


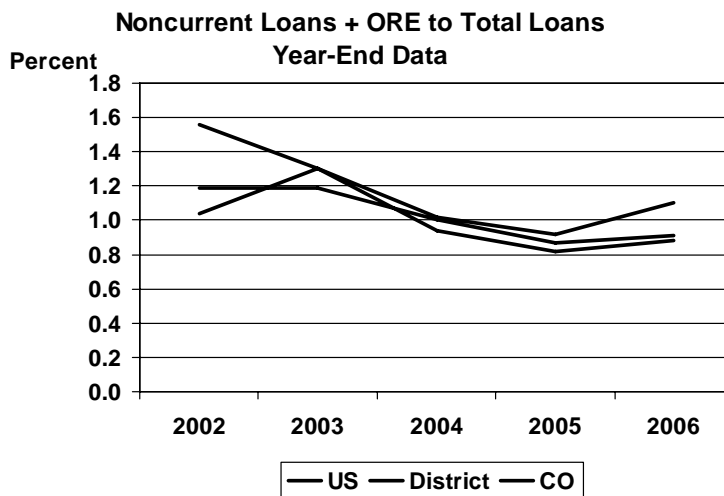
Credit Conditions - Managing Current Credit Risk Issues




Regional Assistant Vice President

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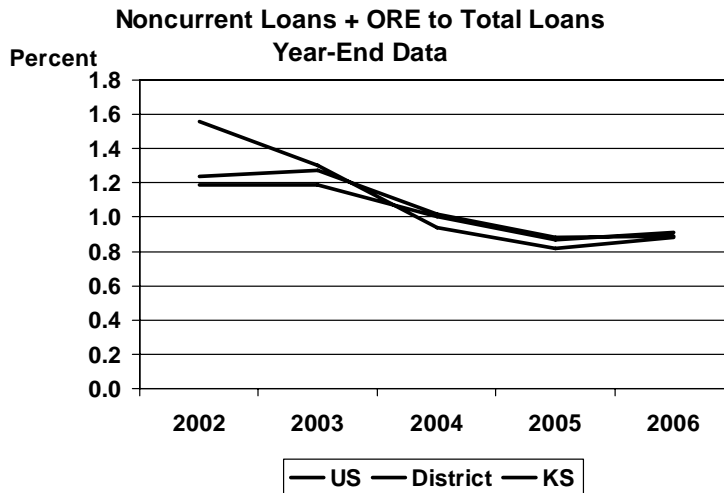
Asset Quality is Strong



