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Banks, consumers confident local institutions will weather economic storm

By GEORGE CHAMBERLIN
Executive Editor

The world of banking has changed in ways that few anticipated or assumed could ever happen. Blame it on the economy, Congress, regulators, bad mortgage loans, greedy consumers. To be sure, there is plenty of blame to go around. And plenty more changes to come.

"Conditions in the financial markets in recent weeks have shaken the confidence of people around the world in their financial systems. Losses in the stock markets have reduced the valuations of publicly traded companies and have imposed losses on individual investors. Credit markets have not been functioning properly, threatening grave harm to the economy," said Sheila Bair, chairman of the Federal Deposit Insurance Corp., in testimony before one of the many Congressional hearings convened to discuss the situation.

One of the first moves that Bair made this month to boost confidence with consumers was to raise the insurance protection on bank deposits to $250,000 from the previous level of $100,000. This was designed to avoid runs by depositors like at **IndyMac**, the first high-profile institution taken over by the FDIC.

The other concerted effort to deal with the situation has been the massive infusion of funds to assist troubled banks and other institutions. The initial round of funding was directed toward the nine largest banks in the country in exchange for preferred stock. About half of the $250 billion investment has been allocated, and the rest will be committed by mid-November.

"Although no definitive plans were announced regarding specific names in the regional space that will benefit, we believe it is just a matter of time before we see announcements benefiting the regionals," said Keith Horowitz, analyst with **Citigroup Global Markets**.

Local and state officials cheered the early October passage of the Emergency Economic Stabilization Act of 2008 as a first step in the recovery process.

"Californians can be assured our banks are weathering the current economic storm and will continue to do so. Be assured that we have the necessary resources and capital to continue to serve the needs of our communities, and provide the same level of high-quality and trusted service that is a trademark of California banks," said Rodney Brown, president of the California Bankers Association.

Several San Diego County institutions to report quarterly results this month have also offer positive outlooks.

Coronado First Bank (OTC: CDFB) reported that total assets grew by 41 percent in the third quarter over the same period a year ago, and total deposits rose by 50 percent.

"In these tumultuous times in our industry, you can rest assured that we remain committed to consistent, steady growth with an emphasis on core fundamental lending practices. This will allow us to continue our outreach beyond Coronado to attract quality personal and business relationships that are not being serviced by their existing banks," said CEO Bruce Ives.

The Coronado bank is planning to open a branch in downtown San Diego.

Despite a drop in third-quarter earnings due to reorganization and other costs, **PacWest Bancorp** (Nasdaq: PACW), which operates 20 branches of Pacific Western Bank, was able to report an increase in capital.

In addition, CEO Matt Wagner reported, "Our balance sheet will be further strengthened by the equity infusion of $100 million from **CapGen Financial** announced on Sept. 2, 2008. This additional capital, combined with our focus on credit quality and cost control, positions us well to seek growth opportunities over the next 12 months."

Despite all of the turmoil in the financial industry, it seems logical that consumers may have lost confidence in their banks.

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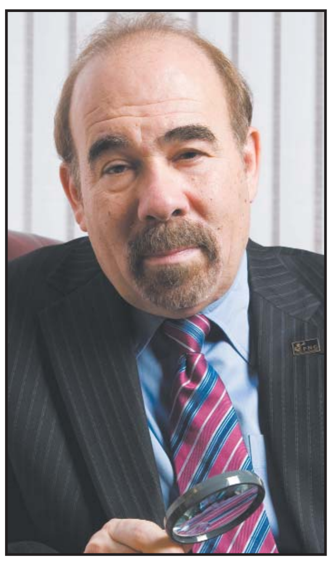
Close-ups inside


Joel Perlin


John Sotoodeh


Jim Wening

Jim Wening of U.S. Bank, Joel Perlin of H.S. Perlin Co. and John Sotoodeh of Wells Fargo are featured in this special report, on Pages 6, 8 and 9.

San Diego ACCION provides micro-loans

By ERIN BRIDGES
The Daily Transcript

In an uncertain economy, business owners can find themselves strapped for cash.

