March 2012

# Banking and Economic Update

Created for the

California Bankers Association

Authored by

Beacon Economics, LLC

BEACON ECONOMICS

## *A Message from the California Bankers Association*

The California Bankers Association (CBA) is pleased to present our second California Banking & Economic Update, authored by Beacon Economics. This report examines the state of California's banking industry, and finds that improvement in the banking sector is well underway. An analysis of commercial banks headquartered in California reveals that loan volumes were up in 2011, while loan delinquencies were down. Additionally, California banks are better capitalized today than they were during the Great Recession.

This report also offers the authors' insights into the national and state economic landscape, including a specific look at California's economic recovery, which is outpacing the national economic recovery. Finally, the report provides a banking statistics section which includes a variety of data on banking activities in California, including gross loans by categories, delinquencies, capitalization and charge-offs.

The CBA encourages California policy makers, members of the media and the general public to use the data, analyses and insight contained in this report to guide future discussions on these important issues.

Rodney K. Brown
President & CEO
California Bankers Association

This publication was prepared for:

**California Bankers Association**

This document was prepared for the California Bankers Association. The views expressed in this report are the opinions of the authors and do not necessarily reflect the views of California Bankers Association or its members.

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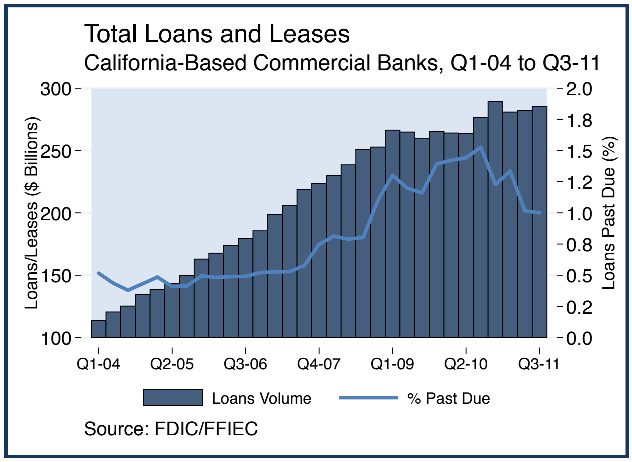
## The State of California's Banking Sector

Throughout 2011, California-based banks expanded their lending, giving a boost to the ongoing economic recovery in California. Loan volumes are up by more than 8% at banks based in the state since hitting bottom in 2010. This represents a much faster growth rate than in the remainder of the U.S., where loan volumes hit bottom nearly a year later (in 2011) and have subsequently risen by less than 1%. In addition, loan delinquencies have fallen to 1% over the past four quarters. This marks a distinct improvement for the Golden State, which, due to the severe nature of the housing and consumer downturns, saw lending stagnate and delinquencies shoot upward as the economy deteriorated.




It is important to point out that California-based commercial banks do not represent the entire universe of the lending in the state. The nation's largest banks maintain a strong presence in the Golden State despite being headquartered in others.[1] Bank of America, U.S. Bank, JP Morgan Chase, and Citigroup have also been increasing lending alongside California-based banks, and at least a portion of that has accrued to California. Specifically, these banks have increased total loans by 6.9% since hitting bottom in the first quarter of 2011. Thus, not only are California-based banks lending more, but banks located outside of the state have also boosted lending in recent quarters—with California among the many states benefitting from this increase in activity.

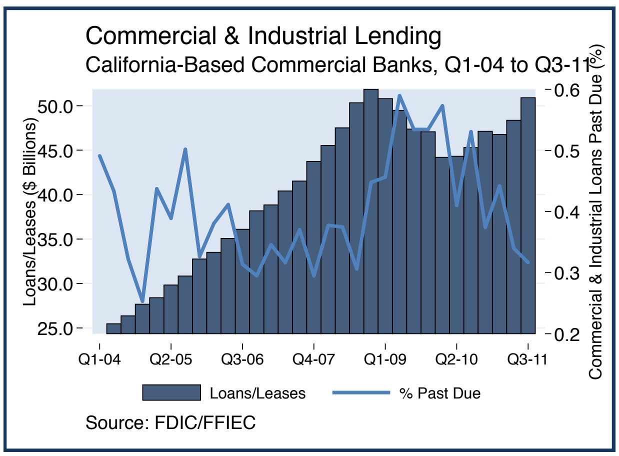
In addition, the balance sheets of California-based banks have improved considerably since the depths of the Great Recession: return on assets has been positive and increasing, tier 1 capital-to-assets ratios have reached the 13% range, and liquidity has improved. This indicates the extent to which banks are able to withstand unforeseen losses (rather than losses that are predicted and covered by ordinary loan loss reserves). In other words, at 13%, California's commercial banks are better capitalized than during the height of the bubble. Indeed, this is slightly better than banks across the nation, which have also seen capitalization ratios come back to 10.8%. Additionally, return on assets in the state exceeded 1% throughout 2011 on a

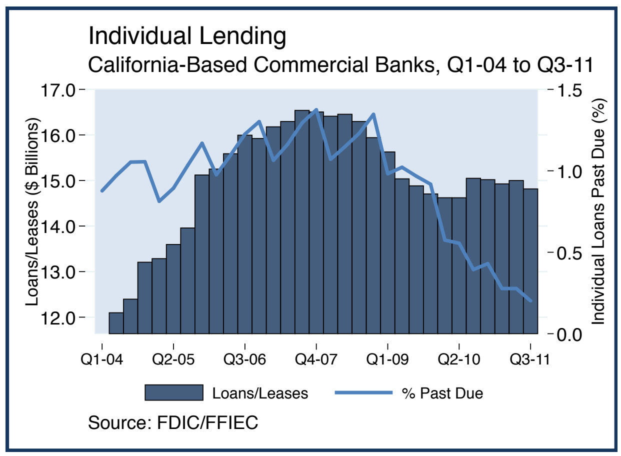
[1] One of the nation's largest banks—Wells Fargo—is based in California and has been included in the California state totals presented herein.

seasonally adjusted basis. Not only are California's banks lending more, but they are under less financial stress than they have been in several years, indicating that increased lending activity is likely to persist throughout the recovery.

## Improvement in Bank Lending Underway

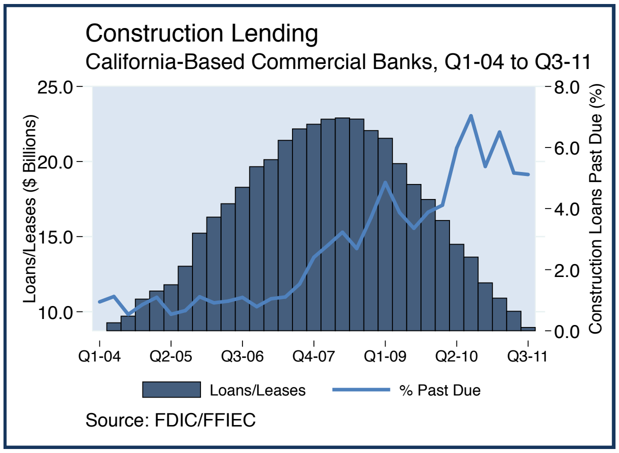
Overall, bank lending in California has been steadily improving since mid-2010, but some segments of the lending spectrum are doing better than others. In terms of loan volumes, commercial and industrial (C&I) loans have led the way. Since hitting bottom in the first quarter of last year, C&I loans made by California-based commercial banks have increased by more than 15%. This comes after five consecutive quarters of decline between 2009 and the first quarter of 2010, when C&I loan volumes fell by 14.8%. In addition, the growth in C&I lending that has occurred since then bring California's C&I loan volumes back to nearly $51 billion—just shy of its pre-recession peak.

