CoBIZ Financial

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March 6, 2009

Mr. Neil M. Barofsky
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky,

In response to your letter dated February 6, 2009, below are the responses to the information you requested.

1) Narrative response

a) *Anticipated use of TARP funds:* The Company applied for the funds to bolster its regulatory capital position. During this period of economic uncertainty, the Company feels it is prudent to operate with higher levels of capital. No specific use for the TARP funds has been indentified, but it is expected that the funds will be used to support the organic growth of the Bank, mainly loan growth. [redacted] (b) (4)

b) *Whether the TARP funds were segregated from other institutional funds:* The TARP proceeds are isolated on the Company's general ledger chart of accounts in distinct equity accounts. From a practical perspective, the cash proceeds were deposited into the Company's operating account, and are comingled with the Company's other working capital funds. The Company views the TARP funds to be part of it overall capital base, and does not attempt to identify what specific assets the TARP proceeds have funded, or supported from a risk-based capital perspective. The TARP funds are amalgamated with the Company's other capital sources.

c) *Your actual use of TARP funds:* [redacted] (b) (4) [redacted] (b) (4) [redacted] (b) (4) The remaining cash balance remains on deposit with our bank subsidiary. From a risk-based capital perspective, the Company used the funds to support $473.3 million of credit extended to new loan relationships in 2008. Including the impact of advances on pre-existing lines of credit, pay-downs, and maturities, the Company's total loan portfolio increased by $184.9

million, or 10.0% in 2008. Overall, the TARP funds increased the Company's total risk-based capital ratio to 14.50% as of December 31, 2008. Without the TARP funds, the Company's total risk-based capital ratio would have been 11.58%.

In the first two months of 2009, the Company advanced $38.0 million in loans to new customers. However, since pay-downs and maturities outpaced new loan generation, net loan outstandings were down nominally by $597,000. Noted below is a table detailing the number of new loan relationships by loan type originated in January and February 2009:

Type	Amount	No.	Average Size
Commercial	$ 17,440,798	103	$ 169,328
Leases	$ 522,676	4	$ 130,669
Real Estate	$ 16,199,945	23	$ 704,345
Construction	$ 3,031,346	10	$ 303,135
Consumer	$ 833,146	50	$ 16,663
	$ 38,027,911	**190**	**$ 200,147**

d) *Your expected use of unspent TARP funds:* The remaining TARP funds are expected to be used for general corporate purposes, which may include:

- increasing the capitalization of our bank subsidiary to support continued growth of its loan portfolio;
- (b) (4) [redacted]
- capital expenditures; and
- working capital.

The precise amounts and timing of the application of proceeds will depend upon our funding requirements and the availability of other funds. Allocations of the proceeds to specific purposes have not been made as of this date.

2) Specific plans addressing executive compensation:

Upon participating in the U.S. Treasury's Capital Purchase Program in December 2008, the Company reviewed its compensation programs to ensure compliance with certain limitations with respect to the Named Executive Officers that were established by the U.S. Treasury in October 2008. As a result, the Company amended the employment contracts with each of its Named Executive Officers to comply with the new requirements. Specifically, the contracts were modified to: (a) eliminate any payments considered a parachute payment prohibited under the Act, (b) ensure the Company had the ability to recover or "clawback" certain bonus and incentive payments made if the payments were based on materially inaccurate financial statements or other materially inaccurate performance metrics, and (c) ensure that the Company has the ability to amend compensation arrangements if the bonus or incentive compensation arrangements were deemed to encourage "unnecessary and excessive risks that threaten the value of the financial institution".

The Committee has discussed and considered with the Company's risk managers whether its compensation programs encourage unnecessary and excessive risks. The Committee believes that changes were not necessary given the highly discretionary nature of the Company's bonus program which allows the Committee to adjust or even eliminate bonuses if they feel that excessive risks have been or are being taken.

[redacted] (b) (4)

At its meeting in March 2009, the Compensation Committee is scheduled to review and consider the additional requirements under the American Recovery and Reinvestment Act of 2009 enacted on February 17, 2009.

3) <u>Documents referencing our used or anticipated use of TARP funds:</u>

Attached for your reference are documents including statements to the media, customers and shareholders, as well as internal emails and memoranda describing our anticipated use of funds.

December 15, 2008 – Company press release
December 16, 2008 – Internal email to employees
December 16, 2008 – Denver Business Journal article
4th Quarter 2008 (various dates) – Employee educational presentation
February 4, 2009 – Channel 7NEWS feature
February 4, 2009 – Letter to Clients
February 8, 2009 – The Denver Post article
February 12, 2009 – American Banker article
February 13, 2009 – Fourth quarter 2008 earnings call transcript
February 18, 2009 – Client presentation
February 20, 2009 – Denver Business Journal article
February 20, 2009 – Denver Business Journal article
February 20, 2009 – Rocky Mountain News article
February 25, 2009 – Channel 7NEWS feature
March 1, 2009 – The Denver Post article

If you have any questions, please feel free to contact me at (303) 312-3458.

Sincerely,

Lyne Andrich
Executive Vice President & CFO

CERTIFICATION:

The undersigned, being a duly authorized senior officer of the Company, certifies the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth it Title 18, United States Code, Section 1001.

Signature of Certifying Officer
Name: Lyne Andrich
Title: EVP & CFO
Date: March 6, 2009

CoBiz Financial to Participate in U.S. Treasury Capital Purchase Program

Company Release - 12/15/2008 20:01

Company receives preliminary approval for investment of $64.5 million

DENVER, Dec. 15 /PRNewswire-FirstCall/ -- CoBiz Financial Inc. (Nasdaq: COBZ), a financial services company with $2.6 billion in assets, announced that it has received preliminary approval from the U.S. Department of the Treasury to participate in its voluntary Capital Purchase Program. Through the program, the Treasury will invest $64.5 million in the Company's senior preferred stock.

This preferred stock will carry a 5% coupon for five years, and 9% thereafter. In addition, the Treasury Department will receive warrants to purchase shares of CoBiz common stock in an amount and price to be determined at closing. The warrants will expire in 10 years. Receipt of the funding is subject to execution of definitive agreements and satisfaction of closing conditions.

"We are pleased to receive preliminary approval which is a reflection of our company's continuing strength," said Steve Bangert, chairman and CEO. "This capital expands our ability to provide loans to top businesses in our communities while allowing us to pursue strategic opportunities. We believe this difficult environment will generate a number of options for well-capitalized companies such as CoBiz which would normally not be available."

CoBiz recently placed $20.4 million of subordinated debentures through sources very familiar with the company. The addition of new capital through the Treasury program will increase the company's Total Capital ratio to approximately 15%, based on Sept. 30, 2008 levels. This is well above the 10% level required to be considered "Well Capitalized" by federal banking standards.

In addition, the company has elected to continue to participate in the Federal Deposit Insurance Corp.'s Temporary Liquidity Guarantee Program which consists of unlimited deposit insurance on non-interest-bearing accounts and the guarantee of newly issued senior unsecured debt.

"Almost one-third of our total deposits are non-interest-bearing so the 10-basis-point surcharge on balances in accounts covered by the program will be a significant expense," said Bangert. "However, we believe the ability to attract more deposits to our franchise while offering additional peace of mind to current customers outweighs the costs."

About CoBiz Financial

CoBiz Financial Inc. (www.cobizfinancial.com) is a $2.6 billion financial holding company headquartered in Denver. The Company operates Colorado Business Bank and Arizona Business Bank, full-service commercial banking institutions that offer a broad range of sophisticated banking services -- including credit, treasury management, investment and deposit products -- to a targeted customer base of professionals and small to mid-sized businesses. CoBiz also offers trust and fiduciary services through CoBiz Trust; property and casualty insurance brokerage and risk management consulting services through CoBiz Insurance; investment banking services through Green Manning & Bunch; the management of stock and bond portfolios for individuals and institutions through CoBiz Trust, Alexander Capital Management Group and Wagner Investment Management, Inc.; and employee and executive benefits consulting and wealth transfer services through Financial Designs, Ltd.

Forward-looking Information

This release contains forward-looking statements that describe CoBiz's future plans, strategies and expectations. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "would", "could" or "may." Forward-looking statements speak only as of the date they are made. Such risks and uncertainties include, among other things:

- -- Risks and uncertainties described in our reports filed with the Securities and Exchange Commission, including our most recent 10-K.
- -- Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.
- -- Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.
- -- Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and leases and related expenses.
- -- Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and

Lyne Andrich

From: Lyne Andrich

Sent: Tuesday, December 16, 2008 6:51 PM

To: Everyone; Everyone at ACMG; Everyone at CoBizInsurance; Everyone at FDL; Everyone at GMB; Everyone at Wagner Investment

Subject: TARP

I'm pleased to announce that we have received preliminary approval from the U.S. Department of the Treasury to participate in the TARP (Troubled Asset Relief Program). Through the program, we'll receive $64.5 million to bolster our capital levels in return for shares of senior preferred stock. As you think through our participation in the program or address questions from your customers, you should keep in mind the following points:

- We see these funds as an opportunity to strengthen our company, which is already considered to be "well capitalized" by all regulatory standards before receiving any TARP funds. On a pro forma basis, our risk-based capital ratio will be over 15% -- well over the 10% minimum required to be well capitalized.
- The money under this program is being directed to healthy banks to provide an incentive to lend money to credit-worthy businesses. It is in no way a bail out of the banks.
- Regulators are strongly encouraging participation in the program because banks are the underpinning of our economy and extending credit will be key to getting our economy moving again.
- The capital will make all banks that receive it stronger and better able to continue to provide credit to their customer base.
- Injecting capital in this manner into the banking industry should be positive not only for the industry but also the taxpayer:
    - The funds being offered are at very good terms for banks — banks are issuing preferred stocks with a favorable 5% dividend for the first five years to the U.S. government. The preferred stock has no voting rights and can be redeemed by the bank at anytime.
    - The U.S. government is earning 5% vs. its cost of issuing treasury bonds at 2.3%, plus an additional upside from warrants that are attached to the preferred stock. This should ultimately create a favorable return to the taxpayer as this capital is repaid to the government over time.

Fr more information, a copy of the release announcing our participation may be found on the CoBiz website under "News & Market Data". You'll see we also announced our participation in the FDIC's Temporary Liquidity Guarantee Program which provides unlimited deposit insurance on non-interest-bearing accounts. Although that program comes with a price tag, we feel the benefits of offering peace of mind to our customers and the opportunity to gather additional deposits offset those charges.

If you would like to discuss our participation any further — or if you have customers who would like to do so — I'd be happy to answer any questions or address any concerns.