Even some who traditionally would have qualified for a bank loan are being turned away while lenders tighten credit limits and try to stay in business.

For business owners in San Diego County, San Diego ACCION offers an alternative.

The nonprofit organization uses the micro-financing model to provide loans ranging between $300 and $35,000 to low- to moderate-income entrepreneurs within county limits.

ACCION has provided more than 2,300 loans totaling more than $12 million since 1994.

And in recent months, the number of loan inquiries has increased.

"We have recently seen a steady inquiry stream of 100 inquiries per month," said Elizabeth Makee, director of operations for San Diego ACCION. "Just in the last two months we have helped almost 20 business owners per month."

In both July and August, ACCION issued nearly $200,000 in loans. On average, each loan was for about $10,000.

Funding for the loans comes from a variety of sources. The biggest contributor, however, is banks, which account for 65 percent of the total funding. Other sources include private donors and the city.

Despite the economic crisis, ACCION still is able to provide assistance to qualified borrowers. But future funding could depend on how quickly the economy recovers.

"This year we've been very lucky — we received a lot of funding in the first half of the year," she said. "But I think as any nonprofit would say, with the things going on in the marketplace, we just hope banks will still have the capacity to support us with all that's going on. Time will only tell with that."

Recipients of ACCION loans are a diverse group of business owners.

About 68 percent of borrowers are part of an ethnic minority group, and 42 percent are women.

"Both of these groups have historically faced barriers in obtaining business financing from traditional sources such as banks and credit unions," a press release about the company states. "ACCION is proud to provide an alternative lending opportunity for these hard-working micro-entrepreneurs."

Borrowers are those who might have had past credit challenges, are starting a new business, have filed bankruptcy in the past, have no credit in this country or have credit scores that are too low for bank loans.

No minimum credit score or specific debt-to-income ratio is necessary to qualify for an ACCION loan. And they are not fully collateralized, either.

"Oftentimes we will just take a DMV title, a lien of their vehicle or business assets," Makee said. "Even if the client has a $10,000 loan, we may take a car that's worth $5,000, but it is very symbolic in the sense that the client needs a vehicle to do business.

"We work one-on-one

See **ACCION** on 3

No more tiptoeing around the 'R' word, but local economy faring better than rest of California

By PADMA NAGAPPAN
Special to the Daily Transcript

Local consumer confidence is only half what it was a year ago and the index of leading economic indicators has fallen 28 out of the last 29 months, but San Diego is still doing better than Los Angeles, San Francisco or New York, according to local economists.

"Even though the most recent drop, at six-tenths of a percentage, is the smallest we have had so far, it is still negative," said economist Alan Gin, who compiles the index for the Burnham-Moores Center for Real Estate at the University of San Diego.

The four factors he uses to gauge the economy are consumer confidence, unemployment rates, help wanted advertisements and the national economy. Once the most recent bad news is digested, he expects these factors to be worse for next month.

Jobless rate will signal rise, fall of recession

"The unemployment rate is at 6.4 percent and it's been at this level for three straight months," Gin said. "We're still below the state average of 7.6 percent, but we are above the national average of 6.1 percent. I expect it to approach 7 percent by the end of this year or early 2009."

With the rise in foreclosures, Gin considers the situation to be fairly serious. He predicts we will not see the bottom of this downturn until the second half of 2009, after which he expects it will stay flat for a while.

"I don't see a turnaround until 2010. It's a tough call right now, to predict a turnaround," he said. "A rough rule of thumb is that the economy is turning around when the unemployment rate drops significantly, by about one percentage point.

Marny Cox, chief economist at the San Diego Association of Governments (SANDAG) and a 15-year veteran of the agency who focuses on long range forecasting, financing and infrastructure, also expects unemployment rates to peak around 7 percent by December.

He said the recession began in the third quarter of this year and would be over only when this rate drops to slightly below 6 percent. He thinks that people have been hesitant to use the "R" word because while unemployment is one of the indicators, excess capacity figures were not alarming until the end of 2007.

