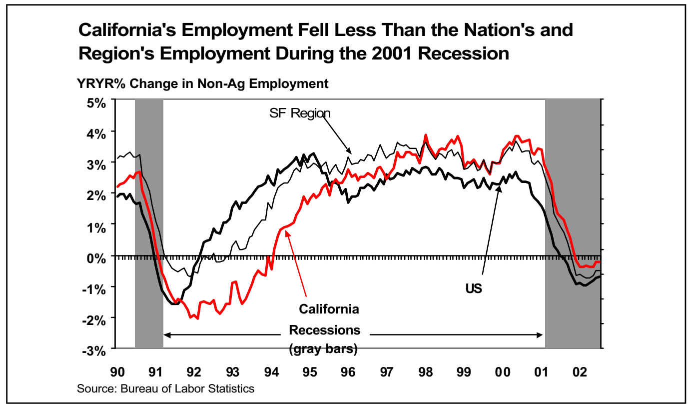
State Profile

WINTER 2002

California

California's nonfarm employment percentage decline during the year ending August 2002, -0.4 percent, was slightly better than the nation (see chart).

- Nearly every major sector experienced job losses with government the most significant exception, expanding 2.0 percent.
- Employment growth across the state varied widely. For example, the San Francisco Bay Area's employment fell 2.3 percent during the 12 months ending August 2002, while Southern California (*Santa Barbara* to *San Diego*) grew a meager 0.23 percent. The Central Valley and the rest of the state showed essentially no change. Southern California has a more diversified economic base than the Bay Area, which held an employment concentration in the battered technology sector. The Central Valley, which includes Sacramento, is more dependent upon the growing government employment sector.

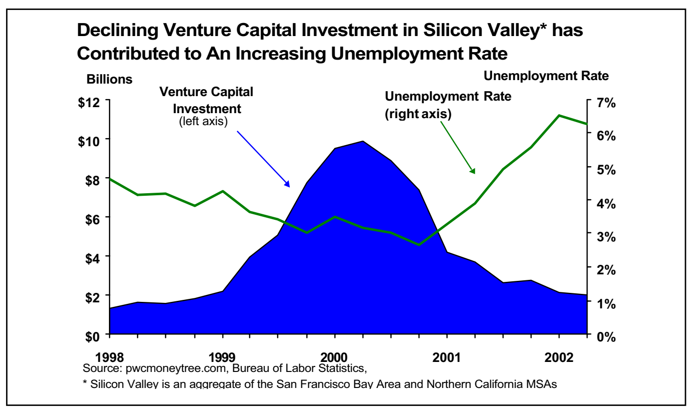


California's Employment Fell Less Than the Nation's and Region's Employment During the 2001 Recession

Source: Bureau of Labor Statistics

The San Francisco Bay Area's economic problems are centered on the decline in demand for high-tech products, the crash of the dot-com sector, and the drop in venture capital investment.

- "Silicon Valley," centered in the *San Jose* and *San Francisco* Metropolitan Statistical Areas (MSAs), received $10 billion of venture capital during the second quarter 2000 (see chart), the peak of the boom. By early 2002, the quarterly level was closer to $2 billion.
- High-tech jobs represented 23 percent of San Jose employment and 8 percent of San Francisco employment in 2001. The downturn in the high-tech sector pushed up the area's unemployment rate from a low of 2.7 percent in fourth quarter 2000 to 6.5 percent in first quarter 2002, slightly above a statewide unemployment rate of 6.2 percent.



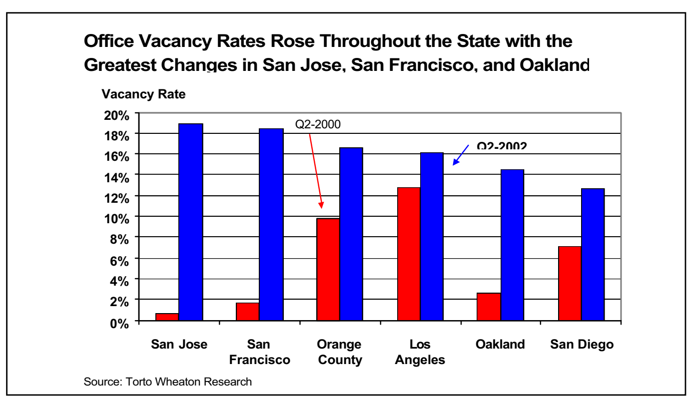
Declining Venture Capital Investment in Silicon Valley* has Contributed to An Increasing Unemployment Rate

Source: pwcmoneytree.com, Bureau of Labor Statistics,

* Silicon Valley is an aggregate of the San Francisco Bay Area and Northern California MSAs

Commercial real estate vacancy rates have risen throughout the state during the past two years.