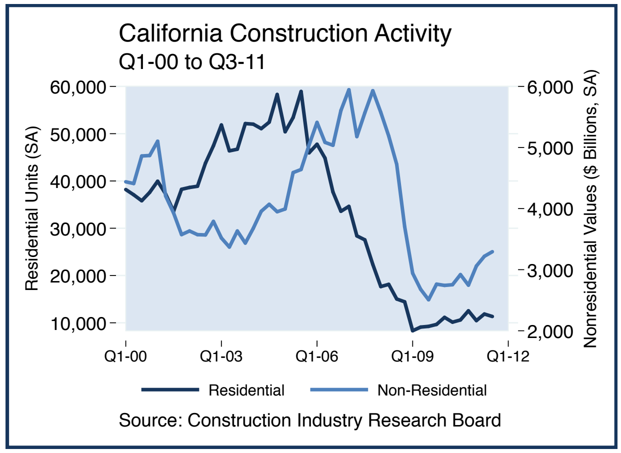



Importantly, C&I delinquencies have been falling as well. After hitting their peak of nearly 0.6% of all C&I loans in the second quarter of 2009, only 0.3% of C&I loans are currently past due. Given that the professional, scientific and technical sectors continue to lead the state's economic recovery, demand for C&I loans are expected to increase and banks are poised to meet that demand. It is also important to point out that anecdotal information shows banks have seen lines of credit go under-utilized and this is supported by the most recent Federal Reserve's Senior Loan Officer Survey, which shows that demand for C&I loans from both small and large firms ebbed slightly in the second half of 2011. In other words, banks are demonstrating an increased willingness to make credit available, but businesses were more tepid about taking on those commitments during the fourth quarter of 2011.

There are sectors that continue to lag in obtaining financing from traditional commercial banks. Construction lending in California is a prime example. While other types of lending have started to level off, or post solid growth, construction loan volumes have yet to turn the corner. Since peaking in the second quarter of 2008, construction loans in the state have fallen for 13 consecutive quarters. In the third quarter of 2011, construction loans were down more than 60% from their peak. In part, this is due to minimal construction activity rather than unwillingness by banks to make loans. For example, building permits for both residential and nonresidential construction are down across the state, dramatically reducing demand for construction loans.

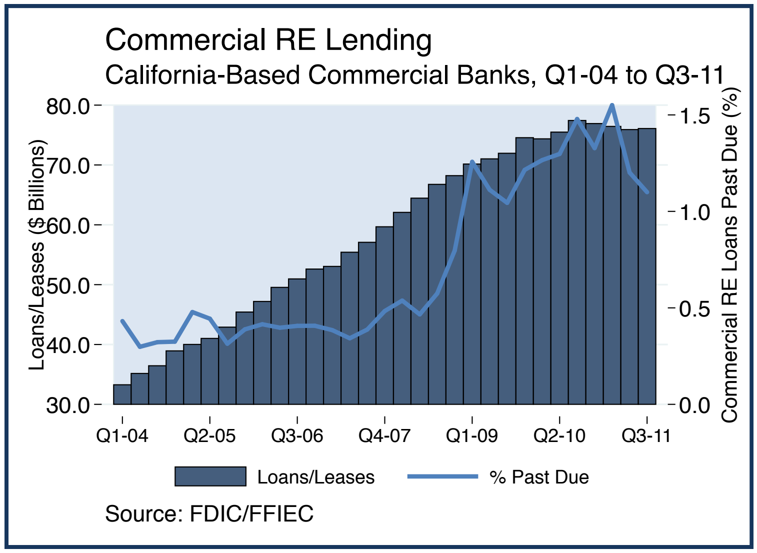



Still, despite dwindling loan volumes, delinquencies on existing construction loans have been improving. After peaking above 7%, only 5% of outstanding construction loans are currently past due in California. This compares fairly closely with past due construction loans throughout the rest of the United States, which hover in the 4% range. Moreover, since peaking, the percent of the state's past due construction loans has fallen faster than in the remainder of the nation. Similarly, multi-family real estate delinquencies, which were roughly twice as high in California than in the rest of the country (2.9% vs. 1.7% at peak), have come down by more than one-third to 1%. This is a much faster decline than in the remainder of the U.S. where multi-family delinquencies are also in the 1% range.

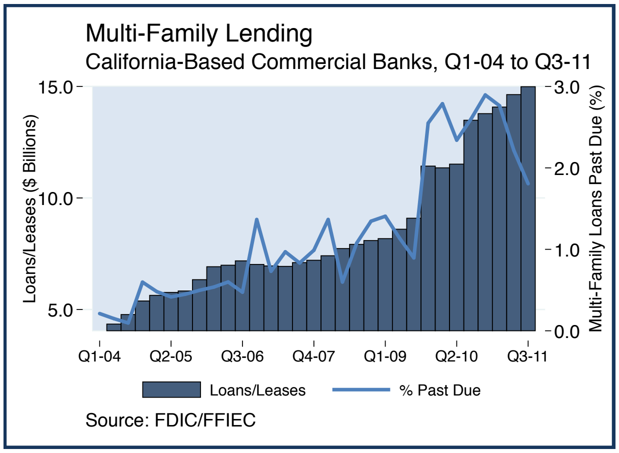
As the economy continues to heal, and the inventory of distressed properties lingering in the system are reabsorbed, population growth and household formation will also increase in the state. And, unlike other places like Florida, Nevada and Arizona, California still does not have enough housing as evidenced by one of the lowest housing vacancy rates in the nation. As these trends take over from the cyclical trends that have driven the economy during the past three years, demand for construction loans will begin to improve.

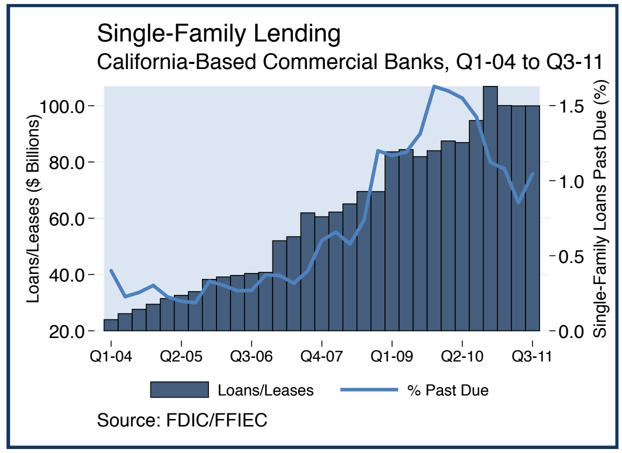
Real estate continues to lag, though even this sector is beginning to show signs of improvement in some respects. Real estate lending, both on the residential and commercial side, has experienced mixed results. The remaining 240 banks still based in California have seen a slight increase in both single- and multi-family mortgage lending since hitting bottom. Multi-family loans, which have posted better growth than their single-family counterparts, have continued to grow throughout the recession, though it does appear that this number includes some consolidation with out-of-state banks as several individual institutions saw substantial increases in outstanding multi-family loan balances between the second and third quarter of 2009.




Single-family loans, which have seen less growth in terms of overall loan balances, have clearly leveled off in the $100 billion range, where it hovered throughout 2011. Even the nonresidential market, which peaked later than residential real estate and saw more stagnation, has posted modest gains in the most recent data—rising by several hundred million and within $1 billion of its pre-recession peaks.

Although the stabilization and/or increase in real estate lending is a sign of the economic improvement that has occurred, the delinquency data provides an even better indication of the future performance of banks. Here, there is little ambiguity, with both residential and commercial delinquencies down across the board. For example, commercial real estate loan volumes have increased slightly, and delinquencies have fallen from a peak of almost 1.5% of all commercial loans to just over 1%. Delinquencies on single-family mortgage loans have improved even more, falling from more than 1.6% of all mortgages at the end of 2009, to just 1% in the most recent data. Multi-family mortgage delinquencies have been trending down solidly as well. Since peaking at 2.9% of all multi-family mortgages in late 2010, delinquencies dropped sharply in 2011—hitting just 1.8% by the third quarter. And importantly, as noted above, multi-family real estate delinquencies, which were roughly twice as high in California (2.9%) than in the rest of the United States (1.7%), have come down by more than one-third in the state while the nation hovers in the 1% range.

