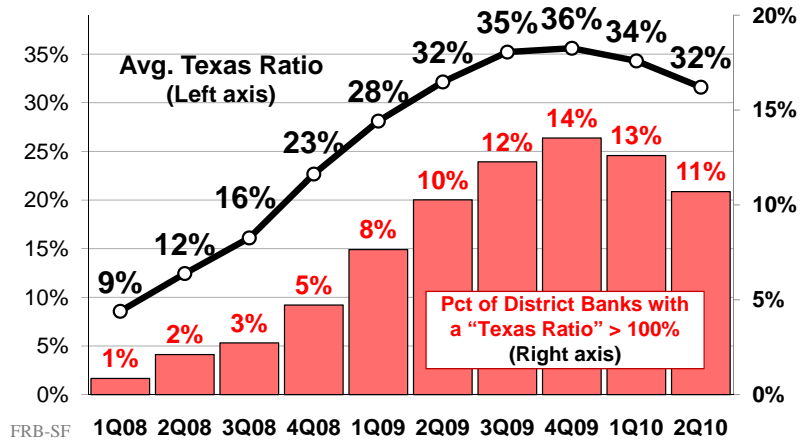
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District "Texas Ratio" May Have Peaked

Nonperforming Assets / Equity+ALLL Declined After Huge Run-Up

Avg. 12th District Bank Texas Ratio & Pct of Banks w/ Ratios > 100%



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Based on all commercial & industrial banks excluding De Novos; prelim. 2Q10 data; line reflects trimmed mean Texas Ratio, defined as loans past due 90+ days or on nonaccrual plus foreclosed real estate (OREO)/Total equity + allowance for loan and lease losses

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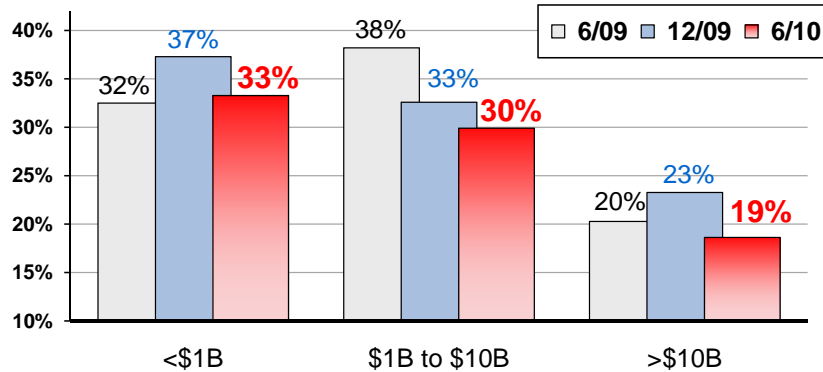
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Texas Ratios Remain Lowest at Large Banks

Positive Trend in Last Six Months for Banks of All Sizes

Avg. District Texas Ratios by Bank Size (Nonperforming Assets / Equity+ALLL)

Note: Reduced avg. Texas ratios for small and mid-sized banks through 6/10 largely caused by failures



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Asset Ranges

Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; preliminary 1H10 numbers

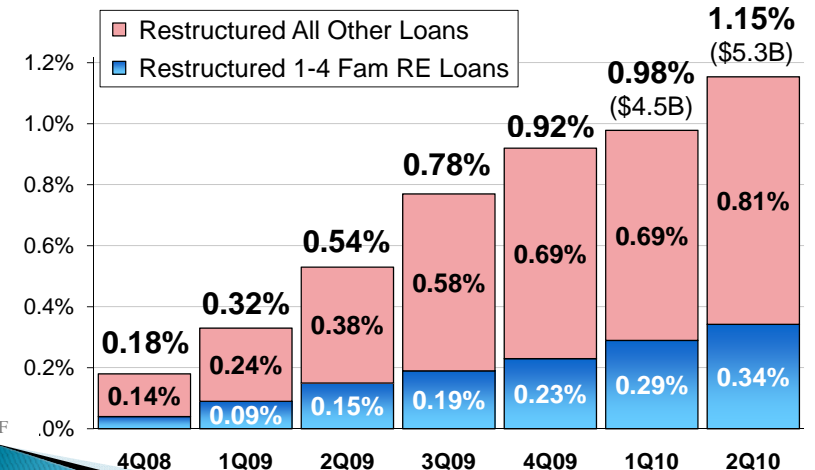
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Restructured Loans Climbed in 2Q1Q

Aggregate for all District Commercial Banks with Loans < \$50 B

12th District Bank Restructured Loans as a % of Total Loans (Aggregate)



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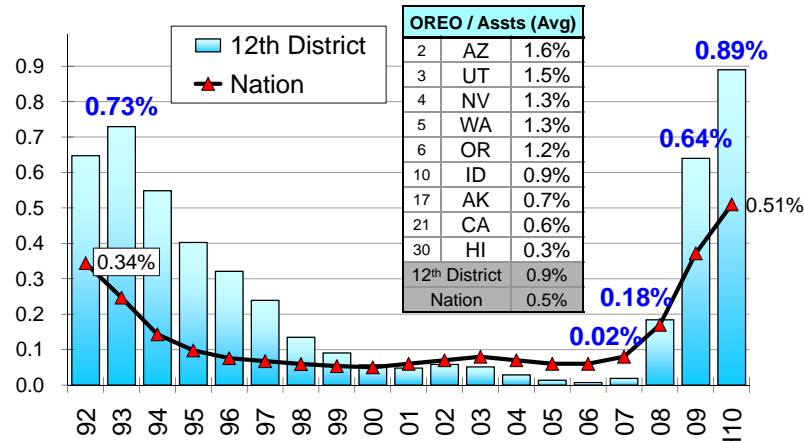
Source: Regulatory Call & Income Reports; all commercial banks with total loans < \$50B in loans; includes all restructured loans whether current or delinquent; preliminary 2Q10 data

