

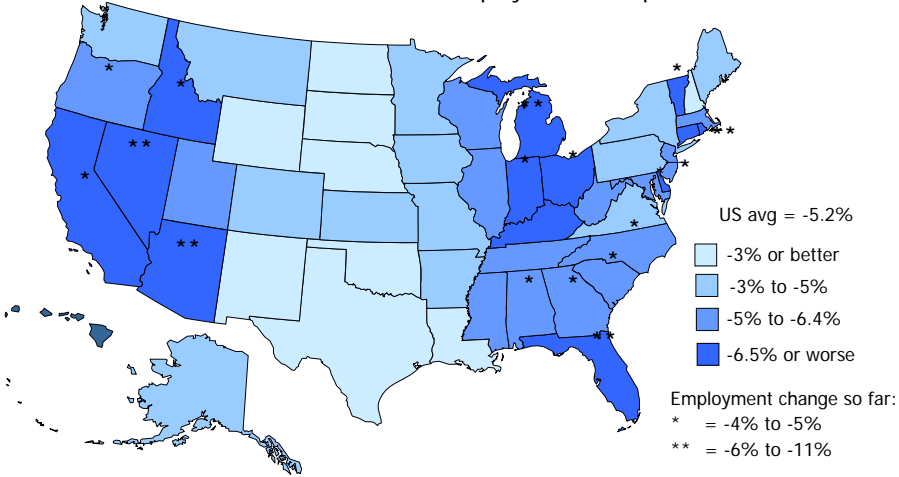
# Interagency Minority Depository Institutions National Conference

Mark Diller  
 National Bank Examiner  
 Office of the Comptroller of the Currency

## Job losses creating havoc in CRE

Housing bust and Midwest manufacturing states forecast to experience largest job losses

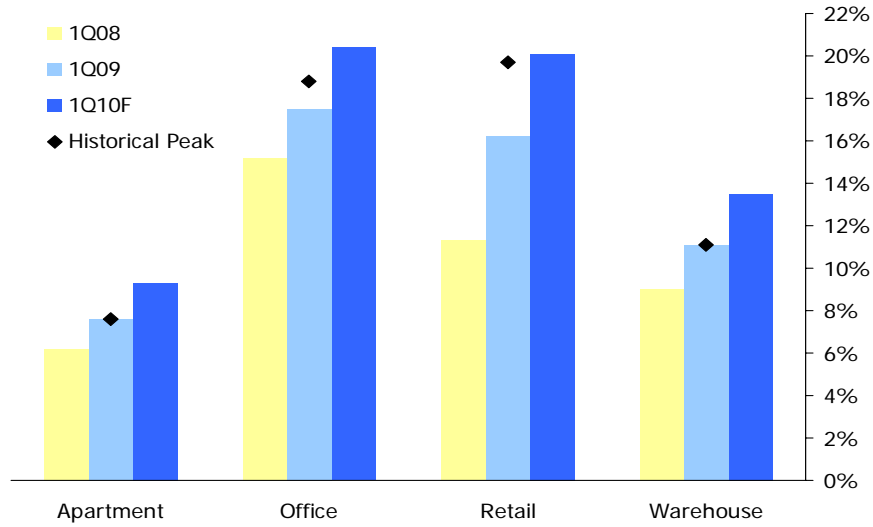
Forecast loss in nonfarm employment from peak



Source: Moody's Economy.com  
 Forecast period begins 2Q:2009

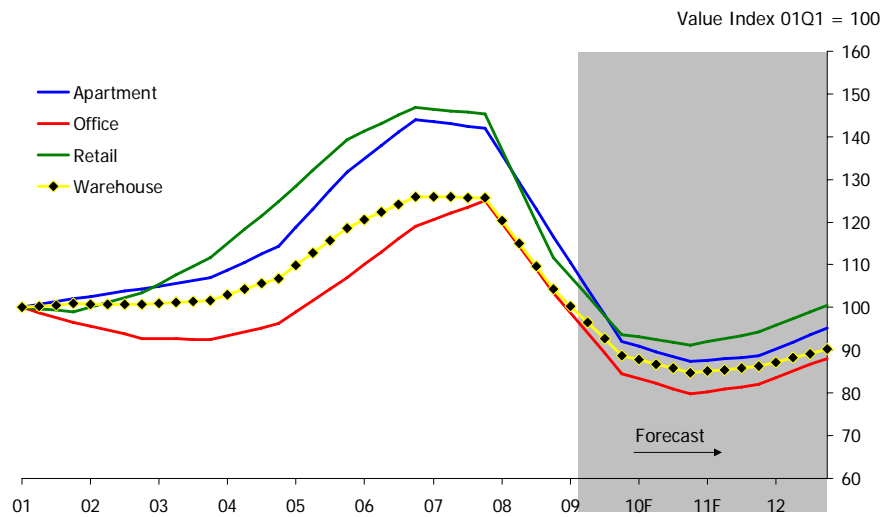
States forecast to have the worst peak-to-trough job losses: MI -15%; AZ, NV & FL -10%; OH & RI -8%

