

Maine Association of Community Banks  
Community Bank Directors College  
October 20, 2009

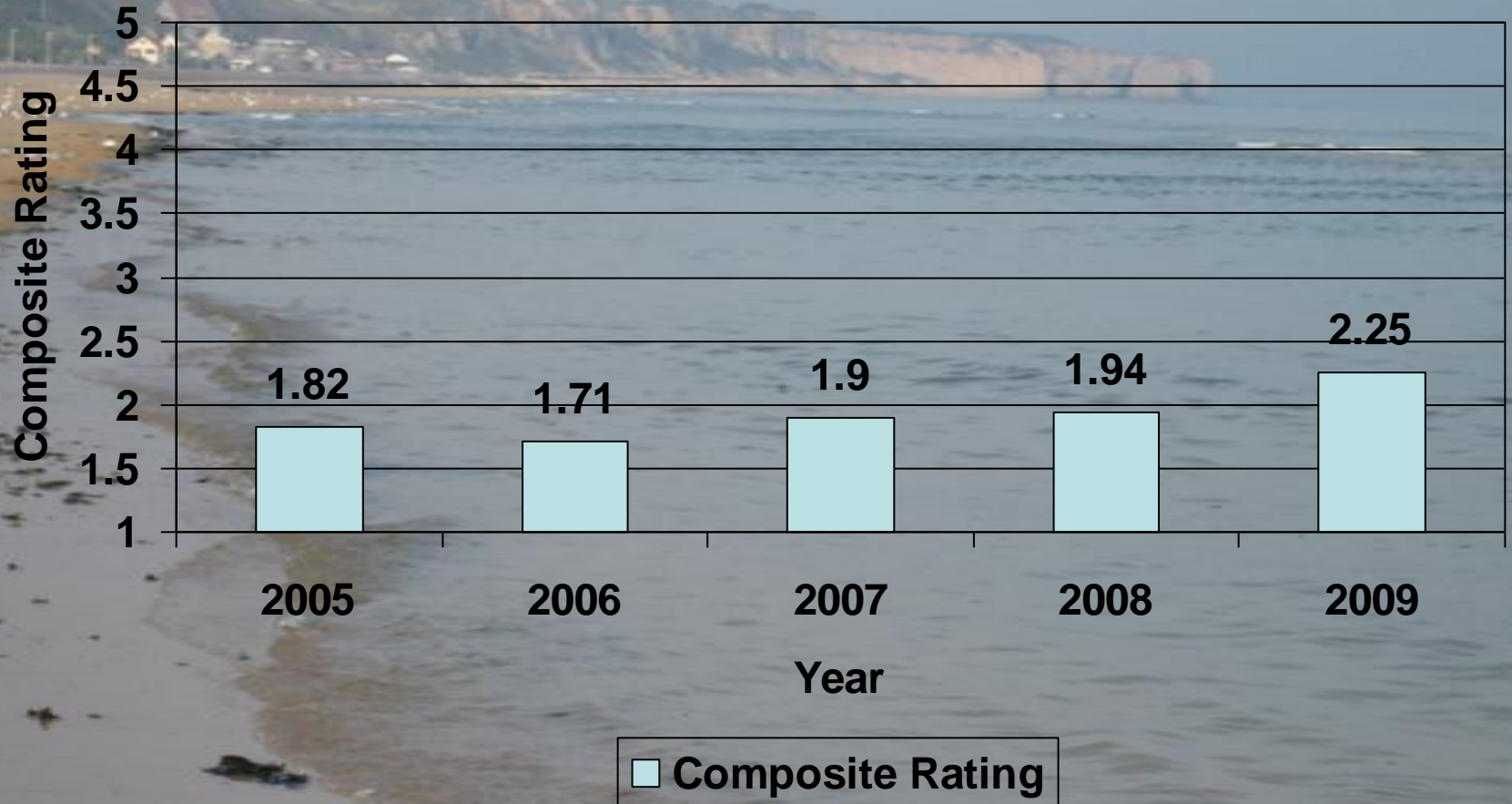
# CURRENT REGULATORY AND EXAMINATION ISSUES

Donald W. Groves  
Deputy Superintendent  
Maine Bureau of Financial Institutions

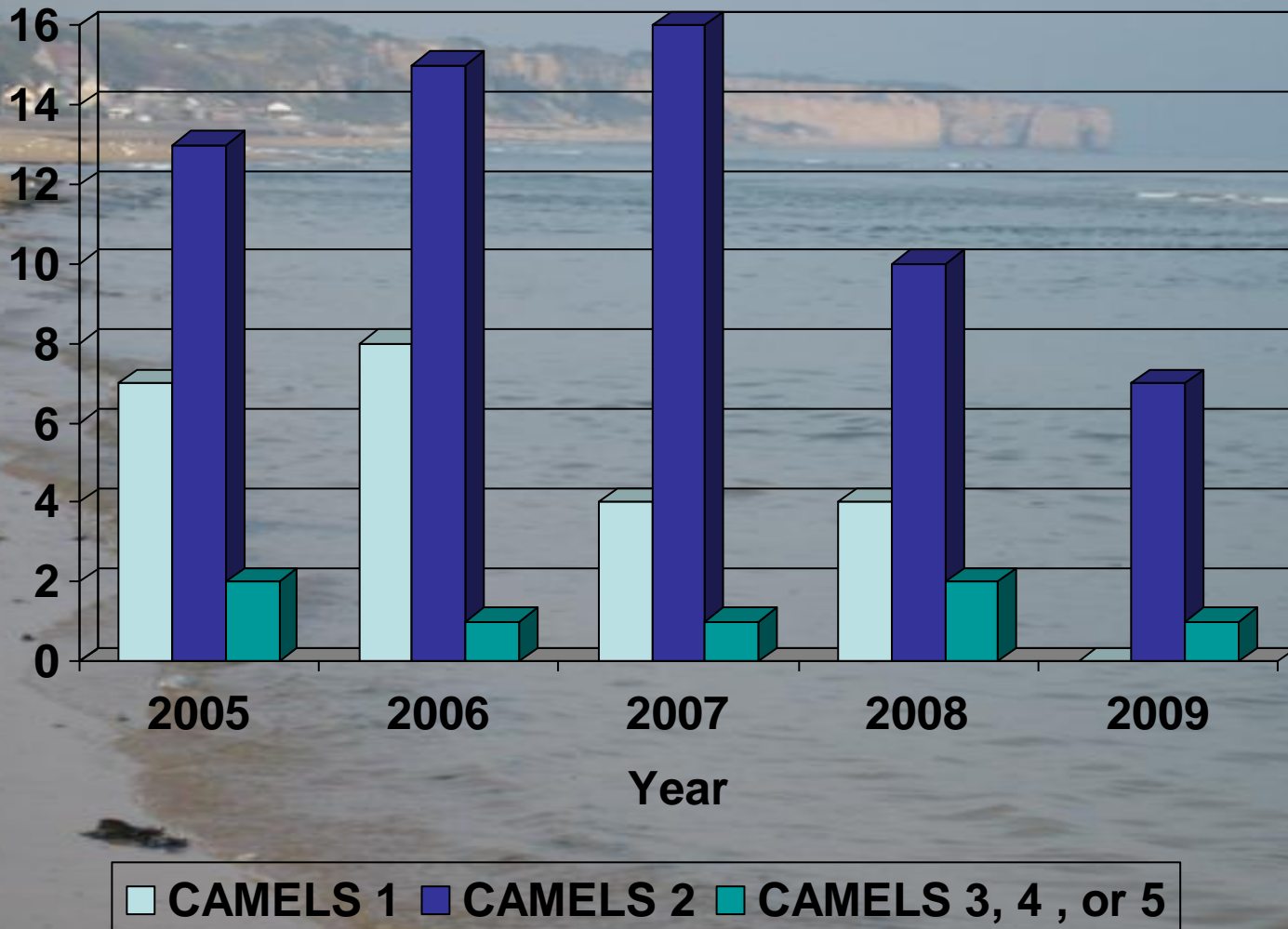
# OUTLINE OF PRESENTATION

- Current Condition of Maine-Chartered Banks
- CRE Market Trends
- Common Examination Findings with Respect to Asset Quality and Loan Administration
- Issues for Directors to Consider When Their Bank Experiences Loan Quality Problems