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Foreclosed RE also Continued to Rise

Avg. District Bank Other Real Estate Owned (% of Assets)



Rank	State	OREO / Assts (Avg)
2	AZ	1.6%
3	UT	1.5%
4	NV	1.3%
5	WA	1.3%
6	OR	1.2%
10	ID	0.9%
17	AK	0.7%
21	CA	0.6%
30	HI	0.3%
	12th District	0.9%
	Nation	0.5%

Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means, preliminary 1H10 data; GA leads the nation with a 2.2% OREO ratio

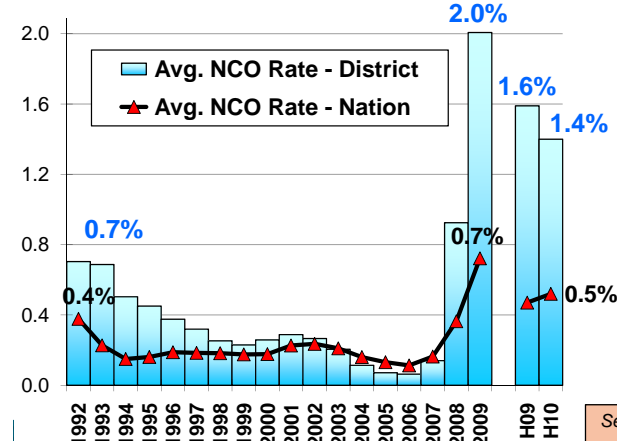
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Net Charge-Off Rates Remained High in 1H10, but Were Down Slightly Year-over-Year

Average Net Charge-Off Rates (%)



Avg. NCO rates		
rank	state	1H2010
1	NV	3.38%
2	ID	2.35%
4	AZ	1.97%
6	UT	1.61%
7	WA	1.44%
8	HI	1.27%
11	CA	1.20%
15	OR	0.87%
42	AK	0.27%
	Dist	1.40%
	Nat	0.52%

Red: > 2%; Yellow: 1% to 2%

See Appendix 1 for Detailed Aggregate District Net Charge Off Rates

Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; 1H ratios are annualized; 1H2010 data is preliminary

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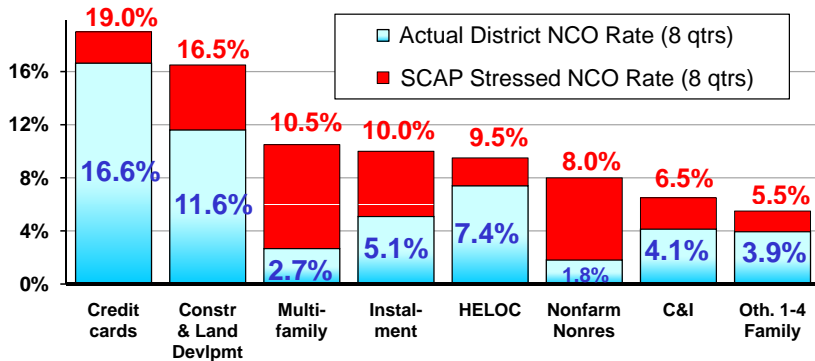
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2 Years of District Bank Net Charge-Offs through 6/2010 vs. SCAP* Adverse Case Stressed Loss Rates

Over the past 8 quarters, the NCO rate for credit cards, HELOC, other 1-4 family residential, and C&LD loans are closest to the SCAP stressed loss rates

Aggregate cumulative credit losses over past 8 quarters (2H08-1H10) for 12th District banks compared to the 2-year adverse case SCAP stressed loss rates

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Actual NCO Pct of SCAP:	88%	70%	25%	51%	78%	23%	64%	72%
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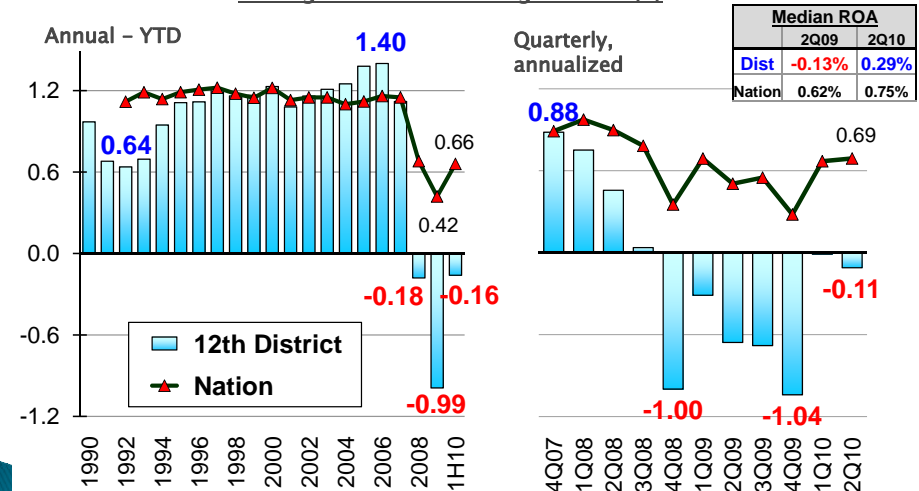
*SCAP = Supervisory Capital Assessment Program, the stress test applied to large U.S. banks in 2009. Stressed loss rate for other 1-4 family residential rate assumes 90% prime first lien loans (3.5% NCO rate) and 10% closed end junior lien loans (23.5% NCO rate)

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Earnings: Avg. 12th District ROA Remained in the Red for 3rd Year & 7th Quarter (But Avg. ROA has Improved from Last Year)

Average Return on Average Assets (%)



Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; quarterly ratios are annualized; preliminary 2Q10 data