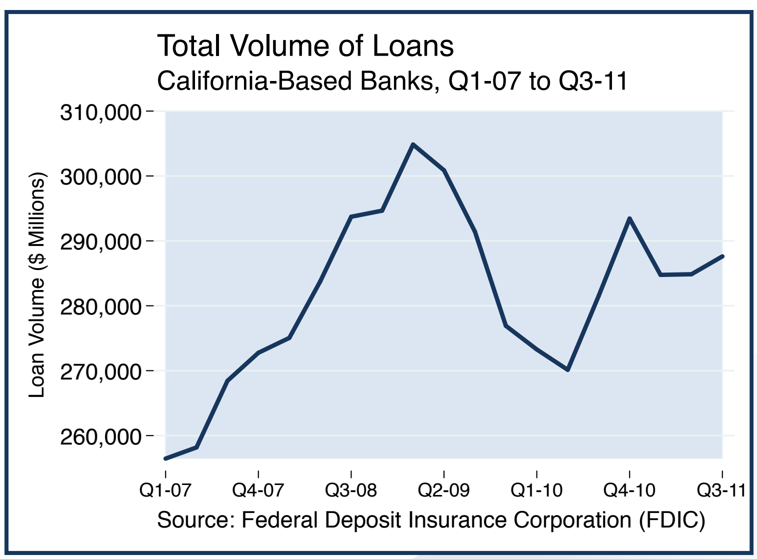


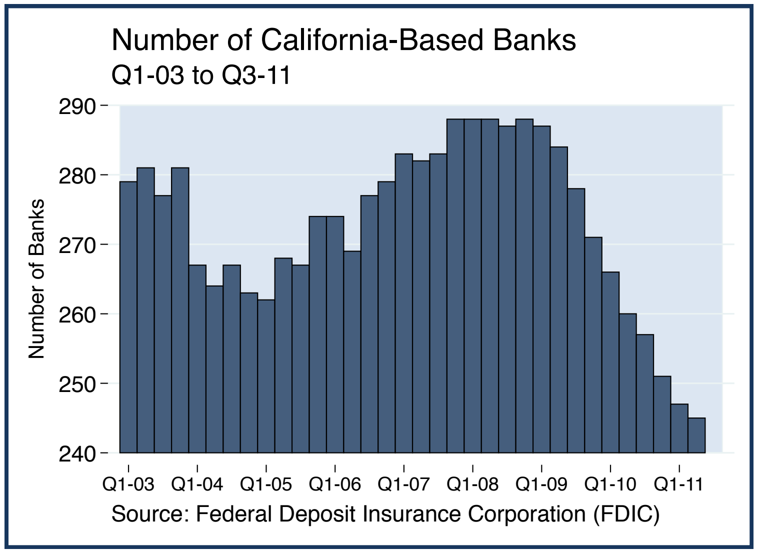

Improvement in California's banking sector is well underway. Loan volumes for both commercial/industrial and individual lending were up in 2011. Other loan categories including real estate appear to have hit bottom, and importantly, loan delinquencies are down across the board. Clearly, the Golden State is not out of the woods yet, with construction loans being a prime example of lingering troubles. However, things are moving in the right direction and the pace of recovery in California's banking system has positively started to pick up steam.

## Banking Data and Methodological Considerations

It is important to note that banking data is nuanced in terms of how it is reported and how the data is used, organized and presented. In fact, the headline numbers reported by the Federal Deposit Insurance Corporation (FDIC) at the state level can often be misleading and to get an accurate read, deeper analysis is required into how these data are constructed. For example, according to the headline data reported by the FDIC, the volume of loans at



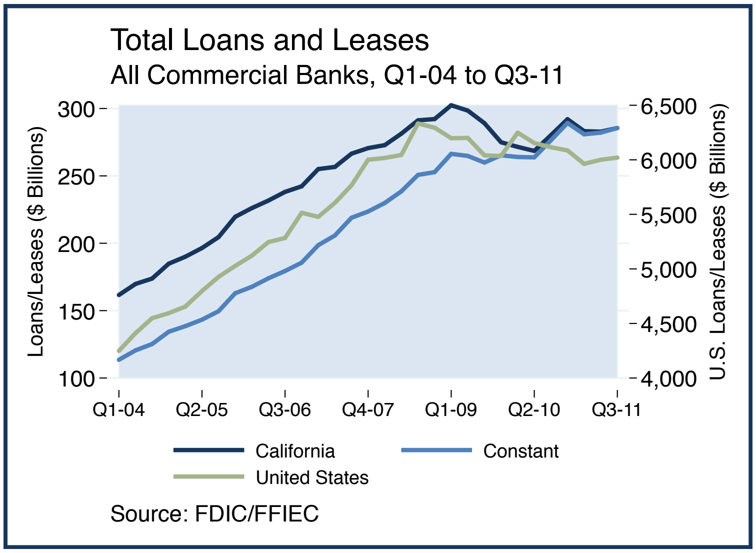
California's commercial banks declined by more than 11% between the first quarter of 2009 and the second quarter of 2010. This is a much larger reduction in loans than was seen at all U.S. commercial banks, where loan volumes declined by 5.8% between the third quarter of 2008 and the first quarter of 2011.




However, what these statistics do not illuminate is how much of the decline in lending in California was due to bank consolidation versus a genuine reduction in lending activity. Beacon Economics' analysis of the FDIC's Call Report database, which provides banking data down to the individual institution level, finds that the reduction in loan volumes across the state was almost entirely due to consolidation of troubled banks rather than a reduction of loan volumes by California's remaining commercial banks. In other words, the decline in loan volumes in the state is a function of how banks report data rather than a lack of lending. The FDIC requires banks to report their lending and servicing activity based upon the location where the bank is "based." As such, any bank closure or—more likely in the current environment—consolidation with a larger bank based outside of California, results in the troubled bank's loans being reported outside of the state due to consolidation.

Factoring out these banks provides a much better picture of the state of banking in California today, and one that runs contrary to the pessimistic drum-beat that has been echoed repeatedly in the popular press. At the end of 2008, there were 288 commercial banks in California, but by the third quarter of 2011 that number had fallen to 240. Many of these banks were acquired, merged or consolidated with larger, out-of-state banks. Importantly, when the 48 banks that are no longer based in California are removed from the historical data, it is clear that California's remaining banks performed quite well during the Great Recession.

In fact, loan volumes for California's remaining 240 commercial banks hardly fell at all during the downturn. Growth in loan volumes for the remaining banks did slow, falling by less than 1% in the first quarter of 2010 on a year-over-year basis and remaining flat in the following quarter, before resuming moderate growth. These results stand in stark contrast to the 11% reduction in loan volumes reported in the headline FDIC data. In part, pessimism on bank lending is somewhat understandable because it is difficult to de-couple the loan volumes from the consolidation phenomenon that is currently taking place. However, the fact that banks in California did not significantly reduce loans during the Great Recession, and have subsequently returned to growing their loan portfolios, is a critical point that can't be emphasized enough. The increased liquidity and availability of credit at banks will not only help to boost the state's economy, but will also help to provide a much-needed psychological boost in confidence.



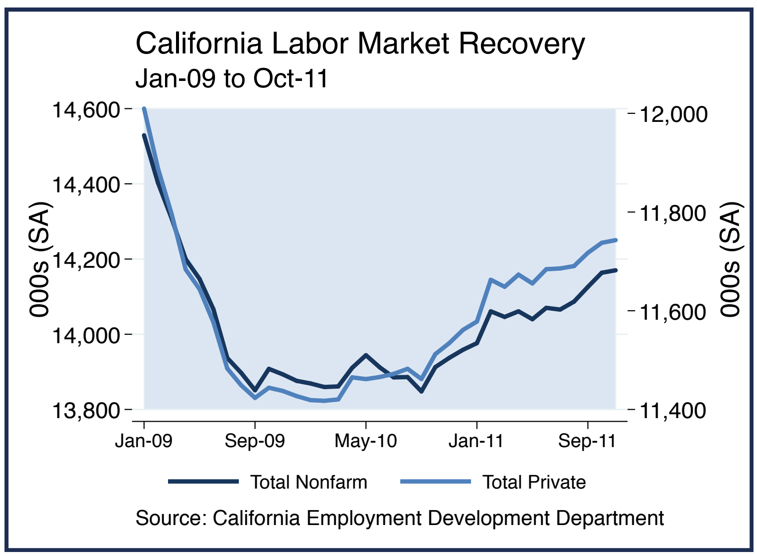

Indeed, as difficult as these bank consolidations were for the state, particularly for the employees of these institutions, California's banking sector is actually emerging from the downturn much healthier than it has been in several years. The evidence shows that "survival of the fittest" was likely at work in California's banking sector.