Lyne Andrich
EVP, Chief Financial Officer
CoBiz Financial
821 17th St.
Denver, CO 80202
(b) (6) [redacted]

Denver Business Journal - December 16, 2008
http://denver.bizjournals.com/denver/stories/2008/12/15/daily11.html

DENVER BUSINESS JOURNAL
Friday, December 16, 2008

Treasury to invest $64.5M in CoBiz

Denver Business Journal

The **U.S. Department of the Treasury** will invest $64.5 million in **CoBiz Financial Inc.**'s senior preferred stock as part of the federal government's voluntary capital purchase program.

Denver-based CoBiz (NASDAQ: COBZ) owns Colorado Business Bank and Arizona Business Bank. The holding company applied for the funds in November and announced Monday it had received preliminary approval from the government.

The capital purchase program was created as part of the Emergency Economic Stabilization Act of 2008, the financial rescue package that Congress passed in October.

Under the program, the Treasury will purchase up to $250 billion of senior preferred shares in U.S. financial institutions.

The Treasury will receive warrants to buy shares of CoBiz common stock. The amount and price will be determined at closing. The warrants expire in 10 years.

"We are pleased to receive preliminary approval which is a reflection of our company's continuing strength," Steve Bangert, chairman and CEO, said in a statement. "This capital expands our ability to provide loans to top businesses in our communities while allowing us to pursue strategic opportunities."

CoBiz said the infusion of money from the Treasury will increase its total capital ratio to about 15 percent, based on Sept. 30 levels. Federal banking standards regard the 10 percent threshold as being well capitalized.

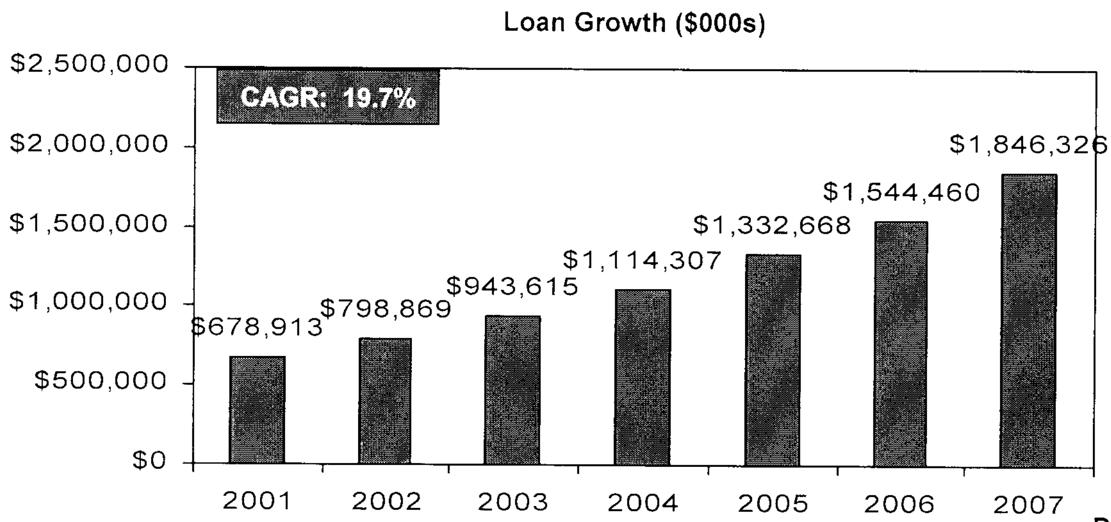
CoBiz Financial

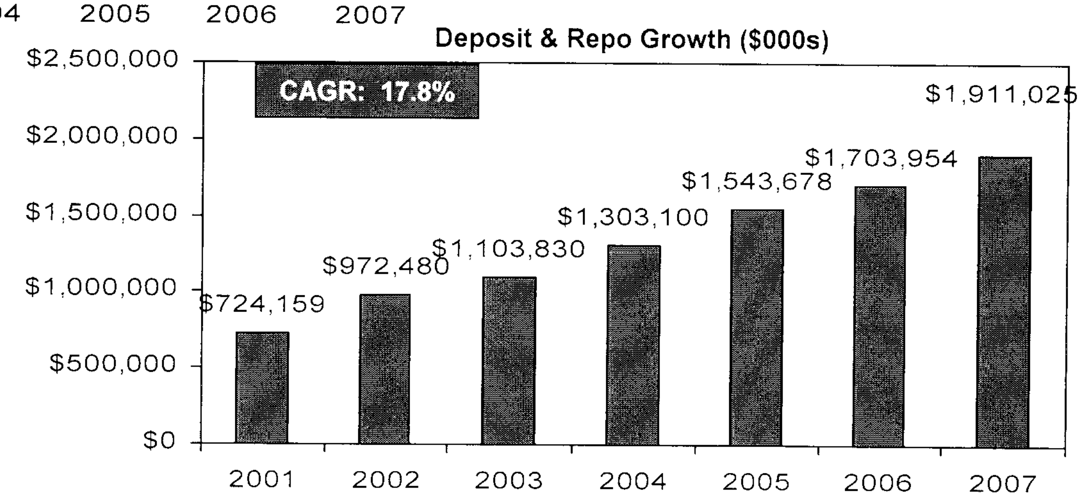
Safety & Soundness Lunch & Learn

State of CoBiz

- Focus has always been building long-term relationships with businesses in the communities we serve
- Proven history of delivering strong results
  - Have posted quarterly profits each quarter since we formed in 1995
    - Reported net income of $9.9 million so far this year
  - Have consistently added to capital base
    - Regulatory capital increased from $83.2 million in 2001 to almost $240.0 million currently
- Fee income offers better revenue diversification than most community banks
    - Almost 30% of the Company's revenue comes from non-interest sources

Proven Track Record





CAGR = Compounded Annual Growth Rate

State of the Industry

Reality check

- Only 21 commercial banks have failed in past five years
  - None headquartered in AZ or CO (First National HQ'ed in Nevada)
  - Largest: WaMu with $307 billion in assets
- Most recent failures have involved high level of speculative real estate lending
- Credit quality problems for the banks that have failed in the past year (medians at time of failure):
  - NPAs + loans 90 days past due/assets: 12.61%
    - CoBiz Bank (9/30/08) 1.19%
  - NPA + 90 PD/total loans + OREO: 16.23%
    - CoBiz Bank (6/30/08) 1.54%

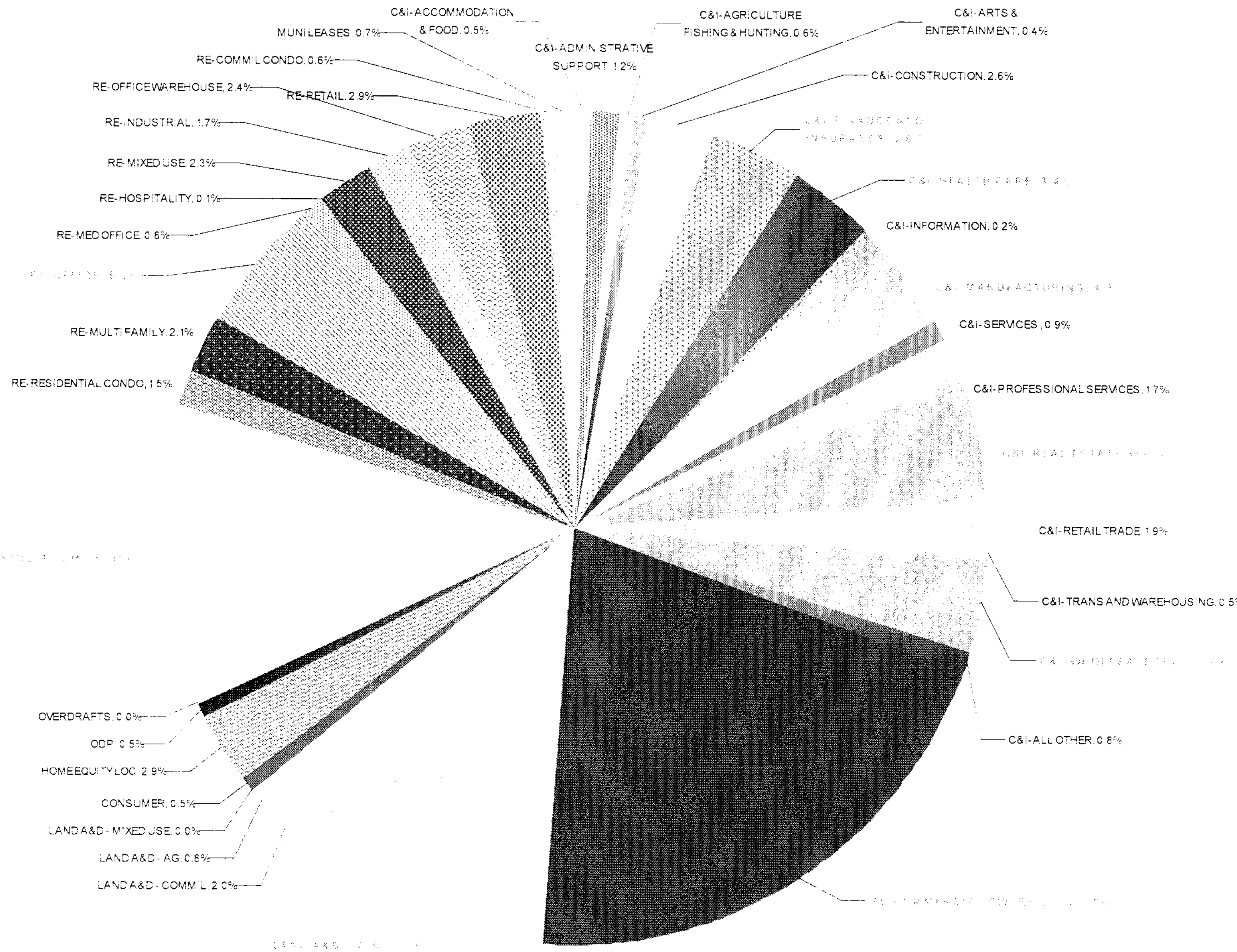
How We're Different

Diversified Portfolio

- Well-diversified loan portfolio helps insulate us from market fluctuations
  - No subprime mortgages
  - Limited consumer exposure
  - Geographic diversification (66% in Colorado)
  - Representation from many industry sectors

