Testimony of
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FBOP Corporation

Before the
Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit

United States House of Representatives

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Good Morning. I would like to thank Chairman Luis Gutierrez, Ranking Member Jeb Hensarling, and Members of the Subcommittee for inviting me to testify.

The purpose of my testimony this morning is to provide a short summary of the events that led to the closure of nine community banks owned by FBOP Corporation on October 30, 2009. I would also like to give some of my thoughts on policy changes that are needed to help community banks facing similar capital issues.

FBOP Background

First, some background on FBOP Corporation. FBOP Corporation was a $19 billion privately held multi-bank holding company headquartered in Oak Park, IL. FBOP was the largest privately held bank holding company in the U.S. and the second largest bank holding company headquartered in Illinois. The nine subsidiary banks included California National Bank in Los Angeles, Park National Bank in Chicago, San Diego National Bank in San Diego, Pacific National Bank in San Francisco, BankUSA in Phoenix, North Houston Bank in Houston, Madisonville State Bank in Madisonville, TX, Community Bank of Lemont in Lemont, IL, and Citizens National Bank in Teague, TX.

Over its history, FBOP enjoyed a solid reputation among its peers and regulators at it posted record profits for 25 straight years. Because of the proven strength of the organization and its demonstrated abilities as a "problem solver", FBOP was granted regulatory approval to acquire 29 institutions, primarily failed or subperforming banks and thrifts. Throughout its history, FBOP never paid a common stock dividend.

FBOP has always been an active community lender, with a primary focus on a variety of real estate lending. Nationally recognized real estate experts have praised the underwriting of its loans as "A quality" and "best in class". Its credit administration practices have been praised as "best practices" by the regulatory community. FBOP's historical net loan losses have been approximately ¼ of industry averages, primarily due to the strength of its underwriting and credit administration practices, even though its portfolios have traditionally contained higher than peer percentage of past due loans.

FBOP subsidiary banks included 150 branches, with about one-third of those branches located in low-to-moderate income census tracts. FBOP employed approximately 2,400 people, including 1,385 in California and 840 in Illinois. We took great pride in the fact that although we were a large bank holding company, our banks were operated as community banks committed to providing financial products and services to individuals, businesses, and not-for-profit corporations. Six of our banks, including all our larger banks, were designated as "Outstanding" for their CRE efforts, which less than 8% of the banks are so rated. We also were very proud of our support of local organizations in the communities we served. In 2007 and 2008, FBOP banks made community donations and investments totaling $55 million, which represented 28% of the profits in those two years. In addition to the contributions from its banks, FBOP made $17 million in contributions at the holding company level.

GSE Losses

FBOP banks had a history of being well-managed banks with strong earnings and good regulatory ratings. Prior to the September 7, 2008, FBOP's subsidiary banks were all "well capitalized" and considered to be well managed with solid regulatory ratings. However, on September 7, 2008, the federal government's takeover of Fannie and Freddie created an $885 million impairment loss for FBOP on the Fannie Mae and Freddie Mac preferred securities it held in these investments at its subsidiary banks. The result was a $756 million capital charge at the subsidiary banks, leaving four of its banks less than well-capitalized.

On the morning of the government takeover of Fannie Mae and Freddie Mac, Treasury Secretary Henry Paulson said:

> *"The agencies encourage depository institutions to contact their primary federal regulator if they believe that losses on their holdings of Fannie Mae and Freddie Mac common or preferred shares, whether realized or unrealized, are likely to reduce their regulatory capital below "well capitalized". The banking agencies are prepared to work with the affected institutions to develop capital restoration plans consistent with capital regulations "*

The investment in Fannie Mae and Freddie Mac preferred stock was considered to be relatively risk-free by the markets, the rating agencies, as well as the regulatory community. National banks were assigned a 20% capital risk weighting for Fannie and Freddie preferred stock, the same risk weighting category as U.S. bonds, AAA rated investments or cash in the bank. In addition, banks were permitted by the FDIC to invest up to 100% of their Tier 1 capital in Fannie and Freddie preferred securities, while other investments were generally restricted to 10% of Tier 1 capital.

After the Fannie and Freddie loss, FBOP immediately began to work to recapitalize in the worst capital environment in decades. The announcement of the Troubled Asset Relief Program (TARP) in October, 2008, and the encouragement of our regulators that TARP funds would be available to help recapitalize FBOP led us to believe that we had found a solution to our GSE losses.

TARP Applications

One of the original goals of TARP was to assist banks adversely affected by GSE investments, particularly those such as FBOP with strong earnings, good asset quality, and solid management. With the strong urgings of its regulators, FBOP submitted an application for TARP funds in October, 2008. After receiving verbal assurance that it would be approved for TARP, regulators acknowledged that the Treasury's first round of TARP funds did not contemplate a mechanism for determining a pricing model for non-public banks. We were told that the guidelines for non-public banks would be issued shortly.

