



STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS
BATON ROUGE, LOUISIANA



**TO: THE CHIEF EXECUTIVE OR MANAGING OFFICER OF ALL
LOUISIANA STATE-CHARTERED BANKS AND THRIFTS**

FROM: SID SEYMOUR, CHIEF EXAMINER

DATE: DECEMBER 21, 2010

RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE

FINANCIAL PERFORMANCE

Overall Financial Condition – As of 9-30-10, there were 157 banks and thrifts domiciled in the State of Louisiana, of which, 127 or approximately 81 percent were state-chartered. In the third quarter of 2010, Louisiana-domiciled banks and thrifts reported a substantial decrease in net income from the prior quarter, primarily because of an increase in non-interest expense.

Net income through 9-30-10, actually increased by \$18 million compared to the same time period in 2009, due primarily to securities gains. Increased net interest income and reduced loan loss provisions offset increased non-interest expense and reduced non-interest income. As of 9-30-10, the return on average assets for Louisiana-domiciled banks and thrifts was slightly above the national average. As of that date, Louisiana-domiciled banks and thrifts reflected the eighth lowest percentage of unprofitable institutions at 8.28%, compared to 20.44% nationwide.

Asset quality reflects further slippage, with non-current loans and nonperforming assets both increasing from the previous year. The ratio of non-current loans to total loans increased and is now one basis point above the national average. The ratio of nonperforming assets to total assets remained above the national average with the gap widening during the third quarter. {Both ratios, however, continue to reflect the impact of four failed bank acquisitions in the second and third quarter of 2009 as well as the acquisition of a fifth failed bank during the third quarter of 2010. A large majority of the assets acquired from these acquisitions are covered by loss sharing agreements with the FDIC.}

Net charge-offs increased by approximately \$20 million, or 7.67%, over the same period last year; however, the ratio of net charge-offs to total loans increased by only 3 basis points. The net charge-off ratio remains well below the national average although the gap decreased during the third quarter. For Louisiana-domiciled institutions, the core capital (leverage) ratio and risk-based capital ratios all increased during the third quarter and remained above national averages. The ratio of net loans to deposits for Louisiana-domiciled institutions declined during the quarter with a decline in net loans and an increase in deposits -- as deposits increased at a faster rate than net loans. The ratio for Louisiana was slightly below the national average.

Banks – For Louisiana-domiciled banks, there was a moderate increase in total assets, total deposits, and Tier 1 (core) capital in a year's time. Core deposits, as a percent of total deposits and borrowed money, reflected a moderate increase in a year as core and total deposits increased while borrowed money declined. Net income through 9-30-10 increased substantially on a year-over-year basis primarily because of increased net interest income and a decline in loan loss provisions. However, the return on average assets remains the same and is above the national average.

The ratio of net loans to deposits declined over a year's time as deposits grew faster than net loans and, at this time, is below the national average, which declined with growth in deposits exceeding growth in net loans. The core capital (leverage) ratio has remained essentially the same in a year's time while the two risk-based capital ratios increased. Two of the three capital ratios, the exception being the total risk-based ratio, remained above the national average although the gap between the two lessened over the year. Capital ratios for the majority of Louisiana-domiciled banks remain well above national averages.

In a year's time, non-current loans and nonperforming assets both increased, causing the ratios to total loans and total assets, respectively, to also increase. The ratio of non-current loans and the ratio of nonperforming assets are both above the national average, unlike a year ago when both were well below the national average. The dollar volume of net charge-offs for the first nine months of 2010 increased from a year ago. However, the net charge-off ratio remained essentially the same and was well below the national average with the gap widening during that time. {As noted previously, a significant portion of the increase is attributable to the acquisition of failed banks, with the acquisition of a majority of these assets occurring in the fourth quarter of 2009. In addition, some of the increase in the third quarter of 2010 was attributable to the acquisition of another failed bank. }

Thriffs – For Louisiana-domiciled thriffs, there was a moderate increase in total assets and total deposits, and a modest increase in Tier 1 (core) capital over a year's time. Core deposits, as a percent of total deposits and borrowed money, increased modestly as core deposits increased faster than total deposits and borrowed money declined. For the first nine months of 2010, net income decreased by more than \$8 million from the prior year, primarily because of an increase in non-interest expense. As a result of this decrease, the average ROAA decreased in a year's time and was 22 basis points below the national average, which was well above the ratio for last year.