"One of the things being talked about now is the Christmas season. The retail sector is a major employer. If it's a poor season, then there will be fewer opportunities for jobs, which will lead to higher unemployment rates," Cox said.

Up until July, San Diego's impact was contained to two areas, construction and real estate-related finance, according to Cox. After the Bear Stearns news, which took people by surprise, the impact began to spread, affecting the transportation and retail sectors, he said.

"Government is the only sector that still has jobs left to fill. School districts are responsible for 40 to 50 percent of all government jobs, and they haven't experienced the same job losses," Cox said.

He considers 1994 to have been the last major recession San Diego experienced, and said the current situation is comparable to that period.

How the financial crisis began

Cox traces the root of the current banking crisis back to the Community Deregulation Act enacted in the 1970s, which required banks to do business

See **Economy** on 3

Annuity investing: Does it make sense for high net worth investors?

By TIM CALLAN
Callan Capital

Tracing the roots of annuities, a popular modern investment vehicle, shows it has staying power. Two thousand years ago, Roman citizens made a one-time payment to the annuity — known then as annua, or "annual stipends" — in exchange for once-a-year lifetime payments.

From those early days, annuities have evolved and are more popular and attractive to investors today, primarily because of their tax-deferred status and income and death benefit guarantees. And while millions of retirement-minded investors are benefiting from annuities, millions of high net worth investors are not in the position to take full advantage of the benefits. The primary reason is they do not fall into the category of individuals with the most to gain from an annuity.

Before delving into the details, it will help to define the modern idea of an annuity and some of items to be aware of if you are a high net worth investor considering an annuity.

An annuity is a contract between an investor and an insurance company and a primary retirement tool. Unlike a 401(k) or IRA, annuity funds are invested after tax. The funds grow tax deferred and when gains are pulled from the contract, they are taxed as ordinary income.

There are two main forms of an annuity, and the primary difference is how value is calculated. A fixed annuity grows at a rate guaranteed by the insurance company, and is protected from market movements. A more common variable annuity offers a range of investment options such as mutual funds, and the account value can go up or down based on market fluctuations.

The tax implications of an annuity are the first point of scrutiny for potential investors because if a person pulls funds out of an annuity before the age of 59 1/2, they are subject to a 10 percent penalty. That is in addition to the income taxes owed on the gains.

There are two ways to pull funds from an annuity; the first, more rarely used, is to "annuitize" the contract. In this distribution, the insurance company keeps the value of the annuity in exchange for a guaranteed income stream that can last a lifetime or certain period such as 20 years. Taxation is based on the ratio between the growth of the contract and the cost basis. If you invest $500,000 that grows to $1 million, the taxable income from the annuitized stream is 50 percent income and 50 percent return on principal. Imbedded returns are typically poor and the funds are typically lost when the annuitant passes away.

The second option takes an outright distribution from the contract. If you invested $500,000 that grows to $1 million, the first half-million pulled from the contract is considered income, while the rest is considered return on principal. This bears substantial tax implications for high net worth

See **Annuity** on 12

Close-up: Joel Perlin

Gold industry enjoys boom as investors seek shelter against tough market

By SYDNIE MOORE
Special to the Daily Transcript

With the current turmoil in the financial markets, the old adage "as good as gold" is taking on new significance.

"It's about being prepared," said Joel Perlin, president of La Jolla-based **H.S. Perlin Co.**, which specializes in precious metals and rare coins. For nearly 40 years, Perlin has been developing personalized investment portfolios for high net worth investors, corporate pension plans and investors sensitive to privacy issues.

"Gold is the ultimate financial insurance against the unforeseen," he said. In today's erratic economic climate, it really is "the only form of wealth protection."

Owning gold however, is not for the faint of heart — its value varies dramatically. Last March, for example, its price soared to $1,003 an ounce, then dropped to $747 in September, surged up to $905, then plummeted to $729 an ounce last week.

Despite its volatility, Perlin is bullish about the outlook for gold. "We believe that gold values are undervalued, and that it is not at an historic high in actual dollars."