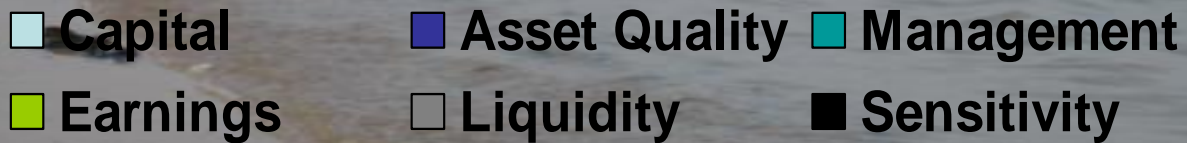
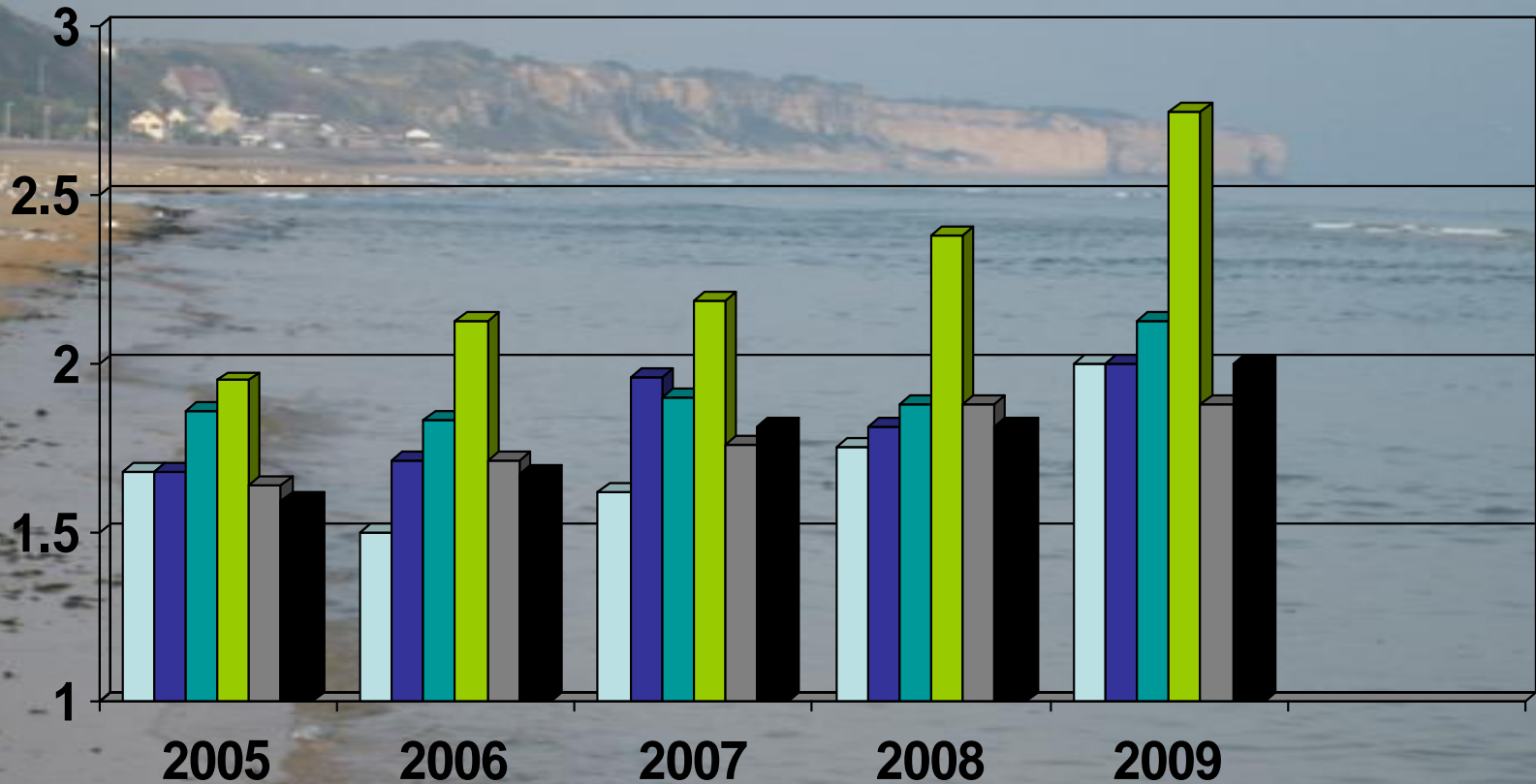
# CAMELS COMPOSITE RATING TRENDS



