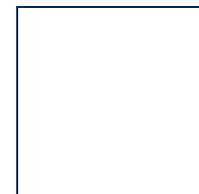


Lessons Learned

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Supervision, Regulation and Credit



THE FEDERAL RESERVE BANK OF RICHMOND

RICHMOND ■ BALTIMORE ■ CHARLOTTE

What Happens to Us

When a failure is estimated to create a loss to the FDIC insurance fund over \$25 million an Inspector General Report is required.

Findings from the IG reports included statements such as:

- Though examiners saw clear warnings that lenders were taking dangerous risks they were not aggressive enough in forcing changes at the institution.
- “Overall, the regulators were slow to react.”
- The Treasury IG report on Superior Bank of Hinsdale, Ill, which failed in 2001 amid heavy subprime losses, should have signaled examiners about the crisis ahead.
- Recent reports underline a mind-set during the real estate boom that profits would continue unabated, removing an immediate need to fix visible loan deterioration.

PCA Capital Categories

Capital Category	Total Risk-based	Tier 1 Risk-based	Leverage	Other
Well capitalized	10% or more, and	6% or more, and	5% or more, and	not subject to formal action to maintain a specific capital level
Adequately capitalized	8% or more, and	4% or more, and	4% or more, or	leverage ratio of 3% or more if bank is 1 rated and not growing
Undercapitalized	less than 8%, or	less than 4%, or	less than 4%, or	leverage ratio of 3% or more if bank is 1 rated and not growing
Significantly undercapitalized	less than 6%, or	less than 3%, or	less than 3%	N/A
Critically undercapitalized	N/A	N/A	N/A	tangible equity to total assets ratio of 2% or less

Coast Bank Issues

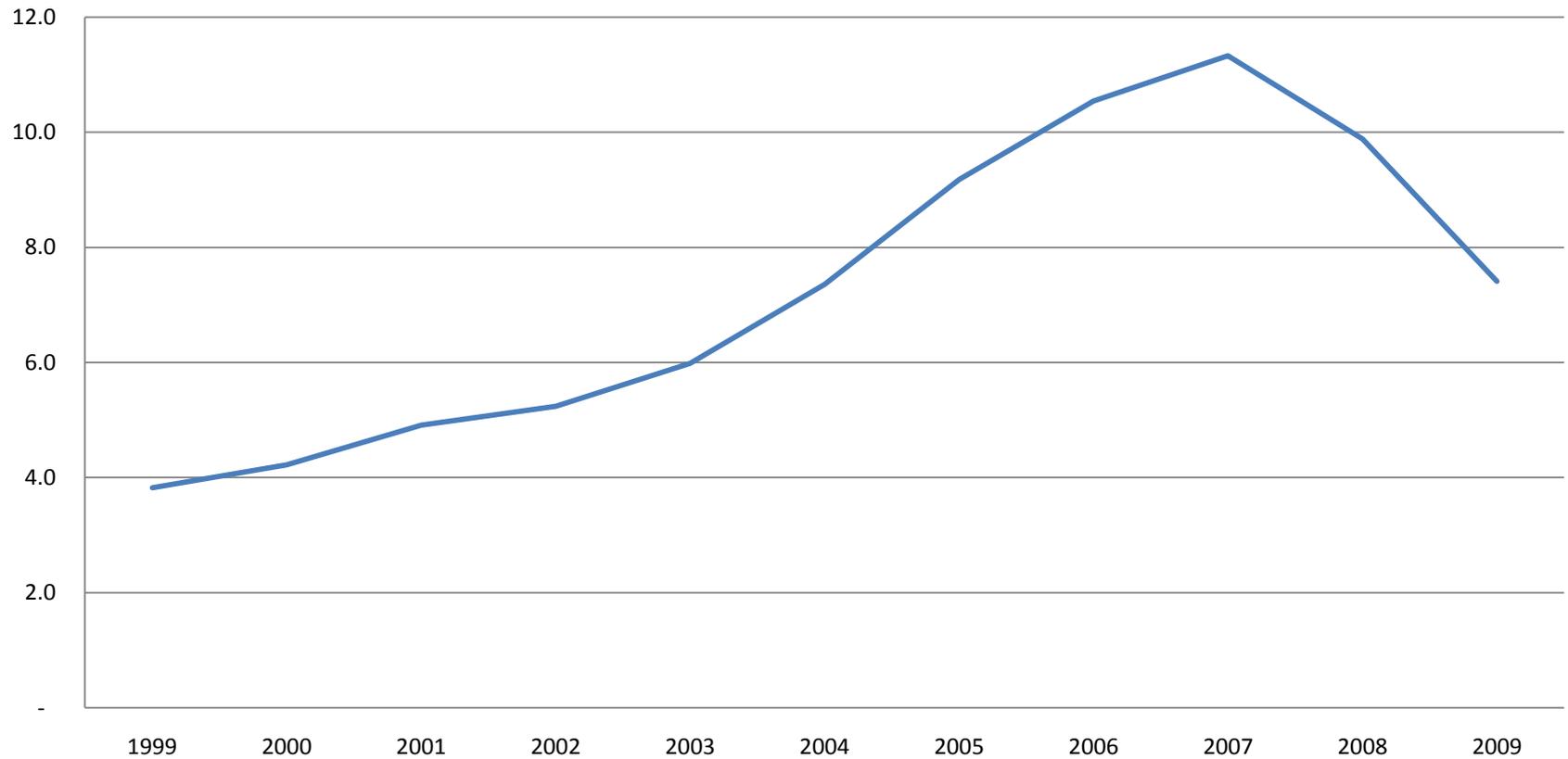
- Residential construction loans in Florida made to customers up & down east coast including investment clubs.
- Market softened and investors ran.