Source: Reports of Condition

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Asset Quality is Strong

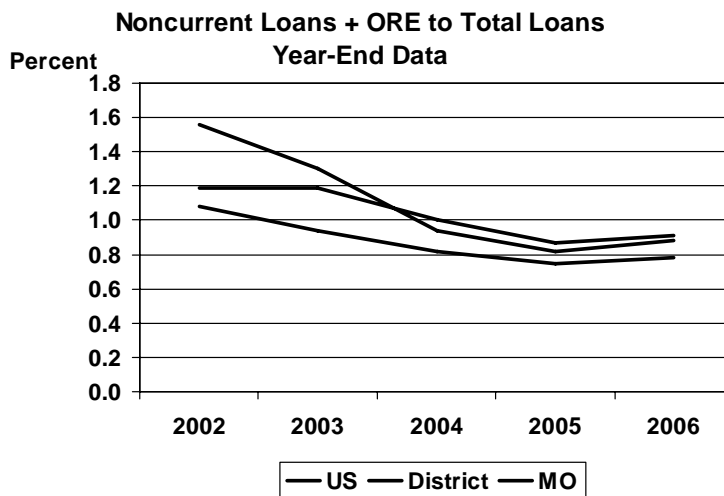


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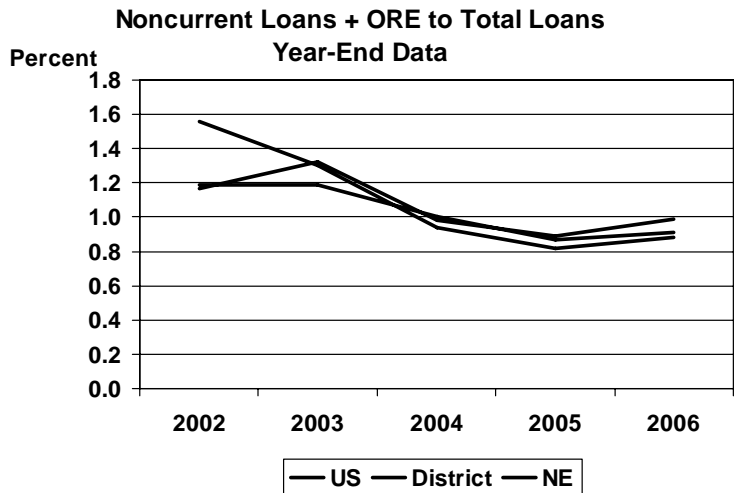


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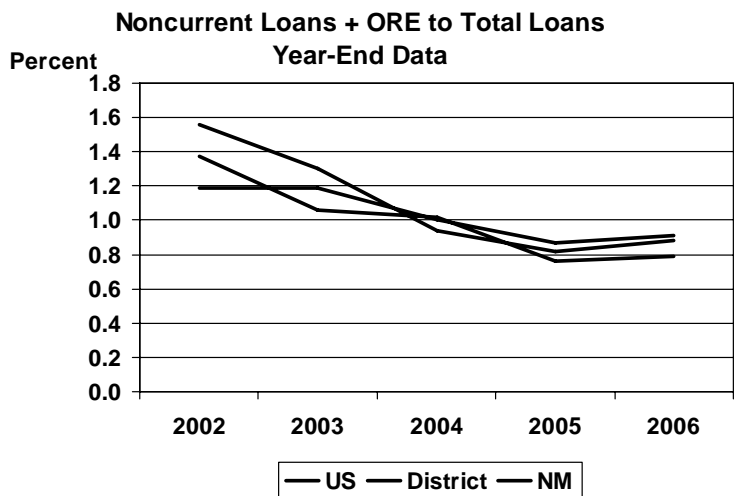


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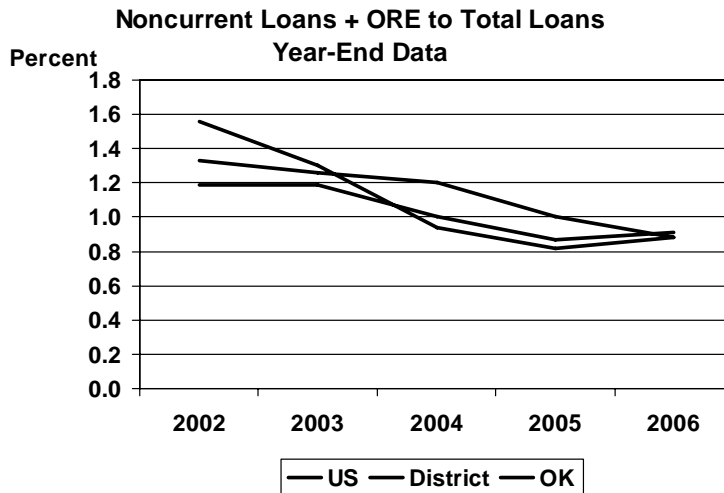


