FDIC State Profile

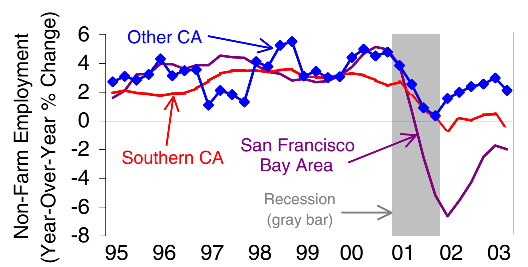
Fall 2003

California

Employment in California fell 0.5 percent for the year ending second quarter 2003.

- Employment in Southern California declined 0.7 percent during the year ending second quarter 2003 (see Chart 1).[1] Construction, the financial industry, and various services categories led in job growth, while the manufacturing and information (including movie and television production) sectors declined.
- The ***San Francisco*** Bay Area continued to lose jobs. As of second quarter 2003, payroll employment fell 2.1 percent year-over-year. The area continues to be adversely affected by the downturn in the high-tech manufacturing, software, and dot-com sectors, and depressed 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 energy shortages during late 2000 and early 2001 contributed to rising government outlays. As a result, record budget deficits could pressure state and local government employment and dampen the economic recovery in California.

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

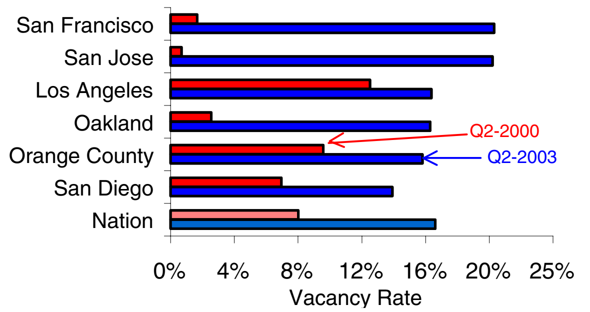


*The San Francisco Bay Area includes the San Francisco, San Jose, Oakland, Santa Rosa, and Vallejo MSAs. Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura MSAs.
Source: Bureau of Labor Statistics

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

- Office vacancy rates have risen during the past three years in the state's largest metropolitan statistical areas (MSAs) (see Chart 2). The greatest increases have been reported in the San Francisco Bay Area, driven largely by problems in the high-tech sector. Office vacancy rates in the San Francisco and ***San Jose*** MSAs exceeded 20 percent as of mid-2003, rising from under 2 percent in 2000.
- Torto Wheaton Research estimates that office rents plunged 45 percent in the San Jose MSA and 46 percent in the San Francisco MSA between second quarter 2000 and second quarter 2003. Over the same period, office rents in the ***Los Angeles*** and ***San Diego*** MSAs held relatively steady, while rents in the ***Orange County*** MSA fell an estimated 12 percent.
- CRE market deterioration is a concern, because the median ratio of CRE loans-to-Tier 1 capital among California-based insured institutions was 438 percent as of March 31, 2003, up from 316 percent ten years earlier.[2]

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



Source: Torto Wheaton Research

- CRE loan delinquencies among established community institutions[3] remain modest in comparison to the early 1990s real estate crisis, with median delinquency ratios below 1 percent in most of the state's major MSAs. One notable exception was the ***Santa Barbara*** MSA, where the median past-due CRE loan ratio rose from 1.06 to 3.37 percent between first quarter 2002 and first quarter 2003. Median past-due CRE loan ratios also increased modestly

[1] For purposes of this state profile, Southern California is defined to include the Los Angeles, Riverside, Santa Barbara, Ventura, Orange County, and San Diego metropolitan statistical areas (MSAs), and the San Francisco Bay Area is defined to include the San Francisco, Oakland, San Jose, Vallejo, and Santa Rosa 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.

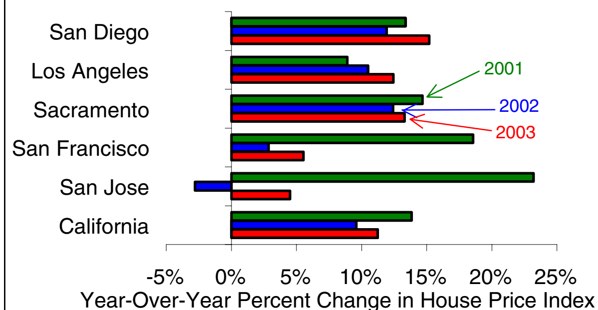
among established community institutions based in the San Jose, ***Riverside,*** Los Angeles, and Orange County MSAs, but remained below 60 basis points in each market. Additional credit problems could emerge with a lag as new or renegotiated leases are signed at lower rental rates.

- As of March 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, nearly triple the 21 percent median reported by insured institutions nationwide. Institutions based in rural and Central California reported among the state's highest C&D loan concentrations, while weakened real estate markets prompted year-over-year declines in C&D loan growth and concentrations among San Francisco Bay Area institutions.