In late November, 2008, the US Treasury Department issued TARP guidelines for non-public banks. FBOP's proposal for $544 million in TARP funds was submitted, considered but then deferred for additional information. In January, 2009, FBOP updated its TARP application and agreed to infuse $150 million in capital into its subsidiary banks in addition to any TARP infusion. FBOP's application was again deferred pending guidance from Treasury following the change in administrations.

In February, 2009, FBOP was notified that its eligibility for TARP funds would require a matching equity infusion. FBOP spent the next months searching for private equity investors in a very challenging capital market. In July, investors were identified and due diligence work began. Completion of the due diligence by third parties confirmed that the loans were strongly underwritten, the credit problems were manageable and that the banks' allowance for loan losses was adequate to cover the embedded losses in the portfolio.

In the last week in October, 2009, we submitted a proposal that would have injected $600 million in private equity into FBOP, but our proposal was not accepted, nor was our request to extend our deadline by one more week. Ultimately, the banks were closed on October 30. Ironically, it was the same day that our community development subsidiary, Park National Bank Initiatives, was awarded $50 million in New Markets Tax Credits by the US Treasury to help finance schools, health facilities, community centers, and retail development in low income census tracts.

The Future of Community Banks

My main reason for testifying this morning is to use my experiences of the last year to help preserve other community banks at-risk of closure. The community banking model is very different than that of the large Wall Street banks, and it was not effective to lump both types of banks together in a one-size-fits all model for TARP funding.

The first round of the TARP program quickly provided a great deal of assistance to the largest banks in the country at a time when this funding was desperately needed to prevent a complete financial meltdown. As the program evolved, more guidelines were put in place to ensure the appropriate and proper use of taxpayer dollars by financial institutions receiving TARP. Certainly, there is a great deal of public anger about taxpayer dollars being used to help wealthy bankers, and the recent discussion about proposed bonuses on Wall Street has rightfully fueled this outrage.

However, what people fail to understand is that most community banks did not engage in risky lending and excessive executive compensation. In fact, many community banks remain profitable with adequate cash flow to meet their ongoing operating obligations. Their issues stem from erosion of capital reserves due to the current economic climate. Community banks that have been making loans in their communities have suffered from the depressed economy and real estate market, but the loans made by these banks were not subprime or exotic, but rather were prudent business loans to local entrepreneurs and business owners.

These small banks could remain viable lenders in their communities with small infusions of capital. These community banks do not have ready access to equity and debt markets as the major banks and requiring them to be well capitalized and rated 1 or 2 before they can access TARP funds compounds the problem.

There needs to be a new viability test or criteria that would not look mainly at capital, but rather whether the infusion of TARP capital would allow the small banks to be viable. Certainly, it is no one's goal to use scarce resources to re-capitalize troubled banks that are destined to fail. But there is an opportunity to protect small, viable community banks that are vital to local economies.

Conclusion

FBOP's nine banks are now part of US Bank. While we appreciate the public sentiment about the closure, the FBOP story is over. We are proud of our 28 plus years of community banking and the investments in the communities we served.

Through the federal takeover, US Bank has received an incredible opportunity with the FBOP banks. My hope is that US Bank will honor the commitments of FBOP banks, and our commitments to our communities, including the low or zero interest school loans, the multi-year funding commitments to not-for-profit organizations, and the commitment to community lending. Many of the institutions involved are fully dependent on these commitments for their survival. We are hopeful that these commitments will be honored and expanded. To whom much has been given, much is expected.

Thank you again for the opportunity to talk to you this morning. My hope that the FBOP story will challenge elected officials, policy makers, and regulators to better understand the contributions and challenges of community banks. We need creative and flexible strategies to preserve these vital banking institutions.

FBOP Corporation
Fact Sheet

Overview:
FBOP Corporation was a $19 billion privately held multi-bank holding company headquartered in Oak Park, IL FBOP was the largest privately held bank holding company in the U S and the second largest bank holding company headquartered in Illinois. FBOP subsidiary banks included 150 branches, with about one-third of those branches located in low-income census tracts FBOP employed approximately 2,400 people, including 1,385 in California and 840 in Illinois

FBOP Banks:

California National Bank	Los Angeles, CA
Park National Bank	Chicago, IL
San Diego National Bank	San Diego, CA
Pacific National Bank	San Francisco, CA
North Houston Bank	Houston, TX
Madisonville State Bank	Madisonville, TX
Bank USA	Phoenix, AZ
Community Bank of Lemont	Lemont, IL
Citizens National Bank	Teague, TX

FBOP History of Strong Earnings and Good Asset Quality
FBOP enjoyed 25 straight years of record earnings as the organization grew from $60 million in total assets to $19 billion FBOP's net loan losses averaged less than 25% of its peers even though the amount of its nonperforming assets historically was consistently above peer levels These results were due primarily to strong underwriting (cited by third parties as "A quality") and robust credit systems and practices (recognized as "best in class") Because of the demonstrated strength of the organization, FBOP received regulatory approval to acquire 29 institutions, which were primarily failed or subperforming banks and thrifts, which it successfully integrated into its banking franchise.

