FDIC State Profile

SUMMER 2003

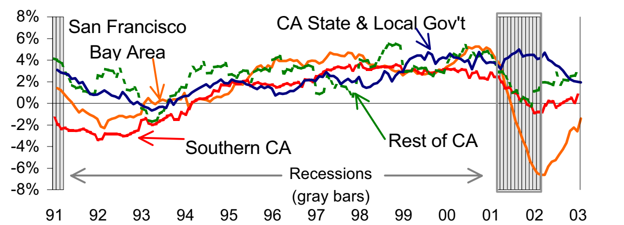
California

Employment in California expanded slightly in the year ending January 2003.

- Employment in Southern California continued to expand in early 2003, rising 0.7 percent during the year ending January (see Chart 1). Construction, the financial industry, and various services categories led in job growth, while manufacturing and the motion picture and television production sectors declined.
- In contrast, the San Francisco Bay Area continues to experience its worst difficulties in the past fifty years. Payroll employment fell 1.6 percent and the unemployment rate rose from 6.2 to 6.6 percent during the year ending January 2003. 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 counties, cities, and school districts generally rely, at least in part, on state-generated revenues for funding.

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

Non-Ag Employment, Year-Over-Year Change

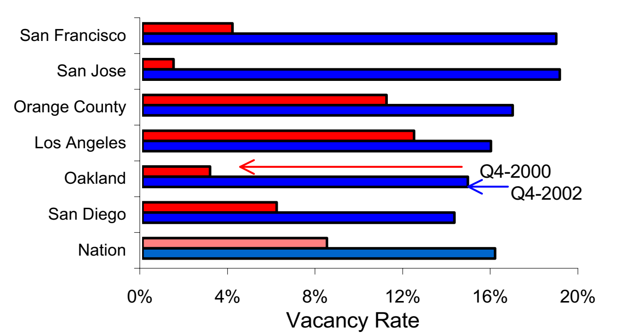


*The San Francsico Bay Area includes the San Francisco, San Jose, Oakland, Santa Rosa, and Vallejo MSAs. Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura MSAs.

Note: End of 2001 recession projected to be February 2002; official date not yet determined

Source: Bureau of Labor Statistics

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



Source: Torto Wheaton Research

Dramatic reversals have occurred in California's commercial real estate (CRE)[1] 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. Office vacancy rates of 19 percent in the San Francisco and San Jose MSAs exceeded the national average in fourth quarter 2002, rising from under 4 percent in 2000.
- Torto Wheaton Research estimates that office rents have plunged 50 percent in the San Jose metropolitan area and 41 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 15 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 fourth quarter 2002, and the median ratio of CRE loans-to-Tier 1 capital among all California-based insured institutions increased from 323 to 432 percent over the ten-year period ending December 31, 2002. CRE loan delinquency ratios among the state's MSA-based established community

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

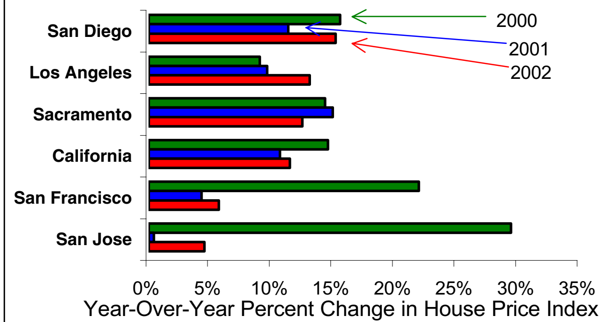
institutions[2] were generally below 1 percent as of year-end 2002, possibly because declining interest rates have enabled CRE property owners to lower borrowing costs. Delinquencies remain modest in comparison to the early 1990s real estate crisis; however, credit quality weakening could occur should soft CRE market conditions persist.

- As of year-end 2002, California-based insured institutions reported a median exposure to construction and development (C&D) loans, one of the traditionally higher-risk segments of CRE lending, equivalent to 61 percent of Tier 1 capital, nearly triple the 21 percent median reported by insured institutions nationwide.

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

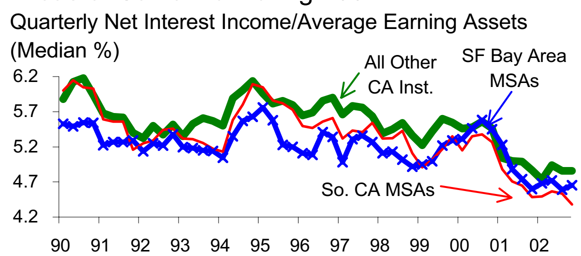
- On average, California home prices rose by 12 percent in the year ending fourth quarter 2002, according to data from the Office for Federal Housing Enterprise Oversight (see Chart 3). Low interest rates helped boost demand and prices for homes throughout the state. However, price appreciation in the San Francisco Bay Area has slowed in response to high-tech employment declines and the weak national and local economies.
- 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 28, which indicates that only 28 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 income is not sufficient to afford the median-priced home.
- Through fourth 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 increasing from very low levels, the higher level of defaults suggests that the weak Bay Area economy has begun to affect homeowners adversely.

