FDIC State Profile

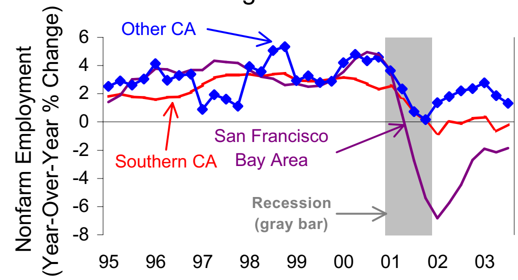
WINTER 2003

California

Employment in California fell 0.2 percent for the year ending third quarter 2003.

- Employment in Southern California declined 0.2 percent during the year ending third quarter 2003 (see Chart 1).[1] Construction, the financial industry, leisure and hospitality, and various services categories led in job growth, while the manufacturing, government, and information (including movie and television production) sectors declined.
- The ***San Francisco Bay*** Area continued to lose jobs as a result of the downturn in high-tech manufacturing, software, and dot-com sectors. As of third quarter 2003, payroll employment in the area fell 1.8 percent year-over-year.
- Continuing state budget deficits pressured state and local government payrolls. Year-over-year through third quarter 2003, California's state government sector reported 1,000 fewer jobs, while job losses among California's local governments approached 20,000.

Chart 1: Employment in the Southern CA and San Francisco Region Continued to Contract

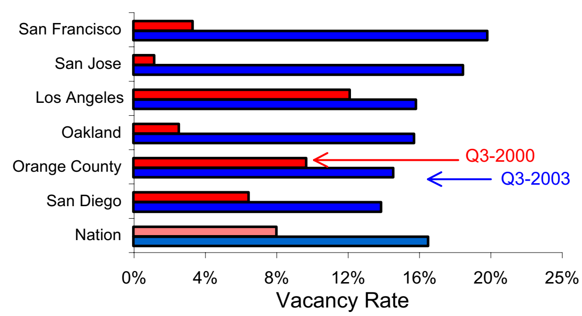


*The San Francisco Bay Area includes the San Francisco, San Jose, Oakland, Santa Rosa, and Vallejo MSAs. Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura MSAs.
Source: Bureau of Labor Statistics and National Bureau of Economic Research

Several California commercial real estate (CRE) markets continued to weaken.

- Office vacancy rates increased during the past three years in the state's largest metropolitan statistical areas (MSAs). The greatest increases occurred in the San Francisco Bay Area, driven by continued problems in the high-tech sector (see Chart 2).
- Torto Wheaton Research estimates that Class A office rents plunged 50 percent in the ***San Jose*** MSA and 47 percent in the San Francisco MSA between third quarter 2000 and third quarter 2003. Over the same period, office rents in the ***San Diego*** MSA held relatively steady, while rents in the ***Orange County*** and ***Los Angeles*** MSAs fell an estimated 15 percent and 9 percent, respectively.
- CRE market deterioration is a concern, because the median ratio of CRE loans-to-Tier 1 capital among California-based insured institutions continued to increase, rising to 442 percent as of June 30, 2003.[2]
- Second quarter CRE loan delinquencies increased noticeably year-over-year among established community institutions based in the San Jose and ***Santa Barbara*** MSAs, where median past-due CRE loan ratios rose from 0.33 percent to 1.55 percent and from 1.27 percent to 2.04 percent, respectively.[3] Median past-due CRE loan ratios also increased modestly among established community institutions based in the ***Oakland***, Orange County, and ***Riverside*** MSAs, but remained below 1 percent in each of these markets. Credit problems may emerge with a lag as new or renegotiated leases are signed at lower rental rates.

Chart 2: Vacancy Rates in California's Major Office Markets Exceeded 2000 Levels



Source: Torto Wheaton Research

[1] Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura MSAs, and the San Francisco Bay Area is defined to include the Oakland, San Francisco, San Jose, Santa Rosa, and Vallejo MSAs.