FBOP was an Active Lender:
In 2007 and 2008, FBOP banks made home purchase, refinance, home improvement and multifamily loans totaling $1 billion and an additional $1 billion in small business loans FBOP never engaged in subprime or predatory lending practices.

FBOP was "Outstanding" at Reinvesting in its Communities:
FBOP banks were community-oriented full-service financial institutions that provided a full range of retail and commercial banking services and products to meet the needs of individuals and businesses in their respective communities Six of its nine banks including its four largest banks carried "Outstanding" Community Reinvestment Act (CRA) ratings, and the other three banks carried "Satisfactory" CRA ratings Less than 8% of banks in the country hold the Outstanding CRA rating

The major factors supporting the "Outstanding" CRA rating included a solid volume of residential, consumer, and small business lending activity to individuals and businesses in the communities where the banks were located, a distribution of loans among individuals and businesses of different income levels, a high level of community development lending within the banks' assessment areas having a positive impact on the community, the demonstration of innovative and flexible lending practices, and an excellent level of investments serving the banks' communities.

FBOP Community Development Lending:
FBOP banks made community development loans for many large projects that positively impacted local communities These loans increased the availability of affordable housing, stabilized communities by providing small business loans and supporting projects for economic development and job creation In 2007 and 2008, FBOP banks made community development loans totaling $583 million. (See Exhibit A) Some of these projects included:

- In Los Angeles, California National Bank provided a $150 million loan to construct a hotel, convention and residential center that is part of the City Center Redevelopment Project and part of the Los Angeles Enterprise Zone.
- In San Diego, San Diego National Bank loaned $70 million to a redevelopment agency to provide tax increment financing (TIF) to fund affordable housing
- In Chicago, Park National Bank extended a $20 million line of credit to the non-profit Community Investment Corporation for the purchase and rehabilitation of troubled, multi-family properties in low-income neighborhoods

The FBOP banks also offered an array of business lending products and participated in various state programs to assist small businesses with financing in order to encourage job growth and stabilize communities

FBOP Gave Back To Its Communities Through Innovative Programs
To achieve its mission of community investment, FBOP worked with community partners to identify needs and develop innovative programs Some examples included:

- **Park Bank Initiatives:**
  Park National Bank created Park Bank Initiatives, a not-for-profit with a mission to foster community development in low and moderate income neighborhoods This subsidiary acted as an affordable housing developer, invested equity, advanced planning and predevelopment costs, and coordinated community and government involvement in the economically distressed communities of Pullman, Roseland, Englewood, and Maywood Activities included the rehabilitation of historic rowhomes, the construction of new affordable housing, and the acquisition of 200 acres of former industrial property for mixed use redevelopment.
- **Banking the Unbanked:**
  Park National Bank created a Community Savings Center in the West Garfield Community in partnership with two faith-based, not-for-profit organizations, Bethel New Life and Thrivent Financial The Center gave consumers access to low-cost financial products as well as individual and group financial counseling, employment training, and home buying workshops A savings account for low to moderate income customers featured a two to one match of dollars saved. The Center also offered a Flex Loan product -- an unsecured loan with a flexible repayment schedule – as an alternative to payday lending California National Bank established a branch dedicated to

"banking the unbanked" in the Hispanic, low to moderate income area of Maywood. That branch, in partnership with a not-for-profit organization, Operation Hope, offered low cost banking products and financial education programs

- **Zero Interest Construction Loans for Educational Projects:**
  FBOP's Chicago subsidiary, Park National Bank, committed a number of zero interest construction loans to support educational endeavors The bank funded a $27 million construction loan at zero interest to build a high school campus for Christ the King Jesuit College Prep, a newly opened high school on the west side of Chicago The bank provided similar loans to several charter and private elementary schools including $5 million to Catalyst Charter School/Rock of Salvation Church, and $4 million to Chicago Jesuit Academy, both on the west side of Chicago.
- **Foreclosure Rescue Programs And Affordable Mortgage Programs:**
  Park Initiatives created and was a leading partner with a local community group, Neighborhood Housing Services, in a Foreclosure Rescue Program and Park committed $20 Million to assist consumers in need of refinancing The FBOP banks also offered additional affordable mortgage programs both as direct loans and in partnership with various government and community organizations. The programs were targeted to consumers of low or moderate income and featured a low down-payment requirement, a long-term fixed rate and often contained a grant element to assist with down payment or closing costs
- **Donations And Investments Supporting FBOP Communities:**
  In 2007 and 2008, FBOP banks made community donations and investments totaling $55 million, which represented 28 percent of profits for those two years (See Exhibits B and C for lists of donations and investments) One such investment included a $2 5 million donation to San Miguel schools, a catalyst for new inner city elementary schools FBOP donated $450,000 to support Link Unlimited, a not-for-profit organization that provides tuition and educational services to low income African American high school students. FBOP paid the students' tuition at private high schools, and approximately twenty FBOP employees served as mentors FBOP also participated in an innovative program in which it employed twelve high school students attending Christ the King or Cristo Rey Jesuit High Schools in Chicago and Verbum Dei in Los Angeles The students rely on the employment to fund, in part, the tuition at the schools

