

# Banks' financial health a worry in a sick economy

BY MARK CALVEY

San Francisco Business Times

The seizure by federal regulators of two San Francisco banks in as many weeks is drawing increased attention to the health of other banks in the region.

The takeover and sale by regulators of Pacific National Bank on Oct. 30 and United Commercial Bank on Nov. 6 came as the Federal Deposit Insurance Corp. has about 400 banks on its national watch list of troubled institutions, a nearly fourfold increase from a year ago. While the FDIC doesn't name banks on the watch list, banking experts are looking at a variety of factors to assess the health of individual banks — even going so far as to judge the tone of voice the CEO uses in discussing bank results.

More tangible indicators include:

■ The percentage of bad loans in the bank's portfolio.

■ The size of the bank's loan-loss reserves, which serve as the first line of defense in absorbing loan losses.

■ The bank's equity capital base and its ability to raise more capital if necessary.

Using FDIC data, investment bank Stone & Youngberg and research firm SNL Securities have assembled these numbers for 91 Northern California banks at the request of the San Francisco Business Times. The full, searchable list is posted on the Business Times' web site.

"Non-performing loans at 3 to 4 percent of total loans, or less, is very good in this economic environment," said Michael Natzic a senior vice president in Stone & Youngberg's community bank group, which makes a market in about 75 California banks. Natzic said bad loans as a percentage of total loans in the high single digits or higher is troublesome.

Having enough capital to weather the storm is also essential.

"In this environment, the more equity capital, the better. Capital is king," Natzic said.

A handful of local banks are already under regulatory orders to change lending practices and bolster their balance sheet with new capital.

These include Tamalpais Bank, which in September agreed to a cease-and-desist order from the FDIC and the California Department of Financial Institutions in which Tamalpais executives agreed to strengthen the bank and stop "unsafe and unsound banking practices and violations." Under the order, Tamalpais must create a plan to raise capital and develop contingency plans for a sale or merger if it can't raise capital.



Garwood

Tamalpais Bank's non-performing loans stand at 12.38 percent of its loan portfolio. Its loan-loss reserves are at 4.56 percent of total loans and equity capital is 6.77 percent of total assets. This week,

Tamalpais reported a third quarter loss of \$5.1 million, reflecting a \$9.4 million loan-loss provision that was primarily due to a \$50.3 million jump in non-performing loans during the quarter.

"The company recognizes the importance of reducing exposure to substandard loans and non-performing assets in

## HOW DOES YOUR BANK COMPARE?

Bay Area banks show a wide range of financial health. The non-performing loan ratio measures a bank's exposure to bad loans. Loan-loss reserves is one measure of a bank's readiness to absorb loans that go bad. The equity capital ratio is one indication of a bank's overall strength. **See a list covering all of Northern California at <http://tinyurl.com/SFBT-banks>.**

Bank	Headquarters	Total assets in millions	Non-performing loans to total loans	Reserves to total loans	Equity capital to total assets
Bank of America	Charlotte, N.C.	\$2,251,043	4.22%	3.75%	11.45%
JPMorgan Chase	New York	\$2,041,009	0.75%	4.69%	7.95%
Wells Fargo & Co.	San Francisco	\$1,228,625	2.48%	2.48%	10.49%
Union Bank	San Francisco	\$77,733	2.79%	2.61%	11.79%
Bank of the West	San Francisco	\$63,584	3.20%	2.52%	14.25%
Silicon Valley Bank	Santa Clara	\$11,908	1.64%	1.87%	7.59%
Westamerica Bank	San Rafael	\$4,932	3.47%	1.33%	10.59%
Mechanics Bank	Richmond	\$2,826	3.09%	1.38%	10.70%
Fremont Bank	Fremont	\$2,398	3.10%	1.24%	8.22%
Borel Private Bank & Trust Co.	San Mateo	\$1,606	3.12%	1.62%	8.73%
Exchange Bank	Santa Rosa	\$1,569	5.57%	2.37%	9.35%
Heritage Bank of Commerce	San Jose	\$1,366	4.99%	2.63%	13.83%
Bank of Marin	Novato	\$1,126	0.66%	1.21%	9.43%
Fireside Bank	Pleasanton	\$1,014	0.0%	11.36%	22.82%
Bridge Bank	San Jose	\$835	5.69%	2.84%	12.99%
First Community Bank	Santa Rosa	\$777	6.53%	2.17%	10.22%
First National Bank of Northern California	S. San Francisco	\$699	4.74%	1.83%	11.25%
Tamalpais Bank	San Rafael	\$694	12.38%	4.56%	6.77%
Bank of the Orient	San Francisco	\$687	5.13%	1.97%	9.05%
Pacific Coast Bankers' Bank	San Francisco	\$641	12.7%	3.34%	10.03%
American River Bank	Sacramento	\$567	7.67%	1.92%	11.31%
United American Bank	San Mateo	\$422	2.65%	2.28%	8.26%
Sonoma Valley Bank	Sonoma	\$354	6.93%	2.10%	10.04%
Summit State Bank	Santa Rosa	\$347	4.93%	1.61%	16.10%
Private Bank of the Peninsula	Palo Alto	\$285	1.11%	2.12%	9.65%
Bank of Alameda	Alameda	\$266	6.30%	2.73%	11.52%
Circle Bank	Novato	\$255	0.84%	1.20%	7.54%
Innovative Bank	Oakland	\$253	12.95%	4.03%	9.29%
Liberty Bank	S. San Francisco	\$232	4.33%	1.46%	10.26%
Presidio Bank	San Francisco	\$225	0.26%	2.24%	12.33%
Oceanic Bank	San Francisco	\$191	4.17%	1.05%	15.82%
Mission National Bank	San Francisco	\$183	2.88%	1.49%	8.19%
Summit Bank	Oakland	\$180	4.23%	2.17%	9.60%
California Bank of Commerce	Lafayette	\$178	0	1.71%	13.26%
Alta Alliance Bank	Oakland	\$176	3.13%	2.78%	14.76%
Trans Pacific National Bank	San Francisco	\$174	3.24%	1.87%	9.37%
New Resource Bank	San Francisco	\$166	4.37%	2.25%	13.29%
Napa Community Bank	Napa	\$163	3.13%	1.80%	10.05%
Metropolitan Bank	Oakland	\$157	6.11%	1.88%	8.24%
Charter Oak Bank	Napa	\$154	4.46%	1.90%	11.32%
Bay Commercial Bank	Walnut Creek	\$154	1.68%	1.18%	10.25%
America California Bank	San Francisco	\$137	8.06%	1.84%	12.28%
Focus Business Bank	San Jose	\$106	6.51%	3.17%	20.51%
Tri-Valley Bank	San Ramon	\$90	8.17%	2.71%	10.19%
Bank of San Francisco	San Francisco	\$82	0.82%	1.87%	10.30%
Pan Pacific Bank	Fremont	\$80	2.04%	2.05%	11.75%
California Pacific Bank	San Francisco	\$80	6.39%	5.93%	28.17%
Bank of Napa	Napa	\$79	0	1.39%	21.00%
AltaPacific Bank	Santa Rosa	\$77	1.11%	2.09%	32.43%
Community Bank of the Bay	Oakland	\$71	1.71%	2.45%	8.53%
Global Trust Bank	Mountain View	\$37	0	1.50%	48.05%