All three capital ratios decreased from a year ago but remained well above national averages. While non-current loans and nonperforming assets have increased substantially in a year's time, the ratios to total loans and total assets, respectively, still remain at manageable levels and well below national averages. For the first nine months of 2010, net charge-offs increased substantially over the prior year. However, the ratio of net charge-offs to total loans remains acceptable and is well below the national average. For Louisiana-domiciled thriffs, the ratio of net loans to deposits has declined on a year-over-year basis as total deposits have increased faster than net loans, and the ratio is now slightly below the national average.

The following chart provides a comparison of key financial ratios for banks domiciled in the State of Louisiana and eleven (11) surrounding states. As you will see, Louisiana-domiciled banks continue to compare favorably with banks domiciled in neighboring states in most areas.

**09/30/2010 UBPR State Averages
 Commercial Banks Only**

State (FDIC Region)	ROA	Rank *	Sub S ROA	Rank *	Net C/Os	Rank *	Tier 1 Cap	Rank *	Non-Cur Lns	Rank *
Arkansas (Memphis)	0.91%	5	0.82%	4	0.54%	6	10.32%	3	2.27%	6
Colorado (Dallas)	0.45%	10	0.38%	10	0.86%	9	8.99%	10	3.25%	10
Louisiana (Memphis/Dallas)	1.05%	3	0.88%	2	0.34%	2	10.25%	4	2.17%	5
Mississippi (Memphis)	0.77%	7	0.68%	7	0.54%	6	10.18%	5	1.81%	3
New Mexico (Dallas)	1.08%	2	0.86%	3	0.44%	5	9.57%	9	2.30%	7
Oklahoma (Dallas)	1.20%	1	0.92%	1	0.36%	3	9.96%	7	1.80%	2
Tennessee (Memphis)	0.47%	9	0.44%	9	0.68%	8	9.83%	8	2.59%	8
Texas (Dallas)	0.94%	4	0.76%	5	0.32%	1	10.16%	6	1.25%	1
Alabama (Atlanta)	0.50%	8	0.45%	8	0.96%	10	10.52%	2	2.81%	9
Florida (Atlanta)	-0.90%	12	-0.91%	12	1.85%	12	8.96%	11	5.52%	11
Georgia (Atlanta)	-0.50%	11	-0.53%	11	1.56%	11	8.68%	12	6.62%	12
Kentucky (Chicago)	0.87%	6	0.76%	5	0.39%	4	10.67%	1	2.08%	4
Nationwide	0.58%		0.49%		0.66%		9.94%		2.41%	

Rank *: Represents rankings from 1 to 12 or best to worst.

As of 11/05/2010

The following chart illustrates the level of non-current loans for state-chartered banks in Louisiana, all Louisiana-domiciled banks, and all banks nationwide from year-end 1992 through March 31, 2010. While the ratio for Louisiana-domiciled banks has been trending up since the end of 2006, it remained below the national average until the most recent quarter-end. Prior to the most recent quarter-end, this was attributable to continued loan growth in Louisiana, with loans declining on a nationwide basis. The third quarter saw with decrease minimally in Louisiana and on a nationwide basis.

Non-Current Loan Ratio

Date	State-Chartered	All LA-Domiciled	Nationwide	Diff (LA vs NW)
9/30/2010	5.44%	5.13%	5.12%	0.01%
6/30/2010	4.76%	4.63%	5.23%	-0.60%
3/31/2010	5.18%	4.87%	5.46%	-0.59%
12/31/2009	5.41%	5.21%	5.53%	-0.32%
9/30/2009	2.15%	2.87%	5.00%	-2.13%
6/30/2009	1.81%	2.64%	4.36%	-1.72%
3/31/2009	1.85%	2.57%	3.71%	-1.14%
12/31/2008	1.74%	2.23%	2.91%	-0.68%
12/31/2007	1.07%	1.20%	1.33%	-0.13%
12/31/2006	0.93%	0.76%	0.80%	-0.04%
12/31/2005	1.47%	1.08%	0.75%	0.33%
12/31/2004	0.95%	0.65%	0.86%	-0.21%
12/31/2003	1.09%	0.74%	1.20%	-0.46%
12/31/2002	1.12%	0.83%	1.46%	-0.63%
12/31/2001	1.18%	0.89%	1.14%	-0.25%
12/31/2000	1.13%	0.92%	1.13%	-0.21%
12/31/1999	1.05%	0.89%	0.95%	-0.06%
12/31/1998	1.24%	0.93%	0.97%	-0.04%
12/31/1997	1.23%	0.87%	0.96%	-0.09%
12/31/1996	1.32%	0.99%	1.04%	-0.05%
12/31/1995	1.12%	0.99%	1.17%	-0.18%
12/31/1994	1.04%	0.95%	1.30%	-0.35%
12/31/1993	1.40%	1.71%	1.99%	-0.28%
12/31/1992	1.70%	2.92%	3.06%	-0.14%