Community Development Loan

Community development loan means a loan that:

(1) Has as its primary purpose community development; and

(i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and

(ii) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community development means:

(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;

(2) Community services targeted to low- or moderate-income individuals;

(3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of $1 million or less; or

(4) Activities that revitalize or stabilize

(i) Low- or moderate-income geographies;

(ii) Designated disaster areas; or

(iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on—

(A) Rates of poverty, unemployment, and population loss; or

(B) Population size, density, and dispersion. Activities revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

FBOP Corporation

Exhibit A

2007-2008 Community Development Loans

Bank	Borrower	Description of Community Development Loan	Loan Amount
Cal National	Olympic & Georgia Partners	A loan to construct a 54-story building that is part of the City Center Redevelopment Project and part of the Los Angeles Enterprise Zone.	$150,000,000
SDNB	Redevelopment Agency of the City of San Diego	Redevelopment Agency tax increment financing to fund Affordable Housing Projects. There are 6 loans to the organization -- $20 million, $16 million, $11 million, $8.6 million, $7.3 million, $7.1 million	$70,000,000
Cal National	Snyder NoHo III, LLC	A loan to construct an office building located within the North Hollywood Redevelopment Project Area and in the Los Angeles Enterprise Zone.	$36,973,000
Park	Community Initiatives, Inc. (CII)	The program is operated through the Troubled Buildings Initiative working to prevent properties from being demolished and promote the recovery and rehab of buildings. Three loans were made, two for $3 million and one for $20 million.	$26,000,000
Cal National	Hollywood Ardmore Cooperative Inc	A loan to refinance a 206-unit multifamily building located in an area subject to the Los Angeles City rent control ordinance.	$22,500,000
Cal National	701 S. Hill, LLC	A loan to acquire and reposition a Jewelry Design Center located within the Central Business District Redevelopment Project Area and in the Los Angeles Enterprise Zone.	$17,700,000
Cal National	Little Tokyo Associates, LLC	A loan to refinance a 10-story office building located in the Little Tokyo Redevelopment Project Area and in the Los Angeles Enterprise Zone.	$16,000,000
Pacific	ROEM Development Corporation	A construction loan for 32 unit attached townhomes consisting of 16 below market rate units that will be sold to families earning 80%-100% of area median income.	$15,300,000
Cal National	4811 Airport Plaza, LLC	A new loan to acquire a 6-story office building located in the City of Long Beach Development District and Enterprise Zone.	$12,200,000
Park	Chicago Jesuit Academy	The Chicago Jesuit Academy provides tuition-free education to students from modest economic backgrounds on the West Side of Chicago. There were three loans made, one for $4.2 million, one for $1 million and another for $2.8 million.	$8,000,000
North Houston	North American Equities, LP	A loan to purchase and renovate an affordable multifamily apartment building.	$7,000,000
North Houston	Creekstone Holdings III LLC	A loan to purchase and renovate an affordable multifamily apartment building.	$5,404,000
Cal National	Crystal Plaza, LLC	A construction loan for a new retail center that is part of the Westlake Recovery Redevelopment Project and is part of the Los Angeles Enterprise Zone.	$5,400,000
SDNB	St. Madeleine Sophie's Center	Employment re-entry training of developmentally disabled individuals. Five loans were made, $2,734,000, $2,214,000, $2,121,000, $270,000 and $200,000.	$7,539,000
Cal National	CFRI-NCA Hollywood Venture II, LLC	To refinance a 2-story office building. The Building is located in the Hollywood Redevelopment Project Area and in the Los Angeles Enterprise Zone.	$4,850,000
Cal National	Grove Station, LLC	A loan to construct 38 residential units, 12 of which will be affordable housing.	$3,680,000
Park	Ray Graham Association for People with Disabilities	The organization provides affordable housing to people with disabilities in DuPage County and employment services to assist developmentally disabled adults.	$3,500,000
Park	New Life Covenant	The organization offers youth ministries that include after school programs which provide youth with an alternative to life on the streets and gangs.	$3,300,000
SDNB	John L. Baldwin	Rehab and preservation of 38 multifamily rental units in low-mod income areas	$3,000,000
BankUSA	Camelot Condominiums	A refinance of an 80 unit apartment complex/ Property located in Buckeye AZ. The property demonstrates the preservation of affordable rental housing.	$3,000,000
North Houston	DED LLC	Term loan for construction of a retail shopping center targeting the Latino demographic and provides economic development for the area.	$2,700,000
Park	Beth-Anne Campus Holdings	The center provides community services and housing to area low to moderate income individuals. Two loans were made, one for $2,546,361 and $1,325,000.	$3,871,361
Park	Eldorrado, Madison & Mayfield, LLC.	A loan to refinance first and second loans on an affordable multifamily apartment building.	$2,252,250
North Houston	Haole Partners	A loan to purchase and renovate an affordable multifamily apartment building.	$2,132,000
Park	St. Bernard -- PBI Housing, LLC	A line of credit for the non-profit organization to develop new homes in the 6th Ward of the Englewood Community.	$2,050,000
Park	New Birth--PBI Partnership	A line of credit for the non-profit organization to develop new homes in the 17th Ward of the Englewood community.	$2,050,000
Park	Roseland New Homes Phase II LLC	A renewal of a loan to construct 15 affordable single family homes and 20 affordable two flat homes in the Roseland neighborhood of Chicago.	$2,000,000
Park	Christ the King Jesuit College Preparatory School	The school will operate a co-ed, college preparatory school drawing students from the low and moderate income areas of Austin and Lawndale. Two loans were made, one for $2,000,000 and another for $1,000,000	$3,000,000
		All other Community Development Loans from FBOP banks	$141,753,774