Since hitting bottom, California's remaining 240 banks have increased their total loan portfolio by more than 8%. Meanwhile, the Federal Reserve's Senior Loan Officer Survey shows that demand for residential and commercial real estate, individual credit cards and auto loans increased in the second half of 2011. An increase in loan volumes statewide shows that California banks are rising to meet that demand, and have been providing a much needed source of liquidity to California's businesses and residents during the past 15 months. Moreover, loan volumes in the state have grown more than they have in the remainder of the nation, where growth has been less than 1% since hitting bottom nearly a year after California-based commercial banks began to increase lending.

## California's Economy Pulls Ahead

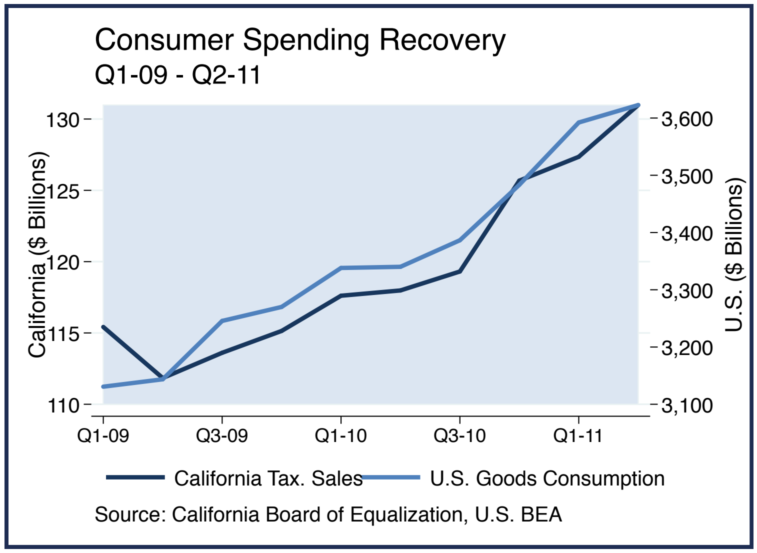
Although California's economic recovery got off to a lackluster start, the Golden State has recently started to outpace the United States. Current statistics clearly indicate that California *is* on the road to recovery, and despite reports in the popular press, the state is not headed for a second recession over the short run. In fact, the labor markets have made a manifest turn for the better—adding more than 2.2% to its nonfarm payrolls since hitting bottom in September 2010. In addition, this growth is occurring despite continued job losses in the government sector.

Focus in on private sector employment, and the state has done even better, posting 2.5% growth over the same period. This equates to roughly 250,000 jobs, clearly not enough to correct the 1.3 million jobs lost during the Great Recession, but a steady move in the right direction and a far cry from another recession. It is also important to keep in mind that job growth is typically the last thing to turn around in a recovery, which suggests that the underlying fundamentals of the California economy are growing even faster.




Indeed, when examining the underlying drivers of economic and job growth in California, the statistics point to an economy that is beginning to outshine the rest of the United States. Consumer spending is a prime example. There is no doubt that consumers have shown steady increases in spending over the past two years almost consecutively. And while this is true both in California and in the U.S., California has actually outperformed the nation. Specifically, taxable sales in the Golden State have risen by more than 17% since their trough in the second quarter of 2009. That compares with 15.7% in the U.S. overall in terms of goods purchases on a nominal basis. This extra growth in California has developed despite the fact that consumer spending in the state fell nearly twice as much as the U.S. overall (-19% vs. -9.7%) and that California hit bottom one quarter later.

All this points to an economy that is in recovery mode, but it also speaks to a wider sentiment among Californians that things *are* getting better. Many of these categories like autos and building materials are expenditures made for medium-term durables, which are highly sensitive to economic fluctuations. Such purchases were postponed during the downturn as consumers fell into a "wait-and-see" mode, creating a certain amount of pent-up demand that is now expressing itself across the state. In addition, the fact that these expenditures are increasing means that Californians are feeling bullish enough about the future to make longer-term purchases.




In addition to growing consumer demand from domestic sources, international trade has also been playing a large role in speeding up California's recovery. This is particularly true on the export side. With the dollar falling to some of the lowest levels in recent memory, U.S. goods and services have become increasingly affordable abroad. And, given this state's proximity and infrastructure to access the East Asian markets, which have been expanding at above average rates recently, California has benefitted disproportionately from the increase in seaport and airport activity.

In sum, despite a bombardment of negative economic news suggesting that a double-dip recession is impending, all of the data points to a continued recovery in the Golden State. This is further supported by the fact that California's economy has recently begun to pick up steam and outpace the nation. To-date, California has added back a larger proportion of its job base relative to the United States overall—particularly with respect to private-sector jobs. Income and consumer spending have also begun to grow at an accelerated rate. In addition, strong demand from abroad has continued to bolster the local economy and help California climb out of the Great Recession. Things got off to a slow and bumpy start here in California, but all indications are that the recovery *has* taken hold and the state is beginning to lead the nation into a new phase of economic growth.

## U.S. Outlook: 2011 Going Out With A Bang

The U.S. economy is picking up steam. That may seem hard to believe given that GDP grew by a mere 2% in the third quarter of 2011—and that was on top of a dismal first half of the year. But the important number is not the Bureau of Economic Analysis' (BEA) estimate of national output, but gross demand, since ultimately demand drives production.

Gross demand for U.S. produced products grew by very solid 3.6% in the third quarter, after being functionally flat in the first quarter and growing at a 1.6% annualized rate in the second quarter. We didn't see it in the headline number because of a huge runoff in inventories. Apparently, businesses believed the negative rhetoric regarding the U.S. economy and decided not to expand output at the same pace as sales.

**Real GDP Growth**

| Category | Q3-11 | Average 1992-1997 | Difference |
|---|---|---|---|
| **Gross Domestic Product** | **2.00** | **3.21** | **-1.21** |
| **Gross Demand** | **3.55** | **3.18** | **0.37** |
| **Gross Domestic Demand** | **3.06** | **3.50** | **-0.44** |
| **Personal consumption** | **1.63** | **2.40** | **-0.77** |
| Durable goods | 0.41 | 0.63 | −0.22 |
| Nondurable goods | −0.11 | 0.46 | −0.57 |
| Services | 1.33 | 1.30 | 0.03 |
| **Fixed investment** | **1.45** | **0.79** | **0.66** |
| Structures | 0.33 | 0.08 | 0.25 |
| Equipment and software | 1.08 | 0.62 | 0.46 |
| Residential | 0.04 | 0.09 | −0.05 |
| **Change in private inventories** | **-1.55** | **0.03** | **-1.58** |
| **Net exports** | **0.49** | **-0.32** | **0.81** |
| Exports | 0.59 | 0.60 | −0.01 |
| Imports | −0.09 | −0.92 | 0.83 |
| **Government** | **-0.02** | **0.31** | **-0.33** |
| National defense | 0.26 | 0.02 | 0.24 |
| Nondefense | −0.10 | 0.04 | −0.14 |
| State and Local | −0.17 | 0.25 | −0.42 |

Source: U.S. Bureau of Economic Analysis

The good news of course is that a run down in inventories today means a build up tomorrow as demand remains strong. Indeed, the economy accelerated in the fourth quarter with a 2.8% growth rate in real GDP. What is driving growth? There is no one specific driver—and there doesn't have to be. Economies are full of feedback effects. Jobs don't form until consumers start to spend, and consumers don't spend until they are confident they can keep their jobs, or find new ones if unemployed. But the default mode in any economy is growth, and following a recession—once the worst of the negative shocks wear away—the small gains seen in the economy begin to interact with each other to create the positive feedback effects that drive a recovery. It was always a matter of when, not if.

The return of the consumer has clearly helped. The labor market recovery has been slow at best, but the numbers have been improving as of late. And incomes have been rising since the recession ended, albeit slowly. The flattening of spending in the first half of the year was not caused by anything fundamentally wrong in the economy, but instead by a temporary spike in energy prices and a shortage of Japanese manufactured cars at dealerships.