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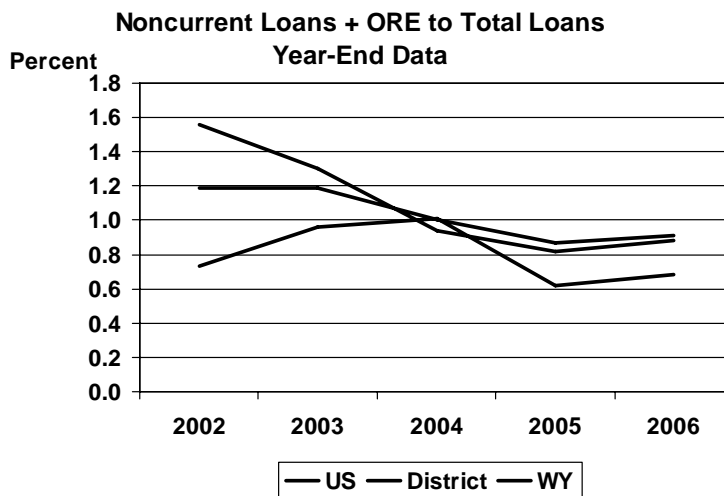


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Asset Quality is Strong




Source: Reports of Condition

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Has Credit Quality Peaked?


- Lending margins thin
- Aggressive loan competition
- Easing credit standards
- Loans-to-Assets ratio high
- Noncurrent loans up in some sectors

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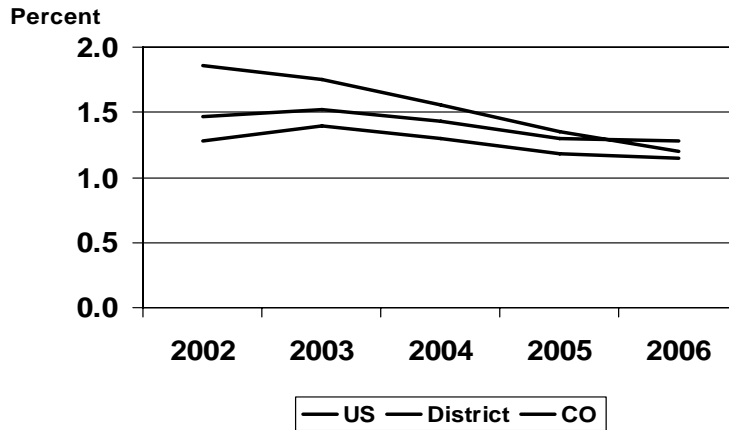
Credit Quality: What Does Normal Mean?

The most nutritious food for suspicious minds is the repeated assertion that nothing is amiss, which is one reason why credit quality is bank investors' top concern in 2007. Not a single large U.S. bank has said it believes weakening credit quality will present serious problems this year. Bankers' urgency to prove that all is well has spawned the latest performance buzzword: *normalization*

* Quoted from *American Banker*, February 12, 2007

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Loan Loss Reserves to Total Loans Year-End Data