- Office vacancy rates have increased most in the large MSAs where high-tech is important: San Jose, San Francisco, and *Oakland* (see chart).
- Office rental rates reportedly have fallen 50 percent and 40 percent in San Jose and San Francisco, respectively, from their peaks in 2000. In contrast, despite the rise in vacancy rates, rental rates have held relatively steady in the major Southern California centers—*Los Angeles*, *Orange County*, and *San Diego*.



Office Vacancy Rates Rose Throughout the State with the Greatest Changes in San Jose, San Francisco, and Oakland

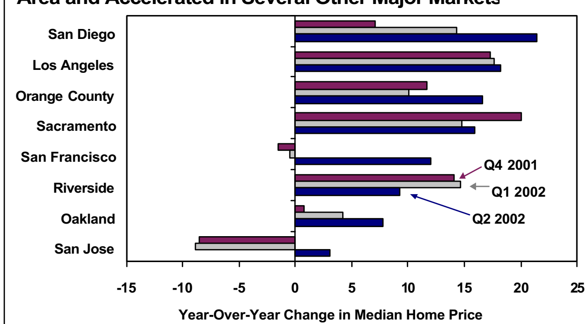
Source: Torto Wheaton Research

- CRE market deterioration is a concern because over two-thirds of California's insured institutions reported CRE[1] loan-to-Tier 1 capital ratios of at least 300 percent as of mid-2002. CRE loan delinquency ratios among MSA-based established community institutions[2] were generally below 1 percent as of second quarter 2002. In contrast, during the 1990-1991 recession, median past due CRE loan ratios topped 3 percent in each of the state's major MSAs.
- The median exposure to construction and development (C&D) loans, one of the riskier segments of CRE lending, was also high at 61 percent of Tier 1 capital, more than double the ratio reported by insured institutions headquartered elsewhere in the nation. Although high, C&D loan concentrations within California were down substantially from levels attained in the early 1990s.

Residential real estate lenders might be vulnerable to slow or declining home prices.

- Although home price appreciation slowed from a late 2000 – early 2001 peak, California home prices continued to increase at an annual rate of over 7 percent through mid-2002. Low interest rates helped to boost demand, and thus prices for homes throughout the state. Home prices in the San Francisco Bay Area, which had begun to decline in late 2001, were reinvigorated with subsequent rate declines in 2002.
- Home price increases outstripped personal income growth in most of the state's major MSAs. Between mid-1997 and mid-2002, housing affordability indices dropped by more than 10 percent in all 25 California MSAs tracked by Economy.com. Should interest rates increase, the state's less affordable MSAs could face home price pressures because the median family income is already ill equipped to finance the median priced home.

Home Price Appreciation Rebounded in the San Francisco Bay Area and Accelerated in Several Other Major Markets



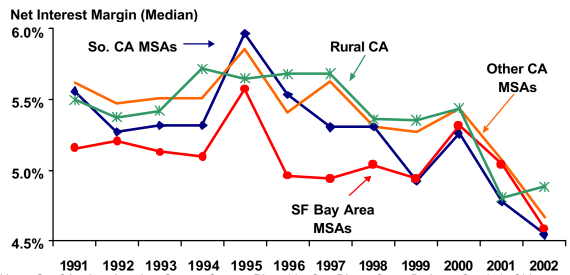
Source: Economy.com

- Mortgage delinquencies remained modest and relatively unchanged for most established community mortgage lenders within the state's major MSAs.

Earnings performance among California insured institutions deteriorated modestly during 2001 and 2002, primarily as a result of net interest margin (NIM) compression.

- The state's median return on average (ROA) assets ratio declined slightly from 1.07 to 1.03 percent between second quarter 2000 and second quarter 2002. Improved overhead efficiencies, and in some cases gains on securities, assisted ROA performance.
- Because a high proportion of the state's institutions were asset sensitive (i.e., assets were scheduled to reprice faster than liabilities), net interest margins compressed during the declining interest rate environment of 2001 and 2002, especially among Southern California-based institutions (see chart). NIMs recovered somewhat during the first half of 2002 in California's rural areas.