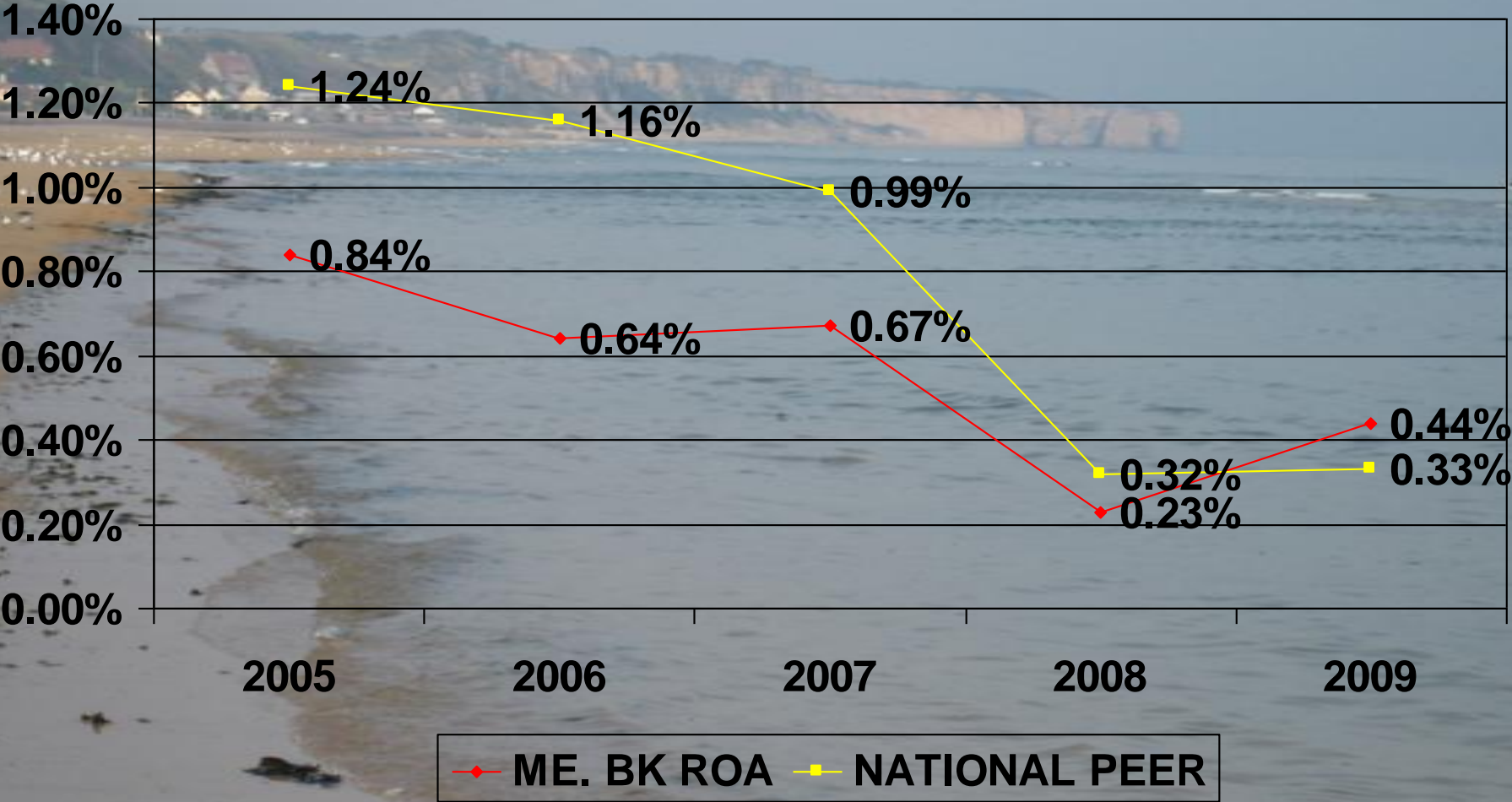
# DISTRIBUTION CAMELS COMPOSITE RATINGS



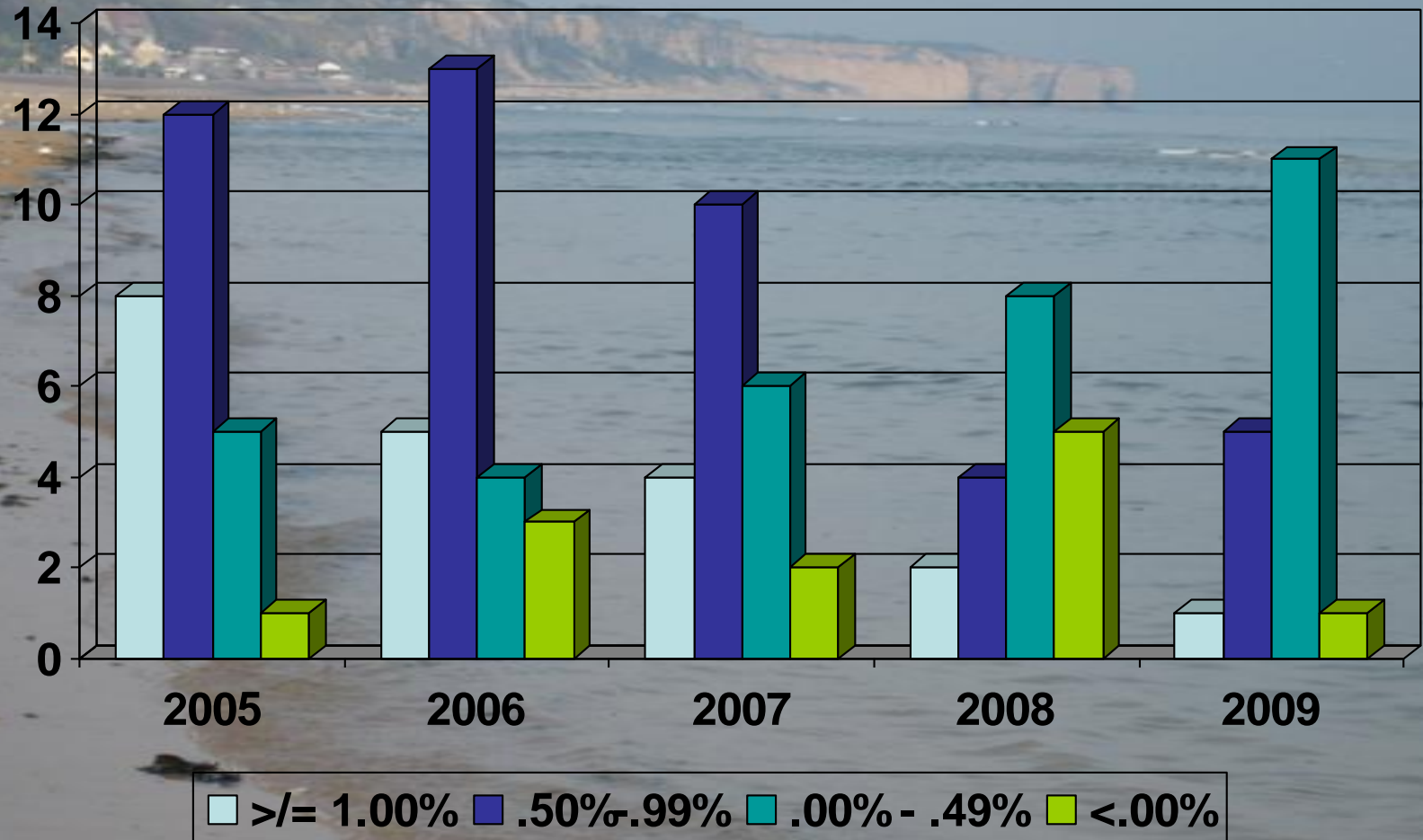
# AVERAGE CAMELS COMPONENTS



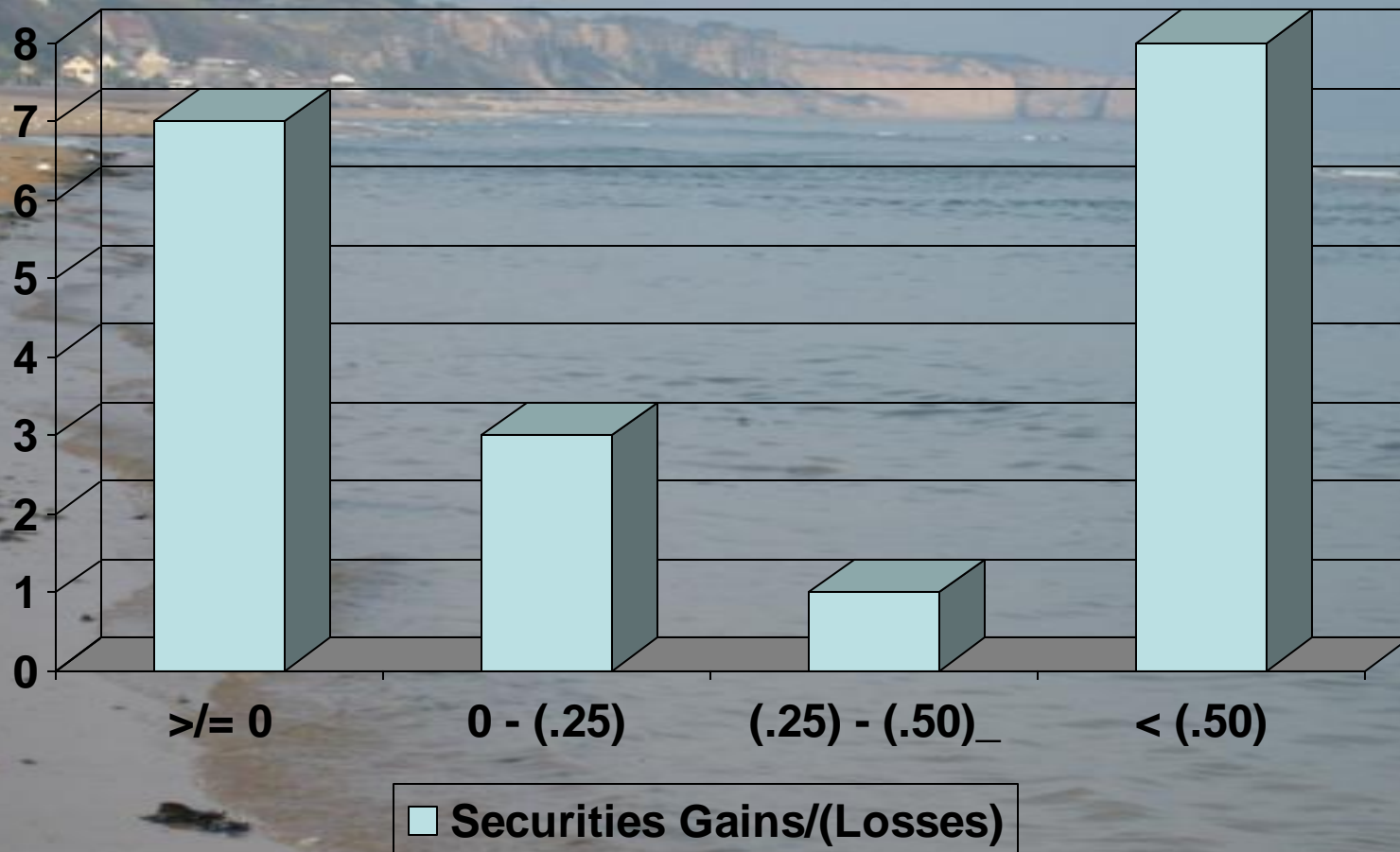
# AVERAGE ROA FOR MAINE BANKS COMPARED TO PEER



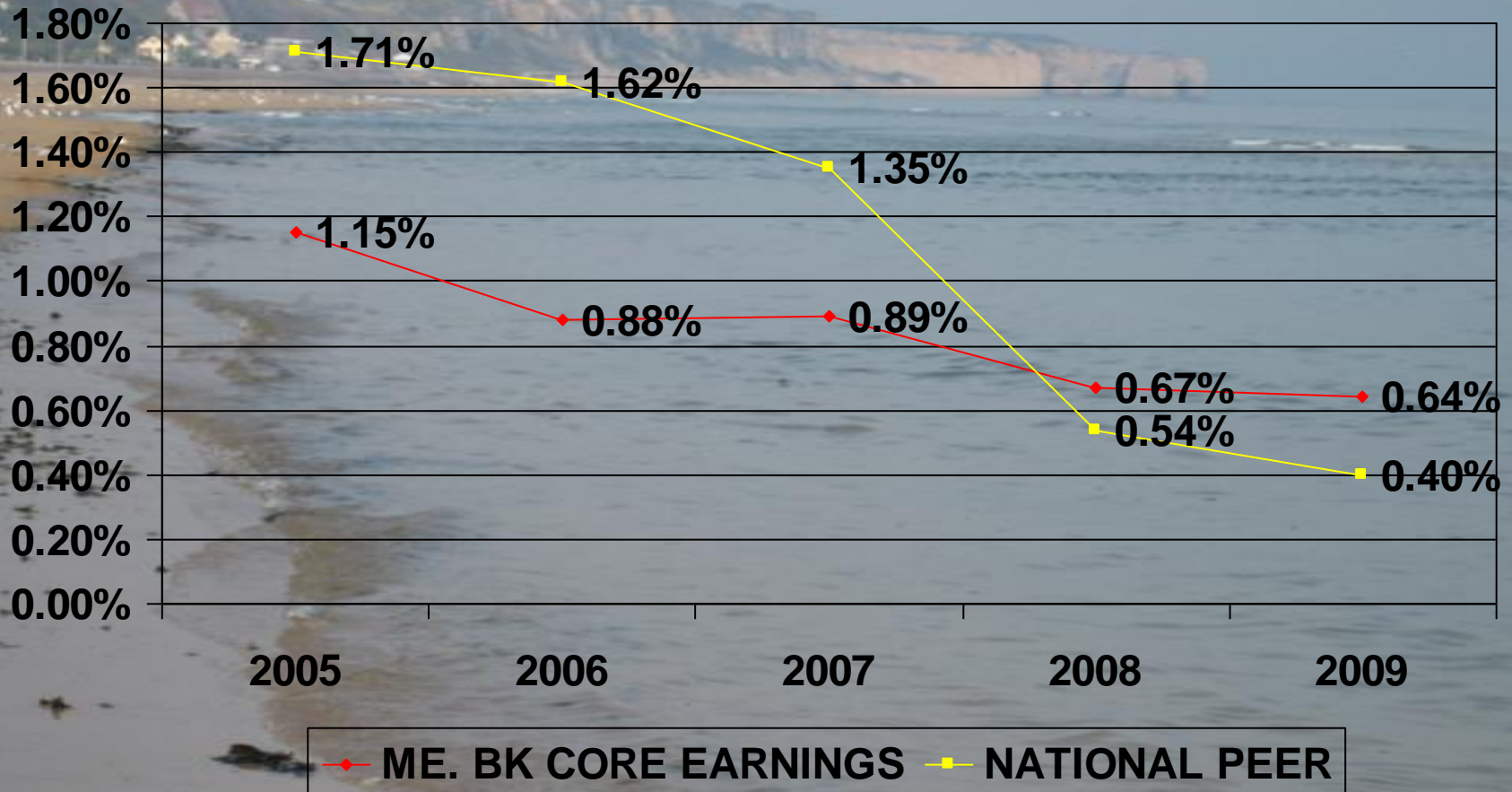
# Distribution of ROA's Maine-Chartered Banks