Total 2007-2008 Community Development Loans $583,155,385

Community Development Donations

Community development donation means a grant or charitable contribution that has as its primary purpose community development.

Community development means:

(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;

(2) Community services targeted to low- or moderate-income individuals;

(3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of $1 million or less; or

(4) Activities that revitalize or stabilize

(i) Low- or moderate-income geographies;

(ii) Designated disaster areas; or

(iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on—

(A) Rates of poverty, unemployment, and population loss; or

(B) Population size, density, and dispersion. Activities revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

FBOP Corporation
2007-2008 Community Development Donations

Exhibit B

Bank	Organization	Description	Amount
Park National	Park Bank Initiatives	Founded to develop innovative projects and provide the necessary solutions required to restore and revitalize economically distressed communities of Chicago.	$30,517,297
Park National	San Miguel School	Provides college preparatory education for children of low to moderate income inner-city families through two schools one predominately serving a Hispanic community and the other serving an African American community.	$2,500,000
Park National	LINK Unlimited	Provides educational services and mentoring to low-income African American youth from Chicago's inner city	$454,850
Park National	United Way	Identifies the greatest need in each local community and provides the leadership and resources required to address those needs	$380,000
Park National	Austin Career Education Center	Provides young, predominately African American, adults in the Austin District with basic education and skills necessary to increase employability	$285,884
Park National	Cristo Rey Jesuit High School	Provides a college preparatory education to low and moderate income predominately Hispanic families.	$251,050
Park National	Family Service & Mental Health Center of Oak Park River Forest	Provides counseling and education to low and moderate income families	$228,472
Park National	Accion Chicago	Provides credit and other business services to predominately Hispanic small business owners who do not have access to traditional sources of financing	$152,500
Park National	Oak Park River Forest Community Foundation	Manages and disperses funds to community organizations in Oak Park and River Forest.	$144,250
Park National	Park National Bank Scholarship Program	A Scholarship Program to benefit local high school seniors who showed academic talent and who need financial aid to pursue their college careers	$140,000
Park National	St Bernard Hospital	Community hospital serving the health care needs of the Englewood community, a predominately African American community.	$107,000
Park National	Neighborhood Housing Services	Rebuilds and restores Chicagoland's underserved neighborhoods	$104,250
Park National	Calumet Area Industrial Council	Association with purpose of attracting, developing, and retaining industry within the Calumet region, a low income area	$101,997
Park National	Hales Franciscan High School	Addresses the needs of underserved communities, especially African-American males, to provide a quality educational experience at an affordable cost.	$101,000
Park National	The CARA Program	Assists the homeless and at-risk populations by providing comprehensive training, permanent job placement and critical support services	$100,000
Park National	Teach for America	Organization that places teachers in schools in Low/Moderate income communities	$100,000
SDNB	SDNB Scholarship Fund	Scholarships to low- and moderate income HS students attending college	$90,000
Cal National	VDHS Work Study INC.	Support for school & intro to work for students	$86,948
SDNB	Junior Achievement	Financial literacy training to low to moderate income middle school students.	$63,000
Cal National	Operation Hope	Operation HOPE's mission is to eradicate poverty in our lifetime	$60,000
Cal National	CalNational Bank Scholarship Program	Scholarships to low-income HS students attending college	$59,500
Cal National	Various Universities & Community Colleges	Scholarships to graduating high school students from low to moderate income families.	$48,500
Cal National	Los Angeles Area Council for The BSA	Assist children in low-income communities to participate in Boy Scouts programs	$45,000
SDNB	St. Madeleine Sophie's Center	Teaches marketable skills for employment to developmentally disabled adults.	$42,048
Pacific	Tenderloin Neighborhood Development Corporation	Non-profit organization that houses low-income residents	$32,000
SDNB	LISC San Diego	Operating grant support for affordable housing finance & CDC capacity building support	$27,500
SDNB	SDSU HTM Scholarship Fund	Scholarships to low and moderate income HS students attending San Diego State University	$25,000
Pacific	Cal Performances	Non-profit organization that sponsors educational outreach programs for underprivileged school children in the Bay Area.	$22,000
Pacific	Pacific National Bank College Scholarship Program	Scholarships to low- and moderate income HS students attending college	$20,320
SDNB	AVID	College education for low to moderate income "first-timers"	$20,000
SDNB	YWCA of San Diego County	Support for homeless women and children who are victims of domestic abuse	$20,000
Madisonville	Madisonville State Bank Affordable Housing Program	Provides affordable housing to low income Madison County residents	$19,902
North Houston	Aldine Independent School District	Provides education to a student population that is 78% economically disadvantaged	$10,950
		All other Donations from FBOP Banks	$299,916