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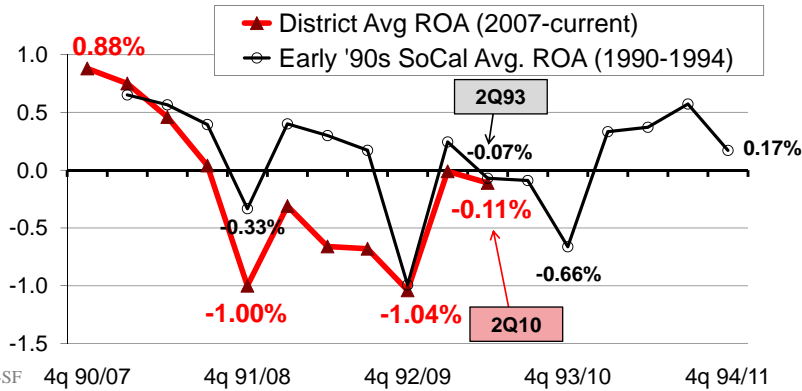
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District Avg. ROA Continues to Pattern After the Southern California Bank Experience in the '90s

Cyclical Down Pattern for 4 Years

1-Qtr Average ROA (%) - Mapping SoCal '91 to District '08, etc.



The SoCal bank avg. ROA from 4q1991 is mapped against the District bank avg. ROA of 4Q2008; 1Q1992 is mapped against 1Q2009, etc. During down cycles, ROA tends to be cyclical, with the strongest performance in 1st quarters and weakest in 4th quarters.

Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; qtrly ratios are annualized; 1990s data exclude industrial banks

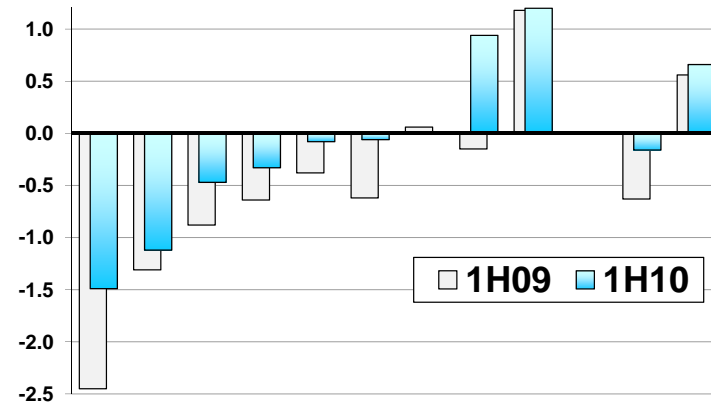
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While Profitability Remained Poor, Avg. ROAs Improved Broadly Across the District

Only Alaska & Utah Had Avg. ROAs Exceeding the National Avg.*

Average Return on Average Assets (1st half ROAs - %)



State	ROA 1H10 (Avg.)
AZ	-1.5%
NV	-1.1%
WA	-0.5%
ID	-0.3%
CA	-0.1%
OR	-0.1%
HI	0.0%
UT*	0.9%
AK	1.2%
District	-0.2%
Nation	0.7%

7 of 10 worst ROAs were in the 12th District
Others: FL (#3); GA (#6); NC (#9)

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Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; ratios are annualized; *Excluding Industrial banks, the avg. 1H10 UT ROA was 0.07%

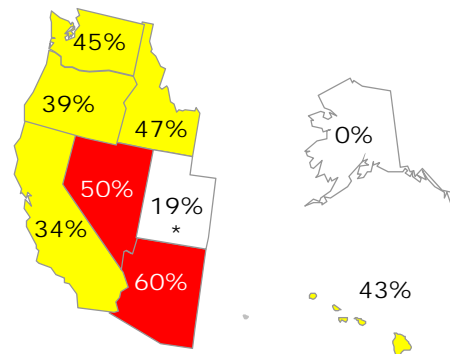
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Percentage of Banks Losing Money Dropped Significantly from Last Year

(exclusive of new banks)

Percentage of Banks Reporting Quarterly Net Losses

2Q10:	37%
1Q10:	38%
4Q09:	54%
3Q09:	47%
2Q09:	51%
1Q09:	42%
4Q08:	52%
2008:	40%



Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; Red = >50%; yellow = 25%-50%

* UT: Excluding Industrial banks, 27% of UT banks lost money in 2Q10

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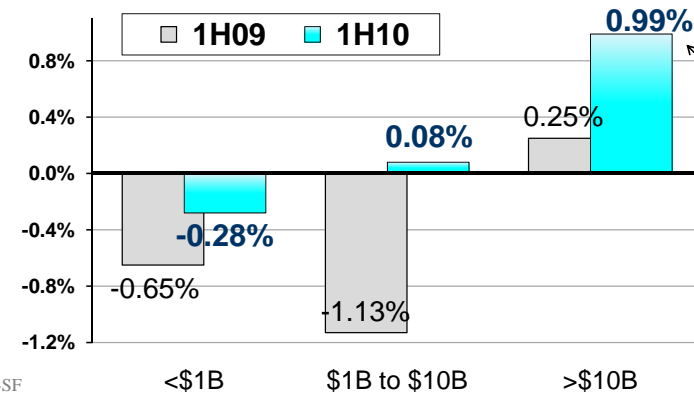
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By Size: Larger Banks are Leading the Return to Profitability

Smaller Banks Still Struggling to Make a Profit

District Return on Average Assets - Average Across Banks by Size



ROA = 0.81% excluding Industrial Banks

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Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; preliminary 1H10 numbers