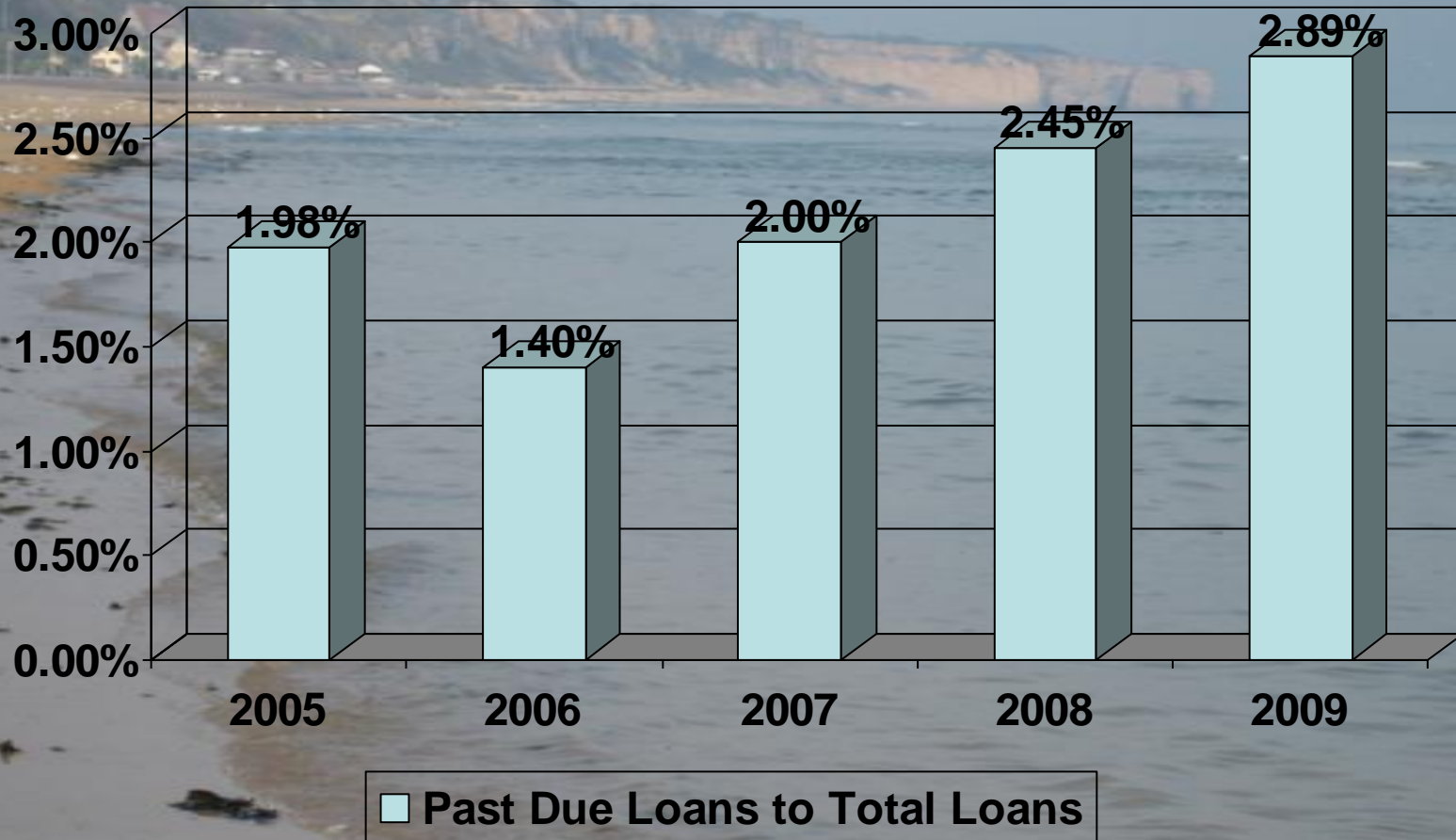
# DISTRIBUTION OF 2008 SECURITIES GAINS/LOSSES ( -.44% of AA) MAINE-CHARTERED BANKS