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

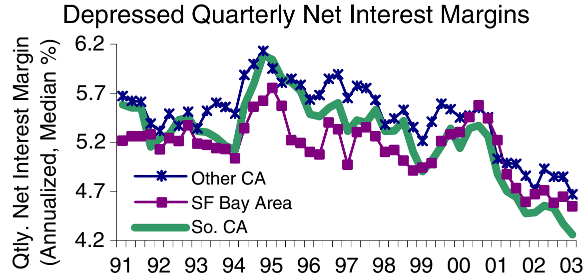
- On average, California home prices rose by 11 percent in the year ending first quarter 2003, according to the Office for Federal Housing Enterprise Oversight (see Chart 3). Low interest rates helped boost demand and prices for homes throughout the state. However, price appreciation in the San Francisco Bay Area has slowed relative to 2001 in response to employment declines.
- Overall, home price appreciation has outstripped personal income growth among most of the state's major MSAs. As of June 2003, the California Association of Realtors' affordability index declined to 27 (only 27 percent of the state's households could afford the median-price home), far below the national index of 57 percent.
- Mild year-over-year deterioration in median past-due 1-4 family RRE loan ratios was noted among established community institutions based in the Riverside, San Jose, ***Santa Rosa,*** Los Angeles, and Orange County MSAs, but median RRE delinquency ratios in these and other major California MSAs were below 1 percent as of first quarter 2003. New loans likely dominate RRE portfolios given very high mortgage refinance activity between 2001 and 2003, and credit problems could surface with additional seasoning.
- Consumer stress appears to be greatest in the San Francisco Bay Area. DataQuick reported that Notice of Default filings during the second quarter of 2003 increased year-over-year in most Bay Area counties, contrary to the rest of the state. Similarly, annual personal bankruptcy filings in California's Northern District increased 10 percent year-over-year through March 2003, while other districts reported flat or declining bankruptcy levels.

Chart 3: Southern California Home Prices Increased Strongly during Past Three Years



Source: Office of Federal Housing Enterprise Oversight (March 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 among California insured institutions generally improved year-over-year but were uneven across the state.

- Lower overhead and provision expense burdens boosted the first quarter 2003 median return on average assets (ROA) ratio from 0.99 to 1.05 percent despite narrower net interest margins (see Chart 4). Earnings performance was relatively weaker among established community institutions based in the San Francisco Bay Area.
- Statewide, the first quarter 2003 median past-due loan ratio declined to below 0.90 percent; however, past-due loan ratios edged up slightly from 0.94 to 1.03 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.

California at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	317	336	348	367	383
Total Assets (in thousands)	894,671,752	808,780,280	714,813,269	616,640,985	807,310,960
New Institutions (# < 3 years)	36	34	34	37	35
New Institutions (# < 9 years)	77	73	60	58	67

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.90	8.65	8.79	8.69	8.69

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	0.87%	1.01%	1.19%	0.93%	1.30%
Past-Due and Nonaccrual >= 5%	19	24	25	20	30
ALLL/Total Loans (median %)	1.37%	1.41%	1.41%	1.39%	1.42%
ALLL/Noncurrent Loans (median multiple)	2.76	2.74	2.53	3.02	2.22
Net Loan Losses/Loans (aggregate)	0.29%	0.34%	0.29%	0.24%	0.23%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	30	46	32	35	46
Percent Unprofitable	9.46%	13.69%	9.20%	9.54%	12.01%
Return on Assets (median %)	1.05	0.99	1.03	1.02	0.91
25th Percentile	0.60	0.47	0.60	0.62	0.52
Net Interest Margin (median %)	4.46%	4.57%	4.99%	5.25%	5.00%
Yield on Earning Assets (median)	5.84%	6.55%	8.59%	8.49%	7.93%
Cost of Funding Earning Assets (median)	1.35%	1.88%	3.65%	3.22%	2.98%
Provisions to Avg. Assets (median)	0.14%	0.18%	0.16%	0.15%	0.15%
Noninterest Income to Avg. Assets (median)	0.68%	0.67%	0.66%	0.71%	0.77%
Overhead to Avg. Assets (median)	3.40%	3.53%	3.66%	3.85%	3.98%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	80.11%	79.65%	76.67%	75.59%	71.43%
Loans to Assets (median %)	67.33%	67.40%	66.63%	65.45%	61.44%
Brokered Deposits (# of institutions)	103	89	90	78	72
Bro. Deps./Assets (median for above inst.)	3.55%	3.57%	3.00%	2.84%	1.90%
Noncore Funding to Assets (median)	20.74%	21.74%	20.65%	18.22%	17.33%
Core Funding to Assets (median)	65.59%	65.43%	66.87%	68.80%	71.34%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	151	162	170	185	199
National	82	81	81	85	92
State Member	46	51	51	50	44
S&L	12	13	15	17	19
Savings Bank	26	29	31	30	29
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets ($000s)	% Inst.	% Assets
Los Angeles-Long Beach CA PMSA	85	81,495,276	26.81%	9.11%
San Francisco CA PMSA	31	358,894,842	9.78%	40.11%
San Diego CA	29	17,854,773	9.15%	2.00%
Orange County CA PMSA	28	36,642,866	8.83%	4.10%
Riverside-San Bernardino CA PMSA	20	8,314,676	6.31%	0.93%
Oakland CA PMSA	15	76,773,034	4.73%	8.58%
Sacramento CA PMSA	12	4,357,313	3.79%	0.49%
Stockton-Lodi CA	11	247,406,291	3.47%	27.65%
San Jose CA PMSA	9	30,897,538	2.84%	3.45%
Santa Rosa CA PMSA	8	4,559,973	2.52%	0.51%
Santa Barbara-Santa Maria-Lompoc CA	8	7,431,790	2.52%	0.83%
San Luis Obispo-Atascadero-Paso Robles CA	7	3,077,914	2.21%	0.34%
All Other MSAs	40	11,730,489	12.62%	1.31%
No MSA	14	5,234,977	4.42%	0.59%