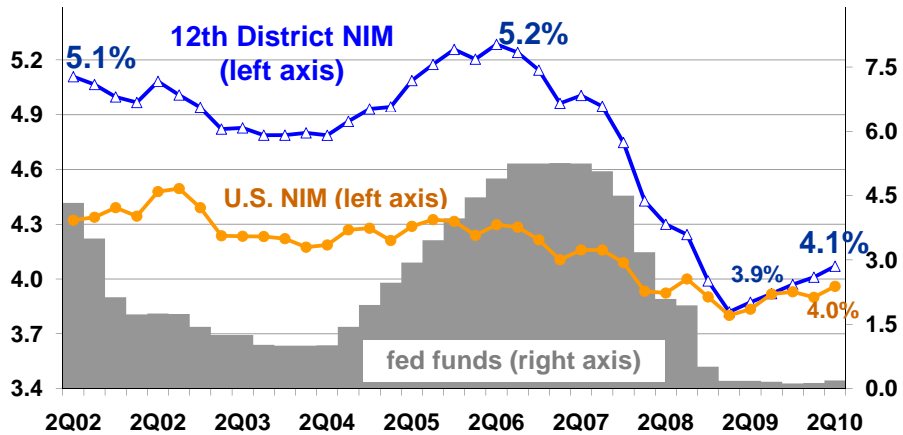
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Net Interest Margins Edged Up for 5 Quarters

But Very Weak by Historical Standards

Net interest income (tax equiv) / average earning assets (NIM) (quarterly NIMs annualized %)

Effective Fed funds rate (quarterly average annualized %)



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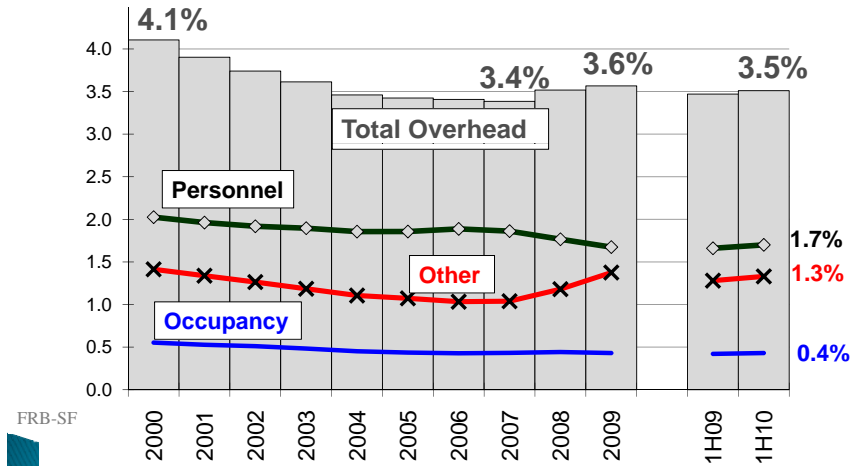
Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; quarterly ratios are annualized; prelim 2Q10 data. FF rates from FRB-St Louis

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District Bank Overhead Contained

Workout Efforts and OREO Costs Contributed to Higher Recent Personnel & "Other" Overhead Expense Ratios

Overhead expenses / avg. assets (%)



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Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; preliminary 1H10 data

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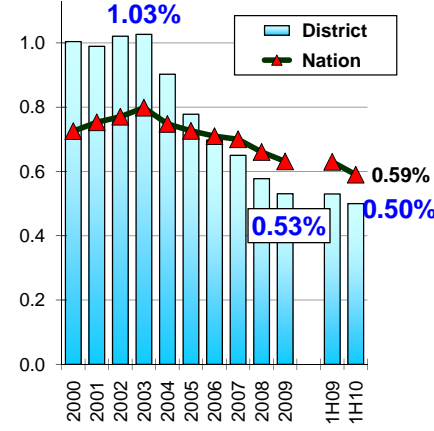
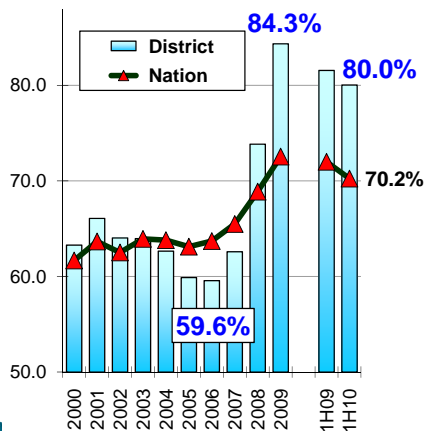
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Avg. Efficiency Ratio Remained High but was Improved Slightly in 1H10

Weak Noninterest Income Partially Caused by Losses on the Sale of OREO

Efficiency Ratio (%) - overhead / net interest income + noninterest income

Noninterest income / avg. assets (%)



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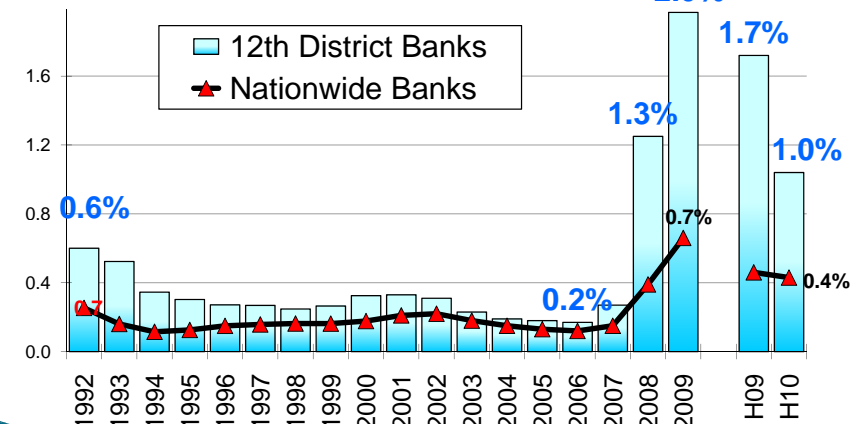
Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; preliminary 1H10 data

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Loan Loss Provisions Were Reduced Considerably in 1H10 from Year-ago Levels

Loan Loss Provisions / Average Assets (% - Adjusted Averages)