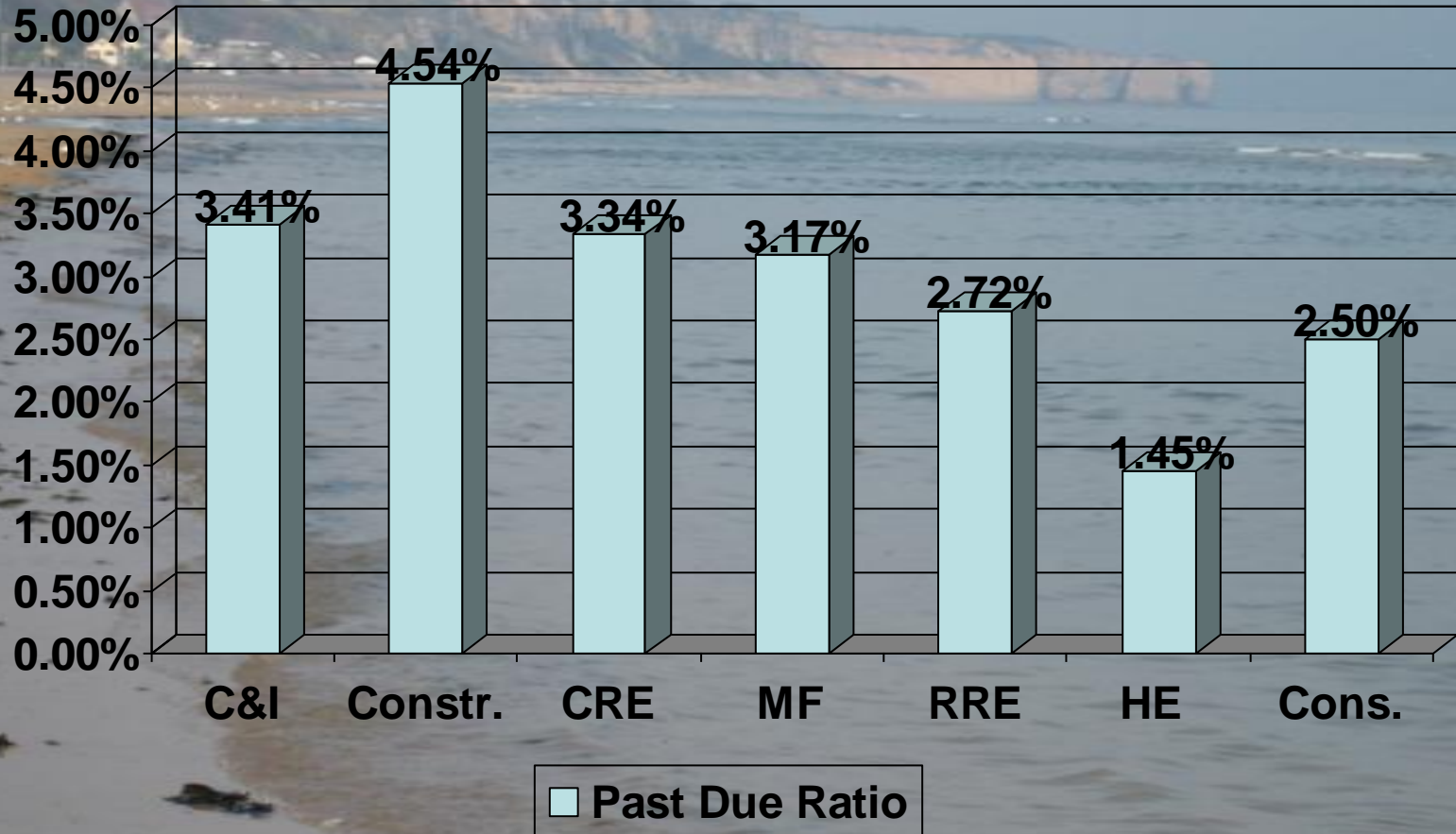
# CORE EARNINGS MAINE-CHARTERED BANKS



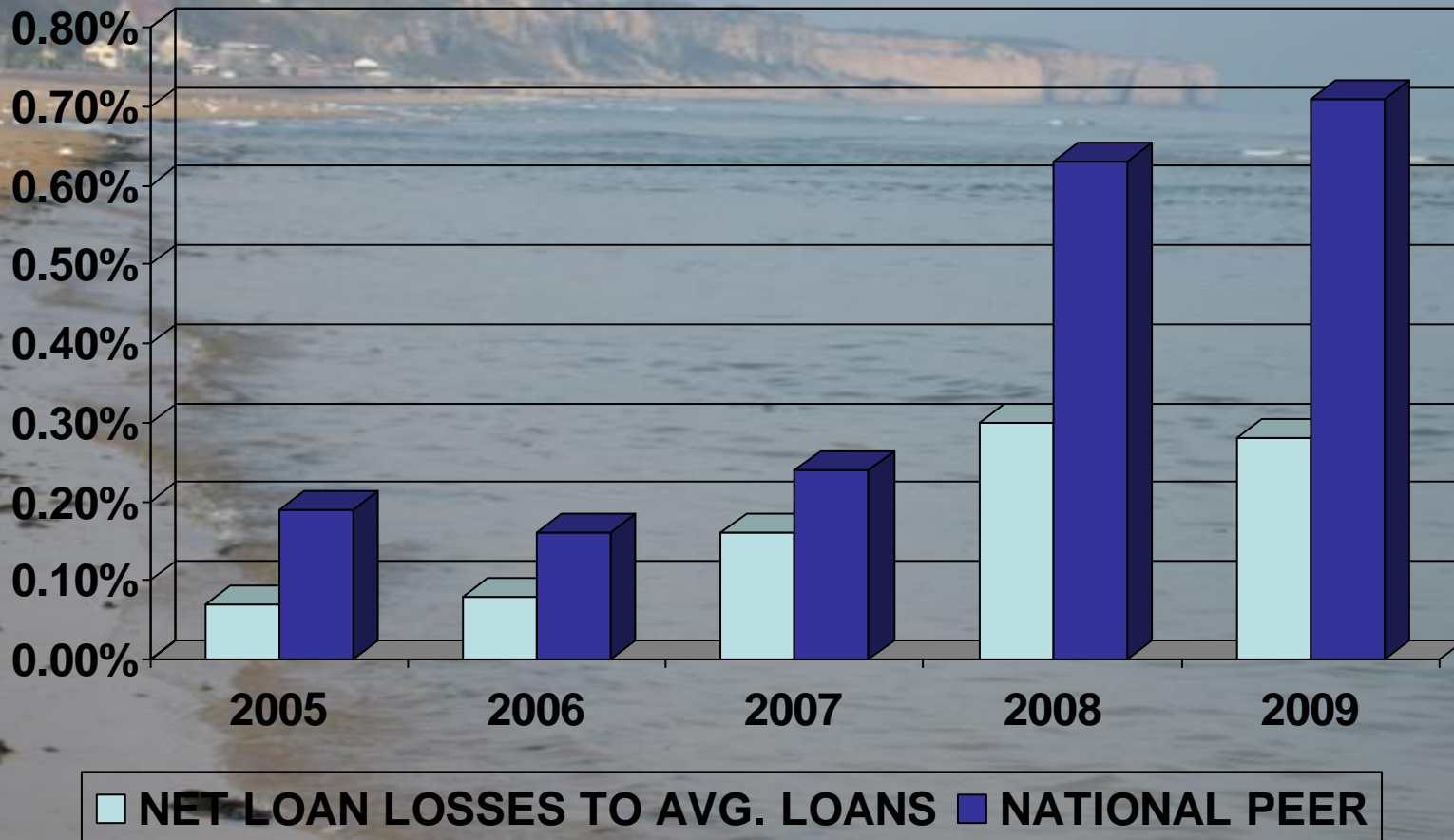
# MAINE-CHARTERED BANKS PAST DUE RATIO



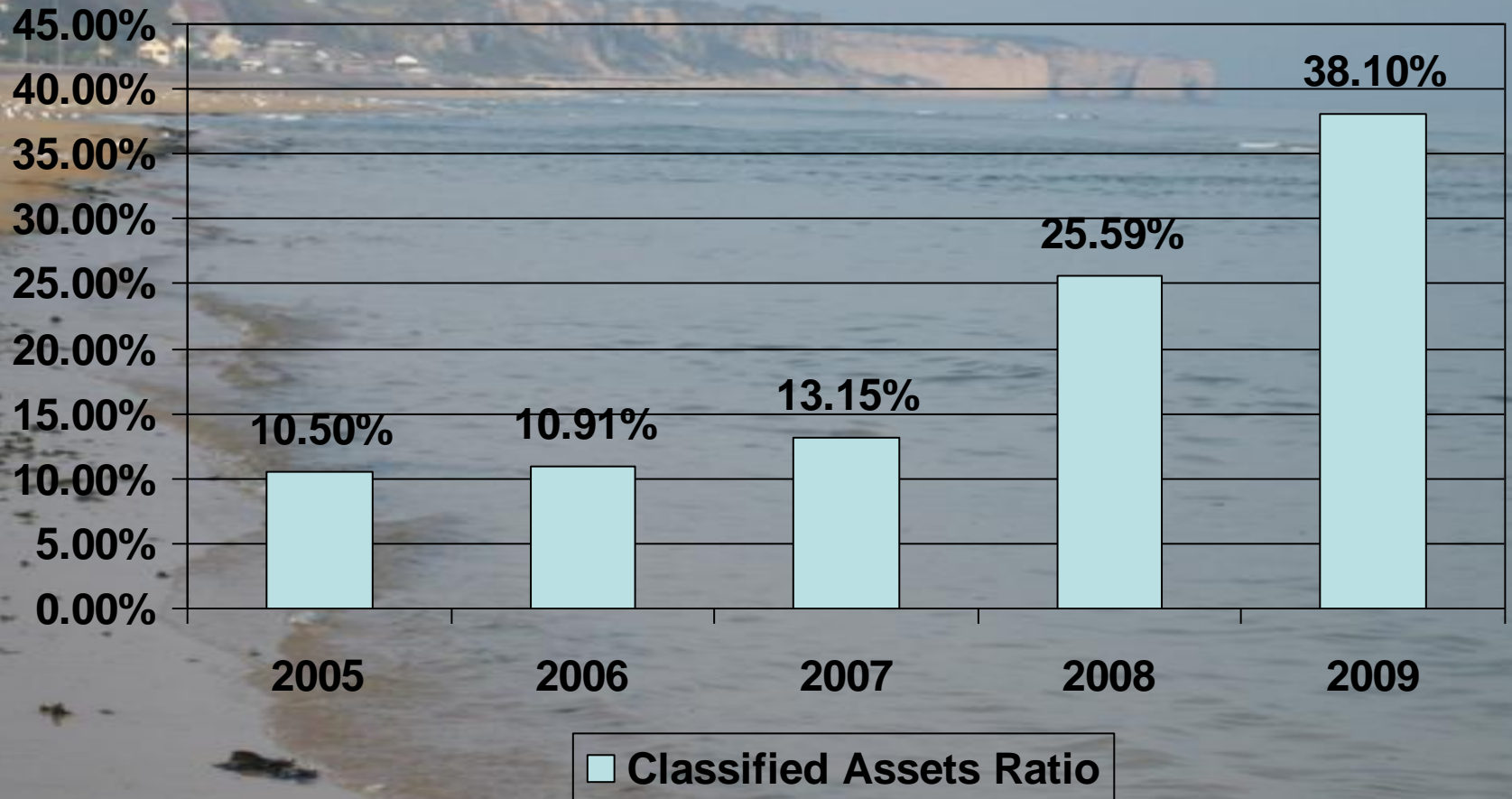
# PAST DUE RATIOS FOR LOAN CATEGORIES MAINE-CHARTERED BANKS 6/30/2009



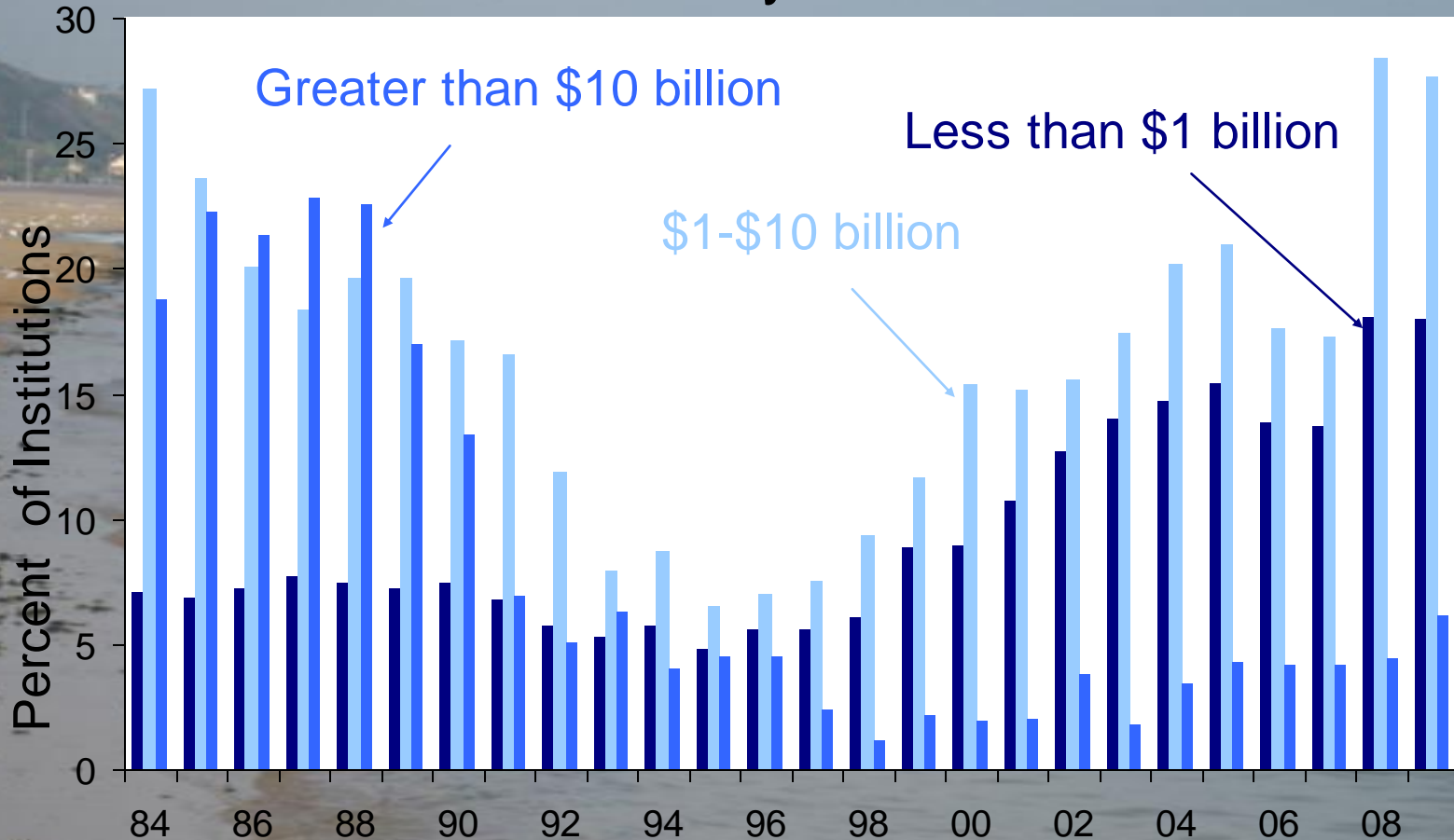
# MAINE-CHARTERED BANKS NET LOAN LOSS RATIO



# CLASSIFIED