Interest Rate Declines During 2001 and 2001 Severely Pressured Margins



Note: So. CA = Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, San Luis Obispo, and Ventura metropolitan statistical areas (MSAs). San Francisco (SF) Bay Area includes Oakland, San Francisco, San Jose, Santa Rosa, Santa Cruz, and Vallejo MSAs.
Source: Bank and Thrift Call Reports (June of each year)

[1] Commercial real estate loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

[2] Defined as insured institutions open more than 3 years, with assets of less than $1 billion, and with consumer loan-to-Tier 1 capital ratios under 200 percent. The definition also excludes industrial loan companies.

California Insured Institutions At a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	330	345	361	380	390	402
Total Assets (in thousands)	806,010,342	726,469,980	626,835,069	808,624,775	760,658,128	724,544,655
New Institutions (# <3 years)	35	35	35	35	23	11
Capital						
Tier 1 Leverage (median)	8.85%	8.73%	8.71%	8.72%	8.68%	8.75%
Asset Quality						
Past-Due and Nonaccrual (median)	0.86%	0.93%	0.82%	1.12%	1.58%	2.14%
Loan Loss Reserves/Total Loans (median)	1.38%	1.40%	1.38%	1.38%	1.51%	1.57%
Loan Loss Reserves/ Noncurrent Loans (median multiple)	2.30	2.47	3.29	2.37	1.70	1.19
Earnings						
Percent Unprofitable	14.55%	11.01%	8.03%	12.37%	12.05%	10.20%
Return on Assets (median)	1.03%	1.04%	1.07%	0.97%	0.99%	0.90%
Net Interest Margin (median)	4.61%	4.85%	5.33%	5.01%	5.27%	5.38%
Yield on Earning Assets (median)	6.51%	8.31%	8.63%	7.96%	8.55%	8.62%
Cost of Funding Earning Assets (median)	1.82%	3.45%	3.29%	2.93%	3.30%	3.26%
Provisions to Avg. Assets (median)	0.19%	0.17%	0.18%	0.19%	0.18%	0.20%
Noninterest Income to Avg. Assets (median)	0.67%	0.67%	0.69%	0.76%	0.84%	0.87%
Overhead to Avg. Assets (median)	3.51%	3.61%	3.86%	3.99%	4.17%	4.30%
Liquidity/Sensitivity						
Loans to Assets (median)	68.30%	67.41%	66.49%	63.69%	61.78%	63.21%
Brokered Deposits (# of Institutions)	95	92	83	74	71	78
Brokered Deps./Assets (median for above inst.)	3.53%	3.05%	2.83%	2.32%	1.80%	2.64%
Noncore Funding to Assets (median)	21.03%	21.35%	19.70%	17.35%	16.50%	14.88%
Loan Concentrations						
Median Commercial RE to Tier 1	411.25%	391.04%	381.95%	341.61%	299.10%	300.51%
Commercial RE = Construction, Multifamily, and Nonres.						
Median Commercial & Industrial to Tier 1	106.68%	121.34%	127.54%	120.04%	117.50%	117.34%
Median Construction to Tier 1	60.76%	57.06%	42.59%	41.07%	28.21%	27.18%
Median Residential RE to Tier 1	37.91%	45.11%	49.25%	49.62%	56.21%	72.77%
Median Consumer to Tier 1	13.44%	15.62%	17.73%	19.00%	21.45%	21.92%
Consumer = Credit Card and other non-RE secured						
Median Agricultural to Tier 1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Primary Regulator						
FDIC	157	166	183	193	204	208
OCC	81	82	82	91	97	99
FRB	50	52	50	50	35	32
OTS	42	45	46	46	54	63
Asset Distribution						
$0 to $100 million	94	98	106	134	145	162
$100 to $250 million	89	105	118	112	109	112
$250 to $500 million	50	49	47	47	51	51
$500 million to $1 billion	39	37	40	38	39	34
$1 to $3 billion	35	36	29	26	22	19
$3 to $10 billion	13	12	13	16	14	13
Over $10 billion	10	8	8	7	10	11

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Southern California MSAs*	189	142,737,498	57%	18%
San Francisco Bay Area MSAs**	77	414,169,270	23%	51%
Other MSAs	50	244,609,873	15%	30%
Not in an MSA	14	4,493,701	4%	1%

*Includes the Los Angeles, San Diego, Orange County, Riverside, Santa Barbara, San Luis Obispo, and Ventura MSAs

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