Business investment is finally starting to pick up as well, something reflected in both capital goods orders and in steady increases in outstanding commercial and industrial loans from banks. Part of this spending is due to nothing more than the forces of time and depreciation—eventually businesses needed to start putting money back into their firms. Strong export growth has been adding significantly to the demand for U.S. products as well, driven by the weak dollar. Construction is no longer a large drag on the economy, and as long as the overall momentum of growth in the fourth quarter carries into 2012, this part of the economy will start to add to the bottom line next year as well.

The greatest drag on the U.S. economy in coming years is going to come from the public sector. Even as state and local governments can finally start cutting their spending in response to stronger revenue growth, the federal government will have to start grappling with the largest peacetime deficit ever seen. Beacon Economics' hope is that there will be enough positive momentum in the private sector that a careful closing of the gap can be managed without sinking the nascent recovery.

This isn't to say everything is fine in the nation. The United States is still far behind in the recovery and has a long way to go (if this were a more normal recovery, the U.S. economy would be 4% to 5% larger right now). In the meantime, millions of American families continue to feel the pinch as employment levels remain far below their peak in 2007. Some pundits have suggested that the problem is a lack of jobs—but this is completely backwards. Employment is a lagging indicator—it follows the economy. The first step in fixing the employment problem is better economic growth—and it appears that this is starting to kick in.

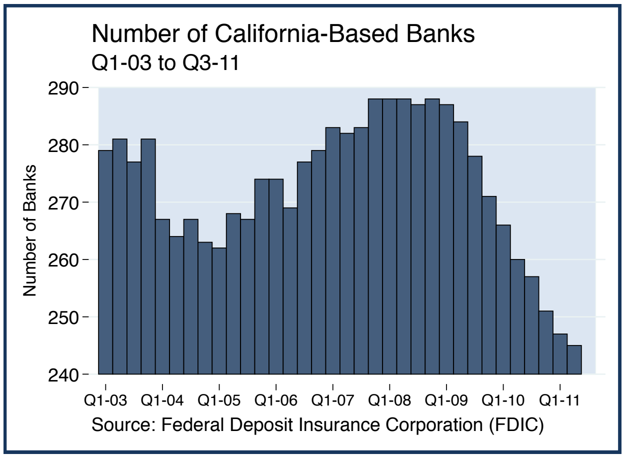
Clearly there are risks associated with this recovery. A major meltdown in Europe is one—but Beacon Economics feels this scenario has been overblown. Another major issue is inflation. While price growth is currently in a desirable range, with an increase in monetary velocity and lots of excess liquidity in the system, inflation could kick in putting the Fed in the uncomfortable position of deciding what is most important to deal with in the short run. And of course closing the federal deficit in a reasonable way means political compromise—something that is clearly absent in Washington, D.C. these days.

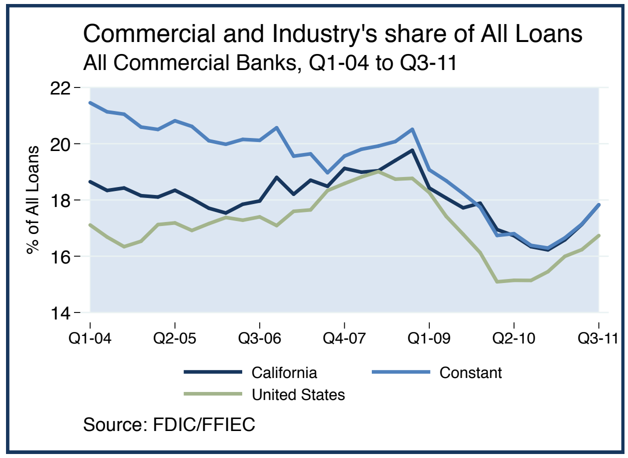
Despite all this, Beacon Economics is more bullish on the economy than we have been for some time.

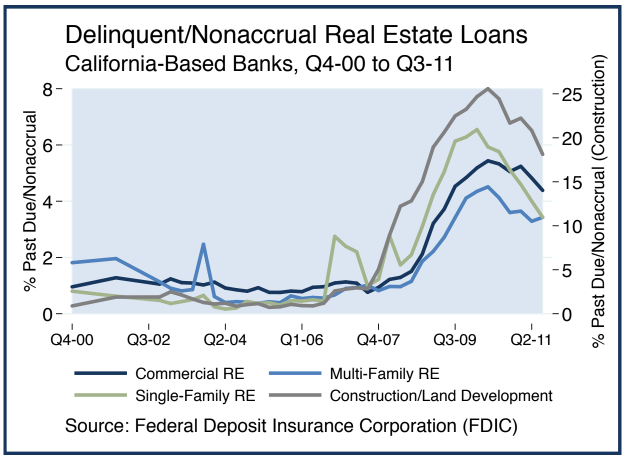
## Data Appendix

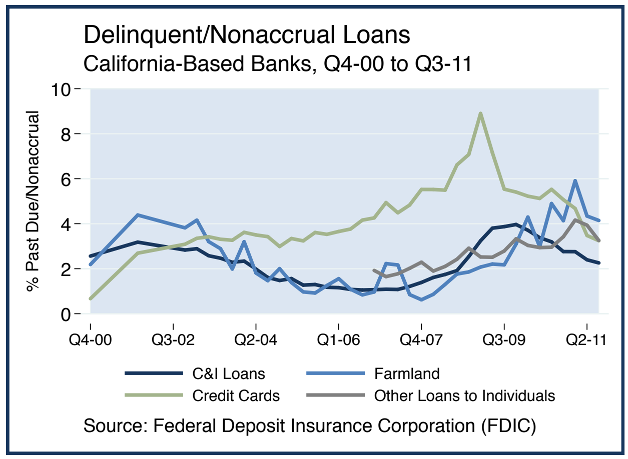
- The headline volume of loans made by California-based commercial banks are down substantially since peaking in 2005. However, an analysis of the loan volumes of California's remaining banks shows that this was almost entirely due to consolidation with out-of-state banks. Factoring out the 48 banks that are no longer based here, loans by California banks never actually decreased.
- Loan delinquencies remain elevated relative to the remainder of the U.S., but California had one of the worst downturns in the nation. Still, despite maintaining higher delinquencies, the loan portfolios of California's commercial banks are in better shape with delinquencies for most types of loan products down consistently during the past 12-15 months.
- Real estate delinquencies have shown considerable improvement in the past year, with significant improvement in construction delinquencies and past due single- and multi-family loans.
- California's labor markets demonstrate that the Golden State has clearly turned the corner, and indeed, has begun to outpace the recovery in the rest of the United States. Nearly 250,000 jobs have been added to California's nonfarm payrolls since hitting bottom in 2010, with the private sector performing more strongly than the 250,000 figure indicates due to continued cuts to government employment.
- In addition to solid nonfarm job growth, the state's unemployment rate has finally begun to come down in a meaningful way. And, the falling unemployment rate is legitimate: the rate has fallen while the number of Californian's looking for, or obtaining, work has increased. Sometimes, the unemployment rate can fall when discouraged workers give up looking for work and drop out of the labor force, but the declines we've seen of late have been driven by genuine improvements in the state's labor markets.
- In comparison to the U.S. overall, California's economy has finally begun to separate itself from the pack. The Golden State has seen stronger growth in employment, incomes, consumer spending, and economic activity overall relative to the U.S. Given that, business investment in technology, productivity improvements and increased efficiency plays right into the sectors that California dominates: IT and professional services, which have thus far led the way. As such, California is positioned to continue to do well as the U.S. economy recovers.