While there has been a spike of activity in the last month, business at H.S. Perlin has been booming for several years. "Investors who want to protect themselves are financially savvy, and started buying with us before the crisis hit. People in the know have been foretelling this current debacle."

The trend is evidenced by the overall boon in this country in gold sales. To date this year, investors have purchased 611,000 newly minted U.S. one-ounce gold coins, nearly doubling last year's tally of 315,000 coins.

For Perlin, a professional numismatist who has coins in his coffer that date back to ancient Rome and Greece, the appeal of gold as an investment is hardly new. "Smart investors have known the value of gold for thousands of years," he said. "Nations, empires and corporations rise and fall, but gold offers permanent wealth."

Perlin, who describes himself as "in the tangible wealth preservation business," said his typical customer is a saver. "A person living hand to mouth on credit has no wealth to preserve," he said.

With the cataclysmic events of the last month, "people are asking, how safe are my paper investments? Obviously, the current fiscal situation is much worse than previously imagined," said Perlin, whose company has been helping customers invest in gold for nearly 50 years. There is no real insurance, he said, but gold offers security — and a hedge against inflation and other unforeseen risks.

Acting as a broker or agent, Perlin represents the client, creating strategies for purchasing gold and other precious metals.

"We acquire the product for the clients, whether its gold, platinum or silver. What we do is quite different than dealing with paper assets — we help people preserve, protect and profit against the devaluation of the dollar and other paper currencies," he said.

Perlin is the son of the company's late founder, Herbert S. Perlin, who was an expert in the fields of gold and rare coins, precious metals, as well as stamps and antiquities. "We're a family corporation," Perlin said. "My great grandfather lost his business due to the depression and failure of banks in America, so he started accumulating gold."

Gleaning valuable information from his father, Perlin eventually became a professional numismatist and gold trader after graduating from San Diego State University. Now a recognized expert in rare coins and precious metals — and their appraisal — he specializes in U.S. and ancient coins from around world and also has a track record in precious metal market timing.

He describes himself as "a hybrid," with an expertise in the history of gold and gold coins and also the understanding of how to utilize the coins to preserve wealth.

While gold comes in many forms — from bars to coins to jewelry — Perlin said he typically recommends coins, which are most readily exchangeable. Coins purchased strictly for their gold value, and not their numismatic value, are known as bullion coins, and many countries mint them. "Americans also hold gold bars as an investment, but jewelry is typically purchased for personal pleasure and enjoyment, not wealth protection," he explained.

While it's always a good time to buy gold, Perlin said, there are also good times to sell gold, based on lifetime needs. "Gold can be used like any financial tool; it just requires the decision to hold and maintain the asset."

Investors can visit H.S. Perlin by appointment only at its downtown La Jolla offices, where Perlin can show samples of rare coins from around the world, and platinum, silver or gold bars.

"There is something emotional about the warmth and substance of gold ... when you hold it, there is a sense you are holding wealth," Perlin said. "Besides that, it's beautiful." Universally, he said, people "love to adorn themselves with gold."

Photo: J. Kat Woronowicz

Acting as a broker or agent, Joel Perlin creates strategies for clients in the purchase of gold and other precious metals.

Moore is a San Diego-based freelance writer.

Source Code: 20081030crf

Bargain hunters

*Continued from **Page 7***

rates of 6.5 percent or more for standard 30-year fixed-rate loans. That was up from an average of 6.2 percent last week, according to **HSH Associates**, a financial publisher.

Despite all the gloom, some people believe it isn't too early to pick up bargains. One key, they say, is a deep understanding of the local demand for rental housing.

Dinesh and Rima Kumar, who live in Ashburn, Va., last month bought a town house in Sterling, Va., a suburb of Washington, D.C., for $154,000. The same home sold in June 2005 for $375,000 to a buyer who used subprime loans to finance 100 percent of the price. It went into foreclosure late last year. Kumar says he has found a renter at $1,500 a month. The Kumars, who paid cash for the home, calculate their monthly expenses — including taxes, insurance, maintenance and fees — at $491 a month.