Overall Diversification

as of 6/30/08



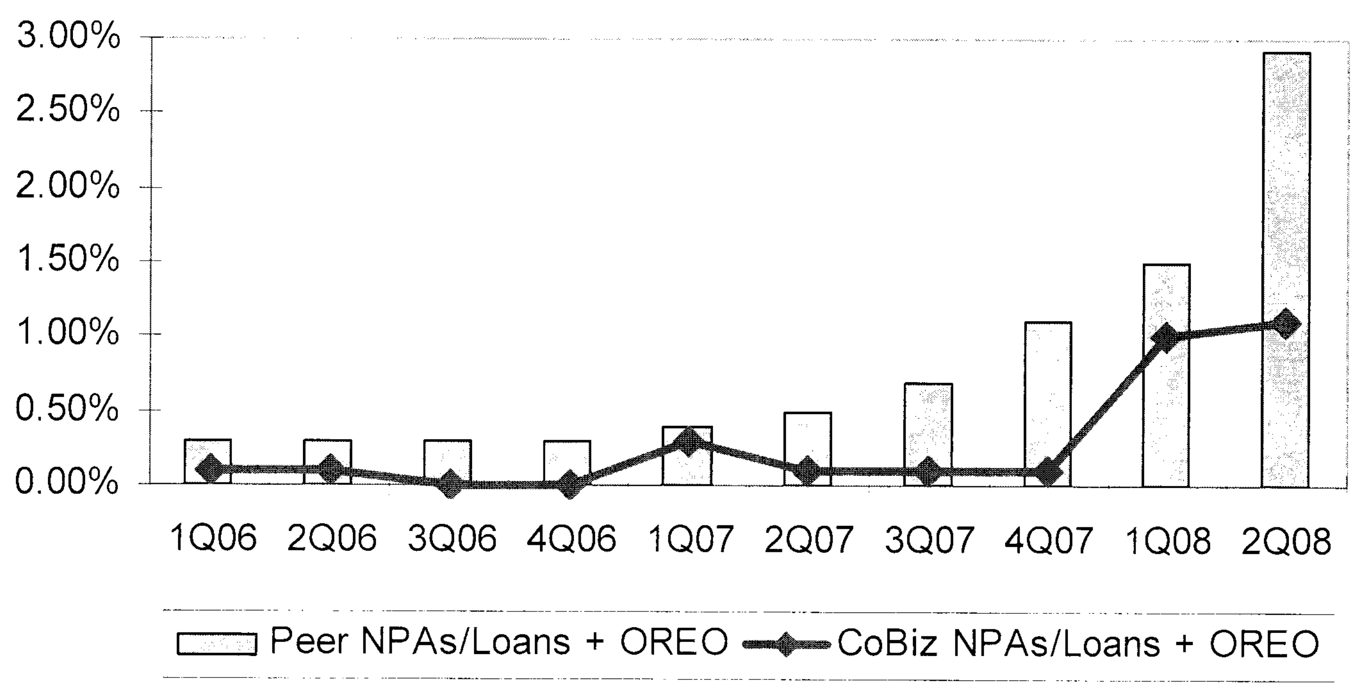
As How We're Different

Asset Quality

- Credit quality a hallmark of our bank
  - Asset quality consistently better than peers
  - Extremely conservative, risk-averse credit culture
- Stress-test of loan portfolio during last economic slow-down (2001) validated underwriting model
  - Have seen some weakness in our markets
  - Our nonperforming assets at manageable level
  - Continue to outperform peers

Asset Quality

Nonperforming assets



OREO = Other Real Estate Owned (foreclosed real estate)

CoBiz Financial

A Capital Idea!

Regulatory Capital

Risk-Based Capital Standards

- Capital is first line of defense in protecting industry and depositors
  - FDIC insurance is a last resort
- Purpose is to ensure safety and soundness of US financial system
  - Cushion against losses, thereby allowing banks to better manage through adverse credit cycles
  - Restrict excessive growth, ensure that asset growth is funded by commensurate amount of capital
  - Protect depositors and FDIC Insurance Fund

Regulatory Capital
Risk-Based Capital Standards

- Commercial banks are subject to high level of scrutiny
  - Robust examination process
  - (b) (8) [redacted]

Risk-Based Capital Position – Bank

$s in thousands; September 30, 2008

	Actual		**Well Capitalized Minimum Level**		**Excess Capital**
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**
Total capital ratio	$257,389	11.86%	$217,037	10.00%	$ 40,352
Tier 1 capital ratio	$230,249	10.61%	$130,222	6.00%	$100,027
Leverage ratio	$230,249	9.26%	$124,333	5.00%	$105,916

Tier 1 Capital (Core Capital) = (common stockholders' equity + qualifying perpetual preferred + qualifying trust preferred securities) - goodwill

Tier 2 Capital (Supplemental Capital) = allowance for loan losses + perpetual preferred stock + intermediate-term preferred stock + subordinated debt

Total Risk-Based Capital = Tier 1 Capital + Tier 2 Capital

Leverage Ratio = Tier 1 Capital ÷ average total consolidated assets

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Troubled Asset Relief Program (TARP)

Emergency Economic Stabilization Act

- On October 3, 2008, President George W. Bush signed a $700B Emergency Economic Stabilization Act (EESA)
  - Attempt restore liquidity and stability to the U.S. financial system and promote future economic growth
- On October 14, 2008, UST, FRB and FDIC announced further details regarding new government programs under the EESA:
  - TARP Capital Purchase Program
  - FDIC Temporary Liquidity Guarantee Program

TARP Capital Purchase

Advantages for Financial Institutions

- Attractive cost of financing (5% for first five years)
- Provides capital which may not be currently available from private and/or public capital markets
- Capital could be used to fund new strategic initiatives (including internal growth or acquisitions) and reinvest in our communities
- No stigma to participate – reserved for healthy financial institutions
- Would increase Total Capital Ratio at the parent company level to better than 13%
  - Well in excess of 10% required

Peer Group

- American River Bankshares (AMRB)
- AmericanWest Bancorporation (AWBC)
- Bank of America Corporation (BAC)
- Bank of Hawaii Corporation (BOH)
- Bank of Marin Bancorp (BMRC)
- Banner Corporation (BANR)
- Bridge Capital Holdings (BBNK)
- Capital Corp of the West (CCOW)
- Cascade Bancorp (CACB)
- Cascade Financial Corporation (CASB)
- Cathay General Bancorp (CATY)
- Center Financial Corporation (CLFC)
- Central Pacific Financial Corp. (CPF)
- City National Corporation (CYN)
- CoBiz Financial Inc. (COBZ)
- Columbia Bancorp (CBBO)
- Columbia Banking System, Inc. (COLB)
- Community Bancorp. (CMTV)
- CVB Financial Corp. (CVBF)
- East West Bancorp, Inc. (EWBC)
- First Regional Bancorp (FRGB)
- First State Bancorporation (FSNM)
- Frontier Financial Corporation (FTBK)
- Glacier Bancorp, Inc. (GBCI)
- Guaranty Bancorp (GBNK)
- Hanmi Financial Corporation (HAFC)
- Harrington West Financial Group, Inc. (HWFG)
- Heritage Commerce Corp (HTBK)
- Nara Bancorp, Inc. (NARA)
- Pacific Capital Bancorp (PCBC)
- PFF Bancorp, Inc. (PFFB)
- Preferred Bank (PFBC)
- PremierWest Bancorp (PRWT)
- Sierra Bancorp (BSRR)
- Sterling Financial Corporation (STSA)
- SVB Financial Group (SIVB)
- Temecula Valley Bancorp Inc. (TMCV)
- TriCo Bancshares (TCBK)
- UCBH Holdings, Inc. (UCBH)
- Umpqua Holdings Corporation (UMPQ)
- UnionBanCal Corporation (UB)
- Vineyard National Bancorp (VNBC)
- Washington Banking Company (WBCO)
- West Coast Bancorp (WCBO)
- Westamerica Bancorporation (WABC)
- Western Alliance Bancorporation (WAL)
- Wilshire Bancorp, Inc. (WIBC)
- Zions Bancorporation (ZION)

Forward-Looking Statements

This presentation contains forward-looking statements that describe CoBiz' future plans, strategies and expectations. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning. or future or conditional verbs such as "will," "would," "should," "could" or "may." Forward-looking statements speak only as of the date they are made. Such risks and uncertainties include, among other things:

- *Risks and uncertainties described in our reports filed with the Securities and Exchange Commission, including our most recent 10-Q.*
- *Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.*
- *Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.*
- *Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and leases and related expenses.*
- *Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.*
- *Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.*
- *The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.*
- *Our continued growth will depend in part on our ability to enter new markets successfully and capitalize on other growth opportunities.*
- *Changes in legislative or regulatory requirements applicable to us and our subsidiaries could increase costs, limit certain operations and adversely affect results of operations.*
- *Changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations may increase our tax expense or adversely affect our customers' businesses.*

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements in this presentation. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

TheDenverChannel.com

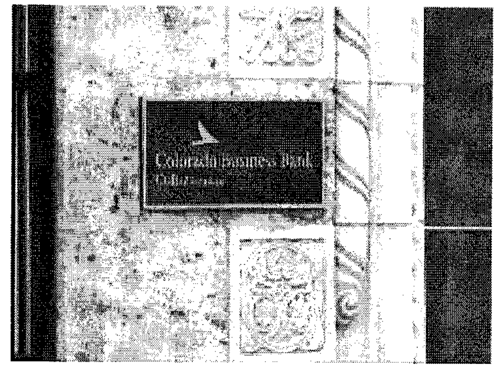
Obama Caps Executive Pay Tied To Bailout Money

Limited Impact In Colorado

Steve Saunders, 7NEWS Anchor

[illegible] MST February 4, 2009
[illegible] MST February 4, 2009

Related To Story



Video: Should Execs Get A Salary Cap?

DENVER -- The cap on executive pay for executives at banks that got a federal bailout will have a limited impact in Colorado.

CoBiz Financial was the only Colorado institution that got federal money and had executives making more than $500,000.

An examination by 7NEWS of banking records and forms with the Securities and Exchange Commission found four employees who would be forced to take a pay cut.

No one from the bank responded to repeated calls for reaction.

President Barack Obama on Wednesday imposed a $500,000 cap on senior executive pay for the most distressed financial institutions receiving taxpayer bailout money and promised new steps to end a system of "executives being rewarded for failure."

Obama announced the unusual government intervention into corporate America at the White House, with Treasury Secretary Timothy Geithner at his side. The president said the executive-pay limits are a first step, to be followed by the unveiling next week of a sweeping new framework for spending what remains of the $700 billion financial industry bailout that Congress created last year.