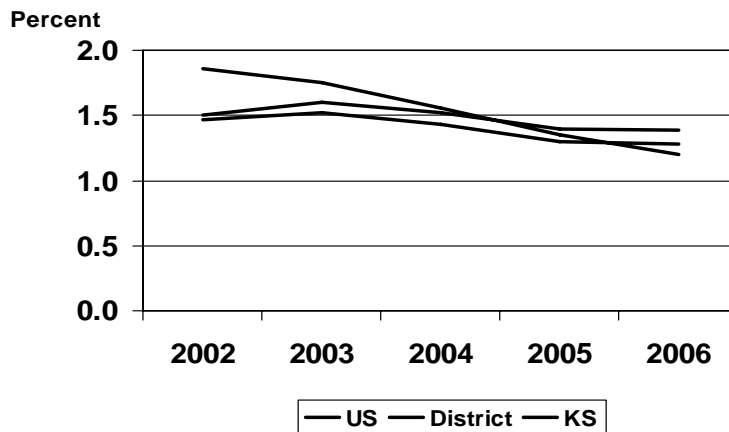


Source: National Examination Database

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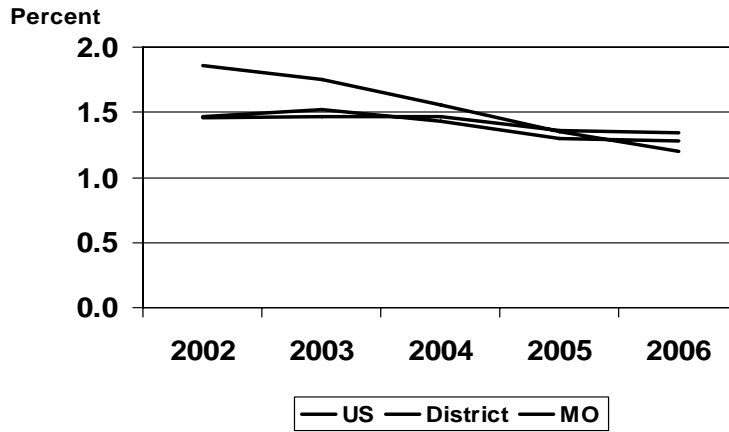


Source: National Examination Database

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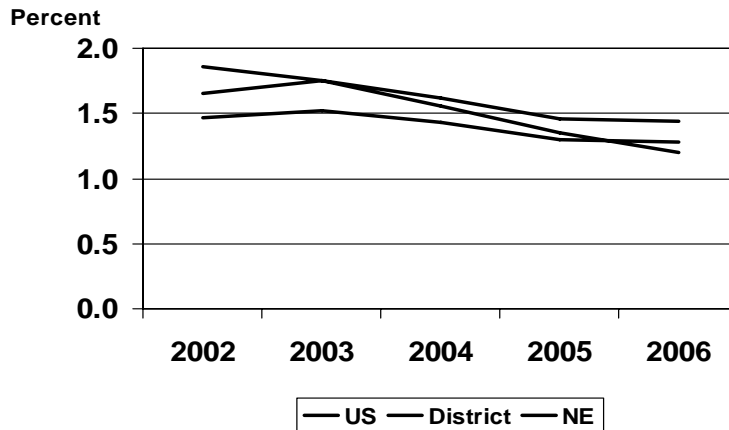


Source: National Examination Database

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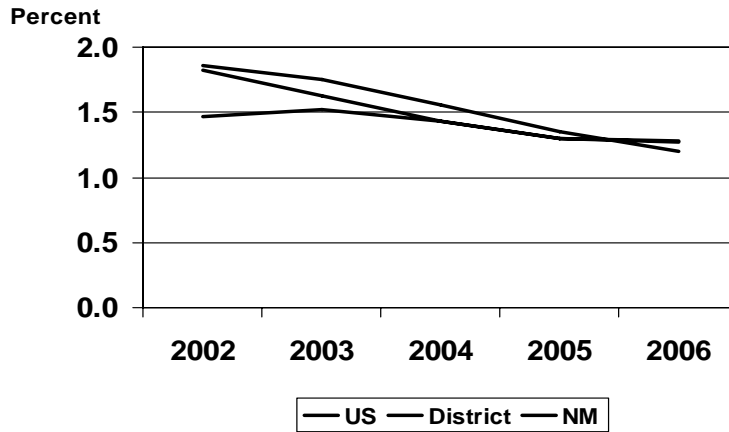


Source: National Examination Database

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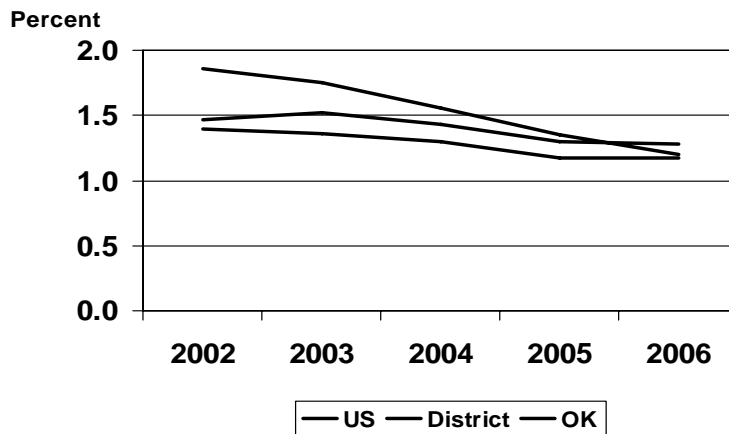