ASSETS RATIO TREND



# More Small- and Mid-Sized Institutions Grew CRE Concentrations well Beyond the 1980s Levels

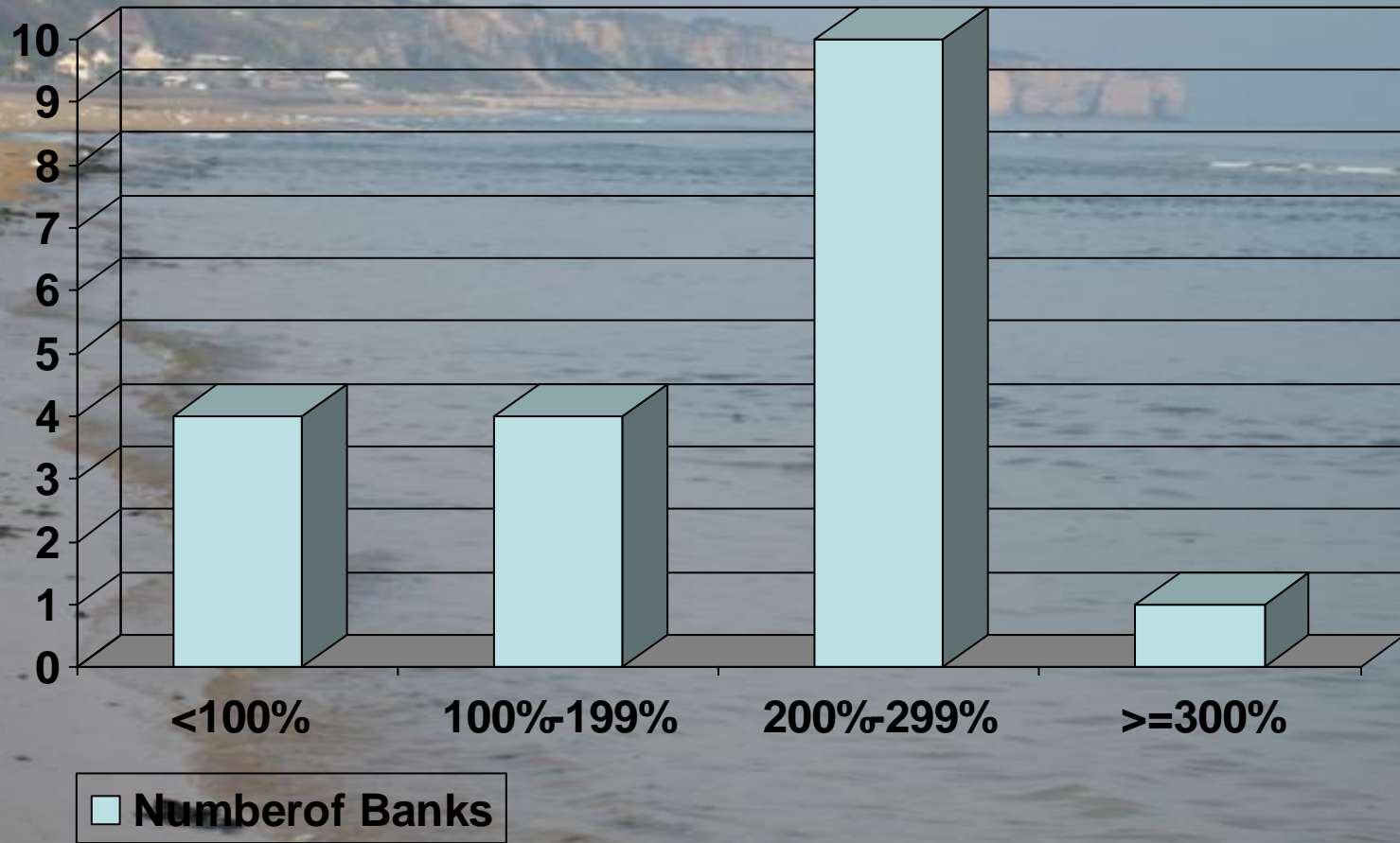


Source: FDIC. Insured institutions with CRE > 300% of total capital. Data as of each year-end and March 31, 2009. Total CRE includes nonfarm/nonresidential and multifamily loans (excludes construction and development loans).