The pay limit comes amid a national outcry over huge bonuses to executives who head companies that seek taxpayer dollars to remain afloat. The demand for limits was reinforced by revelations that Wall Street firms paid more than $18 billion in bonuses in 2008 amid the economic downturn and the massive infusion of taxpayer dollars.

The limit would apply to top-paid executives at the most distressed financial institutions that are negotiating bailout agreements with the federal government. It also would apply to other banks that receive aid, but they could get around the limits by publicizing to shareholders plans to exceed the salary cap.

The limits would not apply retroactively to any bank that received money from the first half of the $700 bailout allocated by Congress. For example, the restriction would not apply to such firms as American International Group Inc., Bank of America Corp., and Citigroup Inc., that already have received such help.

But Obama touted the broad symbolism of his action.

"This is America. We don't disparage wealth. We don't begrudge anybody for achieving success," Obama said. "But what gets people upset -- and rightfully so -- are executives being rewarded for failure. Especially when those rewards are subsidized by U.S. taxpayers."

"There is a deep sense across the country that those who were not ... responsible for this crisis are bearing a greater burden than those who were," Geithner said.

Firms that want to pay executives above the $500,000 threshold would have to use stock that could not be sold or liquidated until they pay back the government funds.

Generally healthy institutions that get capital infusions from the Troubled Asset Relief Program in the future will have more leeway. They also will face the $500,000 limit, but the cap can be waived with full public disclosure and a nonbinding shareholder vote.

Obama said that massive severance packages for executives who leave failing firms are also going to be eliminated. "We're taking the air out of golden parachutes," he said.

Other new requirements on "exceptional assistance" will include:

--The expansion to 20, from five, the number of executives who would face reduced bonuses and incentives if they are found to have knowingly provided inaccurate information related to company financial statements or performance measurements.

--An increase in the ban on golden parachutes from a firm's top five senior executives to its top 10. The next 25 would be prohibited from golden parachutes that exceed one year's compensation.

--A requirement that boards of directors adopt policies on spending such as corporate jets, renovations and entertainment.

The administration also will propose long-term compensation restrictions even for companies that don't receive government assistance, Obama said.

Those proposals include:

-- Requiring top executives at financial institutions to hold stock for several years before they can cash out.

-- Requiring nonbinding "say on pay" resolutions -- that is, giving shareholders more say on executive compensation.

-- A Treasury-sponsored conference on a long-term overhaul of executive compensation.

Compensation experts in the private sector have warned that intrusions into the internal decisions of financial institutions could discourage participation in the rescue program and slow down the financial sector's recovery. They also argue that it could set a precedent for government regulation that undermines performance-based pay.

"One of the big questions is whether it will make it more difficult to recruit and retain executives at these companies," said Claudia Allen, chair of corporate governance at the Chicago-based law firm of Neal, Gerber & Eisenberg.

The $500,000 cap "is a very tight limit," she said.

CoBiz Financial

821 17th St.
Denver, CO 80202
Tel 303.312.3412
cobizfinancial.com

February 4, 2009

It has been said that "no news is good news." Lately, it seems that all news is bad news, especially in the financial services industry. However, if you look past the headlines and take the time to truly understand what's happening, why and how banks are addressing challenging times, I hope you'll see that some companies — including ours — are addressing today's challenges head on and maintaining our focus on serving our customers and our communities.

We're currently in the midst of earnings season, when public companies report on their performance for the past quarter and year. For the most part, the news for the banking industry has not been good. Asset quality problems — specifically, the need to set aside income to cover loans that may default — have resulted in quarterly losses for much of the industry. We joined banks — ranging from national players like Wells Fargo and Zions (which operates as National Bank of Arizona and Vectra Bank in Colorado) to small community banks — in posting a loss for the fourth quarter. Our full year 2008 results remain positive; in fact, our bank earned more than $7 million for the year even factoring in a significant provision to address loan losses.

Clearly, we're not immune from the affect of the national economic situation, although we are somewhat insulated by the relative health of the Colorado economy. The number of problem loans in our portfolio has risen although we still outperform our peer group in this area. Compared to the top 50 banks in the western U.S., our non-performing assets were 2.31% of our total loans and real-estate owned compared to 3.78% for our peers. We also charged-off fewer loans — 1.62% of our loan portfolio compared to 1.97% — than our peer group.

Concerns about the industry have driven down stock prices, spawning even greater concerns about the health of the industry. It's important to note, however, that stock price is not a direct indicator of the strength of the issuing company. A better indicator of overall health for a bank is its capital level.

We ended 2008 with almost $320 million in risk-based capital, an all-time high for our company. We are well above the strict levels established and monitored by the Federal Reserve Bank, which allows us to safeguard your deposits even while absorbing losses in our loan portfolio. We've been able to grow our capital reserves by being profitable for 14 years, raising additional capital through various sources — including $21 million raised through friends of the company late in 2008 — and receiving $64.5 million under the U.S. Treasury's Capital Purchase Program.

We're proud to be the first bank headquartered in Colorado currently approved for participation in the program, even though there is a great deal of confusion and misinformation about it. It's important to note that the first phase of the program provided capital to healthy institutions who are active lenders in their communities. As a business bank, we've always been a healthy user of capital as we helped small and mid-sized businesses grow and contribute to our local economies. And, we agree with the Treasury's view that banks — community banks in particular — are the most effective ways to deploy additional capital into the market while safeguarding the interests of the institution and, ultimately, taxpayers.

If you have additional questions about our company or would like to further discuss the safety of your deposits, our participation in the Capital Purchase Program or the continued health of CoBiz, please let us know. We take your relationship with us very seriously and look forward to partnering with you as we work through these difficult times.

Sincerely,

Steve Bangert
Chairman & CEO, CoBiz Financial

Jonathan C. Lorenz
CEO, Colorado Business Bank/Arizona Business Bank

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business

Backlog crimps bailout of banks

At regulators' current pace, TARP funds could take months to hit Main Street.

By Miles Moffeit
The Denver Post

Posted: 02/03/2009 12:30:00 AM MST

Updated: 02/13/2009 12:16:42 PM MST

The backlog of bank applications seeking Treasury Department bailout money has topped 2,000 nationwide as regulators encounter red flags such as heavy concentrations of commercial real estate loans that require time-consuming inquiries, say attorneys and government officials close to the process.

The problems are another hurdle to swiftly funneling money into the slumping economy. At the rate of about 50 formal approvals a week, it could take many months before Main Street America sees the remaining half of the $700 billion in Troubled Asset Relief Program funds.

Government officials will not comment on details of application reviews, what banks are under scrutiny or the size of backlogs per region. But financial lawyers working with the Federal Deposit Insurance Corp. and other oversight agencies aiding in the process say staffs are working overtime to tackle the paperwork.

"The agencies are moving deliberately, sometimes slowly, very carefully," said Bob Vinton, a Denver attorney with Fairfield and Woods who represents banks inside and outside Colorado pursuing the funds. "Commercial real estate seems to be the focus."

In recent months, economists monitoring sliding real estate values and occupancy across the country have expressed fears that commercial development could be the next bust to follow the housing crisis. In fact, the FDIC has been dogging banks since 2006 to limit their exposure to such investments.

But other factors also are behind the backlog.

TARP — set up to stabilize an economy hurt by major investment banks' reliance on toxic mortgage securities and their reluctance to lend after loans failed — is a new bureaucracy that must borrow staffers from other government divisions to get the job done. Standards for approving applications are still evolving. And regulatory agencies, already short-staffed, are caught in an administration changeover with positions still to fill.

Plus, the quality of bank loans in general calls for close attention.

Meanwhile, the 2,000-plus bailout applications have yet to even reach the Treasury Department,

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piling up at regional regulatory offices, according to Tom McCool, a congressional investigator for the U.S. General Accountability Office in Washington.

Wait frustrates banks

About 300 financial institutions have received TARP infusions. But some have waited up to three months for approval, including one client of Vinton's.

"There's frustration among banks" in Colorado, said Don Childears, president of the state's banking association. "I know the regulators are very busy right now."

A goal of Congress and President Barack Obama has been to sweep TARP money into the economy as fast as possible, not just to the major banks but to community banks so that grassroots businesses can benefit.

"These are the banks that sit on the corner of Main and First in every town in the U.S.," said Rob Klingler, an attorney with the Bryan Cave Powell Goldstein law firm in Atlanta. "Those are the ones that can lend to the small business starting up. It will take a long time to get these funds to Main Street."

But careful screening is needed to ensure that massive outlays of tax payer dollars are wisely placed. And the growing prevalence of commercial loan vulnerabilities complicates earlier pleas from Congress that banks use TARP funds to make more loans.

In Colorado and other states whose financial institutions carry large portions of commercial real estate lending in their portfolios, regulators are gauging a standard ratio: quantity of those notes versus capital.

The Centennial State, where resort communities have grown at fast clips over the last decade, ranked 11th nationally in terms of the loans carried as a percentage of capital, according to a review of FDIC records covering the third quarter of 2008.

Colorado banks carried loans at 312 percent of their capital. Washington state ranked No. 1 with 496 percent.

Among the hot spots drawing government officials' attention now, Klingler says, is Georgia. FDIC officials told members of his firm that his state has earned a dubious distinction linked to commercial real estate activity.

"There's no question that the concern is in the concentration of commercial real estate," Klingler said. "The statistic we've heard from the FDIC is that 30 percent of the banks here have commercial real estate in excess of (FDIC) guidelines they've published since 2006. The next-highest state is Florida."

Last year, Georgia tied California with the most bank failures.

More scrutiny this go-round

Banks receiving the first round of TARP infusions

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under the Bush administration didn't face as much scrutiny, attorneys say. At that point, the government was moving quickly to stave off further damage to the economy. Denver-based CoBiz Financial, for example, won approval of its $64.5 million TARP investment within a couple of weeks.

Its commercial real estate loan exposure was higher than the FDIC-suggested standard, but regulators were satisfied with the bank's health and risk monitoring, said chief executive officer Steve Bangert.

Just how severely commercial real estate troubles will impact Colorado banks is still unclear. Some experts say while the market here is softening, it's not as bad as in many regions of the country.

If it does worsen, Tenn Grebenar, a banking attorney with Denver's Rothgerber, Johnson and Lyons, said Colorado banks could feel the impact more than others.

"You've got a lot of resort banks out west here," he said. "That's a bigger part of banks' portfolios and could have a more serious effect than on Kansas or Montana."

It's also unclear exactly what the best use of TARP money is, given the mixed signals from regulators cracking down on the lopsided commercial real estate ratios and Congress' urgings to loan more money.