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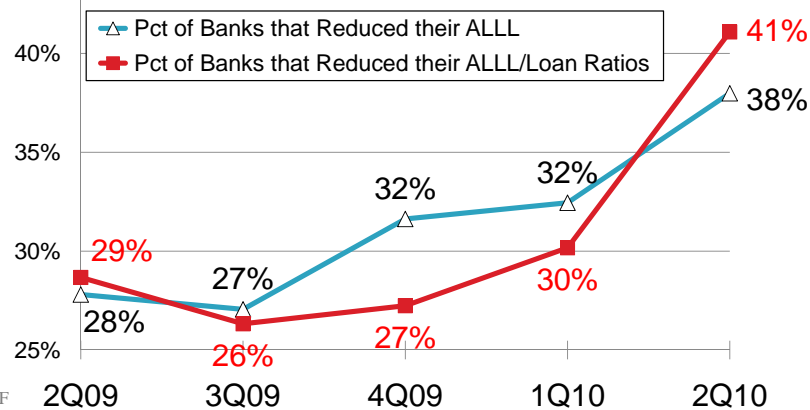
Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; preliminary 1H10 numbers

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An Increasing (but still minority) Portion of Banks Reduced their Allowance for Loan + Lease Losses Balances or Coverage
More Banks Feel that their Reserves are Sufficient or that the Credit Quality Outlook is Improving

Percent of District Banks that Lowered Their ALLL During the 2Q2010

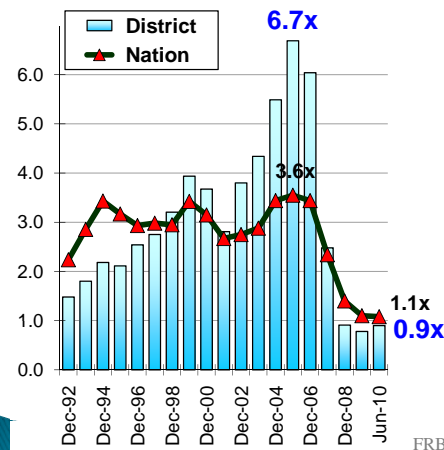


Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means; preliminary 1H10 numbers 19

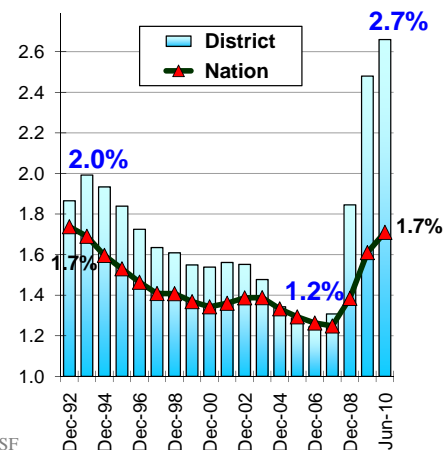
District Bank ALLL Coverage of Noncurrent Loans Up Slightly in 1H10, but Still Low

Substantial Provisioning Maintained High ALLL / Loan Ratios

Allowance for Loan and Lease Loss (ALLL) coverage of noncurrent loans (x)



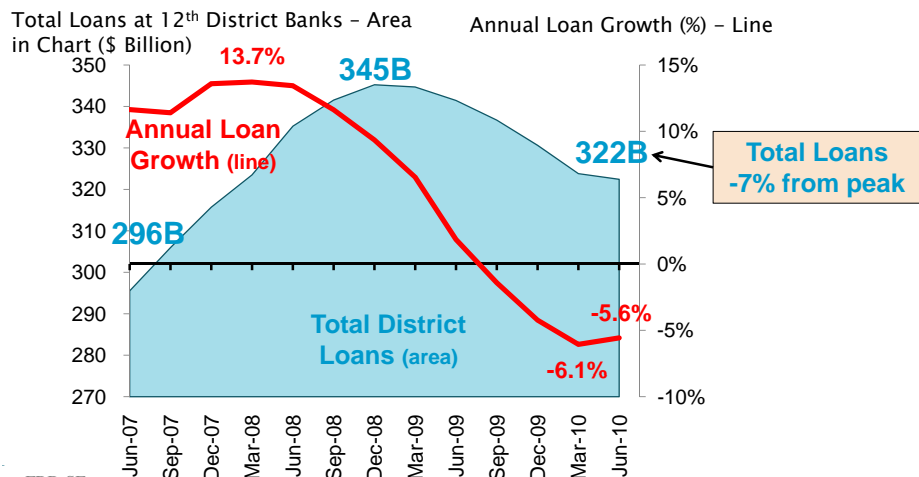
ALLL coverage of total loans (%)



Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means, preliminary 1H10 data 20

Total Loans Have Declined Significantly at 12th District Banks

(Based on Data from a Panel of Banks that Existed from 6/07 - 6/10)

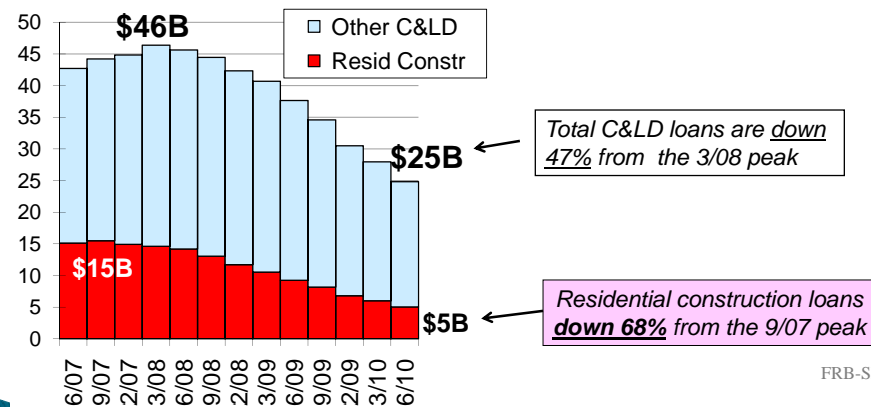


Based on a panel of District commercial banks with assets < \$50B; excludes non-lead bank subsidiaries of very large out-of-District financial services firms and banks with major mergers over the period 21