“Fulton Financial Dealt Blow by Subprime Deal” American Banker 3/28/07

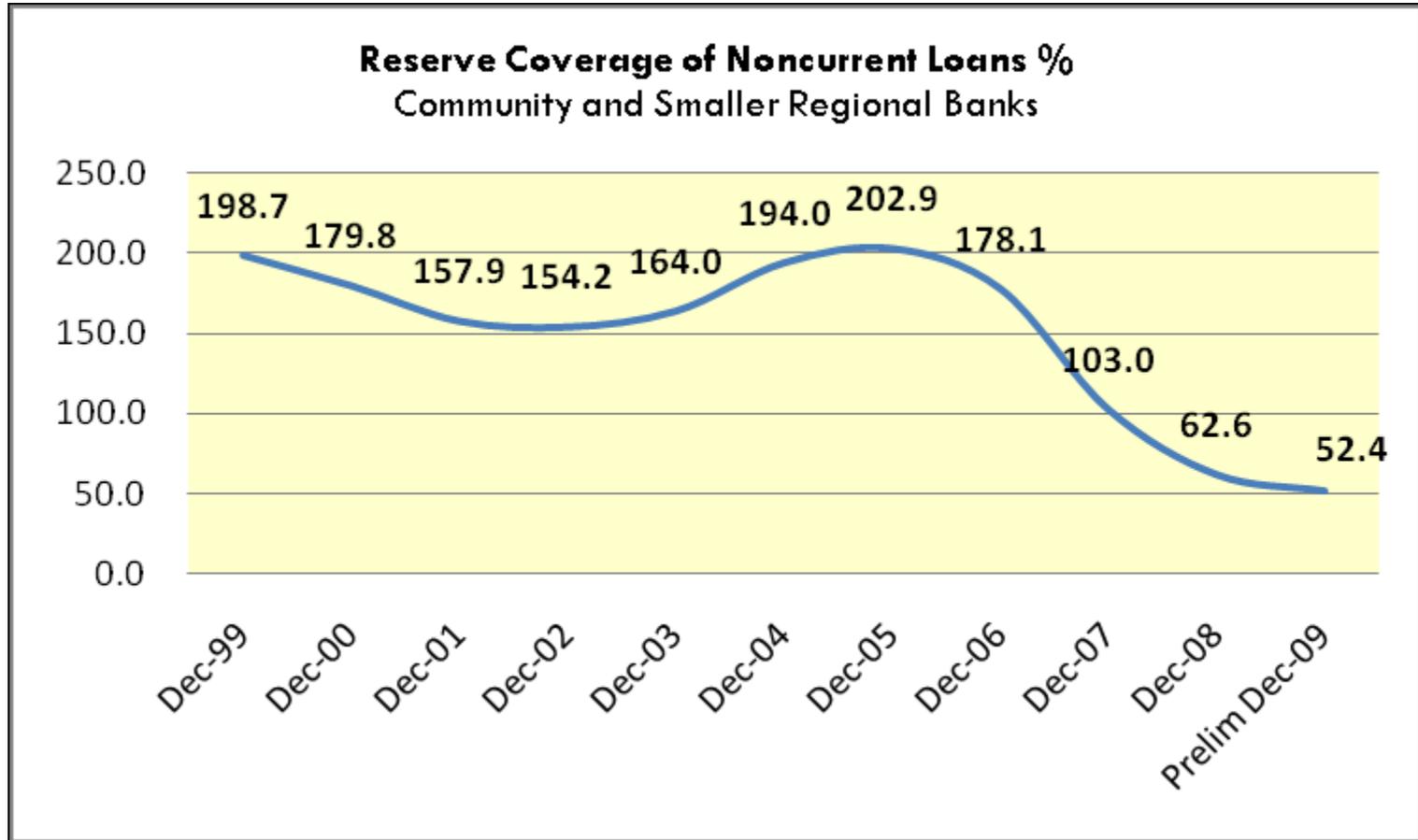
“Fulton Financial Corp’s shares took a hit Tuesday, a day after the Lancaster, Pa., company said it would be forced to take a \$5.5 million first-quarter charge related to the repurchase of delinquent subprime loans.”