# Maine-Chartered Banks

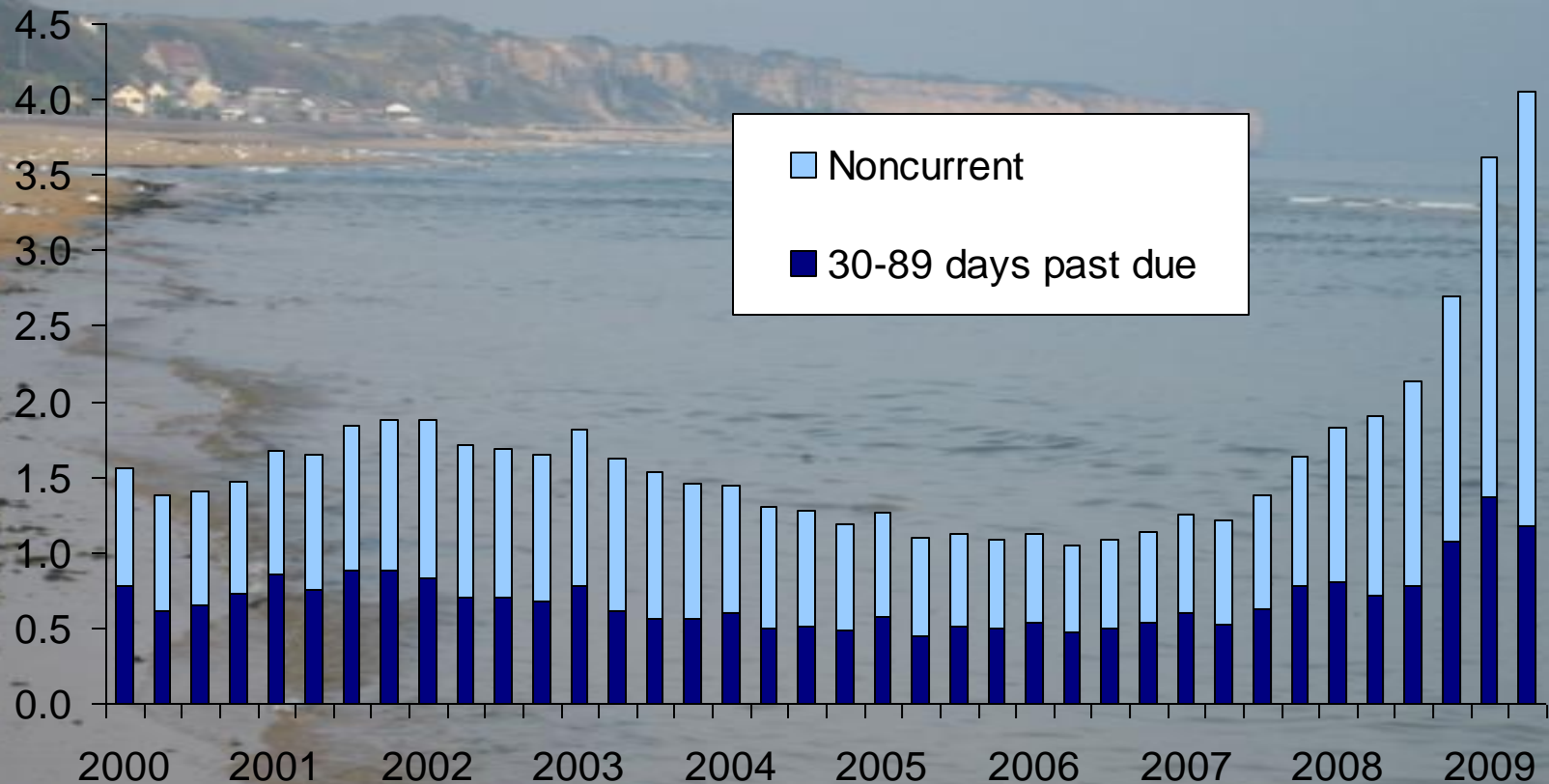
## CRE Concentration to Total Capital

Avg. 6/09: 190%



# Troubled CRE Loans Continue to Increase

Percentage of Loans

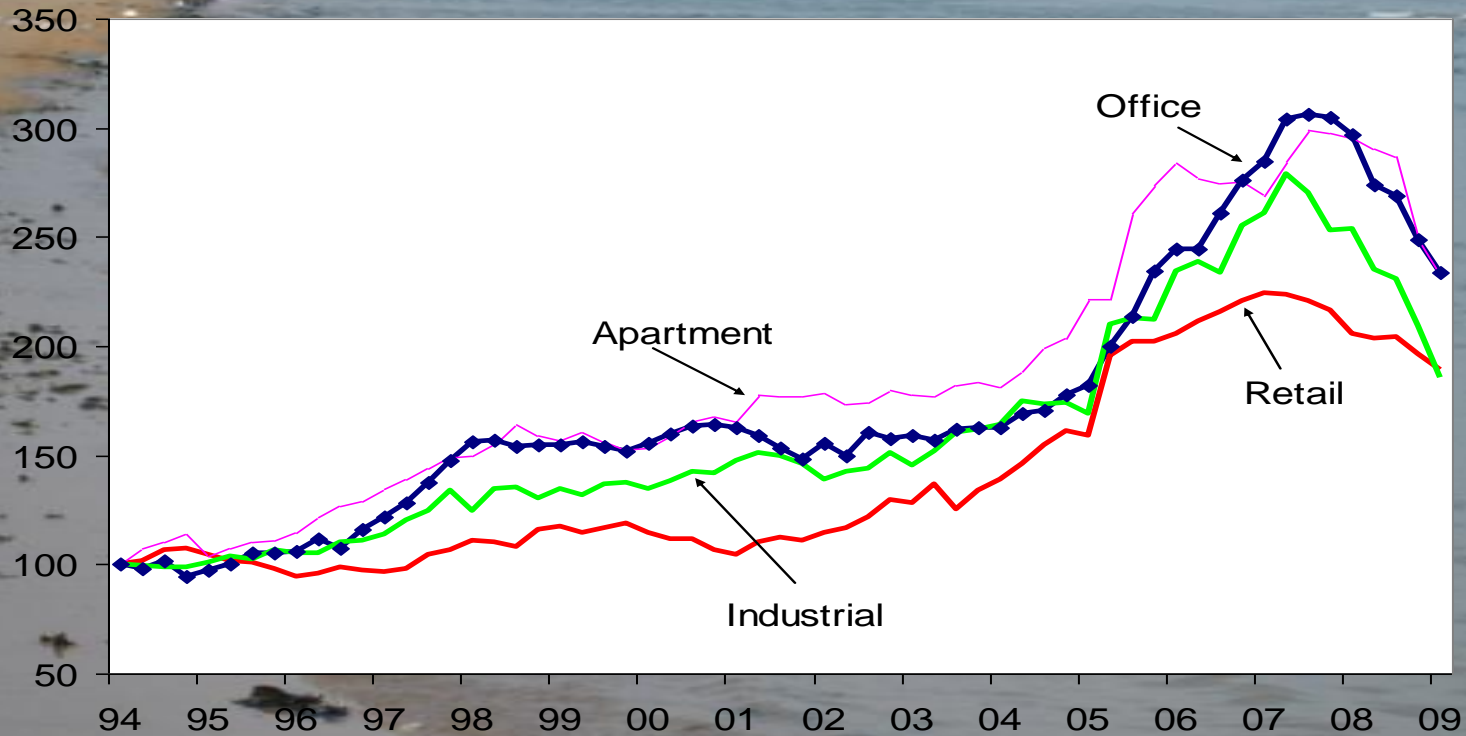


Source: FDIC. All insured institutions.

Note: Data as of June 30, 2009. CRE includes only nonfarm/nonresidential loans. Noncurrent rate includes loans and leases 90 days or more past-due plus loans and leases on non-accrual.

# CRE PRICES ARE DECLINING

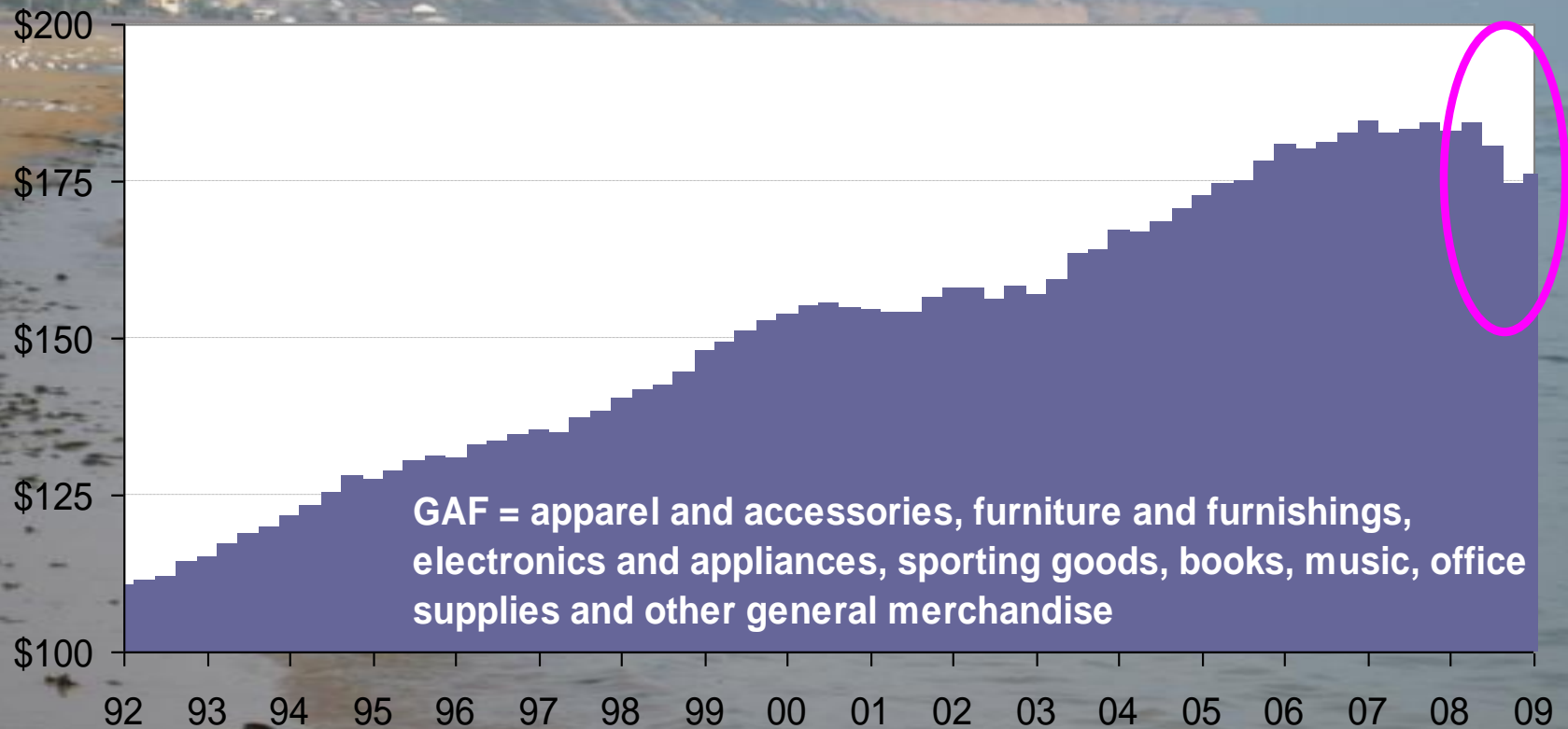
MIT Transaction Based Index  
Q1 1994 = 100