Sharp Fall-Off of Construction & Land Development Loans Continued

Due to Charge-offs, Conversions to Term Loans and No New Lending

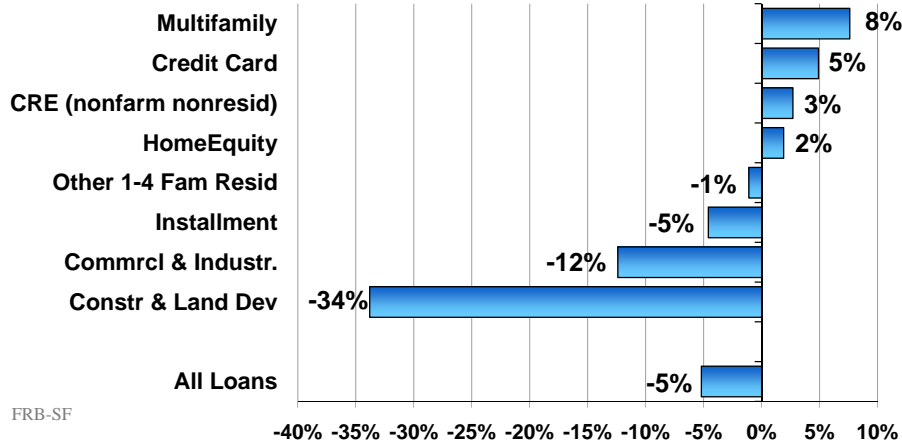
\$ Billion in Construction & Land Development Loans on District Bank Balance Sheets



Based on a panel of District commercial banks with assets < \$50B; excludes non-lead bank subsidiaries of very large out-of-District financial services firms and banks with major mergers over the period 22

Annual Loan Growth Remained Marginally Positive for Several Loan Categories

12th District Bank Aggregate Annual Loan Growth Rates -%



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-40% -35% -30% -25% -20% -15% -10% -5% 0% 5% 10%

Based on a panel of District commercial banks with assets < \$50B; excludes non-lead bank subsidiaries of very large out-of-District financial services firms and banks with major mergers over the period

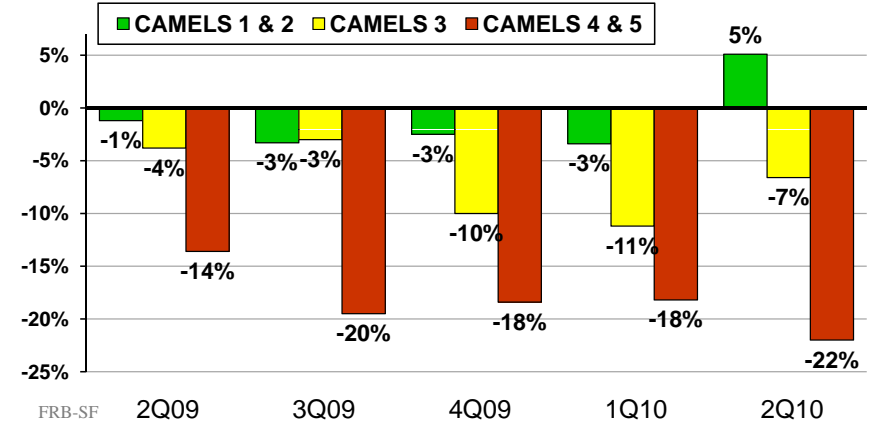
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2Q10 Loan Growth Turned Positive for Banks in Good Condition

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

Aggregate quarterly loan growth rates, annualized



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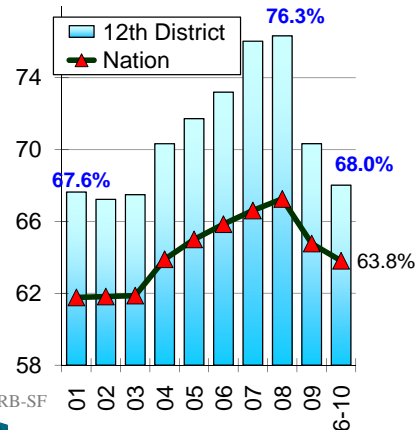
Based on a panel of District commercial banks with assets < \$50B; excludes non-lead bank subsidiaries of very large out-of-District financial services firms and banks with major mergers over the period

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Balance Sheet Liquidity Ratios Have Improved

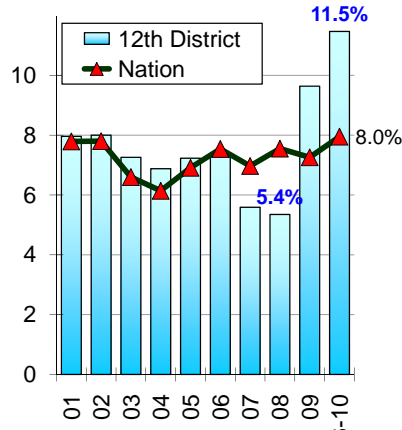
Helping: Absence of Loan Growth

Loans/Assets (adj average %)



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Short Term Investments/Assets (adj avg. %)



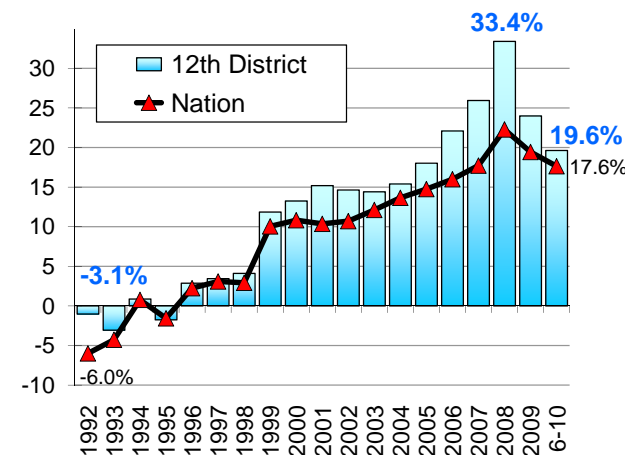
Source: Regulatory Call & Income Reports; all commercial & industrial banks excl. De Novos; trimmed means, prelim 1H10 data