Ratio shown above is the weighted average ratio from the Statistics on Depository section of the FDIC website, based on the Standard Peer Group of All Commercial Banks, grouped by State-Chartered, Louisiana-domiciled, and Nationwide. {Please note that the increase in the non-current ratio for the past four quarters for state-chartered and LA-domiciled banks occurred primarily due to the acquisition of several failed banks by a state-chartered bank, resulting in a significant increase in non-current loans. However, a large percentage of these loans are covered by a loss-sharing agreement with the FDIC as a result of the failed bank acquisitions.}

SMALL BUSINESS LENDING FUND

Recently, we've received several inquiries regarding this program which was created by the Small Business Jobs Act of 2010. The program makes available up to \$30Bil of capital to small community banks (<\$10Bil in TAs) with incentives to increase small business lending. State-chartered banks will be required to apply directly to Treasury, since it will be making the investment decision. State-chartered banks are not required to "apply" with this Office under the Act. While it is required to "consult" with state and federal banking agencies under the Act, Treasury is not required to get a "recommendation" from the agencies. We're still waiting on Treasury to come out with the term sheet and application materials for the program. When they become available, these materials will be posted on the following website: www.treasury.gov. For more information about the program, please contact sblf@do.treas.gov. You may also contact me directly at 225/925-4675 or sseymour@ofi.la.gov if you have any questions.

BANK HOLDING COMPANY (BHC) DIVIDENDS

In the event your BHC finds it necessary to seek prior approval from the Federal Reserve to pay a dividend, you should review the contents of SR 09-4 -- originally issued on 2-24-09, and revised on 3-27-09. While the guidance largely reiterates longstanding policies and practices, it also details specific expectations under which a BHC would be expected to inform and consult with the Federal Reserve prior to entering into certain transactions. While the guidance is applicable to all BHCs, it is especially relevant for BHCs that may be experiencing financial stress and/or participating in a federally-related capital purchase program. Since we share the supervision and regulation of your BHC, please be sure to copy this Office on any correspondence to the Federal Reserve relating to such transactions. The following is the link for the Federal Reserve's dividend guidance: <http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.pdf>. Please call me directly at 225/925-4675 or sseymour@ofi.la.gov if you have any questions.

LEGAL LENDING LIMIT

LSA-R.S. 6:415(B)(2) states the following: "A state bank shall not loan on a secured basis to any one borrower, directly or indirectly, an amount in excess of one-half the sum of its capital stock and surplus. However, a state bank may loan to one borrower an amount not to exceed the sum of its capital stock and surplus, but only when such loan is secured by a pledge of obligations of the United States of America, or of the state of Louisiana, or any subdivision or municipality thereof, or is a commodity loan secured by readily marketable staples."

We have previously, and consistently, interpreted "pledge of obligations of the United States of America," within the context of R.S. 6:415(B) to mean an unconditional guarantee of the SBA, USDA, FSA, etc. The extent of such guarantee must be readily ascertainable and the guarantor cannot have the authority to alter the amount of the guarantee subsequent to the loan being funded. Of course, the guarantor may impose certain requirements on the lender in conjunction with such a guarantee so long as lender compliance with their provisions results in an unconditional guarantee of the loan. Based on this interpretation, the bank would not exclude the SBA guarantee from its lending limit calculation. Rather, the bank could lend up to 100 percent of its capital stock and surplus. Please contact Deputy Chief Examiner Kerry Morris at 225/925-4201 or kmorris@ofi.la.gov with questions.

