FDIC State Profile

Spring 2004

California

Employment in California fell 0.3 percent for the year ending fourth quarter 2003, a result of weakness in the professional and business services, government, manufacturing, and information sectors.

- Annual employment growth in ***Southern California*** remained sluggish, declining 0.2 percent through fourth quarter 2003 (See Chart 1).[1] Although still negative, the rate of job losses eased somewhat in the tech-dependent ***San Francisco Bay Area***, where nonfarm employment contracted 1.8 percent over the period. Meanwhile, employment declines in the education and health services, information, and federal and state government sectors dampened job growth in ***Central and rural California*** during 2003.

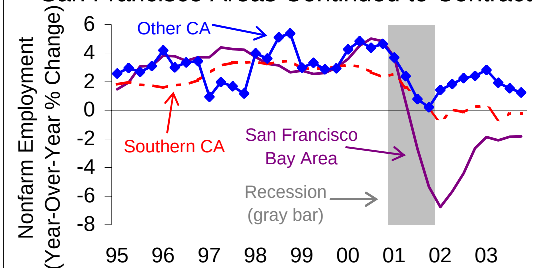
- Budget woes pressured government payrolls during 2003 throughout much of California. Year-over-year through fourth quarter, California reported nearly 45,000 job losses in the government sector, with local municipalities accounting for 80 percent of combined cuts. Given that state budget problems are far from resolved, state and local government job growth will likely remain weak.

Several California commercial real estate (CRE) markets remain weak.

- 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. Although office vacancy rates improved slightly during 2003 in some of California's markets, nearly one-fifth of all office space remained available in the ***San Francisco*** and ***San Jose*** MSAs (See Chart 2).

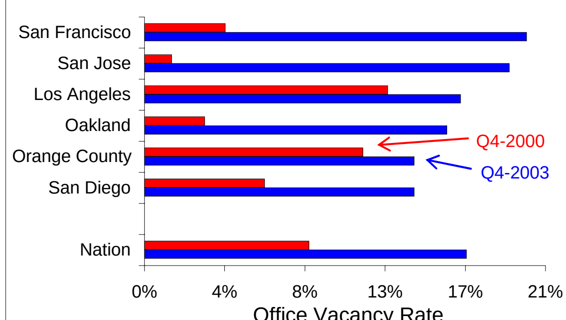
- Subdued demand for office space pressured rents further in many office markets, especially in the harder hit high-tech economies. Asking rents in the San Francisco office market declined another 6 percent between the fourth quarters of 2002 and 2003, bringing the three-year total rent decline to 67 percent; in the San Jose MSA, asking rents plunged another 16 percent year-over-year, pushing the three-year total decline to 59 percent.

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



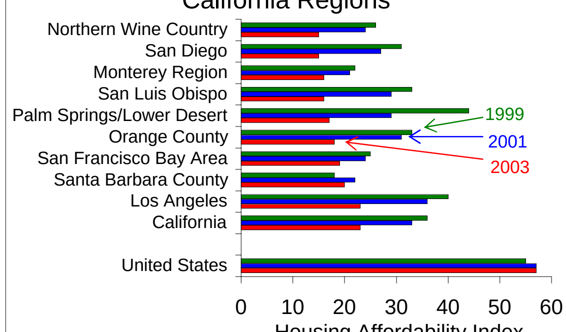
*The San Francsico Bay Area includes the San Francisco, San Jose, Oakland, Santa Rosa, and Vallejo MSAs. Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura MSAs.
Sources: Bureau of Labor Statistics and National Bureau of Economic Research

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



Source: Torto Wheaton Research

Chart 3: Housing Affordability Declined in Most California Regions



Source: California Association of Realtors

[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.

- Sustained CRE market weakness is a concern, because the median ratio of CRE loans-to-Tier 1 capital among California-based insured institutions continued to increase, rising to 435 percent as of December 31, 2003.[2] Despite continued CRE market softness, fourth quarter CRE loan delinquencies among California-based established community institutions declined year-over-year to 0.12 percent.[3] Credit problems may emerge with a lag as new or renegotiated leases are signed at lower rental rates, in particular should interest rates rise.

- As of December 2003, California-based insured institutions reported a median exposure to construction and development (C&D) loans of 55 percent of Tier 1 capital, more than double the median reported by insured institutions nationwide. Although median C&D exposures relative to capital declined among institutions headquartered in the San Francisco Bay Area, they rose modestly in Southern California, and increased significantly to 112 percent throughout the rest of the state. Construction loan demand for residential building, which likely prompted C&D loan growth in some markets, could slow in 2004 should rising interest rates dampen permit activity, as forecasted by the ***Los Angeles Economic Development Corporation***.

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 9.7 percent year-over-year increase in third quarter California home prices. Sustained low interest rates supported demand and prices for homes; however, price appreciation in the San Francisco Bay Area remained relatively weak in response to employment declines.

- Home price growth continued to outpace personal income gains. Only 23 percent of Californians were able to afford the median priced home as of December 2003 according to the ***California Association of Realtors***. Affordability strains have become particularly pronounced in some areas of the state (See Chart 3).

