FDIC State Profile

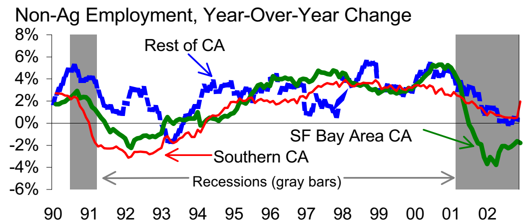
SPRING 2003

California

Employment in California expanded slightly in the year ending November 2002.

- Despite falling employment nationwide during the national recession, employment in Southern California has continued to expand (see **Chart 1**). The government and finance, insurance, and real estate sectors contributed to this job growth; employment in both sectors grew 1.2 percent in the year ending November.
- In contrast, the ***San Francisco*** Bay Area continues to experience the worst downturn in the past fifty years. Payroll employment declined 1.6 percent and the unemployment rate rose from 5.4 to 6.1 percent during the year ending November 2002. This area was adversely affected by the downturn in the high-tech manufacturing and software sectors, the collapse of the dot-com industry, and the drying up of venture capital funding.
- The state and local government sector, which represents 15 percent of California's total nonfarm employment, helped to moderate job declines during the recent recession. However, weak stock market returns and job losses eroded the state's income tax revenue base, and the recent energy situation resulted in significant government outlays. As a result, record budget deficits could pressure state government employment and dampen the economic recovery in California. Employment declines could also occur at the local government level as municipalities generally rely, at least in part, on state-generated revenues for funding.

Chart 1: Employment Contracted Sharply in the SF Bay Area During the Recession

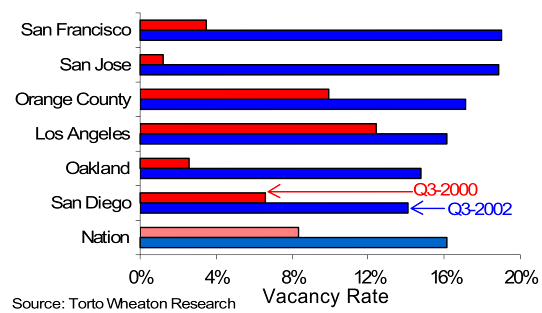


Note: SF Bay Area CA = San Francisco, San Jose, Oakland, Santa Rosa, and Vallejo metropolitan statistical areas (MSAs). Southern CA = Los Angeles, Orange County, Riverside-San Bernardino, San Diego, Santa Barbara, and Ventura MSAs. Data through November 2002.
Source: Bureau of Labor Statistics

Dramatic reversals have occurred in California's commercial real estate (CRE) markets.

- Office vacancy rates have risen during the past two years in the state's largest metropolitan statistical areas (MSAs). The greatest increases have been reported in the San Francisco Bay Area (see **Chart 2**), driven largely by problems in the high-tech sector. Vacancy rates in the San Francisco and ***San Jose*** MSAs now exceed the national average after falling to nearly zero in third quarter 2000.
- Torto Wheaton Research estimates that office rents have plunged 52 percent in the San Jose metropolitan area and 43 percent in the San Francisco metropolitan area during the past two years. Office rents in the ***Los Angeles*** and ***San Diego*** MSAs have held relatively steady, while Orange County rents have fallen an estimated 7 percent during this same period.
- CRE market deterioration is a concern because over two-thirds of California's insured institutions reported CRE[1] loans-to-Tier 1 capital ratios of at least 300 percent as of third quarter 2002, and the median ratio of CRE loans-to-Tier 1 capital among all California-based insured institutions increased from 318 to 424 percent over the past decade. CRE loan delinquency ratios among the state's MSA-based established community institutions[2] were generally below 1

Chart 2: Vacancies Rates in California's Major Office Markets Have Risen Since 2000



Source: Torto Wheaton Research

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

[2] Established community institutions are defined as insured institutions in operation at least 3 years with assets of less than $5 billion. The definition excludes industrial loan companies.

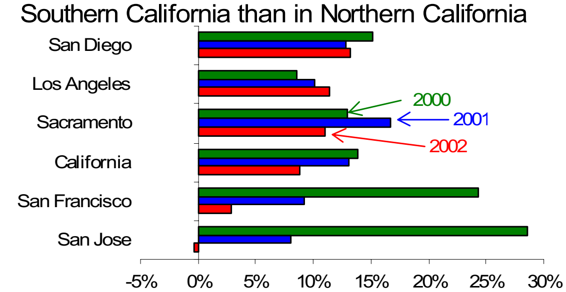
percent as of third quarter 2002, possibly because declining interest rates have enabled CRE property owners to lower borrowing costs. Delinquencies remain modest in comparison to the early 1990s real estate crisis; however, insured institutions could experience further credit quality weakening should soft CRE market conditions persist.

- As of third quarter 2002, the median exposure to construction and development (C&D) loans, one of the traditionally higher-risk segments of CRE lending, was also high at 57 percent of Tier 1 capital, more than double the 21 percent reported by insured institutions nationwide.

Residential real estate lenders may be vulnerable to the effects of declining home prices in some areas.