Chart 3: Southern California Home Prices Have Increased Strongly During the Past Three Years



Source: Office of Federal Housing Enterprise Oversight (December of each Year)

Chart 4: Quarterly Margins Stabilized in Some Areas of California During 2002



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

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 2002 year-over-year median return on average assets (ROA) ratio from 0.96 to 1.07 percent, despite weaker, year-to-date NIMs. Quarterly NIMs were relatively stable during 2002 compared with 2001 (see Chart 4).
- Among California-based insured institutions, the fourth quarter 2002 median past-due loan ratio declined to below 1 percent, and the median loan loss reserve-to-total loan ratio slipped to 1.38 percent from a year-earlier level of 1.40 percent. Loan seasoning, diminished loan growth opportunities, or sustained economic weakness could pressure loan quality and earnings prospectively.

[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 and specialty institutions.

California at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	325	343	350	371	384
Total Assets (in thousands)	853,186,688	768,146,040	673,537,635	598,372,376	803,399,240
New Institutions (# < 3 years)	36	37	37	38	31
New Institutions (# < 9 years)	78	73	59	62	65

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.71	8.55	8.62	8.59	8.50

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	0.72%	1.00%	0.87%	0.94%	1.33%
Past-Due and Nonaccrual > = 5%	12	20	23	21	37
ALLL/Total Loans (median %)	1.38%	1.40%	1.42%	1.38%	1.45%
ALLL/Noncurrent Loans (median multiple)	2.80	2.32	2.95	2.88	2.02
Net Loan Losses/Loans (aggregate)	0.39%	0.34%	0.34%	0.26%	0.37%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	42	52	39	54	52
Percent Unprofitable	12.92%	15.16%	11.14%	14.56%	13.54%
Return on Assets (median %)	1.07	0.96	1.10	0.99	0.97
25th Percentile	0.62	0.49	0.63	0.49	0.43
Net Interest Margin (median %)	4.62%	4.72%	5.27%	5.16%	5.20%
Yield on Earning Assets (median)	6.38%	7.79%	8.81%	8.17%	8.45%
Cost of Funding Earning Assets (median)	1.71%	2.97%	3.56%	3.00%	3.23%
Provisions to Avg. Assets (median)	0.20%	0.19%	0.22%	0.20%	0.20%
Noninterest Income to Avg. Assets (median)	0.67%	0.69%	0.70%	0.80%	0.84%
Overhead to Avg. Assets (median)	3.51%	3.76%	3.89%	3.97%	4.20%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	81.34%	80.78%	78.49%	76.15%	70.55%
Loans to Assets (median %)	68.90%	68.12%	67.32%	65.74%	61.12%
Brokered Deposits (# of Institutions)	101	88	86	76	72
Bro. Deps./Assets (median for above inst.)	3.61%	3.74%	2.70%	2.23%	1.72%
Noncore Funding to Assets (median)	20.12%	21.17%	20.36%	18.24%	16.60%
Core Funding to Assets (median)	66.10%	64.95%	66.72%	69.55%	71.33%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	154	164	172	189	198
National	83	83	80	87	95
State Member	49	54	52	49	42
S&L	12	13	15	16	19
Savings Bank	27	29	31	30	30
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Los Angeles-Long Beach CA PMSA	89	81,349,714	27.38%	9.53%
San Francisco CA PMSA	32	329,654,544	9.85%	38.64%
San Diego CA	30	17,681,484	9.23%	2.07%
Orange County CA PMSA	28	35,682,945	8.62%	4.18%
Riverside-San Bernardino CA PMSA	20	7,766,459	6.15%	0.91%
Oakland CA PMSA	16	74,744,600	4.92%	8.76%
No MSA	14	5,046,228	4.31%	0.59%
Sacramento CA PMSA	12	4,270,846	3.69%	0.50%
San Jose CA PMSA	11	29,860,473	3.38%	3.50%
Stockton-Lodi CA	11	240,959,701	3.38%	28.24%
Santa Rosa CA PMSA	8	4,409,877	2.46%	0.52%
Santa Barbara-Santa Maria-Lompoc CA	8	7,209,186	2.46%	0.84%
San Luis Obispo-Atascadero-Paso Robles CA	7	3,026,329	2.15%	0.35%
All Other MSAs	39	11,524,302	12.00%	1.35%