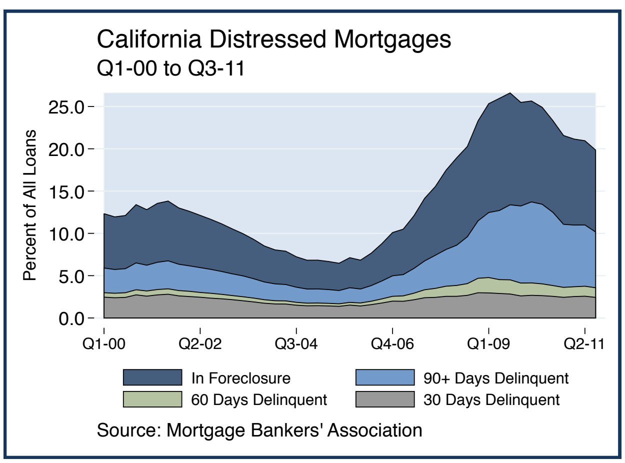
# California Data Appendix

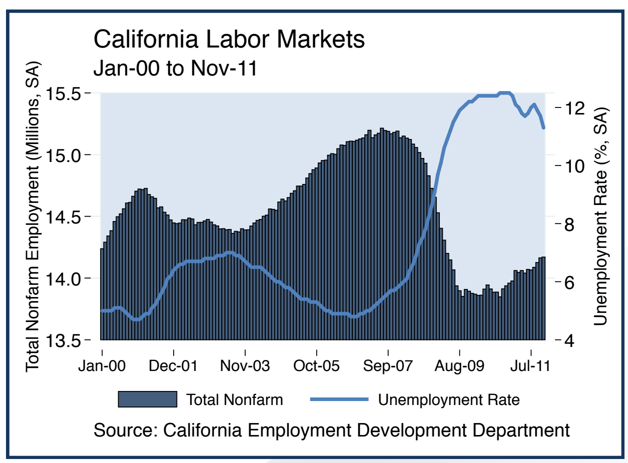


**Loans/Leases by Type**
**All California-Based Commercial Banks - Loans in $Million**

| Type | Q3-08 | Q3-09 | Q3-10 | Q4-10 | Q1-11 | Q2-11 | Q3-11 | Change (%) | Share (%) |
|---|---|---|---|---|---|---|---|---|---|
| **Number of Banks** | 287 | 278 | 257 | 251 | 247 | 245 | 240 | −6.6 | 0.0 |
| **Total Loans/Leases** | 293,721 | 291,418 | 281,518 | 293,436 | 284,758 | 284,857 | 287,610 | 2.2 | 100.0 |
| **Real Estate (Domestic)** | 204,106 | 210,489 | 207,072 | 216,647 | 208,157 | 205,744 | 204,665 | −1.2 | 73.1 |
| Construction/Land Development | 33,579 | 25,276 | 13,921 | 12,079 | 11,002 | 10,075 | 8,953 | −35.7 | 3.9 |
| Commercial | 80,394 | 81,990 | 79,339 | 78,344 | 77,617 | 76,322 | 76,090 | −4.1 | 27.3 |
| Multi-Family | 13,930 | 13,924 | 13,716 | 13,948 | 14,228 | 14,673 | 14,987 | 9.3 | 5.0 |
| 1-4 Family | 72,311 | 84,961 | 95,491 | 107,585 | 100,741 | 100,032 | 99,969 | 4.7 | 35.4 |
| Farmland | 3,892 | 4,338 | 4,605 | 4,691 | 4,570 | 4,642 | 4,666 | 1.3 | 1.6 |
| **Real Estate (Foreign)** | 489 | 533 | 126 | 123 | 127 | 155 | 142 | 13.1 | 0.0 |
| **Farmland** | 3,755 | 3,944 | 3,920 | 4,147 | 3,886 | 3,902 | 4,055 | 3.5 | 1.4 |
| **Commercial/Industrial** | 58,514 | 52,999 | 46,998 | 48,640 | 48,300 | 50,194 | 52,654 | 12.0 | 17.0 |
| **Loans to Individuals** | 16,627 | 14,968 | 15,078 | 15,041 | 14,942 | 15,005 | 14,816 | −1.7 | 5.2 |
| Credit Cards | 359 | 359 | 334 | 333 | 312 | 313 | 312 | −6.6 | 0.1 |
| Other Revolving Loans | 927 | 838 | 694 | 796 | 756 | 748 | 756 | 8.8 | 0.3 |
| Automobile Loans | | | | | 3,904 | 3,968 | 3,833 | *N/A* | 1.4 |
| Other Individual Loans | 15,341 | 13,771 | 14,049 | 13,912 | 9,970 | 9,976 | 9,915 | −29.4 | 3.5 |
| **Total Other Loans** | 10,483 | 8,628 | 8,457 | 8,970 | 9,488 | 10,001 | 11,429 | 35.1 | 3.3 |

Source: Federal Deposit Insurance Corporation (FDIC)

**30-89 Days Past Due Loans/Leases by Type**
**All California-Based Commercial Banks - Delinquency in %**

| Type | Q3-08 | Q3-09 | Q3-10 | Q4-10 | Q1-11 | Q2-11 | Q3-11 |
|---|---|---|---|---|---|---|---|
| **Total Loans/Leases** | 0.99 | 1.30 | 1.09 | 0.97 | 1.05 | 0.74 | 0.75 |
| **Construction/Land Development** | 2.82 | 2.60 | 2.50 | 1.73 | 2.58 | 1.40 | 1.28 |
| **Commercial Real Estate** | 0.58 | 1.00 | 0.78 | 0.88 | 1.03 | 0.72 | 0.66 |
| **Multi-Family Real Estate** | 0.97 | 1.65 | 1.23 | 1.26 | 1.24 | 0.76 | 0.50 |
| **1-4 Family Real Estate** | 0.62 | 1.25 | 1.24 | 1.03 | 0.97 | 0.75 | 0.96 |
| **Farmland** | 0.37 | 0.59 | 1.44 | 0.35 | 2.14 | 0.51 | 0.43 |
| **Real Estate (Foreign)** | 0.01 | 0.00 | 0.34 | 0.32 | 0.00 | 0.00 | 0.13 |
| **Commercial/Industrial** | 0.79 | 0.93 | 0.61 | 0.60 | 0.57 | 0.49 | 0.42 |
| **Loans to Individuals** | 1.97 | 2.24 | 1.83 | 2.00 | 1.75 | 1.53 | 1.40 |
| Credit Cards | 4.08 | 2.88 | 2.55 | 2.40 | 2.08 | 2.02 | 1.94 |
| Automobile Loans | | | | | 1.27 | 1.21 | 1.05 |
| Other Individual Loans | 2.04 | 2.36 | 1.91 | 2.10 | 2.06 | 1.76 | 1.62 |
| **Total Other Loans** | 0.34 | 1.13 | 0.67 | 0.13 | 0.73 | 0.21 | 0.13 |

Source: Federal Deposit Insurance Corporation (FDIC)

**90+ Days Past Due Loans/Leases by Type**
**All California-Based Commercial Banks - Delinquency in %**

| Type | Q3-08 | Q3-09 | Q3-10 | Q4-10 | Q1-11 | Q2-11 | Q3-11 |
|---|---|---|---|---|---|---|---|
| **Total Loans/Leases** | 0.15 | 0.18 | 0.65 | 0.47 | 0.52 | 0.48 | 0.43 |
| **Construction/Land Development** | 0.49 | 0.92 | 4.45 | 3.61 | 3.89 | 3.79 | 3.83 |
| **Commercial Real Estate** | 0.10 | 0.14 | 0.68 | 0.44 | 0.54 | 0.48 | 0.44 |
| **Multi-Family Real Estate** | 0.08 | 0.07 | 1.36 | 1.60 | 1.51 | 1.44 | 1.30 |
| **1-4 Family Real Estate** | 0.11 | 0.04 | 0.18 | 0.09 | 0.10 | 0.10 | 0.09 |
| **Farmland** | 0.06 | 0.08 | 0.30 | 0.34 | 0.30 | 0.32 | 0.42 |
| **Real Estate (Foreign)** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Commercial/Industrial** | 0.08 | 0.17 | 0.27 | 0.18 | 0.18 | 0.12 | 0.14 |
| **Loans to Individuals** | 0.16 | 0.15 | 0.79 | 1.01 | 1.21 | 1.31 | 0.93 |
| Credit Cards | 2.53 | 2.65 | 2.15 | 1.91 | 1.60 | 1.28 | 1.12 |
| Automobile Loans | | | | | 0.04 | 0.04 | 0.05 |
| Other Individual Loans | 0.11 | 0.09 | 0.80 | 1.05 | 1.75 | 1.91 | 1.34 |
| **Total Other Loans** | 0.13 | 0.09 | 0.42 | 0.07 | 0.07 | 0.01 | 0.02 |