"Sometimes the government is working at cross purposes," Grebenar said. "The hidden message a lot of bankers get is 'Why would you want to make another loan?' Then the government (in Washington) says, 'Make more loans.' Wait a minute, guys, the left hand and the right hand need to meet each other."

Denver Post research librarian Barry Osborne contributed to this report. Miles Moffeit: 303-954-1415 or mmoffeit@denverpost.com

This article has been corrected in this online archive. Originally, it referred to Colorado as the Rocky Mountain State. Its official nickname is the Centennial State.

AMERICAN BANKER
On Focus and In Depth

CEO Ready to Return to M&A Roots

American Banker | Thursday, February 12, 2009

By Robert Barba

Before he started CoBiz Financial Inc. 15 years ago, Steven Bangert made his name pairing investors with troubled institutions.

While at CoBiz he has acquired just one bank, but with the economy cratering again, Mr. Bangert is preparing to make more use of his dealmaking experience from the late 1980s and early 1990s.

"There were a lot of opportunities in those days, and this is certainly shaping up to be a very similar point in time," Mr. Bangert said.

The $2.7 billion-asset Denver commercial lender itself is feeling the pain. It lost money for the first time last quarter, and it is heavily exposed to real estate. But analysts said that if CoBiz can demonstrate to investors that it has its problems under control, it should be able to execute Mr. Bangert's plan to raise equity to finance acquisitions.

It probably cannot hurt its case with investors that CoBiz received $64.5 million from the Treasury Department's Troubled Asset Relief Program in December.

Mr. Bangert said the money would not go directly toward acquisitions, but it serves as a sweetener to private capital.

"Our potential investors took comfort in knowing that we received the Tarp money," he said, and the Tarp funds will be used to support organic growth. Mr. Bangert anticipates leveraging the infusion 10 to 1, and he expects CoBiz to fully deploy it over the next 30 months.

CoBiz will be selective with purchases, he said. "You turn over a lot of rocks to find the right transaction. We need to be patient and need to be willing to walk away from a transaction."

Though CoBiz would prefer to buy a relatively healthy business bank like itself, Mr. Bangert said he is open to taking over ailing institutions — with regulators' help.

"We want to feel comfortable. You don't want something that is going to overwhelm you, but that allows you to go grab market share," he said. "We don't want to be too inwardly focused" — too preoccupied with fixing the problems of an acquired institution to expand.

CoBiz could make a big purchase or a few small ones, he said; the targets could be in its Colorado or Arizona markets or elsewhere in the West.

To show investors that it is on top of things, the company commissioned a third-party review of its loan portfolio; the review led to a significant padding of reserves last quarter.

"We want to be able to raise capital quickly when we find a transaction that fits," Mr. Bangert said.

Analysts said Mr. Bangert's reputation should help with fund raising.

"Just looking at the history of the management team would give investors some confidence," said Bain Slack, an analyst at KBW Inc.'s Keefe, Bruyette & Woods Inc.

However, "investors need some assurances that CoBiz can get its arms around the credit problems," Mr. Slack said. "They will want to know if the fourth quarter was a result of doing a deep dive into their portfolio. ... If so, does the reserving put them in a position to get back on track quickly?"

Joe Morford, an analyst at Royal Bank of Canada's RBC Capital Markets, said that despite the fourth-quarter "deterioration being greater than we expected," CoBiz will likely find both investors and good buys.

"I suspect there will be significant acquisition opportunities in the future, assisted deals or not, and they are in a good position to capitalize on that," Mr. Morford said. "I also think potential equity investors will take some comfort in knowing that a third party has scrubbed the books, and the company has taken some appropriate measures to get out in front of the risk."

CoBiz, the parent company of Arizona Business Bank and Colorado Business Bank, focuses on serving small and midsize companies. Its loan portfolio was 32% commercial and industrial and 40% commercial real estate at the end of the fourth quarter. Mr. Bangert said the real estate loans are secured mostly by owner-occupied properties — meaning they are pegged to the health of a business, rather than demand for the space.

Though real estate lending helped the company add roughly $1 billion of assets over the last four years, this activity is now giving CoBiz heartburn. Last quarter it swung to an $8.6 million loss, from a $5.5 million profit a year earlier. Its provision for loan losses skyrocketed 1,491%, to $23.4 million. Nonperforming assets grew twelvefold, to $47 million.

Construction and development and land acquisition loans made up roughly 22% of the portfolio at the end of the quarter and contributed to the nonperformer spike.

"For the first time, we are feeling some stress in our Colorado market, and we are trying to get out in front of it," Mr. Bangert said. Colorado accounts for two-thirds of the company's assets.

He acknowledged that "there is some concern" the loan deterioration would slow the company's expansion, but he said he does not see it as a deterrent. Colorado will likely remain one of the stronger markets, and CoBiz tends to serve mature businesses that "have been through a few business cycles."

Another source of stability, Mr. Bangert said, is that usually a quarter to 30% of its revenue comes from fees, including those from its asset management and insurance businesses, making CoBiz less reliant on interest income. This is a high percentage for the industry.

Mr. Bangert, 52, spent the late 1980s and 1990s working on roll-ups in Illinois and Texas.

In 1988 he helped a pair of investors identify a small, healthy institution, River Valley Savings Bank in Rock Falls, Ill., to serve as a springboard. As its CEO, he led River Valley through six acquisitions of failed institutions from the Resolution Trust Corp. River Valley was sold to First Banks Inc. of St. Louis in 1994.

While he was leading River Valley, Mr. Bangert was a part of an investor group that practiced a similar roll-up strategy with Western Capital Holdings in McAllen, Tex. He also was part of a group of investors that recapitalized Lafayette American Bank and Trust Co. in Bridgeport, Conn., in 1992. He served on the company's executive committee until Hubco Inc. acquired it for $130 million in 1996.

Those deals were made with an eye toward selling, but Mr. Bangert, a Nebraska native, said he wanted "to get back to his Western roots" and invest in something for the long term. So he joined a group of investors that bought Equitable Bancorp. Inc. in Denver for $17.5 million to launch what is now CoBiz.

In 2001 the company, then known as Colorado Business Bankshares, entered what was then one of the country's fastest-growing markets by acquiring First Capital Bank of Arizona in Phoenix for $28.3 million in stock. It has also acquired two small investment management firms and three insurance companies.

For the last several years the company has expressed an interest in entering the Seattle and Portland, Ore., markets. But Mr. Bangert said it is looking at all points west. CoBiz has not entered the Pacific Northwest because it has just been too expensive, he said.

CoBiz Inc. Q4 2008 Earnings Call Transcript

February 13, 2009 | about stocks: COBZ

CoBiz Inc. (COBZ)

Q4 2008 Earnings Call

February 13, 2009; 11:00 am ET

Executive

Steve Bangert - Chairman & Chief Executive Officer

Jon Lorenz - Vice Chairman

Lyne Andrich - Chief Financial Officer

Analysts

Joe Morford - RBS Capital Market

Ben Crabtree - Stifel Nicolaus

Steve Scinicariello- BlackRock

Presentation

Operator

Good morning. My name is Brandy and I will be your conference operator today. At this time I would like to welcome everyone to the CoBiz financial fourth quarter conference call. All lines have been placed on mute to prevent any background noise. (Operator Instructions)

I would now like to turn the conference over to Mr. Bangert . Please go ahead sir.

Steve Bangert

Thanks Brandy. First of all I'd like to make sure everybody's aware that I do have Jon Lorenz, the CEO of the Bank, as well as Lyne Andrich, CFO of the holding company in the room, that are both prepared to answer any questions you have. I know Jon has a few things that he'd like to say towards the end here.

I'd like to thank all of you for participating in the conference call. To start off by saying I apologize for the delay. Since we went public in '98, we have always reported on time and take pride in doing so, but unfortunately the delay as we mentioned in the press release was really we were in the process of completing our third party bank review.

The review was really triggered by a major initiative that we discussed in our annual October strategic client session with our board and in that session we had identified '09 and 2010 as being important years for us.

I really believe that there'll be some opportunities out there as consolidations start to take place. I think we are very, very early on in that process, but anyway we decided that at that point in time, we had some preliminary discussions with some potential capital partners and we've been doing that and also recently started to explore potential merger candidates, but we're very early in the process, so I don't really want to imply that there's some active discussions going on today.

We have finally taken our time; we believe that patience will pay off. What this does not mean is that we're opposed to announcing any new capital transaction today. Reference would be the risk transaction and the transactions on hand or at least we're relatively certain that one or two transactions will happen in a relatively short period of time.

I also don't want to imply that our fourth quarter position was anyway influenced by the third part review, really as a function of up-going through our normal process here at CoBiz and we were reacting to what we saw as a recent slow down in the Colorado market, that we really haven't seen up until the fourth quarter of '08 and I don't want to overreact to that, because Colorado probably still will be one of the better performing states in the country, but we're not going to go to the economic slowdown on scales anyway.

We actually had a little bit of job loss in November, prior to that we were still having positive job growth. I think for the year Colorado had a little over 1% job growth, but by November it had slipped to I think it was five-tenth of 1% negative growth and then December came in around 66 basis points of negative growth.

Still much better than what we have experienced in Arizona for the last couple of years, but nevertheless did we want to get out in front of it and I think Colorado will be one of the better performing states, but it is going to have some issues in that.

As we look at the fourth quarter, the loss $8.6 million or $0.38 was really triggered by a $23.5 million provision, an increase in our reserve from $112 million a year ago to $212 million at the end of this year. We really believe that the reserve is necessary.

Also, included in that fourth quarter, was a $2.2 million pre tax loss on valuation adjustments on our OREO portfolio and a $1.2 million impairment charge on a single trust preferred security that we own. For the year there was a small income, but it was very small, around $1.3 million.

On the bright side, I thought our pretax, pre-position number which is a number I continue to monitor very closely, because one of these days we will be coming out of this slowdown, was up around 10% overall. I think it was a little over $45 million, but we are pleased with that.

As we continue to grow our loan portfolio, we had about 10% loan growth for the year, a little under 6% for the quarter, but I do think that we are positioning ourselves very well. When the economic slowdown starts to reverse itself, I think we'll be well positioned to take advantage of that.

The process continues to be a challenge for us. We're now starting to see some of our customers pay down the lines of credit with us with their deposit, which really is kind of double whammy for us, that's something that we experienced in other slowdowns and so I think that's something that we anticipated.