The couple made the plunge partly because Ms. Kumar, a real-estate agent for Realty Direct, noticed that homes in the area priced at $250,000 or less were attracting multiple offers. Home sales in the northern Virginia suburbs of Washington totaled 3,360 in September, up 92 percent from a year earlier, according to the Northern Virginia Association of Realtors. The average price: about $333,000, down 32 percent from a year earlier.

"This could be the bottom," Mr. Kumar says, and even if it isn't, "the down side on a $150,000 property is pretty low." Moreover, he has been burned in the past by stock-market investments and thinks rental income will far exceed the meager interest rates offered on bank deposits.

Still, Chico notes that foreclosed homes aren't necessarily bargains. "You have to be picky," he says.

Though housing demand increases over the long run with population, it may be tepid in the next year or two. In hard times, notes Jay Brinkmann, chief economist at the Mortgage Bankers Association, many young people move in with parents or find roommates, reducing the rate at which new households are formed. Brinkmann also expects a further rise in foreclosures over the next year.

Barclays Capital estimates that banks and loan investors owned 826,200 foreclosed homes as of Sept. 1, up from 343,500 a year earlier. Barclays forecasts that this inventory will peak at around 1.3 million homes in mid-2010.

Source Code: 20081030cro

San Diego County Credit Union continues growth as largest locally based financial institution

San Diego County Credit Union, serving San Diego County since 1938, is the largest locally based financial institution and is safe and secure for depositors and borrowers. SDCCU is well capitalized, significantly beyond the minimum regulatory requirements. SDCCU has seen tremendous growth within the last decade, expanding to 25 branch locations with plans to open its newest branch in Orange County in early 2009. This allows it to serve the entire Southern California region with first-class financial products and services.

Along with competitive rates, customers have 24-hour access to account information through Internet Branch. Online banking allows account access to check account balances, review monthly statements, transfer money between accounts and pay bills anywhere, anytime. Another anytime service is TalkTone Teller, a voice command phone system. Customers also have access to withdraw funds fee-free at over 25,000 CO-OP ATMs nationwide.

A major leader in the community, SDCCU supports charitable organizations through a year-round calendar of financial support and employee participation, including a partnership with the Make-A-Wish Foundation of San Diego. Annual involvement such as title sponsor of the Walk MS and the San Diego Chargers Blood Drive brings needed recognition and funding to important causes. SDCCU also sponsors the 2008-2009 season of Broadway/San Diego and the Rady Children's Hospital Shamu & You Family Walk. Employees enjoy sharing the spirit of giving throughout the holiday season by providing a collection location for the Toys for Tots program, serving as the presenting sponsor of the San Diego Big Bay Balloon Parade and San Diego County Credit Union Poinsettia Bowl.

SDCCU emphasizes the importance of customer service, which may be one of the reasons it was voted Best Credit Union nine years straight in the *San Diego Union-Tribune* Readers Poll. San Diego County Credit Union puts money back into the customer's pocket with low loan rates and higher savings dividends. By providing a wide range of products, 25 convenient locations with extended hours and 24-hour online services, customers look to the credit union as their financial partner. SDCCU goes beyond stating that customers are a top priority by demonstrating it through the products and services offered to everyone in San Diego, Riverside and Orange counties.

Late in 2008, SDCCU will launch new, state-of-the-art financial services to meet the needs of its customer base. SDCCU will be the first locally based financial institution to have a complete comprehensive mobile banking platform or channel, allowing customers anytime, anywhere access from their cell phones. Additionally, SDCCU will offer a personalized Visa photo card and added account deposit access through Internet Branch.

San Diego County Credit Union is the largest locally based financial institution with assets over $4.2 billion. Everyone who lives or works in San Diego, Riverside and Orange counties is welcome. For more information about SDCCU or to open an account, visit sdccu.com, call (877) 732-2848 or stop by any of its 25 branch locations.

Submitted by San Diego County Credit Union