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Bank Reliance on Noncore Funding Dropped Sharply Since 2008

Net Noncore Funding Dependence (Adjusted Average %)



Net Noncore Funding Dependence

The degree to which banks fund longer-term assets with noncore funding

Definition:

Noncore funding (e.g., brokered deposits, large CDs, borrowed money) minus short-term investments (e.g., fed funds sold, securities with one year or less remaining maturity, interest bearing bank balances)

Divided by: Longer term assets (net loans and securities with remaining maturities over one year and non-investment other real estate owned)

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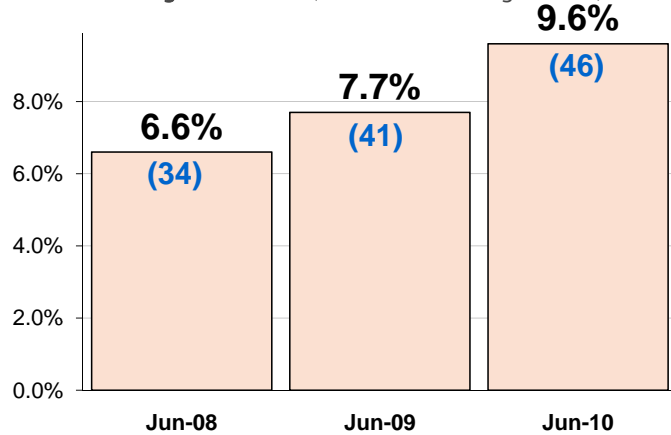
Source: Regulatory Call & Income Reports; all commercial & industrial banks excluding De Novos; trimmed means, preliminary 1H10 data

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Common Equity Raising / Injections from Parent Company are on the Rise

Pct (and number) of District Commercial Banks Obtaining Large Volumes of Capital in Preceding 12 Months (>3% of Bank's Avg. Assets)



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Source: Regulatory Call & Income Reports; all commercial banks preliminary 2Q10 data; excludes preferred stock increases

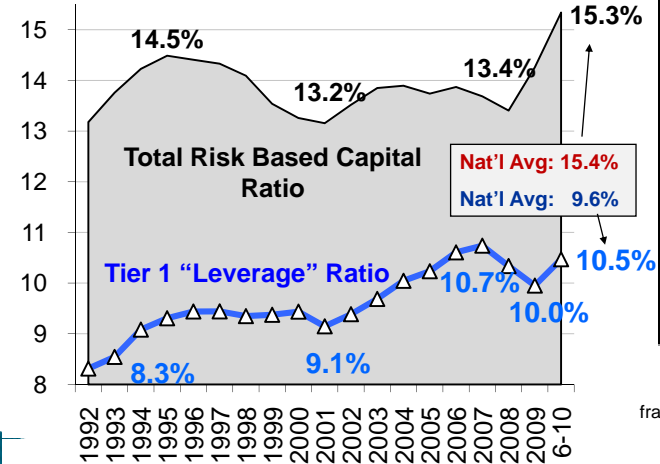
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Loan Reductions & New Capital Helped Bolster Capital Ratios

Pct of Banks in Adverse PCA* Capital Categories Dropped (largely from failures)

12th District bank average capital ratios (%)



Date	Pct of District Bks	
	Less than Well Capitalized*	Below minimum standards*
6/10	10.1%	6.4%
3/10	12.1%	7.4%
12/09	13.0%	7.7%
9/09	12.1%	5.3%
6/09	8.1%	4.5%
3/09	5.3%	2.9%
12/08	4.6%	2.2%
9/08	2.7%	1.2%
6/08	1.8%	0.3%

* Capital categories based on Prompt Corrective Action framework, using Call report data (not examination adjusted)

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Source: Regulatory Call & Income Reports; all commercial & industrial banks preliminary 6/10 data; chart excludes De Novo banks & shows trimmed mean statistics

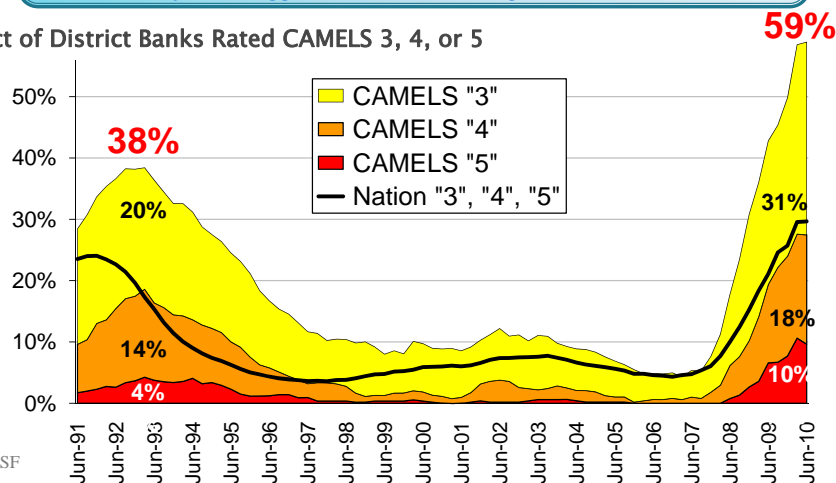
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Percentage of 12th District Banks Rated CAMELS 3, 4 or 5 Continues to Rise to New Record Highs

Preliminary Data Suggests that the Percentage of 5s Declined in 2Q10

Pct of District Banks Rated CAMELS 3, 4, or 5



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Includes commercial, industrial and savings banks; latest data based on exams that started within each quarter; updated 8/12/10