### Vacancies continuing to rise; all property types projected to surpass historical peaks



Source: Property & Portfolio Research; 2009Q1 forecast

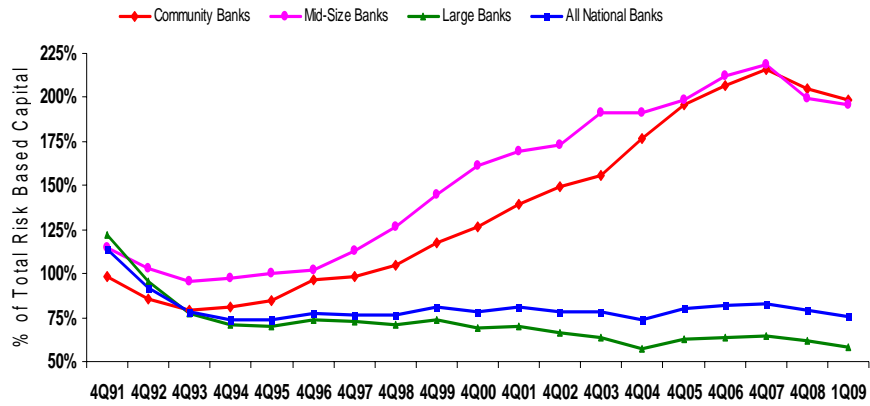
### Values begin to stabilize later this year but will not bottom until the end of 2010