[2] CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.

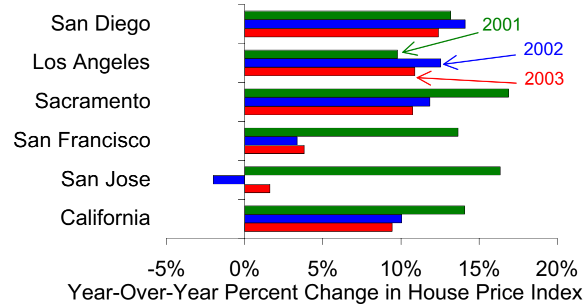
[3] Established community institutions are defined as insured institutions in operation at least 3 years with assets of less than $5 billion. The definition excludes industrial loan companies and specialty institutions.

- As of June 2003, 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 58 percent of Tier 1 capital, more than 2.5 times the 22 percent median reported by insured institutions nationwide. Within the state, C&D loan-to-Tier 1 capital ratios have generally been rising since 1997. Institutions based in rural and Central California reported among the state's highest C&D loan concentrations. Demand for C&D lending in Southern California could increase in the near term as 3,500 homeowners affected by wildfires rebuild their residences.

Residential real estate (RRE) lenders may be vulnerable to the effects of slower home price gains.

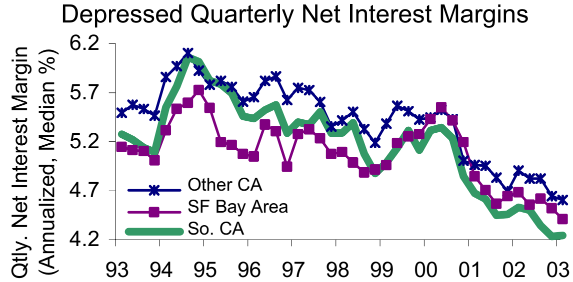
- The Office for Federal Housing Enterprise Oversight reported a 9 percent year-over-year increase in second quarter California home prices (see Chart 3). Low interest rates boosted demand and prices for homes throughout the state. However, price appreciation in the San Francisco Bay Area remained relatively weak in response to employment declines.
- Slowing home price appreciation and weak employment trends could signal the potential for near-term home price declines. According to PMI Mortgage Insurance Co., the probabilities of declining home values are high within the next two years in San Jose (44 percent), San Francisco (23 percent), and Oakland (18 percent).[4]
- DataQuick reported that Notice of Default filings during the first three quarters of 2003 increased year-over-year in several Bay Area counties, contrary to the rest of the state. Similarly, personal bankruptcy filings in California's Northern District increased 14 percent year-over-year through the twelve months ending June 2003, the highest of any of California's four districts.[5]
- Mid-2003 median past-due 1-4 family RRE loan ratios rose year-over-year among established community institutions based in the San Jose, Santa Rosa, San Diego, and Oakland MSAs, but did not exceed 1.5 percent in any of these areas. New loans likely dominate RRE portfolios given high mortgage refinance activity, and credit problems could surface with additional seasoning or interest rate increases.

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



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

Chart 4: Declining Interest Rates Further Depressed Quarterly Net Interest Margins



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 and loan performance measures were uneven across the state.

- Lower overhead and provision expense burdens offset the effects of narrower margins on earnings at most insured institutions. The annualized, year-to-date median return on average assets (ROA) ratio was 1.04 percent in June 2003, unchanged from one-year earlier. Quarterly net interest margins continued to compress in a declining rate environment (see Chart 4). Earnings performance was relatively weaker among established community institutions based in the San Francisco Bay Area, primarily because of rising overhead burdens and weaker margins.
- Statewide, the second quarter 2003 median past-due loan ratio declined to 0.68 percent; however, past-due loan ratios edged up slightly from 0.77 percent to 1.13 percent among institutions based in the San Francisco Bay Area. Loan seasoning, diminished loan growth, or sustained economic weakness could pressure loan quality and earnings prospectively.