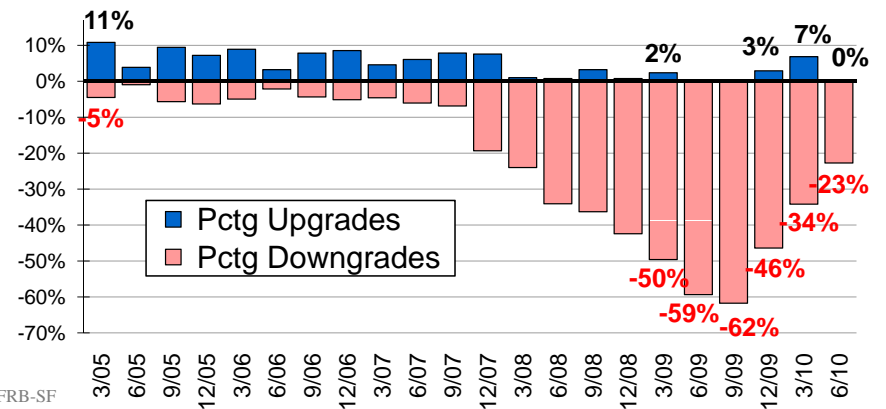
Note: the June 2010 percentages are very preliminary; only around 1/3 of the expected number of exams in the quarter have been finalized.

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Approaching the Bottom: the Quarterly Pace of Examination Downgrades is Trending Down

Percentage of 12th District Exams Each Quarter that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades are shown as negative percentages)



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Includes any change in composite CAMELS rating; updated 8/12/10

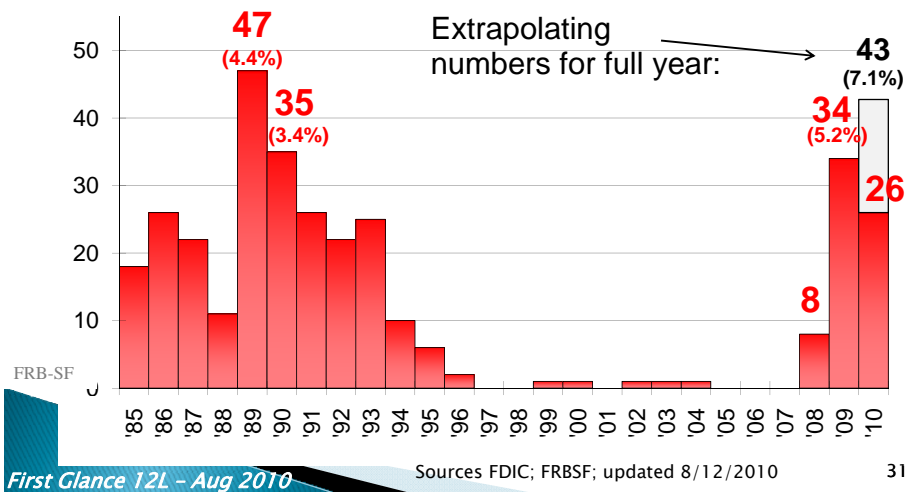
Note: The June 2010 data are very preliminary; only around 1/3 of the expected number of exams in the quarter have been finalized.

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12th District Failures Up Sharply; 2010 Percentage On Pace for a Post-Depression High

Number of 12th District commercial & savings institution failures



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Appendix 1 12th District Bank Aggregate Net Charge-Off Rates

Aggregate District Net Charge-Off Rates (1H ratios, annualized)				
	All Banks		Small Bks (<\$1 Billion)	
	1H09	1H10	1H09	1H10
Construction & Land Development	7.53%	5.92%	5.59%	4.10%
Residential Construction	9.50%	6.19%	5.67%	3.88%
Other C&LD	6.78%	5.86%	5.56%	4.18%
CRE - Nonfarm Nonresidential Loans	0.54%	1.58%	0.37%	0.84%
Owner Occupied	0.43%	1.09%	0.34%	0.74%
Non Owner Occupied	0.61%	1.97%	0.41%	0.93%
Residential Closed-End Loans	1.21%	2.00%	1.88%	1.35%
Home Equity Loans	3.46%	4.22%	0.99%	1.18%
Multifamily Loans	1.17%	1.95%	0.49%	0.84%
Commercial & Industrial Banks	2.43%	1.91%	2.44%	2.28%
Agricultural Loans	0.34%	2.11%	0.17%	0.30%
Credit Card Loans	10.08%	8.58%	8.71%	9.09%
Installment Loans	2.84%	1.99%	2.62%	2.60%
Total Loans	2.61%	2.60%	2.04%	1.71%

District commercial & industrial banks;
Red: >= 2%; Yellow: 0.75% to 2%

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Appendix 2 - Technical Information

This report focuses on the financial trends and performance of commercial and industrial banks headquartered within the 12th Federal Reserve District ("12L"). 12L includes 9 western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA.

	Number	Assets
Commercial banks in 12L:	478	\$1,802 Billion
Industrial banks in 12L:	38	\$ 132 Billion

Bank Totals by State: CA (260); WA (70); UT (55); AZ (40); OR (33); NV (27); ID (16); HI (7); AK (4)

De Novos: Many of the charts exclude "De Novo" banks, or banks less than three years old.

	Number	Assets
De Novo banks in 12L (included above):	36	\$ 4 Billion

Trimmed Mean (also referred to as "adjusted average" or "average"): Many of the charts present trends in ratio averages, adjusted for outliers. The method used is to eliminate or "trim" out the highest 10% and the lowest 10% of ratio values, and average the remaining values.

Aggregate: In some cases, the trimmed mean method is not appropriate (e.g., when many banks have zero values for a particular ratio, or, for example, for growth rates where there may be many highly positive and highly negative values). In these cases, District aggregates sometimes are computed (i.e., summing numerator values across all District banks and dividing by the sum of all denominator values; as opposed to averaging individual bank ratios). When an aggregate is used, it is indicated on the chart.

Industrial banks: Occasionally industrial banks are excluded from a chart when they tend to skew the trends. In these cases the footnote indicates that a chart is based on commercial banks only.

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