Source: National Examination Database

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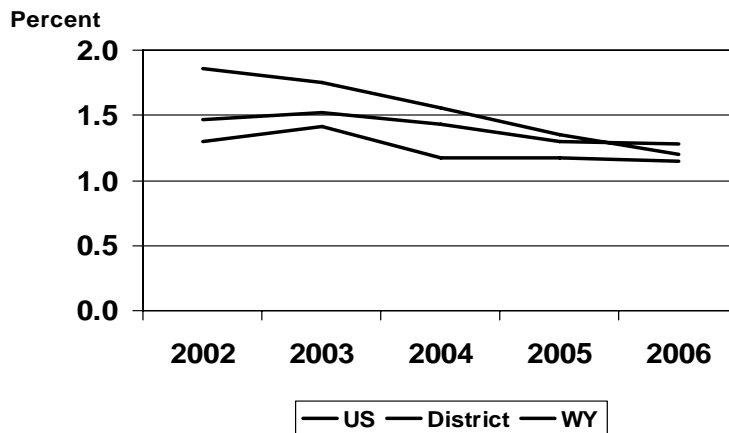


Source: National Examination Database

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Loan Loss Reserves to Total Loans Year-End Data



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Credit Risk

Of the top 10 examination concerns, the following were credit-related

- Appraisals and evaluations
- Monitoring and reporting
- Policy


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Credit Risk


Other credit-related concerns included

- Concentrations
- Documentation
- Loan loss reserve methodology
- Financial/Cash flow analysis
- Construction loans

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Update on Commercial Real Estate (CRE) Guidance

- Scope/Definition
- Risk Management
- Board and Management Oversight
- Market Analysis
- Portfolio Stress Testing
- Supervisory Oversight
- Evaluation of CRE Concentration Risk
- Assessment of Capital Adequacy
- Training

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Scope/Definition

- What types of loans are considered CRE loans for the purpose of this guidance?
- Why does the guidance define CRE loans to include such broad real estate categories?

Risk Management

- Will there be different expectations for large banks versus small banks?

Board and Management Oversight

- What is the role of an institution's board of directors in overseeing CRE concentrations?

Market Analysis

- What are the expectations for market analysis?

Portfolio Stress Testing and Sensitivity Analysis

- What are the expectations for portfolio level stress testing and sensitivity analysis?

Supervisory Oversight

- What is the purpose of the supervisory screening criteria?

Evaluation of Commercial Real Estate Concentration Risk


- How much flexibility will an institution have in establishing an appropriate risk management program?

Assessment of Capital Adequacy

- Does the guidance require banks with concentrations to increase capital?
- How would the adequacy of capital be assessed if the bank addresses concentration risk through the allowance for loan and lease losses (ALLL)?


Training

- System CRE training group
- Examiner training
- Banker training

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Credit Risk: Compliance Perspective

- Loans in standard flood hazard areas
- Secondary market risks
 - Appraisal fraud
 - Buybacks

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FYI – Nontraditional Mortgage Products

- Fair lending aspects
 - Underwriting and steering risk
- Affordability
 - Financial benefit analysis

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Conclusion

- Where are we in the credit cycle
- Credit risk management deficiencies continue to surface to the top of our most commonly reported examination findings
- The importance of effective credit risk management (e.g. CRE lending risk management practices)
- A compliance perspective

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Credit Conditions –
Managing Current Credit Risk Issues

Questions?