During the year we did pay down broker deposits from about 8.5% of our overall funding, to 4.1% by the end of the year. On the capital side I think you'll see that we did get our TARP money. We were the very first bank in Colorado to receive TARP money, even though we weren't anywhere near to one of the first ones to apply for it; we got that relatively quick, bring our tangible capital ratios now up to 7.6%, risk based capital up to 14.5%, so both of those I think are in a pretty good position today.

As far as our fee based outlook, I'd say it's going to be a challenging year for us. There are a few bright spots, but it definitely will be a challenging year for us. On the insurance side, really two different segments there, property and casualty; we really have been in our stock market now for three or four years, but that appears to be turning around. The insurance companies themselves are lowering their premiums, which is really where we get our revenue, over the last few years as we're trying to steel business from each other. Now they're having their own issues and we're starting to see premiums go up, so we can hit that, certainly a positive for us.

Employee benefit, which is another line of business we're in, should be relatively steady during the year. Our biggest concern would be loss of jobs, primarily in Colorado which as I said we haven't really think too much yet, because really we get paid by the number of lives that we insure.

On the transfer side, they had a pretty good year in '07 or '08. We would anticipate that '09 could be a pretty good year for the well transfer side. Part of what's driving their income, there's just really certainty on their state planning side or their state taxed, which should really happen then in an awful lot of certainty over the last few years and maybe whether you like it or not, allowing the bush tax cuts to go away. That could be a positive as it creates some certainty as far as planning is concerned.

Investment advisory trust, certainly a challenging area, because we get paid for the assets that we manage, and as all of you are well aware, I mean the [F&P] was down almost 40% last year and so really the assets under management have shrunk on us during the year. We recently hired an executive from fifth third. He ran the Chicago and the Northern Indiana markets, somebody that we're really excited about. He has recently joined our franchise and I think will make a significant difference on the direction we are going in that area over the next 12 to 24 months.

Investment banking is very difficult to focus today and that though we have a pipeline of business, we look at the pipeline and we do believe that quite a bit of it will get to the closing table. It'll just be interesting to see how many new transactions we see come to the table over the next 90 to 120 days.

Overall, we're expecting '09 to be a challenging year for us, as it will be for really all financials I think in the country. We still expect Colorado as I said earlier to perform reasonably well, but nevertheless with the slowdown in Colorado, I do think you'll see some upward pressure on our non-performers during the year.

What I don't expect with those non-performers that come out of the Colorado market is to see the severe markdown that you saw in the Arizona market. None of them was our franchise, but were some of the more prominent franchises that are operating down. Certainly the declines that we've seen in the Arizona over the last 18 to 24 months, we haven't seen anything near that in Colorado. Colorado has been relatively steady, but I wouldn't be surprised if there is some small losses, but certainly not to the extent that we experienced in Arizona.

With that I'll probably turn it over to John and John, why don't you kind of give us an overview of what you're looking at?

Jon Lorenz

Thanks Steve. Maybe to comment a little more on the fourth quarter provision; I guess it's important to point out that we've always been an organization that's impressed upon our bankers the importance of being very proactive in grading of their credits and unfortunately that proactive ness we saw in spades in the fourth quarter, as we did see as Steve mentioned earlier, some pretty widespread deterioration in the Colorado portfolio, which really is the first time we've seen any cracks in the Colorado portfolio, really occurred in the fourth quarter.

I think there's some difference in terms of what drove the provision. If you look at the two states, Arizona is clearly still an issue of severity. We continue to see drops in real estate values and probably I would estimate a 20% to 30% drop in real estate values that occurred just in the fourth quarter, reflective of what was going on in the macro economic climate.

In Colorado I think it's more what you're seeing nationally. Every business is feeling stressed today, every business is trying to downsize their businesses, adjust for loss of backlog, loss of revenues and so in Colorado it was mostly a case outside of real estate. As you look at our C&I portfolio where we may have taken credits to a watch status, a special mention status, but generally not to the more severe substandard classifications as it relates to our Colorado C&I portfolio.

That will be a challenge for us as we move through 2009. We're doing a full portfolio review today focusing on all of our unsecured credits, all of our stock and security secured credits and all credits over $500,000. Number one, to make sure they're appropriately graded today, but probably more importantly using that as a tool for the bankers to sit down with the business owners and really discuss what actions the business owner is taking to correct and downsize their businesses and make appropriate adjustments.

We've always said we've been top tier companies in our markets and if most of them have in our C&I portfolio sufficient capital, if they take appropriate corrective steps and we want to make sure that that's happening, so that we don't get into the severity, at least the severity of losses within the C&I portfolio, but without question there's going to continue to be stress as we go through the year.

Just a couple of comments on the non-performers, which also increased significantly; as I mentioned, Arizona is more of a severity issue, we did see an increase in non-performers in Colorado, primarily out of our real estate group and I would say about two thirds of that increase in non-performers in Colorado, roughly $8 million is all in finished houses.

What we're seeing in Colorado, the market, unlike Arizona where real estate values continue to drop, in Colorado the values are relatively stable, there's just no velocity, there are very few sales occurring and so what we've had within our real estate portfolio here is some of our smaller builders. Similar what we talked about earlier in Arizona, where they've been carrying their properties for 12 to 18 to 24 months, paying interest out of pocket and they've reached the end of their capacity to do that.

So again, about $8 million of the $12 million increase in real estate non-performers in Colorado are incompleted houses. Again, back to Steve's point, we don't see significant losses in those houses based on our carrying values today. We also made some good progress just recently in terms of resolution of some of these more recent problems.

We had about a $1 million house sale; it was a house that we took into OREO in the fourth quarter that sold last week. Our largest OREO property in Arizona is scheduled to close. Next week we've restructured a couple of loans of about $1 million each which are now back on performing status, a couple of other properties under letter of intent, we're also pursuing a couple of note sale.

So one of the frustrations in the fourth quarter is we continue to add the non-performers without seeing much rotation and non-performers falling off. I think in the first quarter you're probably going to see a continued increase in non-performers, but along with that you're going to see resolution of some of these problems and a number of the current OREOs getting resolved during the first quarter.

Again, as we look ahead to this year there's a lot of uncertainty out there. The commercial real estate market in Colorado, I wouldn't characterize it as strong but stable. Vacancy rates are hovering around 13% in Colorado versus they are escalating in terms of commercial office vacancy in Arizona to about 20%, but Colorado rents are relatively stable and vacancies are.

So we're not seeing any deterioration of any significance in commercial real estate and commercial real estate in Colorado at this point. So we do think we're positioned to work through our real estate problems for the most part in Colorado as they develop without taking material losses similar to what we've taken on the land and lot portfolio in Arizona up to this point.

With that, I'm just going to open it up for questions.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Joe Morford - RBC Capital Market.

Joe Morford - RBS Capital Market

I've got a few questions. I guess first maybe could you talk a little bit more about this independent credit review in the quarter and just tell what the extent was of that, what did they exactly look at and what were some of the things they found or conclusions and things like that?

Steve Bangert

Joe, I think it's kind of difficult for us to talk about it. We'll end up in a review because it's really done for somebody else and for the investors that we're talking about, I mean it was really not done for us, but it was a review of the loan portfolio. There were some accounting reviews as well as some legal reviews in that, but it was a process that we went through to the extent that we find another transaction we will go through; with another institution we'll be going through exactly the same process, so we're measuring apples versus apples and using probably the same due diligence team.

Joe Morford - RBS Capital Market

Okay, all right. I misunderstood what that was, okay.

Jon Lorenz

Joe, I think in general their approach was more of a stress test on the portfolio. Also in looking at some different forms of burn down analysis, that kind of thing was more their emphasis, but we actually have not even seen the results of that independent loan review, because it was done for the capital group.

Steve Bangert

We had lots of discussions with them Joe, on individual credits and so forth and it was a very worthwhile process for us, but as Jon said, we really don't even have the actual report.

Joe Morford - RBS Capital Market

Okay and so then the actions you took this quarter with the provisions and stuff was your own use?

Jon Lorenz

That is correct.

Joe Morford - RBS Capital Market

You talked about this quarter seeing some stress on the C&I side in Colorado and you still really don't have much in the way of the C&I problems in Arizona. Is that more just the nature of your exposures or is the business community still holding up better there or any color on C&I in Arizona?

Jon Lorenz

I think Joe; probably it's more just because of the relatively small size of the Arizona portfolio in terms of the commercial portfolio there versus what we have in Colorado. I think that it will probably perform over time pretty similar to Colorado. Clearly the overall economic environment is worse down there, but we're at least at this point not seeing a lot of that translating into significant problems in the C&I portfolio, but we need to continue to watch that as well as Colorado as we're going through this cycle and through 2009. So I think you probably will see some further increase in problems in the C&I Arizona also.

Joe Morford - RBS Capital Market

Okay and then lastly, just talk a little bit more about the $2.2 million OREO write down this quarter. Was that on a couple of projects or just one and the one that maybe you're moving out the door?

Jon Lorenz

Yes, that was on one project and actually it's the one I just mentioned which is our largest OREO that we now have under contract with a closing schedule for mid next week. So, it's showing at year end as about a $4.5 million OREO property with roughly the $2 million that we took as a reserve against it. We're selling the property for about $2.6 million; so hopefully if that closes next week as scheduled, that $4.5 million OREO with the reserve that we set up and then the proceeds from sale of about $2.5 million.

I would say also, while values continue to drop in Arizona, we are still seeing activity levels down there with buyers. This is a buyer that had looked at this property in October time frame, we didn't get anything done. They came back in early January with a little bit lower price in January, but even after fourth quarter events and even though this was residential loss in Arizona, they're at least at this point, going forward with the purchase of those lots.

So we are still seeing some investor activity continuing in terms of land and lot purchases in Arizona, albeit at lower valuations again after fourth quarter events.

Operator

Your next question comes from Ben Crabtree - Stifel Nicolaus.

Ben Crabtree - Stifel Nicolaus

First of all, I have to apologize; I didn't get on for the very front end of the call. Did you discuss what was happening in terms of the discussion with the potential equity partners?

Steve Bangert

Yes, we did briefly, Ben. I said we had discussions with a couple of potential equity partners. I think we're pretty comfortable that if we find a transaction that they're anxious to invest in it and that's really what triggered us doing the independent bank review, which cost us I think over a couple of hundred of thousand dollars in expenses so far.

So it's not something we took lightly, but we are not having any active discussions on them putting the money in, prior to us identifying a transaction. I think if we get far enough along Ben, where it appears like there is numerous proper possibilities and I can see that happening nine months from now or 12 months from now; we might go ahead and bring the capital in prior to a transaction, but as of today I think we're going to wait and see if we can identify a transaction.