SOURCES: Stone & Youngberg; SNL Securities; FDIC.

a timely and efficient manner," Tamalpais CEO Mark Garwood said in announcing third-quarter results. "We continue to allocate resources toward troubled asset resolution and have reassigned internal staff as well as engaged external assistance."

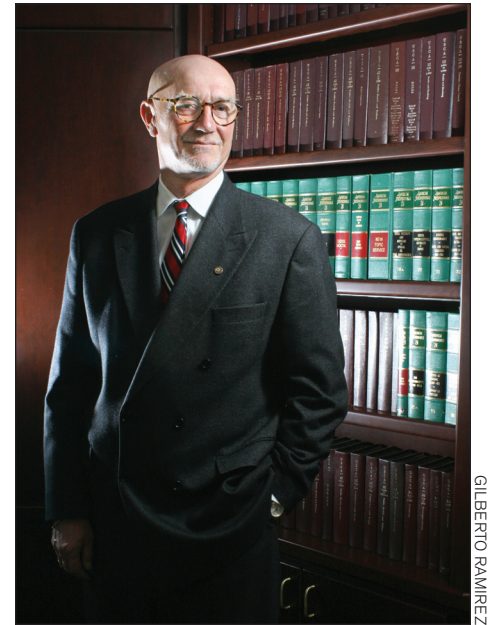
Part of that effort includes negotiating the sale of \$37.4 million in non-performing loans that is expected to close by the end of November. Tamalpais also said a \$3.9 million loan was paid off last month at a modest gain over its carry-

ing value. All the loans in the anticipated sale, as well as the repaid loan, were first classified as non-performing in the third quarter.

On a brighter note, the bank is growing its base of low-cost, core deposits.

"Year-to-date, we increased the bank's non-interest-bearing deposits by 25.3 percent, which, when added to other core deposits, improves our liquidity and funding sources," said Garwood, who declined to be interviewed for this story.

Oakland's Innovative Bank also received



GILBERTO RAMIREZ

Comments on bank weakness "serve to only heighten the paranoia," says McGraw.

a cease-and-desist order earlier this year, its second from the FDIC in less than two years. The orders require it to take steps to strengthen the bank's operations, such as enhancing its systems and controls.

Innovative has long focused on extending loans backed in part by the U.S. Small Business Administration. The bank's web site says the bank pioneered so-called SOHO loans, which are made to small office or home office businesses. The bank's SOHO loan provides small business owners financing from \$5,000 to \$50,000.

Innovative Bank has non-performing loans accounting for 12.95 percent of its total loans. Its loan-loss reserves are 4.03 percent of loans outstanding, and equity capital is 9.29 percent of total assets, according to Stone & Youngberg's numbers, based on data the bank provided to the FDIC. Innovative Bank did not return calls seeking comment.

Beyond those subject to FDIC orders, all banks are under growing pressure by regulators to recognize bad loans and build loan-loss reserves. And time may be running out for the nation's weakest banks.

The FDIC will place further restrictions on the rates banks considered less than "well capitalized" can pay on deposits starting Jan. 1, imposing an interest-rate cap of 0.75 percentage point over the national average rate on deposits vs. the local average rate, which can be much higher. The agency can make exceptions, but those cases are expected to be rare.

Healthy banks see raising capital as an opportunity to acquire weaker banks outright or their branches and loans. Some regard predictions that 1,000 banks might eventually fail in this cycle as unnecessarily alarming to customers, investors and depositors.

"These comments are so disingenuous and serve to only heighten the paranoia about bank solvency," said Tom McGraw, CEO of South San Francisco-based First National Bank of Northern California, which leveraged its financial strength to acquire \$19.8 million in good loans from Tamalpais Bank amid the industry's tough times. "I have been fielding more questions, as I'm sure other banks have, concerning solvency, capital and liquidity. Fortunately, I can send people to our quarterly filings to confirm my comments."

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