[4] PMI Mortgage Insurance Co., Economic & Real Estate Trends, Fall 2003. (http://www.pmigroup.com/media/pmi_eret03v3p.pdf)

[5] The U.S. Bankruptcy Court's Northern District of California has jurisdiction over fifteen coastal counties located between Del Norte County (located on the California/Oregon border) and Monterey.

California at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	318	330	345	361	380
Total Assets (in thousands)	890,080,329	805,984,735	726,469,980	626,835,069	808,624,775
New Institutions (# < 3 years)	40	35	35	35	35
New Institutions (# < 9 years)	80	71	63	56	65

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	8.95	8.85	8.73	8.71	8.72

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.68%	0.86%	0.93%	0.82%	1.12%
Past-Due and Nonaccrual ≥ 5%	13	22	18	17	23
ALLL/Total Loans (median %)	1.35%	1.37%	1.40%	1.38%	1.38%
ALLL/Noncurrent Loans (median multiple)	2.51	2.30	2.47	3.29	2.37
Net Loan Losses/Loans (aggregate)	0.27%	0.36%	0.35%	0.29%	0.24%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	35	48	38	29	47
Percent Unprofitable	11.01%	14.55%	11.01%	8.03%	12.37%
Return on Assets (median %)	1.04	1.04	1.04	1.07	0.97
25th Percentile	0.65	0.51	0.59	0.62	0.52
Net Interest Margin (median %)	4.43%	4.61%	4.85%	5.33%	5.01%
Yield on Earning Assets (median)	5.78%	6.51%	8.31%	8.63%	7.96%
Cost of Funding Earning Assets (median)	1.31%	1.82%	3.45%	3.29%	2.93%
Provisions to Avg. Assets (median)	0.16%	0.19%	0.17%	0.18%	0.19%
Noninterest Income to Avg. Assets (median)	0.70%	0.67%	0.67%	0.69%	0.76%
Overhead to Avg. Assets (median)	3.41%	3.51%	3.61%	3.86%	3.99%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	79.21%	80.53%	78.55%	76.93%	73.50%
Loans to Assets (median %)	67.52%	68.30%	67.41%	66.49%	63.69%
Brokered Deposits (# of institutions)	103	96	92	83	74
Bro. Deps./Assets (median for above inst.)	3.51%	3.51%	3.05%	2.83%	2.32%
Noncore Funding to Assets (median)	19.55%	21.21%	21.35%	19.70%	17.35%
Core Funding to Assets (median)	65.17%	66.01%	65.35%	67.75%	71.37%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	154	157	166	183	193
National	81	81	82	82	91
State Member	46	50	52	50	50
S&L	11	13	15	16	17
Savings Bank	26	29	30	30	29
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Los Angeles-Long Beach CA PMSA	84	83,754,780	26.42%	9.41%
San Francisco CA PMSA	32	367,850,553	10.06%	41.33%
San Diego CA	31	18,170,842	9.75%	2.04%
Orange County CA PMSA	29	38,917,368	9.12%	4.37%
Riverside-San Bernardino CA PMSA	20	8,826,418	6.29%	0.99%
Oakland CA PMSA	15	79,425,070	4.72%	8.92%
Sacramento CA PMSA	12	4,433,415	3.77%	0.50%
Stockton-Lodi CA	11	245,758,482	3.46%	27.61%
San Jose CA PMSA	8	10,364,653	2.52%	1.16%
Santa Rosa CA PMSA	8	4,618,172	2.52%	0.52%
Santa Barbara-Santa Maria-Lompoc CA	8	7,660,086	2.52%	0.86%
San Luis Obispo-Atascadero-Paso Robles CA	7	3,159,213	2.20%	0.35%
All Other MSAs	39	11,642,505	12.26%	1.31%
No MSA	14	5,498,772	4.40%	0.62%