Total 2007-2008 Community Development Donations **$36,661,134**

Community Development Investments

Community development qualified investment means a lawful investment, deposit, or membership share that has as its primary purpose community development.

Community development means:

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FBOP Corporation
2007-2008 Community Development Investments

Exhibit C

Bank	Investment	Description	Commitment Amount
Cal National	Pembrook	Pembrook seeks to serve as a pioneer in community investments, providing capital to underserved property sectors and underserved geographic locations such as assets in urban locations, affordable housing and other community-related investments.	$5,000,000
Cal National	Pembrook	Pembrook seeks to serve as a pioneer in community investments, providing capital to underserved property sectors and underserved geographic locations such as assets in urban locations, affordable housing and other community-related investments.	$3,500,000
SDNB	Pembrook Community Investors, LLC	Pembrook seeks to serve as a pioneer in community investments, providing capital to underserved property sectors and underserved geographic locations such as assets in urban locations, affordable housing and other community-related investments.	$3,000,000
Park National	Shorebank CD	Investment in a one year certificate of deposit in ShoreBank's Mission Based Deposit. ShoreBank is a certified *Community Development Financial Institution (CDFI)*	$2,153,950
SDNB	Neighborhood National Bancorp CDFI	As a CDFI, NNB's commitment and mission is to rebuild and generate growth in underserved San Diego neighborhoods.	$2,000,000
Cal National	Pembrook	Pembrook seeks to serve as a pioneer in community investments, providing capital to underserved property sectors and underserved geographic locations such as assets in urban locations, affordable housing and other community-related investments.	$1,500,000
Madisonville	Federal Home Loan Mortgage Corp Pool #A80031Gold	Investment in home loans for low-to-moderate income individuals.	$1,083,099
Park National	Illinois Facilities Fund 2007	The IFF is the only statewide community development financial institution (CDFI) in Illinois and the only one of its kind to offer combined financial and real estate services needed by nonprofits.	$300,000
Park National	Illinois Facilities Fund 2008	The IFF is the only statewide community development financial institution (CDFI) in Illinois and the only one of its kind to offer combined financial and real estate services needed by nonprofits.	$250,000
SDNB	SPIN	Supportive Parents Info Network Emergency Loan Fund	$7,000

Total 2007-2008 Community Development Investments **$18,794,049**

FBOP Corporation and its Community Banks

FBOP Corporation was a privately held bank holding company headquartered in Oak Park, Illinois. FBOP owned nine banks with larger banks located in Chicago, Los Angeles, San Diego and San Francisco as well as smaller banks in Texas and Arizona. Thirty percent of its banking facilities were located in low to moderate census tracts. Over the years, FBOP enjoyed a solid reputation among its peers and its regulators as it posted record profits for 25 straight years During this time, FBOP grew from a $60 million bank to a $19 billion organization. Because of the proven strength of the organization and its demonstrated abilities as a "problem solver", FBOP was granted regulatory permission to acquire 29 institutions, primarily failed or subperforming banks and thrifts. Throughout its history, FBOP has never paid a common stock dividend.

FBOP has always been an active community lender, with a primary focus on a variety of real estate lending Nationally recognized real estate experts have praised the underwriting of these loans as "A quality" and "best in class". Its credit administration practices have also been cited as "best practices" by the regulatory community. FBOP's historical net loan charge-offs have been approximately ¼ of industry averages, primarily due to FBOP's underwriting and credit administration practices, even though its loan portfolios have traditionally contained a higher than peer percentage of past due credits. Additionally, FBOP never engaged in subprime lending or predatory lending practices.

FBOP takes pride in its role of being a good corporate citizen. Its banks donated 28% of their profits in 2007 and 2008, or $55 million, to local community entities by way of investments and donations, and FBOP contributed an additional $17 million at the holding company level. In addition, the community reinvestment efforts ("CRA") of FBOP's four large banks, which represented approximately 94% of its total assets, were designated to be "Outstanding". Less than 8% of banks in the country hold the "Outstanding" CRA rating designation.

