8th Annual Regional & Community Bankers’ Conference
Supervisory Perspectives

Federal Reserve Bank of Boston
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Banking Conditions - Ratings

- Problem institutions at 15-year high nationally
- First District better than nation but showing deterioration
  - 93.5% satisfactory or better vs. 82.4% nationally
Banking Conditions - Projections

- Performance indices suggest more deterioration
  - Based on quantitative metrics, 33% of FD banks have weakened profile vs. 44% national
  - Proportion of weakened FD banks increasing more sharply
Banking Conditions - Failures

- Failures nationally spiked significantly in 2009
- The number of failures have continued to increase during 2009
- No First District failures since 2002
Common Themes Nationwide

• Asset Quality
  – Quarterly charge-offs at record high
  – Noncurrent loans increased for 13\textsuperscript{th} consecutive quarter to record level
  – Associated provisions largely responsible for earnings problems (overall industry loss)

• Noncore Funding
  – Peaked late in 2008; more recent declines may be short-lived

• First District experience is similar
Noncurrent Loans to Total Loans

- US $1B-$10B
- US <$1B
- FD <$1B
- FD $1B-$10B

Time Period:
- 4Q07
- 1Q08
- 2Q08
- 3Q08
- 4Q08
- 1Q09
- 2Q09

US dollar ($0B) range:
- US $1B
- US $10B
- US <$1B
- US >$10B

Graphical representation of noncurrent loans to total loans from 4Q07 to 2Q09, categorized by US dollar range and time period.
Major Loan Categories

- 1-4 Res.
- CLD
- Multifamily
- Nonres. RE
- C&I
- Consumer

FD <$10B
US <$10B
Noncurrent Loans by Category

FD <$10B  US <$10B
ALLL to Noncurrent Loans

4Q07 1Q08 2Q08 3Q08 4Q08 1Q09 2Q09

FD $1B-$10B
FD <$1B
US <$1B
US $1-$10B
Noncore Funding as a % of Assets
First District vs. U.S. by size

- US $1-$10B
- FD $1-$10B
- US <$1B
- FD <$1B

Graph showing noncore funding as a percentage of assets for First District vs. U.S. by size from Jun-07 to Jun-09.
Noncore Funding Composition
First District vs. US Banks <$10 Billion
What are we focused on?

• Accelerating field work based on surveillance
• Evaluating loan quality
  • Management of CRE portfolios
  • Real estate collateral evaluation processes
  • Loan loss reserves
• Assessing liquidity and interest rate risk management
  • Funding sources
  • Capital planning and dividend policies
Questions