Source: MIT Commercial Real Estate Data Laboratory, using NCREIF data

# Consumers Cut Spending Quickly as They Reacted to the Downturn in the Economy.

Retail Sales - GAF\*  
Sales per square foot



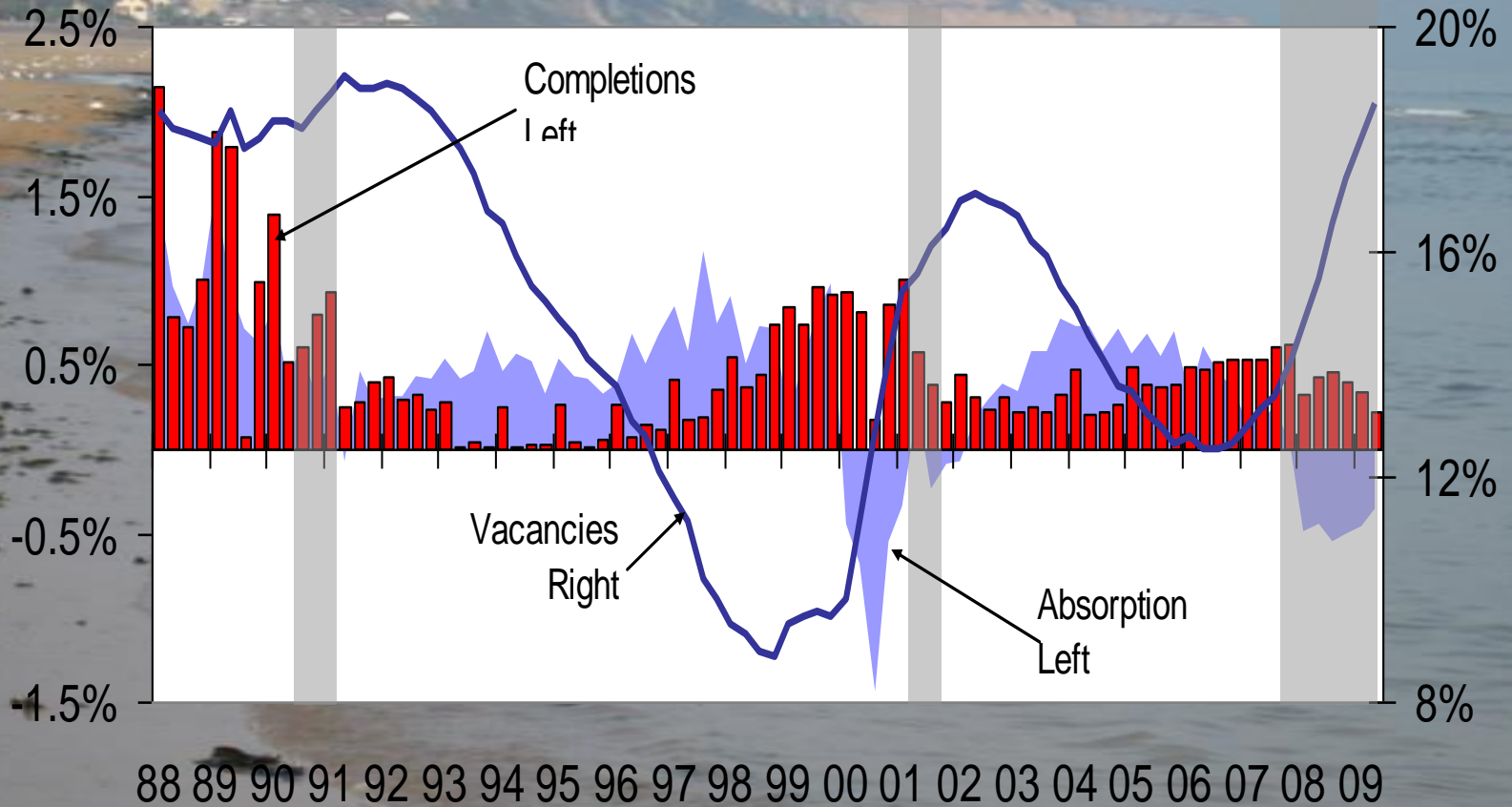
GAF = apparel and accessories, furniture and furnishings, electronics and appliances, sporting goods, books, music, office supplies and other general merchandise

Sources: Census Bureau, Torto Wheaton Research

# U.S. CRE VACANCY RATES

Absorption and Completion  
Percent of Total Stock

Vacancy Rate



Source: Torto Wheaton Research

# COMMON CREDIT ADMINISTRATION ISSUES IDENTIFIED BY EXAMINERS

- Quality of Borrower Financial Statements
  - Audited statements are very rarely seen
  - CPA Compiled or Reviewed Financials are not much more common than audited financials
  - Federal income tax returns are most common
- Timeliness of Financial Information
  - In most cases, FITRs are not received until September/October of the following year

# COMMON CREDIT ADMINISTRATION ISSUES IDENTIFIED BY EXAMINERS

- Personal Financial Statements
  - Contingent liabilities are rarely identified
- Annual Credit Reviews
  - Many institutions have significant backlog
  - Lack of timely submission from borrowers contributes to the problem
- Loan Participations
  - Poor communication with Lead Lender
  - Failure to perform independent underwriting

# COMMON CREDIT ADMINISTRATION ISSUES IDENTIFIED BY EXAMINERS

- Loan Covenants
  - Not commonly used in community banks
  - Rarely enforced, if used
- Troubled Debt Restructurings
  - Loan modifications are more common
  - Need identification process
  - Proper accounting under FAS 15 and 114

# ISSUES FOR DIRECTORS WHEN THEIR BANK IS EXPERIENCING LOAN QUALITY PROBLEMS

- Loan and Credit Department Staffing
  - Annual Review Timeliness
  - Identification of Problem Credits
  - Expeditious Workout and Collection Efforts
  - Who Should Workout Problem Loans?
- Loan Officer Evaluation
  - Delinquency and Charge-off Reports by Officer – Patterns?
  - Technical Exceptions by Officer

# ISSUES FOR DIRECTORS WHEN THEIR BANK IS EXPERIENCING LOAN QUALITY PROBLEMS

- Large Borrowing Relationships
  - Top Ten
  - Relationships Exceeding 10% of Capital and Reserves
- Risk Ratings
  - Timeliness of Upgrades/Downgrades
  - Accuracy of Risk Ratings
  - Quality of System

# ISSUES FOR DIRECTORS WHEN THEIR BANK IS EXPERIENCING LOAN QUALITY PROBLEMS

- Portfolio Analysis
  - Concentrations of Credit
    - Borrowers
    - Industry
    - Geography
  - Policy Exceptions
    - Past Due
    - Losses
    - Risk Ratings

# ISSUES FOR DIRECTORS WHEN THEIR BANK IS EXPERIENCING LOAN QUALITY PROBLEMS

- Stress Testing
  - Interest Rates
  - Vacancy Rates
  - Absorption Rates
  - Lease Rates
- Post Mortem Analysis
  - What Went Wrong and Why
  - Policy Adjustments

# OTHER ISSUES

- **INTEREST RATE RISK**
  - Low Rates
  - Steep Yield Curve
  - What Should the Bank Model?
- **STOCK AND CORPORATE BONDS**
  - Should the Bank Continue to Invest?
  - Consider Size of CRE/C&I Portfolio