Investments in Fannie Mae and Freddie Mac Preferred Securities

Like many banks, over the years FBOP Corporation invested in perpetual preferred stock in Fannie Mae and Freddie Mac. These investments were for regulatory purposes considered to be relatively risk-free and carried the same capital risk weighting as similarly viewed risk assets such as U.S. Government Agencies and cash in bank. The market and rating agencies as well as notable economists also viewed these investments as relatively risk-free due to an assumption that these securities carried the implicit guarantee of the U.S Government. This assumption later proved to be incorrect.

On September 7, 2008, FBOP Corporation had a total investment of $896 million in Fannie Mae and Freddie Mac preferred securities. During the years it had held these investments, neither the size nor nature of the investment had been criticized by any regulator. FBOP and all of its subsidiary banks were "well capitalized" and had solid CAMELS ratings from all its regulators On September 7, FBOP was working on finalizing its purchase of a large troubled financial institution in Southern California which had received preliminary approval by the appropriate banking regulators.

Fannie Mae and Freddie Mac Conservatorship

On September 7, 2008, the Federal Housing Finance Agency, a department of the U.S. Treasury, placed Fannie Mae and Freddie Mac ("GSE") into conservatorship, concurrently wiping out virtually all the value of the outstanding preferred stock in the two companies. FBOP Corporation lost $885 million in this single federal government action. The recognized loss on the GSEs resulted in a reduction of FBOP's Tier 1 capital from $1.540 billion to $784 million with its four largest banks' capital levels immediately falling below "well capitalized" standards.

On the morning of the government takeover of Fannie Mae and Freddie Mac, Treasury Secretary Henry Paulson said:

> *"The agencies encourage depository institutions to contact their primary federal regulator if they believe that losses on their holdings of Fannie Mae and Freddie Mac common or preferred shares, whether realized or unrealized, are likely to reduce their regulatory capital below "well capitalized". The banking agencies are prepared to work with the affected institutions to develop capital restoration plans consistent with capital regulations."*

It was later acknowledged by a Federal Reserve Governor that the extent of bank holdings of Fannie Mae and Freddie Mac preferred stock was not accurately know at the time these organizations were placed into receivership.

On September 9, 2008, FBOP Corporation began to work with its investment bankers, Sandler O'Neill and Keefe, Bruyette & Woods, in an effort to raise $600 million in capital to offset the Fannie and Freddie losses. In later September and early October, management of FBOP met with a series of potential investors. Despite the market's general antipathy at that time for bank capital instruments, the FBOP story resonated with investors and was favorably received

Troubled Asset Relief Program (TARP):

On October 14, 2008 the Treasury Department announced the Troubled Asset Relief Program (TARP) for financial institutions which was designed "to build capital and increase the flow of financing to US businesses and consumers to support the US economy". Special provisions were made in the Program to give preference to financial institutions which suffered losses on Fannie Mae and Freddie Mac securities. The nine largest financial institutions in the United States were immediately approved for TARP investments However, an unintended consequence that resulted from the introduction of TARP was that private capital and debt markets froze and obtaining private capital infusions for institutions like FBOP became impossible over the near to mid-term.

With the strong encouragement of its primary regulator, the Office of the Comptroller of the Currency ("OCC"), FBOP submitted on October 14, 2008, an application to Treasury for a TARP investment. The investment would have brought all but one of its subsidiary banks back to "well capitalized" status with the remaining bank projected to be "well capitalized" by the end of the first quarter, 2009. The FBOP TARP application was presented to Treasury along with a group consisting of a tier of large banks throughout the country. FBOP understands that most if not all the publicly traded banks in this tier received TARP funds. FBOP received a verbal assurance on October 20th from the OCC that its application had been approved. However, on October 21st, FBOP was notified that its application had in fact been deferred by Treasury as it was the only privately held institution recommended at that time for TARP funding and no mechanism existed for valuing private companies' warrants associated with the preferred stock investment

On November 17, 2008, the Treasury issued TARP guidelines for non-publicly traded financial institutions. Again with the encouragement of the OCC, FBOP resubmitted its application for $544 million of TARP funding The application included an FBOP commitment to raise an additional $100 million of funding that would be used as capital contributions to the subsidiary banks The OCC took this application to the TARP interagency committee and recommend its approval on December 17, 2008. However, during this period, the political landscape and the direction from Treasury began to change as well as the perceived criteria for qualifying for TARP. As a result of these changes, the committee deferred the FBOP TARP application into January. A slightly modified FBOP application, which in included a commitment to raise additional funds for bank capital purposes, was subsequently deferred by the committee into February.

Proposed Five Year Net Operating Loss Carryback:

On February 12, 2009, the congressional budget conference committee eliminated the five year net operating loss carryback provision for all but small business entities. The carryback provision for the Fannie Mae and Freddie Mac losses, which had previously passed both houses, would have resulted in $200 million of additional capital for the FBOP subsidiary banks.