So we're now looking at what we think are potential transactions for us down the road, trying to get our arms around them, but we're going to be patient. I don't know if we're talking about six months from now or 18 months from now.

Ben Crabtree - Stifel Nicolaus

And so the fact that the incremental equity would be in effect attached to an acquisition would get you by the TARP restriction? Using TARP for acquisitions?

Steve Bangert

Yes, we're not looking at using the TARP for acquisitions. If we saw a small troubled institution I guess we would look at the TARP as a possibility, but for a transaction of any size, we would use traditional capital.

Ben Crabtree - Stifel Nicolaus

Okay, and then you kind of talked about I guess the disappointing trend in deposits, but some are probably related to loan pay downs in your commercial customers, but just wondering, are there realistic strategies that you could put in place to develop more deposits. Would you try to develop more of a retail deposit base and what are the implications of that in terms of going forward on the margin?

Jon Lorenz

Ben, I think a couple of things on that. One, if we do find an acquisition at some point, I think that would be a component. It would be a bank that hopefully has at least a somewhat similar business model as to focusing on business lending, small business lending, but also one that would probably have more of a retail deposit base and deposit reach than what we have today. So that would be one thing we would be looking at in terms of potential acquisitions.

Short of that, I don't see us opening up a bunch of physical locations given the obvious cost of that in terms of trying to create more of a retail branch network ourselves, but we are spending a lot of time looking at how can we get more core deposit growth. We've had recent discussions with an individual who has a business plan to recruit a team of deposits bankers. I don't know if we'll move forward with that or not, but again people that are exclusively focused on deposit generation and he thinks there are some significant opportunities in the Colorado marketplace to achieve that.

I think we will see some pickup as we move through the year from our existing customer base. We analyzed the fourth quarter drop and we had 32 customers, all of whom drew down their balances by more than $1 million in the fourth quarter and just for a variety of reasons, pay down on their line, year end bonuses, some project financing, seasonal cash flow, all kinds of things and in not one of those cases of the 32 customers did we lose that depository relationship; it was just drawn down during the fourth quarter by over $1 million each on those 32.

So I think we are also going to also spend more time looking at our existing customer relationship. Our treasury management group is in the process of doing reviews of our largest relationships to look at where we haven't captured the full depository relationship of either that business or business owner to try and draw in more deposits out of our current customers.

Ben Crabtree - Stifel Nicolaus

Kind of thinking that true, what do you think the outlook is for the margin?

Jon Lorenz

On that, one thing that's been beneficial and I think will continue to be beneficial for us as we move through 2009 is, I think we've mentioned before in the conference call; we started initiating rate floors well over a year ago and we've now put rate floors on about a little under a third of our floating rate portfolio and we are just entering our renewal season for companies that have calendars or fiscal year end on their annual renewable lines of credit.

So I'm hopeful that we can get rate floors in place on certainly over half of the floating rate portfolio and hopefully closer to two thirds of the portfolio. I think that can certainly help with our margin as we move through the year. We looked at the average rate floors we've been able to put in; prime is 3.25 today and our overall average rate floor is about 5.4%. So we are getting rate floors at considerably higher than what prime and their floating rate at either prime or prime plus a half would have.

So that I think can be a good cushion and stabilizers, certainly the margin will be negatively impacted by further non-performing during the year, but overall I think we look for a relatively stable net interest margin in '09. Steve, do you want to comment on that?

Steve Bangert

No, I believe that's true, Ben. Most of the new business going on, is going on at wider margins than what historically we've been able to do and even though deposits have been a challenge, as Jon mentioned we are having quite a few successes as far as bringing on new businesses and I think you'll see some pickup as the year progresses on the deposit side.

I don't think there's like a bidding war going on for deposits by any means, and so if we were to raise rates 100 basis points in order to attract deposits, I don't think we'd be very successful at that. So, I really don't think that that's an issue.

I do hope that as we look at acquisition possibilities that some of these are going to be, we really want to do with deposit gathering as our primary reason for doing some of these transactions. We think there'll be an awful lot of opportunities to pick up some relatively cheap deposits as the year progresses and as we head into 2010.

Operator

Your next question comes from Steve Scinicariello- BlackRock.

Steve Scinicariello- BlackRock

Just a quick question with regard to how proactive you guys have been with the provisioning here and some of the trends that you're seeing, both in Arizona, which is obviously far long hopefully in a credit progression stage of things, and in Colorado where maybe on the earlier side of that, but you don't see a lot of loss content. I mean is it unreasonable to expect the provisions to be lower in '09 versus '08?

Steve Bangert

I got to tell you Steve, I wish we could forecast that. My gut feel is yes, but it's an economy that continues to change all the time on us. I will say I think we got out in front of Colorado much faster than we did Arizona. I think Arizona; we're playing catch-up most of last year as we were dealing with the Arizona portfolio. We certainly didn't want to go into '09 doing the same thing with Colorado.

Having said that, we watched the world economy ratchet down several levels just since September and to the extent that this is near the bottom, yes, I would think that that's probably true; I just don't know if that's the case. Jon, do you want to comment?

Jon Lorenz

To your point on Arizona, we've really been experiencing deterioration in Arizona for over 18 months now. So we've taken significant write downs, continue to work through and been working through those problem credits, particularly the real estate land and live credits for over 18 months now. So as values have dropped, we're starting to get pretty close to zero down there where they can't drop a heck of a lot more from where they are today.

So I think the key in terms of provision expense for '09, as Steve alluded to, is managing the portfolio as best we can in Colorado and if we do that well, then I think the prospects are that we would have lower provision in 2009.

Operator

(Operator Instructions) You have no other audio questions at this time.

Steve Bangert

Okay. Well, thank you Brandy. I'll just sign off and thank everybody for participating today. If you have any questions, please give Lyne, Jon or myself a phone call, we'd be happy to talk to you more about what's going on here at CoBiz. I know it is a difficult year for all bank investors and we're certainly feeling distress here at CoBiz, but I do think that we're relatively optimistic, that these are very manageable issues that we've got at CoBiz today and I'm looking forward to see our progress as we head through '09. Thanks again and if you have any questions, please give us a call. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

- Was this positive or negative for the company? Why?
- What is the most important quote from this transcript?

Arizona Business Bank
CoBiz Financial

FDIC Update

Wednesday, Feb. 18

Kathy L. Moe, field supervisor, FDIC
Jonathan C. Lorenz, CEO, Arizona Business Bank & Colorado Business Bank

State of Industry

How we got here

- Subprime meltdown started it all – too much credit extended on terms that could not be repaid
  - Losses initially in bank securities portfolios, not loan portfolios
  - Definition of "bank" – commercial and investment banks lumped together
    - Leverage and regulation
  - Investors fled from debt markets – inability to value collateralized debt obligations (CDOs)
  - More financial engineering – credit default swaps
  - As losses and uncertainty grew, credit markets contracted resulting in world-wide recession

State of Industry (cont)

How we got here

- Evaporation of the capital markets made it extremely difficult/expensive for financial institutions to get additional capital
- For banking industry, recession is accentuating loan losses, causing many banks to report losses and erode capital

Industry Failures

Banks, thrifts and S&Ls

- More than 40 have failed in past five years; but 35 of those have occurred since beginning of 2008
  - None headquartered in AZ or CO (First National HQ'ed in Nevada)
  - Most recent failures have involved a high level of speculative real estate lending funded by non-core deposits
- Credit quality problems those that failed in the past year (average at time of failure):
  - NPAs + loans 90 days past due/assets: 16.96%
    - CoBiz Bank (12/31/08) 1.75%
- Capital levels were warning sign (average at time of failure):
  - Tier 1 risk-based ratio: 4.59%
    - CoBiz Bank (12/31/08) 11.97%

Withdrawing Support

- Concerns about the health of the industry spurred depository shifts to institutions perceived as "too big to fail"
- Governmental programs launched to restore liquidity, improve financial system's capital position and return confidence in industry
  - U.S. Treasury TARP
    - Capital Purchase Program
    - Targeted Investment Program
    - Automotive Industry Financing Program
  - FDIC's TLGP
    - Guarantee new senior unsecured debt
    - Full coverage for non-interest-bearing deposits

News and Updates from the FDIC

Troubled Asset Relief Program

A Quick Test

True or False?

- All banks -- big and small -- share the blame for the current credit crisis.
- Banks utilize capital to make loans.
- The TARP is a failure because bank lending actually dropped during 2008.

A Quick Test

True or False?

- All banks -- big and small -- share the blame for the current credit crisis.
  - FALSE. Community banks did not invest in high-risk subprime mortgages or exotic financial instruments. Instead, they followed a simple business model of collecting deposits and making loans.
- Banks utilize capital to make loans.
  - FALSE. Banks lend out deposits, not capital. Capital is needed to support growth and provide a cushion to absorb loan losses.
- The TARP is a failure because bank lending actually dropped during 2008.
  - FALSE. Bank loans outstanding increased by 8%, or $700 billion, during 2008. Comparatively, the secondary markets removed more than $1.5 trillion of financing during the same period.

Regulatory Capital

Risk-Based Capital Standards

- Capital is first line of defense in protecting industry and depositors
  - FDIC insurance is a last resort
- Purpose is to ensure safety and soundness of US financial system
  - Cushion against losses, thereby allowing banks to better manage through adverse credit cycles
  - Restrict excessive growth, ensure that asset growth is funded by commensurate amount of capital
  - Protect depositors and FDIC Insurance Fund

Emergency Economic Stabilization Act

- On October 3, 2008, President George W. Bush signed a $700B Emergency Economic Stabilization Act (EESA)
  - Attempt restore liquidity and stability to the U.S. financial system and promote future economic growth
- On October 14, 2008, UST, FRB and FDIC announced further details regarding new government programs under the EESA:
  - FDIC Temporary Liquidity Guarantee Program
  - TARP Capital Purchase Program
- On February 4, 2009, president announced compensation cap for executives and increased reporting requirements for TARP participants

TARP Capital Purchase Program

Advantages for Financial Institutions

- Banks issue preferred stock to U.S. Treasury.
- Attractive cost of financing (5% for first five years)
- Provides capital which may not be currently available from private and/or public capital markets

TARP is Not a Four-Letter Word

- Bank's parent company applied for and received $64.5 million through the program

Risk-Based Capital Position – CoBiz

$s in thousands; December 31, 2008

	Actual		Well Capitalized Minimum Level		Excess Capital
	Amount	Ratio	Amount	Ratio	Amount
Total capital ratio	$319,794	14.50%	$220,542	10.00%	$ 99,252
Tier 1 capital ratio	$264,427	11.99%	$132,325	6.00%	$132,102
Leverage ratio	$264,427	10.11%	$130,731	5.00%	$133,697

Tier 1 Capital (Core Capital) = (common stockholders' equity + qualifying perpetual preferred + qualifying trust preferred securities) - goodwill

Tier 2 Capital (Supplemental Capital) = allowance for loan losses + perpetual preferred stock + intermediate-term preferred stock + subordinated debt

Total Risk-Based Capital = Tier 1 Capital + Tier 2 Capital

Leverage Ratio = Tier 1 Capital ÷ average total consolidated assets

TARP is Not a Four-Letter Word (Cont.)