THE SECURE AND FAIR ENFORCEMENT FOR MORTGAGE LICENSING (SAFE) ACT

While the final rules issued by the various federal agencies for the SAFE Act became effective October 1, 2010, the system that will be used for registration is not yet available to depository institutions. At this time, the agencies anticipate that the registration system for employees of insured depository institutions may become available as soon as January 28, 2011. The agencies will notify its institutions of the date when the registration system becomes available. Please be advised that your institution and its employees are not required to do anything at this time. We will be sure to update you on any progress in this regard on our website and in future correspondence. For more information, you may refer to the SAFE Act link at <http://www.ffiec.gov/safeact.htm>.

Additional information specific to the registration of employees can also be found at the following: <http://mortgage.nationwidelicensingsystem.org/fedreg/Pages/default.aspx>. You may also contact Review Examiner Tim Robichaux at 225/922-0878 or trobichaux@ofi.la.gov with any questions.

My previous CEO letter stated that a new standard mortgage loan application (FNMA Form 1003) should be utilized which requires a unique identifier for both the loan originator and the loan origination company. However, institutions that originate loans for sale to a Government-Sponsored Entity (GSE), such as FNMA or FHLMC, or to obtain a guaranty from a GSE should use this form. Most institutions that originate mortgage loans choose to use the standard form, rather than develop their own form, even though they may not sell these loans to a GSE. Until the registration requirements of the SAFE Act are in effect for depository institutions, these unique identifiers are not required. More information on the new application and the SAFE Act can be found at <https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/pdf/mortgageloandelreqsfaqs.pdf>.

LEGISLATION

The OFI is currently considering the need to sponsor depository-specific legislation during the upcoming 2011 Regular Legislative Session. In the meantime, you can find a complete list of industry-related legislation that was passed during the 2010 Legislative Fiscal Session on our website at www.ofi.la.gov. The short summaries are meant to inform you of the general contents of the legislation but should not be relied upon in lieu of a complete reading of each Act. In order to read the Act in its entirety, go to our website and click the link "Index of Acts from the 2010 Legislative Fiscal Session" which is located under "What's New at OFI." This link is permanently located under the "Statutes" section of our website. Click on "Statutes" on the left menu bar and then click on the link "Index of Acts from the 2010 Legislative Fiscal Session." The enrolled bills can also be found at the Legislature's website at: www.legis.la.gov. Please contact General Counsel Sue Rouprich at 225/922-1028 or srouprich@ofi.la.gov with any questions in this regard.

CONCENTRATIONS IN COMMERCIAL REAL ESTATE (CRE) LENDING

As I have mentioned previously, asset concentrations always warrant regulatory review. However, they become a regulatory concern when an institution's risk management practices are found to be deficient or lacking to a significant degree. First and foremost, you must identify the concentration risks in your loan portfolio by establishing comprehensive reports on specific loan types. Most of the institutions that have subsequently developed processes to 'slice and dice' their CRE loan portfolios for a closer look have commented that the exercise was very beneficial and could benefit other areas.

CRE concentrations have been identified as a primary cause for many of the failures that have taken place in other areas of the country over the last two years. If you have not already done so, you should refer to the FDIC's Office of the Inspector General website at <http://www.fdicog.gov/MLR.shtml> and review some of the Material Loss Reviews for an insight into the causes of the failures.

In addition, the federal regulatory agencies' policy statement on Prudent Commercial Real Estate Loan Workouts may be found at <http://www.fdic.gov/news/news/financial/2009/fil09061.html> which replaces their Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loan dated November 1991 and June 1993. Finally, the audio file or transcript of a telephone seminar on this topic is located at <http://www.fdic.gov/news/news/financial/2009/fil09068.html>. If you have any questions, please contact me directly at 225/925-4675 or sseymour@ofi.la.gov.

ACCOUNTING ISSUES

The September 30, 2010, Supplemental Call Report Instructions contain some excellent accounting guidance for Troubled Debt Restructures, Loan Participations, and Other-Than-Temporary Impairments. This guidance can be found on the FDIC's website at <http://www.fdic.gov/regulations/resources/call/call2.html>.

The September 30, 2010, Call Report Instruction updates include a revised Glossary in which the references to accounting standards now include the corresponding references to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). In June 2009, FASB Statement No. 168 (FAS 168) established the FASB Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles. The FASB Codification can be accessed electronically from the FASB website at <http://asc.fasb.org/>. The updated Call Report Instructions can be found on the FDIC's website at <http://www.fdic.gov/regulations/resources/call/call2.html>.