- On average, California home prices rose by 9 percent in the year ending third quarter 2002, according to data from the Office for Federal Housing Enterprise Oversight (see **Chart 3**). Low interest rates helped boost demand and prices for homes throughout the state. However, price appreciation in the San Francisco Bay Area has slowed in response to declining employment in the high-tech sector.
- Overall, home price appreciation has outstripped personal income growth among most of the state's major MSAs. The California Association of Realtors' affordability index has declined to 30, which indicates that only 30 percent of the state's households can afford the median-price home. Should interest rates rise, home prices could face downward pressure, especially in less affordable markets where the median family income is not sufficient to afford the median-priced home.
- Through third quarter 2002, mortgage loan delinquencies remained modest as reported by most established community institutions operating within the state's major MSAs. Low delinquency rates are likely a reflection of the high refinance activity that was prompted by the low interest rate environment during 2001 and 2002. However, as these newly-originated credits season, delinquencies may increase. DataQuick reported that Notice of Default (NOD) filings during 2002 increased more than 18 percent year-over-year in several counties, including Alameda, Contra Costa, Marin, San Mateo, Santa Clara, Santa Cruz, and Sonoma counties. Although NOD filings have increased from very low levels, the higher level of defaults suggests that the economic slump in the tech-dependent Bay Area economy has begun to adversely affect homeowners.

Chart 3: Home Price Growth Was Stronger in Southern California than in Northern California

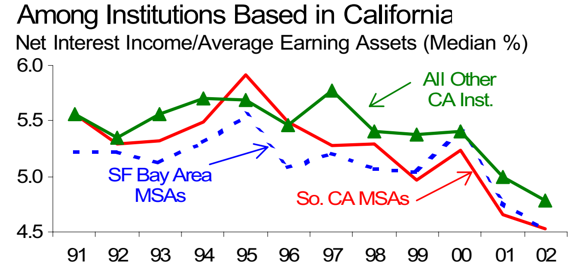


Source: Office of Federal Housing Enterprise Oversight (September of each year)

Earnings performance among California insured institutions held steady during 2002, despite net interest margin (NIM) compression.

- Improved overhead efficiencies and securities gains boosted the state's third quarter 2002 year-over-year median return on average assets (ROA) ratio from 1.01 to 1.06 percent, despite declining net interest margins, especially among insured institutions headquartered in Southern California (see **Chart 4**).
- Among California-based insured institutions, the third quarter 2002 median past-due loan ratio declined to below 1 percent, and the median loan loss reserve-to-total loan ratio slipped from 1.40 to 1.37 percent. Loan seasoning, diminished loan growth opportunities, or sustained economic weakness could pressure loan quality and earnings prospectively.

Chart 4: Net Interest Margins Contracted Among Institutions Based in California



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

California at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	328	347	357	374	388
Total Assets (in thousands)	839,345,876	734,309,361	647,815,808	573,271,925	773,442,025
New Institutions (# < 3 years)	38	35	39	34	28
New Institutions (# < 9 years)	74	68	58	60	63

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	8.78	8.56	8.67	8.74	8.67

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	0.83%	1.08%	0.98%	1.11%	1.48%
Past-Due and Nonaccrual ≥ 5%	19	26	20	20	44
ALLL/Total Loans (median %)	1.37%	1.40%	1.42%	1.39%	1.51%
ALLL/Noncurrent Loans (median multiple)	2.50	2.39	3.00	2.57	1.79
Net Loan Losses/Loans (aggregate)	0.36%	0.34%	0.28%	0.25%	0.38%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	41	44	34	41	49
Percent Unprofitable	12.50%	12.68%	9.52%	10.96%	12.63%
Return on Assets (median %)	1.06	1.01	1.11	1.02	1.01
25th Percentile	0.58	0.56	0.70	0.56	0.56
Net Interest Margin (median %)	4.60%	4.79%	5.32%	5.08%	5.28%
Yield on Earning Assets (median)	6.44%	8.06%	8.77%	8.06%	8.53%
Cost of Funding Earning Assets (median)	1.79%	3.26%	3.49%	2.94%	3.27%
Provisions to Avg. Assets (median)	0.20%	0.17%	0.19%	0.19%	0.19%
Noninterest Income to Avg. Assets (median)	0.67%	0.66%	0.69%	0.79%	0.82%
Overhead to Avg. Assets (median)	3.45%	3.57%	3.81%	3.96%	4.17%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	80.20%	79.63%	77.53%	74.19%	69.48%
Loans to Assets (median %)	67.77%	67.86%	66.86%	64.40%	61.00%
Brokered Deposits (# of Institutions)	95	90	78	78	70
Bro. Deps./Assets (median for above inst.)	3.90%	2.97%	2.25%	2.14%	1.74%
Noncore Funding to Assets (median)	20.46%	21.53%	19.72%	18.40%	16.76%
Core Funding to Assets (median)	65.63%	65.34%	67.33%	70.35%	70.84%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	157	166	179	189	203
National	80	83	81	89	96
State Member	49	53	49	50	38
S&L	12	15	16	16	20
Savings Bank	30	30	32	30	31
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Los Angeles-Long Beach CA PMSA	91	78,626,006	27.74%	9.37%
San Francisco CA PMSA	35	332,638,301	10.67%	39.63%
San Diego CA	29	16,931,369	8.84%	2.02%
Orange County CA PMSA	27	34,791,595	8.23%	4.15%
Riverside-San Bernardino CA PMSA	20	7,258,851	6.10%	0.86%
Oakland CA PMSA	16	72,132,815	4.88%	8.59%
No MSA	14	4,652,340	4.27%	0.55%
Sacramento CA PMSA	12	4,161,278	3.66%	0.50%
San Jose CA PMSA	11	28,421,490	3.35%	3.39%
Stockton-Lodi CA	11	234,341,017	3.35%	27.92%
Santa Rosa CA PMSA	8	4,303,053	2.44%	0.51%
Santa Barbara-Santa Maria-Lompoc CA	8	6,956,187	2.44%	0.83%
San Luis Obispo-Atascadero-Paso Robles CA	7	2,986,495	2.13%	0.36%
Ventura CA PMSA	5	1,068,201	1.52%	0.13%