Source: Federal Deposit Insurance Corporation (FDIC)

**Nonaccrual Loans/Leases by Type**
**All California-Based Commercial Banks - Nonaccrual in %**

| Type | Q3-08 | Q3-09 | Q3-10 | Q4-10 | Q1-11 | Q2-11 | Q3-11 |
|---|---|---|---|---|---|---|---|
| **Total Loans/Leases** | 1.77 | 4.09 | 3.59 | 3.17 | 3.11 | 2.93 | 2.62 |
| **Construction/Land Development** | 9.51 | 18.97 | 17.49 | 16.34 | 15.76 | 15.63 | 13.00 |
| **Commercial Real Estate** | 0.83 | 3.39 | 3.87 | 3.73 | 3.68 | 3.63 | 3.28 |
| **Multi-Family Real Estate** | 1.05 | 4.42 | 3.17 | 2.25 | 1.85 | 1.80 | 1.62 |
| **1-4 Family Real Estate** | 0.42 | 2.13 | 2.71 | 2.47 | 2.57 | 2.43 | 2.38 |
| **Farmland** | 1.33 | 1.50 | 3.15 | 3.44 | 3.47 | 3.51 | 3.30 |
| **Real Estate (Foreign)** | 0.02 | 0.81 | 3.14 | 2.94 | 2.71 | 2.16 | 2.28 |
| **Commercial/Industrial** | 1.05 | 2.77 | 2.31 | 1.98 | 2.00 | 1.78 | 1.70 |
| **Loans to Individuals** | 0.24 | 0.31 | 0.25 | 0.27 | 0.28 | 0.21 | 0.22 |
| Credit Cards | 0.00 | 0.00 | 0.83 | 0.76 | 0.99 | 0.18 | 0.19 |
| Automobile Loans | | | | | 0.12 | 0.11 | 0.10 |
| Other Individual Loans | 0.26 | 0.34 | 0.25 | 0.27 | 0.34 | 0.27 | 0.29 |
| **Total Other Loans** | 0.81 | 1.36 | 1.26 | 0.96 | 0.78 | 0.76 | 0.54 |

Source: Federal Deposit Insurance Corporation (FDIC)

**Charge-Offs by Type**
**All California-Based Commercial Banks - $000s**

| Type | Q3-08 | Q3-09 | Q3-10 | Q4-10 | Q1-11 | Q2-11 | Q3-11 |
|---|---|---|---|---|---|---|---|
| **Construction/Land Development** | 444,107 | 476,889 | 131,528 | 146,100 | 72,256 | 73,066 | 89,987 |
| **Farmland** | -95 | 1,957 | 645 | 8,258 | 2,124 | 8,043 | 3,881 |
| **1-4 Family Real Estate** | 32,929 | 143,361 | 220,204 | 197,883 | 237,919 | 188,145 | 157,116 |
| **Multi-Family Real Estate** | 7,093 | 61,926 | 35,780 | 30,643 | 12,204 | 14,007 | 14,345 |
| **Commercial Real Estate** | 23,767 | 191,002 | 231,087 | 320,050 | 146,704 | 201,349 | 131,132 |
| **Real Estate (Foreign)** | 0 | 0 | -84 | -501 | -306 | -229 | -237 |
| **Commercial/Industrial** | 194,163 | 384,730 | 209,433 | 166,084 | 69,375 | 96,979 | 67,078 |
| **Loans to Individuals** | 103,410 | 108,521 | 68,325 | 68,260 | 53,981 | 34,271 | 31,322 |
| Credit Cards | 7,134 | 13,593 | 8,817 | 8,272 | 6,992 | 4,640 | 7,688 |
| Automobile Loans | | | | | 2,723 | -451 | -2,568 |
| **Total Other Loans** | 2,016 | 30,107 | 10,154 | 10,730 | 13,266 | 6,864 | 5,366 |

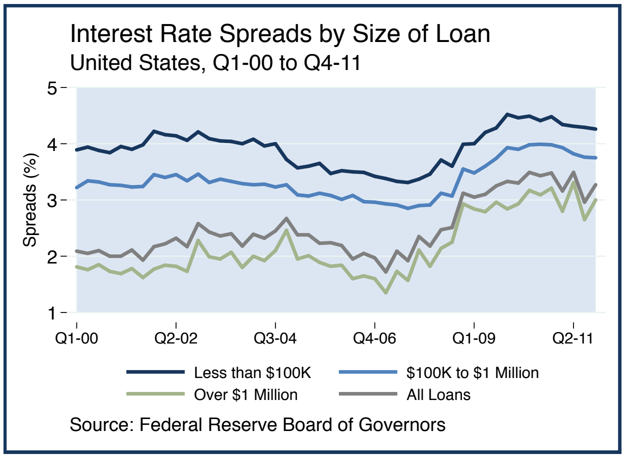
Source: Federal Deposit Insurance Corporation (FDIC)

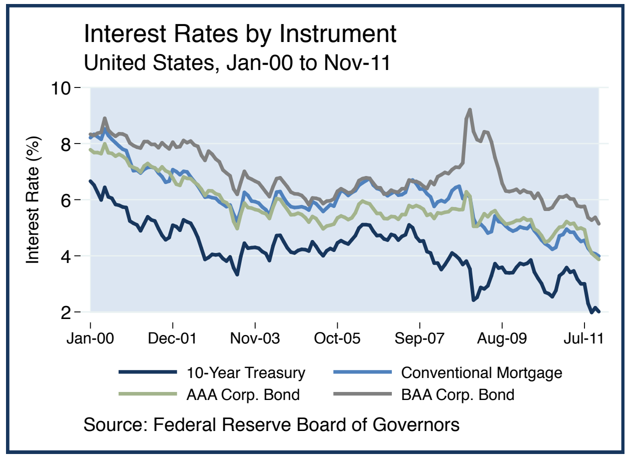
**California Economic Snapshot**

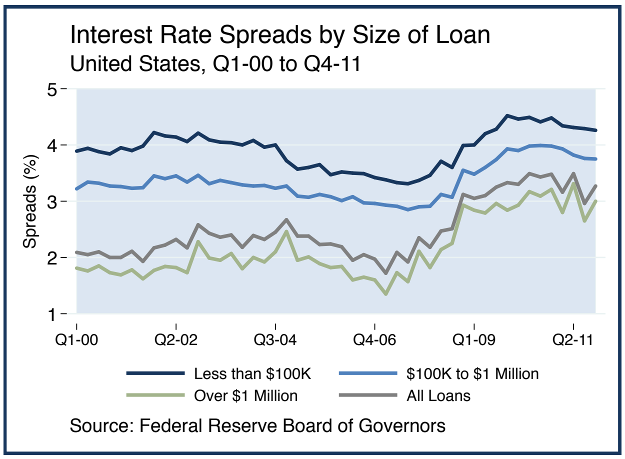
| Indicator | Q3-08 | Q3-09 | Q3-10 | Q3-11 |
|---|---|---|---|---|
| **Labor Markets** | | | | |
| **Farm Employment (000s)** | 392.9 | 369.0 | 382.1 | 376.1 |
| **Total Nonfarm Employment (000s)** | 14,971.9 | 13,895.2 | 13,873.1 | 14,092.7 |
| Goods Producing | 2,229.0 | 1,876.0 | 1,816.7 | 1,847.1 |
| Service Providing | 12,743.0 | 12,019.2 | 12,056.4 | 12,245.6 |
| Unemployment Rate | 7.5 | 11.9 | 12.4 | 12.0 |
| **Residential Real Estate** | | | | |
| Existing SFR Median Prices | 289,637 | 238,634 | 255,887 | 243,083 |
| Existing SFR Sales | 82,438 | 89,058 | 74,158 | 78,933 |
| Condo Median Prices | 293,451 | 243,989 | 243,638 | 221,085 |
| Condo Sales | 14,594 | 17,290 | 15,407 | 15,890 |
| New Home Median Prices | 352,362 | 332,013 | 351,064 | 326,949 |
| New Home Sales | 12,497 | 9,676 | 6,798 | 6,148 |
| Defaults | 89,750 | 107,905 | 79,532 | 67,536 |
| Foreclosures | 75,201 | 46,707 | 42,249 | 36,050 |
| **Building Permits** | | | | |
| **Total Residential** | 14,646 | 9,063 | 10,377 | 11,141 |
| Single-Family Units | 7,788 | 6,616 | 5,638 | 5,039 |
| Multi-Family Units | 6,858 | 2,447 | 4,739 | 6,102 |
| **Total Nonresidential ($000s)** | 4,724,048 | 2,507,279 | 2,919,556 | 3,294,009 |
| New Commercial ($000s) | 1,554,430 | 359,515 | 576,338 | 682,359 |
| New Offices ($000s) | 629,886 | 75,362 | 105,441 | 199,024 |
| New Retail ($000s) | 677,770 | 149,289 | 282,458 | 328,597 |
| New Hotel ($000s) | 139,229 | 47,419 | 15,737 | 4,845 |
| New Industrial ($000s) | 203,686 | 91,322 | 91,212 | 92,926 |
| Nonresidential Alterations ($000s) | 2,193,058 | 1,575,836 | 1,820,565 | 2,088,116 |
| Other Nonresidential ($000s) | 761,605 | 506,480 | 489,171 | 483,231 |
| **Consumer Spending and Income** | | | | |
| Personal Income ($Billions) | 1,622.1 | 1,519.5 | 1,594.9 | 1,674.9 |
| Taxable Sales ($Millions) | 133,565.3 | 113,813.7 | 119,608.6 | 131,290.7 |