EXAMINATION TOPICS OF INTEREST

Pursuant to Call Report Instructions, loans made to commercial customers that are secured by commercial real estate (CRE) are reported as CRE Loans. It is important to note, however, that loans made to commercial customers that are not secured by real estate, which would include commercial or industrial loans where the majority of their revenues or assets are derived from or consist of real estate ventures or holdings, should be reported as a memoranda item on Call Report Schedule RC-C Part I.M.3. For additional information on this topic, refer to the following link to the FDIC's website: <http://www.fdic.gov/regulations/resources/call/crinst/2010-09/910RC-C1093010.pdf> (Page RC-C-28).

We've seen an increase in the number of reports that contain apparent violations of Part 323.3 of the FDIC's Rules and Regulations for the lack of evaluations on real estate pledged as collateral for a loan, especially when the loan is renewed or refinanced, and management was unaware of the need to obtain evaluations on certain loans at the time of renewal or refinance. In addition, some of these apparent violations are cited because the evaluation is not fully-supported.

On December 2, 2010, the Federal Banking Agencies and the NCUA issued their Final Appraisal and Evaluation Guidelines, which supersede previous guidelines which were issued in 1994. These guidelines address some of the following issues: transactions that require appraisal and those that require evaluations, minimum content for evaluations, factors to assess whether an existing appraisal or evaluation remains valid and may support a subsequent transaction, and guidelines for reviewing appraisals and evaluations. The new guidelines can be found at the following website: <http://www.fdic.gov/news/news/press/2010/pr10261a.pdf>. Please contact Deputy Chief Examiner Kerry Morris at 225/925-4201 or kmorris@ofi.la.gov with questions in this regard.

OTHER TOPICS OF INTEREST

FDICconnect – As mentioned previously, our email system may not be secure if your institution is not using Transport-Layer Security (TLS); therefore, all confidential information submitted electronically to this Office should be sent through FDICconnect. If your institution is not registered, go to www.fdic.gov and click the Quick Links for Bankers. On the Quick Links for Bankers page, you should see the link for FDICconnect. Once you click on the link, the FDICconnect Business Center will open and show you a number of links. These links will provide information on using this service and registering your institution.

We determined earlier this year that an OFI employee with access to FDICconnect must first establish a session with you for you to be able to exchange information with us. Therefore, please notify your Review Examiner by email that you would like to send us something, and he/she will set up the session so that you may safely exchange your information with us.

Subscribe to Receive Regulatory Alerts Automatically – As mentioned previously, you may register your email address to subscribe for regular notifications of regulatory alerts at the following websites:

FDIC -- https://service.govdelivery.com/service/multi_subscribe.html?code=USFDIC

FRB -- <http://www.federalreserve.gov/generalinfo/subscribe/notification.htm>

OTS -- <http://www.ots.treas.gov/?p=WebsiteSubscription>

Information on the Conference of State Bank Supervisors' (CSBS) Website – As mentioned in previous updates, I would encourage you to periodically check out the CSBS website. Their weekly newsletter contains a great deal of useful information and will update you on the current matters affecting the state banking system. The direct link to the current newsletter is located at <http://www.csbs.org/news/csbs-examiner/Pages/121710.aspx>.

Their homepage, <http://www.csbs.org>, contains numerous helpful links.

CLOSING COMMENTS

We are saying goodbye to Mrs. Dale Jacobs, our Staff CPA for the last twenty-one years. Dale retired on December 10, 2010, and will be greatly missed by everyone at OFI. However, Mrs. Christine Kirkland has been hired as Dale's replacement. Christine has a Masters in Accounting from LSU and is a CPA and Certified Internal Auditor. Most recently, she has worked as an auditor for the Legislative Auditor's Office for the past 10 years. We are excited and pleased to welcome Christine to OFI! Christine is available to assist you with any accounting questions and can be reached at 225/922-0632 or ckirkland@ofi.la.gov. Finally, we are always looking for recommendations to improve the manner in which we conduct examinations. If you have noticed an area which needs improvement, please let me know. You can call me directly at 225/925-4675 or sseymour@ofi.la.gov.

Happy holidays and best wishes for the New Year from everyone at OFI!