Source: Property & Portfolio Research; 2009Q1 forecast

## National Banks' CRE Concentration History

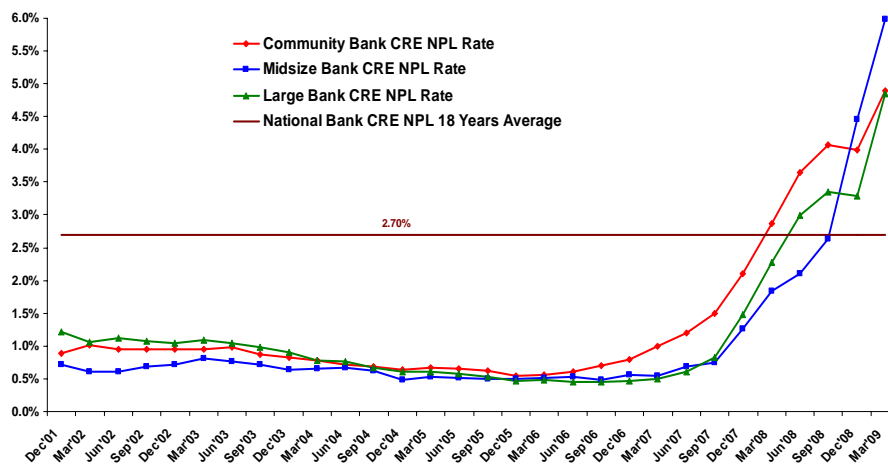
Dec-1991 to Mar-2009



Source: Call Reports

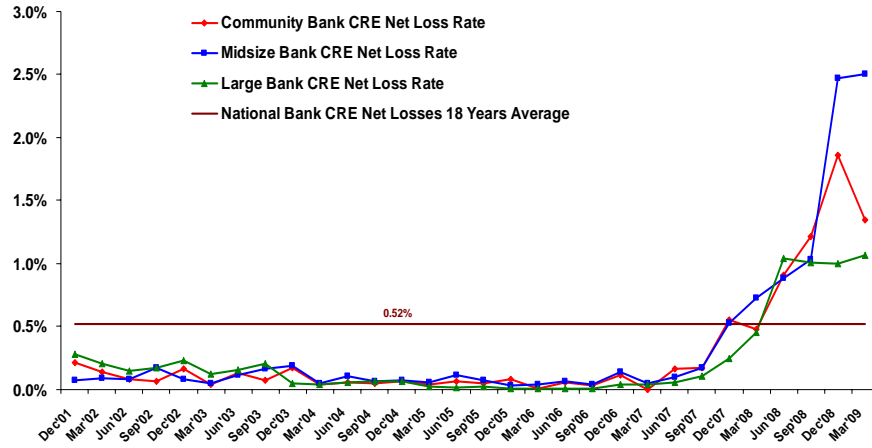
## Performance of CRE Portfolio

Nonperforming Loans by Line of Business



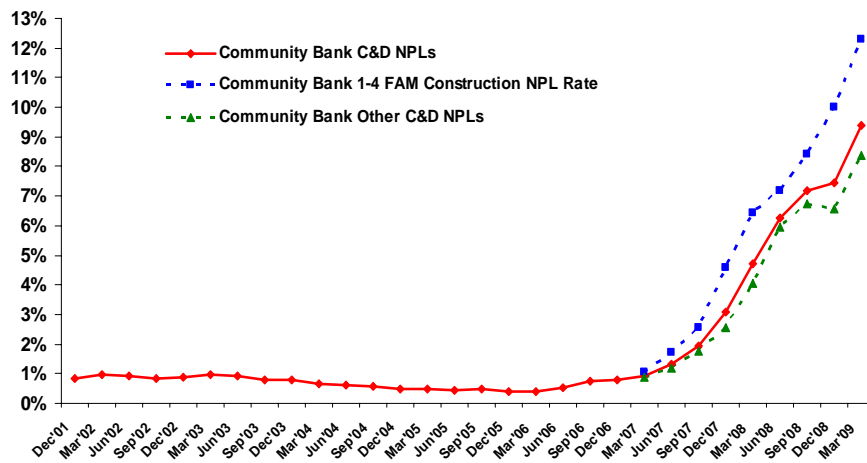
Source: Call Reports

## Performance of CRE Portfolio Annualized Net Losses by Line of Business



Source: Call Reports

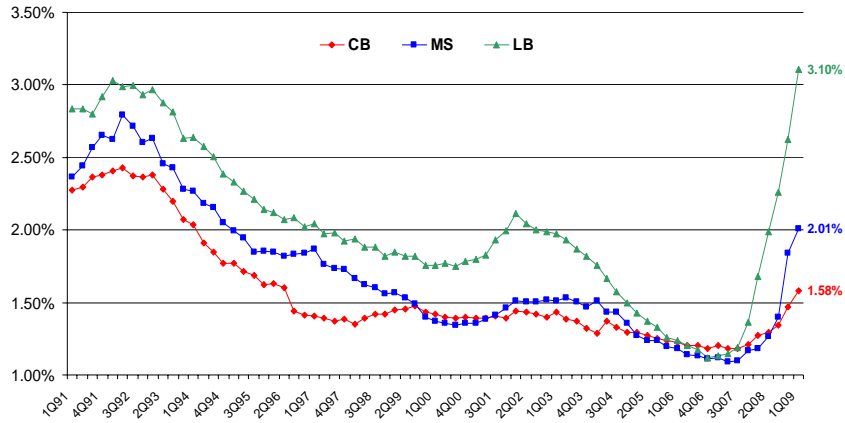
## Community Bank C&D Loans Nonperforming Rate for 1-4 Family Construction and Other C&D



Source: Call Reports. Construction of 1-4 family and other C&D loans were broken out separately beginning 1Q07.

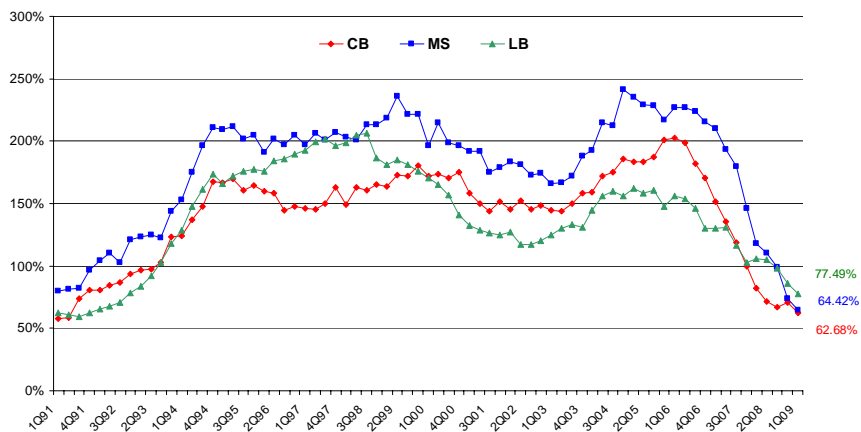
### Allowance for Loan and Lease Losses

Total Portfolio (Commercial + Retail): ALLL / Total Loans & Leases



### Allowance for Loan and Lease Losses

Total Portfolio (Commercial + Retail): ALLL / Nonperforming



## Recent Collateral Valuation Issues

- Weak appraiser selection processes – appraisers need to be qualified and experienced for type of property they are appraising
- Appraisal demand is high - some banks having trouble getting quality appraisals completed in timely manner
- Instructions to appraiser need to be clear in engagement letter – should specify you want current market value under current market conditions
- Assumptions in appraisals do not reflect current conditions in the marketplace
- Appraisals not being scrutinized internally – see lots of checklists but analysis of appraiser's assumptions sometimes lacking
- Reappraisal policy either nonexistent or undefined. Bank policy should detail criteria for when a reappraisal is needed, or when internal bank adjustments to value might be appropriate (FAS 114; OREO reporting, etc)

## Interest Reserves

- Interest reserve usage needs to be governed by written policies that are consistent with safe and sound banking practices
- Proper use is to carry construction projects from origination to completion of construction
- Interest reserves are not appropriate for the speculative purchase of raw land
- Repacking interest reserves with debt is generally not appropriate and a red flag that repayment problems exist
- Using interest reserves to relieve borrowers from debt service requirements predicated on anticipated collateral value appreciation is not appropriate
- Borrowers should be paying interest with own cash once interest reserve runs out