Capital Raising Efforts:

In late February, the OCC recommended that FBOP raise matching equity funds to be eligible to receive TARP funding. With this direction, FBOP Corporation re-entered a capital market that had been unreceptive to privately held bank capital needs, particularly for organizations stigmatized by not receiving TARP Announced FDIC loss sharing agreements on failed institutions made the raise even more difficult. Nevertheless, by July, 2009, FBOP Corporation identified a group of willing investors and entered into negotiations for a common stock capital infusion which would have resulted in a change in ownership of FBOP. Due diligence work was undertaken and third parties engaged to review the banks' loan portfolios These reviews confirmed management's representations and regulatory conclusions that the loans were well underwritten and that banks' loan loss reserves were adequate to absorb the embedded losses in the portfolios.

The September, 2009 FDIC request for bids on the nine FBOP Corporation dramatically changed the tone and tenor of the final negotiations with investors. The identified investors began to investigate and later would require a loss sharing arrangement with the FDIC on potential losses in the loan portfolio On October 26, 2009, the investors and FBOP agreed to terms on a $600 million equity investment. The agreed upon terms would have put the existing shareholder's equity at risk before any loss to the FDIC. Based upon the due diligence work performed and FBOP's acknowledged expertise in working through problem credits, the ultimate amount of any loss paid by the FDIC, regardless of scenarios selected, was projected to be significantly less than the losses that would be incurred by placing banks into receivership.

On October 30, 2009, Treasury Secretary Timothy Geithner awards $50 million in New Market Tax Credits to Park National Bank Initiatives, a subsidiary of FBOP Corporation, in recognition of the work it does in the community it serves.

On October 30, 2009 the nine FBOP banks were placed into receivership.

Aftermath:

As was widely anticipated, on November 6, 2009 President Obama signed the Workers, Homeowners, and Business Assistance Act of 2009. Among other incentives, the legislation would have allowed banks like FBOP to carry back the Fannie Mae and Freddie Mac losses for five years, resulting in the realization of approximately $150 million of additional capital to the FBOP banks. The capital recognition realized from this Act would have substantially enhanced the capital of the FBOP's subsidiary banks and insured the success of its capital raise efforts.

Other Observations:

The level of nonperforming assets in FBOP Corporation's loan portfolio increased dramatically during 2009, rising to $880 million as of September 20, 2009, primarily due to its historical concentration in real estate lending Despite the increased level of nonperforming loans, the 2009 loan losses recognized during this time remained at peer level. The embedded losses in the loan portfolios were projected to continue to remain manageable due primarily to the recognized strong underwriting of the credits and the acknowledged robust credit workout systems and practices Third party reviews performed during the third quarter of 2009 found the Corporation's $329 million allowance for loan losses to be adequate to absorb all present and future losses contained in the current portfolio. Significant recoveries were also identified on properties held in its Real Estate Owned portfolio. Also, the subsidiary banks had $1.030 billion of equity GAAP capital on their respective balance sheets at quarter end to further absorb potential losses.

FBOP's problems and ultimate placement of its subsidiary banks into receivership were the direct result of its investment in the government sponsored entities Fannie Mae and Freddie Mac. It is unfortunate that a TARP investment, which was initially designed in part to aid banks with GSE losses, was not made into FBOP. Given its track record for strong performance, we believe that the TARP funding would have been a safe and profitable investment for the Treasury. More importantly, with such an investment, FBOP's subsidiary banks would have been able to continue the role they had been often recognized for performing so well....being local community banks that bank, lend, and service the variety of needs....be it financial or other ...of the local community.

INCENTIVES FOR BANKS TO BUY FANNIE MAE AND FREDDIE MAC PREFERRED STOCK

1. National banks could invest, "without limitation", in perpetual preferred stock of Fannie Mae and Freddie Mac (12 USC 24(Seventh)). Except in rare instances, banks are not allowed to invest in equity investments. In addition, U.S Government and Agency bonds are the only other assets a bank may invest in without dollar limitations
2. The FDIC permitted banks to invest up to 100% of their Tier 1 capital in Fannie Mae and Freddie Mac preferred securities (FDIC.gov/regulations/laws bankdecisions/Invest.Activity/miscellaneous). Other investments were generally restricted to 10% of Tier 1 capital.
3. Fannie Mae and Freddie Mac preferred stock investment was considered to be relatively risk-free. National banks were assigned a 20% capital risk weighting for Fannie Mae and Freddie Mac perpetual preferred stock, the same risk weighting as U.S. Agencies bonds, AAA rated investments or cash in bank (OCC Interpretive Letter No. 964). Most other investments have a 50% or a 100% capital risk weighting, reflecting the perceived inherent risk of the investment
4. The FDIC had stated that investments in Fannie Mae and Freddie Mac preferred stock "does not represent a significant risk to the Deposit Insurance Fund" (12 CFR 362.3(b)(2)(iii)
5. Fannie Mae and Freddie Mac perpetual preferred stock were perceived by the market to have the implicit guarantee of the U.S. Government. Until August, 2008, the three major rating agencies classified these government sponsored enterprises' abilities to meet their financial obligations as strong.