



*For Immediate Release*

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## West Region bankers see an increase in delinquencies, foreclosures and loan losses

PHOENIX, May 4, 2009 – A majority of bankers in the Southwest and West anticipate an increase in the number of delinquencies (80%), the number of foreclosures (58%) and consumer (50%) and commercial loan losses (63%), according to Grant Thornton LLP’s 16<sup>th</sup> *Bank Executive Survey*, conducted in conjunction with *Bank Director Magazine*. Nearly half anticipate a decrease in demand for consumer loans (43%) and residential mortgage loans (43%).

“These survey results point to the backlash against the lax underwriting standards that contributed to the credit crisis,” says Phoenix Office Managing Partner Ed O’Brien. “To avoid repeating history, financial institutions will have to strike the balance between practicing prudent lending and jump-starting the lending that will help spur economic recovery.”

### Compared to 2008, what changes do you anticipate for your bank in 2009?

	Increase	Decrease
Residential mortgage loan losses	37%	13%
Consumer loan losses	50%	3%
Commercial loan losses	63%	0%
Credit and payment card fraud losses	59%	5%
Documentation fraud losses	13%	0%
Commercial loan demand	37%	29%
Consumer loan demand	14%	43%
Residential mortgage loan demand	27%	43%
Number of delinquencies	80%	0%
Core deposit balances	56%	15%
Customer refinancing of loans	47%	6%
Number of foreclosures	58%	6%
Use of derivative financial instruments	11%	11%
Source of liquidity	24%	17%

Southwest and West Region bankers cite core deposits (95%) as the most frequently anticipated means of funding bank growth in 2009. Nearly nine in ten western bankers (85%) anticipate

using Federal Home Loan Bank advances to fund bank growth in 2009, the same number that did so in 2008. Only 5 percent of Southwest and West Region bankers issued common equity as a means to fund growth in 2008, and only 5 percent issued preferred stock. To fund growth for 2009, 24 percent anticipate issuing preferred stock, while 15 percent anticipate issuing common equity.

**Please indicate which of the following vehicles you used to fund your bank's growth in 2008 and whether you plan to use them again in 2009.**

	Anticipated 2009	Used 2008
Core deposits	95%	98%
Brokered deposits	39%	59%
Loan sales	32%	24%
FHLB advances	85%	85%
Sales leaseback transactions	7%	0%
Issue trust preferred securities	2%	0%
Issue subordinated debentures	5%	0%
Issue covered notes	0%	0%
Issue preferred stock	24%	5%
Issue common equity	15%	5%

The majority of bankers in the region agree with the following items: Increases in FDIC deposit insurance premiums will have a significant effect on the level of their banks' operating expenses, which will have to be offset by cuts elsewhere (73%), consumers have diminished confidence in the banking industry (78%), and their banks will maintain their current underwriting standards for the foreseeable future (85%). However, they disagree that the repricing of ARMs will have an adverse impact on their banks' loan losses in the coming year (82%), that fair value accounting is the most appropriate method for banks to recognize the value of their financial assets held for sale or trading in earnings (55%), and that the FDIC should insure all bank deposits (50%).

To grow and/or compete profitably in the coming year, bankers in the region plan to conduct promotions to attract new customers to existing products and services (88%) and increase cross-selling efforts to current customers (83%). Less than a quarter plan to expand their banks' market areas by building additional branches (24%) or selling or closing branches (17%); however, nearly four in ten (37%) are likely to expand market area by acquiring additional branches.

"As evidenced by our respondents, many banks in the region are going back to basics and refocusing on their existing service offerings," adds O'Brien. "In this environment, banks in the west cannot simply expand for the sake of growth. However, well-capitalized banks can seize the opportunities created by the downturn to buy competitors and expand market share."

Just more than half of the bankers in the Southwest/West (53%) report that they are not familiar with IFRS, while 35 percent say that it is not yet a significant issue for their bank. Only 3 percent say that their banks are prepared to switch over to IFRS, and another 3 percent have sent someone to training to learn about IFRS.

“While U.S. adoption of IFRS may be inevitable, it may not be catastrophic for banking institutions,” says O’Brien. “Given the existing extent of convergence between applicable U.S. standards and IFRS and the ongoing efforts of the FASB and IASB to converge standards that remain out of sync, the full adoption of IFRS many years in the future could turn out to be more of a whimper than a bang.”

**Which statement best reflects your bank’s current status regarding the implementation of IFRS?** (Select all that apply.)

IFRS is not yet a significant issue for my bank	35%
My bank has sent someone to training to learn about IFRS	3%
My bank has started to analyze the impact of IFRS	12%
My bank is prepared for the change to IFRS	3%
I don’t expect IFRS to apply to my bank	6%
I am not familiar with IFRS	53%

For a copy of the survey, please go to [www.GrantThornton.com/BankSurvey](http://www.GrantThornton.com/BankSurvey) or e-mail Grant Thornton’s Financial Services practice at [FinancialServices@gt.com](mailto:FinancialServices@gt.com).

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#### ***About the survey***

Grant Thornton’s *Bank Executive Survey* provides a snapshot of the banking world, presenting a compilation of opinions of industry leaders on the current state and future direction of the industry. In early November 2008, *Bank Director* magazine mailed questionnaires to a national sample of 3,000 chief executive officers and other senior officers of banks and savings institutions. A total of 339 completed questionnaires were returned for a response rate of 11.3 percent. In the West Region, there were 41 respondents.

Sixty-two percent of the respondents report assets of less than \$500 million, with 38 percent reporting assets greater than \$500 million. One-third of the bankers reported that their institutions are publicly held, 55 percent are with private corporations and 12 percent have mutual charters.

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and technology. Each issue also features insightful commentary from former FDIC chairman Bill Seidman. Since its inception in 1991, *Bank Director* has become recognized as the essential resource for top decision makers in the financial services industry. For more information, visit [www.bankdirector.com](http://www.bankdirector.com).