ADC lending (% of Balance Sheet)

(% of Ending Assets)

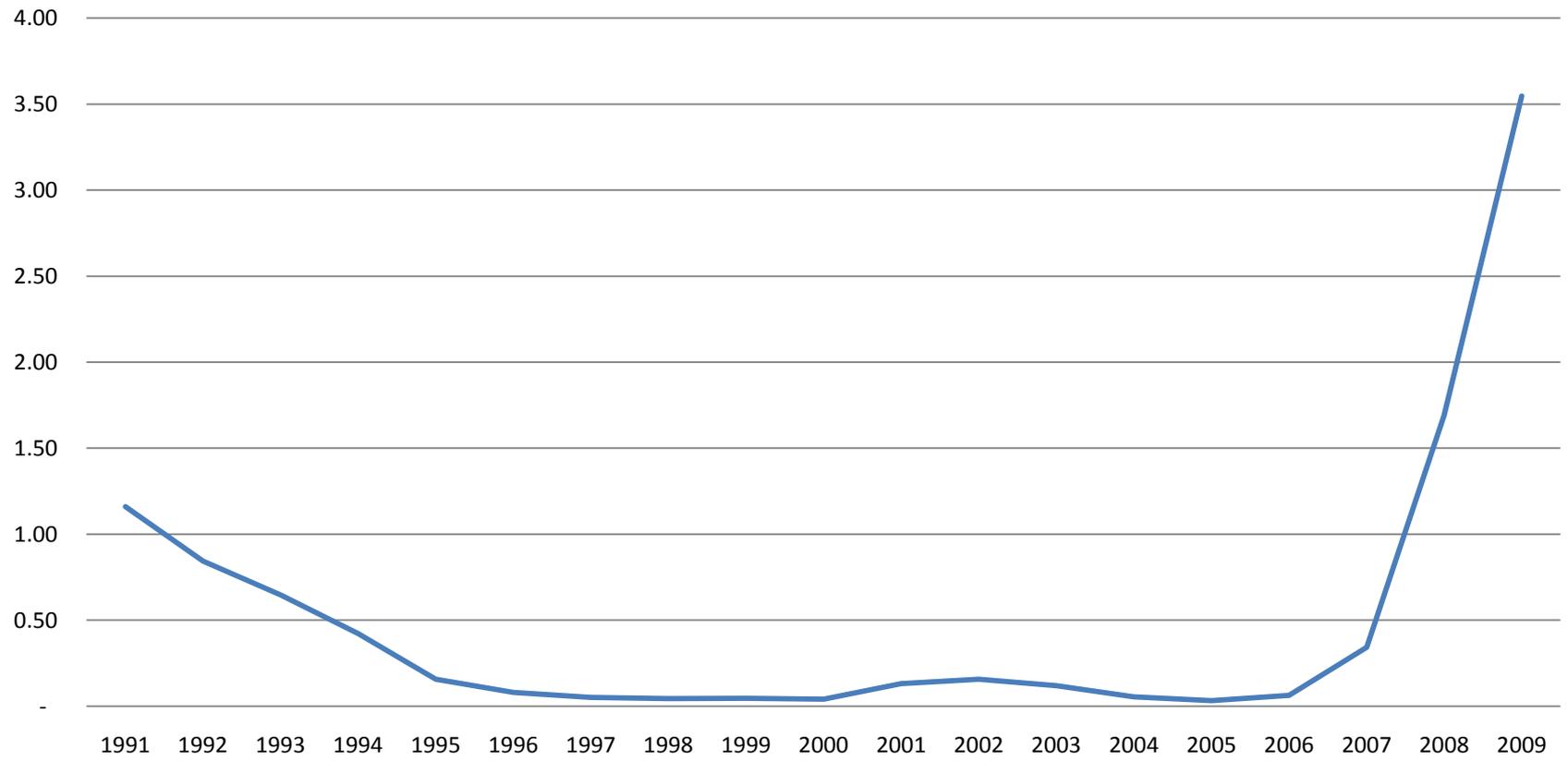


Reserve Coverage



ADC losses

Net Charge-Offs (Ratios in Percent)



Our Response to ALLL

- 50% coverage of nonaccruals
- Tighter loss history
 - 1- 2 years instead of 5

Is the Enemy Us?

What bankers are saying about examiners

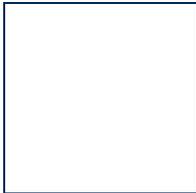
- Presuming the bank is a “3” before the exam starts
- Assuming a doomsday scenario and creating a self-fulfilling prophecy
- Disconnect between DC and field staff
- Loans criticized if projections are missed
- Public enforcement starts death spiral

Recap

- Better understood how using noncore funding could promote undue risk-taking.
- Liquidity contingency funding plans
- More action taken on SARS
- Broader view of the implications of the nonprime mortgage market
- Insisted on higher capital and loan loss reserves.

Questions?





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