- Slowing home price appreciation and weak employment trends could signal the potential for near-term home price declines in some markets. According to ***PMI Mortgage Insurance Co.***, the probabilities of declining home values were above-average within the next two years in the San Jose (47 percent), San Francisco (22 percent), and Oakland (18 percent) MSAs.[4]

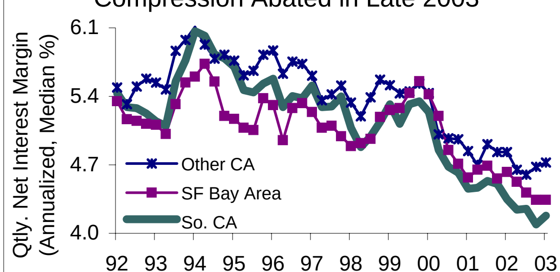
- Statewide, the fourth quarter 2003 median past-due 1-4 family RRE loan ratio was virtually zero. Among the state's major MSAs, the median past-due RRE ratio among established community institutions topped 1 percent in only one market: San Jose. New loans will likely dominate RRE portfolios given high mortgage refinance activity, and credit problems could surface with additional seasoning or interest rate increases.

Quarterly net interest margin compression abated and loan delinquency ratios improved.

- The year-to-date median return on average assets (ROA) ratio was 1.07 percent in December 2003, comparable to a year-earlier figure of 1.08 percent. Although year-to-date margins narrowed relative to 2002, quarterly net interest margin compression abated in late 2003 (See Chart 4). Lower overhead and provision expense burdens have offset the effects of narrower margins on year-to-date earnings among most insured institutions headquartered in California.

- Among insured institutions based in the state, the year-end 2003 median past-due loan ratio was 0.59 percent, down from a year-earlier figure of 0.72 percent. Loan seasoning, diminished loan growth, or sustained economic weakness could pressure loan quality and earnings prospectively.

Chart 4: Quarterly Net Interest Margin Compression Abated in Late 2003



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

[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.

[4]PMI Mortgage Insurance Co., Economic & Real Estate Trends, Winter 2004. (http://www.pmigroup.com/lenders/media_lenders/pmi_eret04v1s.pdf)

California at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	318	325	343	350	371
Total Assets (in thousands)	962,932,601	853,080,684	768,153,206	673,537,635	598,372,376
New Institutions (# < 3 years)	43	36	37	37	38
New Institutions (# < 9 years)	88	78	73	59	62

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.12	8.70	8.55	8.62	8.59

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	0.59%	0.72%	1.00%	0.87%	0.94%
Past-Due and Nonaccrual >= 5%	9	12	20	23	21
ALLL/Total Loans (median %)	1.28%	1.38%	1.40%	1.42%	1.38%
ALLL/Noncurrent Loans (median multiple)	3.17	2.81	2.32	2.95	2.88
Net Loan Losses/Loans (aggregate)	0.23%	0.39%	0.34%	0.34%	0.26%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	37	42	52	39	54
Percent Unprofitable	11.64%	12.92%	15.16%	11.14%	14.56%
Return on Assets (median %)	1.07	1.08	0.96	1.10	0.99
25th Percentile	0.62	0.61	0.49	0.63	0.49
Net Interest Margin (median %)	4.37%	4.62%	4.72%	5.27%	5.16%
Yield on Earning Assets (median)	5.61%	6.36%	7.79%	8.81%	8.17%
Cost of Funding Earning Assets (median)	1.18%	1.71%	2.97%	3.56%	3.00%
Provisions to Avg. Assets (median)	0.16%	0.20%	0.19%	0.22%	0.20%
Noninterest Income to Avg. Assets (median)	0.66%	0.67%	0.69%	0.70%	0.80%
Overhead to Avg. Assets (median)	3.35%	3.56%	3.76%	3.89%	3.97%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	80.57%	81.34%	80.78%	78.49%	76.15%
Loans to Assets (median %)	67.26%	68.90%	68.12%	67.32%	65.74%
Brokered Deposits (# of Institutions)	101	104	88	86	76
Bro. Deps./Assets (median for above inst.)	3.29%	3.64%	3.74%	2.70%	2.23%
Noncore Funding to Assets (median)	20.44%	20.21%	21.17%	20.36%	18.24%
Core Funding to Assets (median)	64.93%	65.98%	64.95%	66.72%	69.55%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	155	154	164	172	189
National	79	83	83	80	87
State Member	47	49	54	52	49
S&L	11	12	13	15	16
Savings Bank	26	27	29	31	30
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Los Angeles-Long Beach CA PMSA	82	90,756,339	25.79%	9.42%
San Diego CA	34	19,776,768	10.69%	2.05%
San Francisco CA PMSA	31	422,514,547	9.75%	43.88%
Orange County CA PMSA	30	41,306,550	9.43%	4.29%
Riverside-San Bernardino CA PMSA	21	9,926,592	6.60%	1.03%
Oakland CA PMSA	16	89,267,321	5.03%	9.27%
No MSA	13	5,965,102	4.09%	0.62%
Sacramento CA PMSA	12	4,647,536	3.77%	0.48%
Stockton-Lodi CA	11	239,948,820	3.46%	24.92%
San Jose CA PMSA	9	10,325,040	2.83%	1.07%
Santa Rosa CA PMSA	8	4,843,062	2.52%	0.50%
Santa Barbara-Santa Maria-Lompoc CA	8	8,254,719	2.52%	0.86%
San Luis Obispo-Atascadero-Paso Robles CA	7	3,374,033	2.20%	0.35%