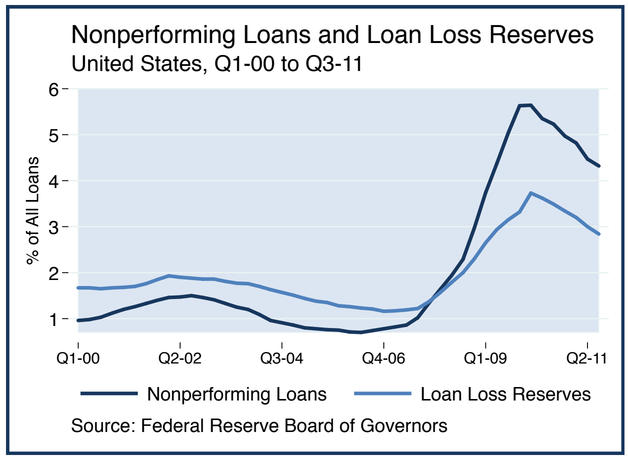
Source: Various Sources

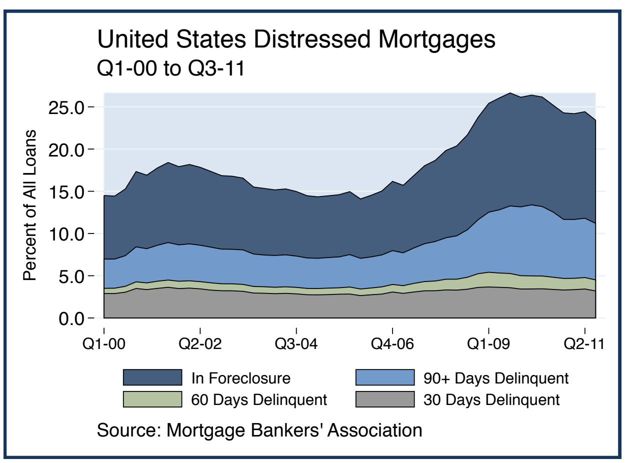
# UNITED STATES DATA APPENDIX

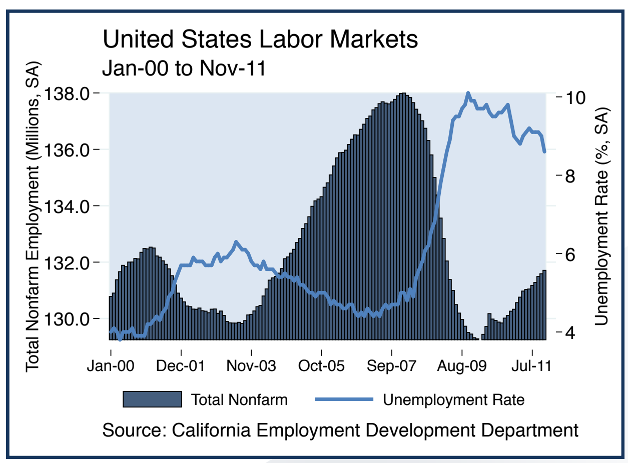


**Senior Loan Officer Survey**

| Type | Q4-08 | Q4-09 | Q4-10 | Q1-11 | Q2-11 | Q3-11 | Q4-11 |
|---|---|---|---|---|---|---|---|
| **Net Percentage of Banks Reporting Stronger Demand for:** | | | | | | | |
| Prime Mortgage Loans | -51.9 | 27.8 | -9.3 | -24.1 | -34.0 | -1.9 | 14.6 |
| Non-Traditional Mortgage Loans | -72.4 | -4.3 | -9.5 | -13.0 | -23.8 | -12.5 | 4.5 |
| Commercial Real Estate Loans | -55.6 | -42.9 | 1.8 | 12.3 | 34.5 | 21.8 | 13.7 |
| C&I Loans From Small Firms | -7.4 | -35.7 | -21.4 | 5.6 | 9.6 | 5.8 | -18.8 |
| C&I Loans From Large/Middle-Market Firms | -16.7 | -31.6 | -7.0 | 28.1 | 27.3 | 20.0 | -15.7 |
| Consumer Loans Ex. Credit Cards/Autos | | | | | 0.0 | -1.9 | -6.3 |
| Credit Card Loans | | | | | -2.8 | 5.7 | 8.6 |
| Auto Loans | | | | | 25.0 | 14.3 | 10.9 |
| **Net Percentage of Banks Increasing Spreads of Loan Rates Over Banks' Cost of Funds to:** | | | | | | | |
| Small Firms | 92.7 | 42.9 | -21.4 | -29.6 | -50.0 | -42.3 | -47.9 |
| Large And Middle-Market Firms | 98.2 | 40.4 | -33.3 | -47.4 | -54.5 | -54.5 | -41.2 |
| **Net Percentage of Banks Tightening Standards for:** | | | | | | | |
| Prime Mortgage Loans | 69.2 | 24.1 | 9.3 | 1.9 | 0.0 | -1.9 | 0.0 |
| Non-Traditional Mortgage Loans | 89.7 | 30.4 | 9.5 | 13.0 | 10.0 | -4.2 | 0.0 |
| Commercial Real Estate Loans | 87.0 | 33.9 | 3.6 | 0.0 | -5.5 | -5.5 | -2.0 |
| C&I Loans To Small Firms | 74.5 | 16.1 | -7.1 | -1.9 | -13.5 | -7.8 | -6.3 |
| C&I Loans To Large/Middle-Market Firms | 83.6 | 14.0 | -10.5 | -10.5 | -16.4 | -21.8 | -5.9 |
| Consumer Loans Ex. Credit Cards/Autos | | | | | -7.7 | -9.6 | -12.5 |
| Credit Card Loans | 58.8 | 15.8 | -10.0 | -10.0 | -20.5 | -9.3 | -7.9 |
| New And Used Auto Loans | | | | | -14.6 | -20.0 | -19.6 |

Source: Federal Reserve Board of Governors

## About Beacon Economics, LLC

Beacon Economics, LLC is an independent economic research and consulting firm with offices in Los Angeles and the San Francisco Bay Area. We deliver economic analysis and data sites that help our clients make informed, strategic decisions about investment, growth, revenue, policy, and other critical economic and financial issues. Our nationally recognized forecasters were among the first to predict the collapse of the housing market and foretell the onset and depth of the economic downturn that followed. Our core areas of expertise include economic and revenue forecasting, market and industry analysis, economic impact studies, economic policy analysis, and international trade analysis.

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- Economic Development Analysis
- Ports & Infrastructure Analysis
- Public Speaking
- Expert Testimony

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