- Initial phase of program focused on healthy banks
  - Banks provide resources to help businesses grow and consumers make major purchases
  - Focus on stabilizing industry, not directly on increasing lending
- Impact on community banks very different than national banks
  - Community banks are significant sources of credit for the business community
  - Community banks are mirrors of areas they serve and are impacted as well-run businesses struggle in tough economic conditions

TARP is Not a Four-Letter Word (Cont.)

- Across industry, some of the funds will be utilized on acquisitions
  - Positive for taxpayers as failing banks don't become government's problem
  - Positive for the industry as stronger banks absorb weaker banks
- Some institutions not accessing funds
  - Some were unable to qualify without raising private capital first
  - Others are not active lenders so they don't need additional capital

Banking Industry Going Forward

- Banks will remain cautious to lend in tough economic environment
- Balance sheets will de-leverage and growing deposits will be critical to future lending capacity
- Banks will work to return confidence in the American banking system; in short term, banks offer depository products focused on safety for depositors
  - Unlimited FDIC insurance on noninterest-bearing operating accounts
  - CDARS
  - Repurchase Sweep account
  - Higher FDIC limit ($250,000)
- Banks will continue to build capital positions, raising private capital when markets return and restoring financial health and profitability

Forward-Looking Statements

This presentation contains forward-looking statements that describe CoBiz' future plans, strategies and expectations. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may." Forward-looking statements speak only as of the date they are made. Such risks and uncertainties include, among other things:

- *Risks and uncertainties described in our reports filed with the Securities and Exchange Commission, including our most recent 10-Q.*
- *Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.*
- *Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.*
- *Increases in defaults by borrowers and other delinquencies could result in increases in our provision for losses on loans and leases and related expenses.*
- *Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.*
- *Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.*
- *The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.*
- *Our continued growth will depend in part on our ability to enter new markets successfully and capitalize on other growth opportunities.*
- *Changes in legislative or regulatory requirements applicable to us and our subsidiaries could increase costs, limit certain operations and adversely affect results of operations.*
- *Changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations may increase our tax expense or adversely affect our customers' businesses.*

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements in this presentation. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Law firm rolls out team to spread expertise

BY BRUCE GOLDBERG
DENVER BUSINESS JOURNAL

Dan Bylund grew concerned when he heard about the federal government taking control of IndyMac Bank last July 12.

As the banking world absorbed the shock of that news, the CFO of the San Clemente, Calif.-based Bubba Gump Shrimp Co. wondered about the safety of the restaurant chain's money. Bubba Gump had $8 million in cash deposited with Wachovia Bank.

"Given the sudden downfall of banks, we were in a predicament: Do we leave it in Wachovia, or move it outside of Wachovia, perhaps into a mutual fund?" Bylund said.

So he sought advice from the company's law firm, Denver-based Sherman & Howard LLC — just as it was forming its new Changing Markets Practice Team, designed to quickly draw expertise from 19 of its attorneys in response to clients' inquiries during this time of economic uncertainty.

"With the challenge in the economy, there are certain questions clients have today they wouldn't have in a good economy," said Mike Sanchez, the firm's chief executive. "We decided we would try to have a more cohesive approach to it. The expertise was here; it was more a question of getting it more organized in a way to make it user-friendly to clients.

"We've organized the various disciplines that can be useful to clients in a poor economic environment, so that we know who to call in the firm who has that particular expertise, rather than try to figure it out each time," he said. "It's not as easy [as it might seem] in a firm of nearly 200 lawyers to know everyone's expertise."

Clients are seeking advice on such matters as a deal going bad, trouble with partners in a transaction, customers going into bankruptcy, problems dealing with lenders, pension plan losses and more.

Firm member Steve Miller, who's also on Sherman & Howard's executive committee, was the lead attorney on the Bubba Gump case.

"Bubba Gump wanted a check on where things stood and what they should do to be proactive to not end up in an adverse position," Miller said.

He said Bubba Gump wondered if it should pay down debt to Wachovia — but also possibly incur a penalty fee for paying ahead of time, which Bylund estimated would have been in six figures — or take a different route, such as buying mutual funds or switching to another bank.

Members of the Changing Markets Practice Team analyzed investment options and which

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AT A GLANCE

Sherman & Howard's Changing Markets Practice Team and their specialties:
Robert Brown: Real estate, loan workouts
Gregory Densen: Wealth planning and management
Michael Dubetz: Corporate tax
Rebecca Fischer: Real estate
Mark Fulford: Bankruptcy, banking and finance
Emily Keimig: Labor and employment
Tobin Kern: Banking and finance, commercial litigation
Jeff Kesselman: Corporate, securities, banking and finance
Steve Miller: Corporate, securities, banking and finance
Christopher Mosley: Insurance recovery litigation
Theodore Olsen: Employment litigation, layoffs
Gregory Ramos: Corporate, mergers and acquisitions
Mike Sanchez: Employee benefits, executive compensation
David Schachter: Intellectual property
Kenneth Siegel: Commercial litigation, class action
Harry Sterling: Bankruptcy
David Thomas III: Wealth planning and management
Diana Wendel: Real estate
Mark Williams: Banking and finance, commercial litigation

LAW: Sherman & Howard bundles attorney expertise

CONTINUED FROM A21

money market funds were safe investments.

Eventually, Miller advised Bubba Gump to invest in specific money market funds, and said it would be safe to pay down its revolving credit line with Wachovia. Bubba Gump did the latter, but also eventually switched everything to a California bank.

"He [Miller] and his group were critical in seizing and sizing up the situation, and determining what the safest alternatives were ..." Byland said. "We have used Sherman & Howard for all our legal work for a number of years. ... We've always taken their advice very seriously."

Bubba Gump stems from the "Forrest Gump" film of 1994. The company has 22 restaurants in the United States — including one in Denver at 1437 California St. and one in Breckenridge — plus seven overseas.

The new Sherman & Howard group also helped Denver-based CoBiz Financial become the first bank with a Colorado headquarters to secure Capital Purchase Program money that was authorized by TARP, from the federal stimulus package, according to the law firm. CoBiz sold $64.5 million of Series B preferred stock to the U.S. Treasury department, closing the deal Dec. 19.

"It was a very exciting thing to work on, and we were glad to be a part of it," said Jeff Kesselman, a member at Sherman & Howard who was the group's lead attorney on the CoBiz matter. He tapped experts from the firm's tax department to ensure compliance.

"There were intricate, cutting-edge tax issues," he said. "They were writing the regulations while we were immersed in the process. We tapped our tax group and our employee benefits specialist."

Kesselman, who focuses on corporate and securities law, said, "It was nice to be able to draw upon a variety of skill sets from disciplines within the firm, and not have to go outside our four walls to provide the client with the appropriate expertise in order to implement the deal."

CoBiz, which operates Colorado Business Bank and Arizona Business Bank, will use the money to "reinforce our capital base — and banks use capital to lend money back into the community," CFO Lynn Andrich said. "It hasn't been earmarked for anything else.

"It was a positive result. The application went in and went very smoothly. Our projects have been expedited."

The attorneys in the Changing Markets Practice Team possess expertise in many areas, such as real estate, loan workouts, wealth planning and management, bankruptcy, banking and finance, labor and employment, insurance recovery litigation, mergers and acquisitions, and intellectual property.

The Denver office has 130 attorneys.

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Denver bankers unhurt by pay cap

BY RENEE MCGAW

DENVER BUSINESS JOURNAL

The stimulus package's effect on executive pay will be anything but stimulative. But the compensation cap probably won't affect any local bankers.

"I doubt that my bonus has ever been that high," said Steve Bangert, CEO of Denver-based CoBiz Financial Inc.

Steve Bangert is CEO of CoBiz Financial Inc. of Denver.

At the last minute, Senate Banking Chairman Chris Dodd, D-Conn., added an amendment to the American Recovery and Reinvestment Act that limits bonuses for top earners at companies that receive money under the Troubled Asset Relief Program (TARP). That includes banks that already have sold preferred stock to the government under the U.S. Treasury's Capital Purchase Program (CPP), which lends money to healthy banks to encourage them to increase their lending to businesses and consumers.

Four Colorado banks have received CPP funds so far:

- CoBiz Financial (NASDAQ: COBZ), parent of

SEE PAY CAP | A34

PAY CAP: Bonus limit likely won't apply to Denver bankers

CONTINUED FROM A1

Colorado Business Bank, which received $64.5 million in December.

- Bankers Bank of the West Bancorp, which got $12.6 million in January.
- First Western Financial Inc., parent of First Western Trust Bank, which received nearly $8.6 million in early February.
- ColoEast Bankshares Inc. of Lamar, parent of Colorado East Bank & Trust, which received $10 million in mid-February.

Other Colorado banks may have applied for funds, but the Treasury doesn't name banks until the transaction is completed.

"The only person impacted here is me," said Bill Mitchell, president and CEO of Bankers Bank of the West in Denver. "You know, so be it. If that's the program, that's the program. Our ultimate focus is a proper return for our shareholders, and that's unchanged no matter what new amendments might come about."

Under the new rule, companies that take federal money can't give their top earners bonuses equal to more than one-third of their total compensation. For example, an executive who earned $1 million could receive a bonus of no more than $500,000, or one-third of their total $1.5 million compensation.

> 'You know, so be it. If that's the program, that's the program. Our **ultimate focus** is a proper return for our shareholders, and that's unchanged no matter what new amendments might come about.'
>
> **Bill Mitchell**
> president and CEO, Bankers Bank of the West in Denver

For banks that take less than $25 million, the rule applies only to the highest-paid employee. For banks that receive between $25 million and $250 million, it covers the top five employees. The sliding scale goes up to as many as 25 employees at companies that take more than $500 million.

"I think the only person affected would be me," said Scott Wylie, chairman and CEO of First Western Financial. "But our cash compensation is below the $500,000 minimum that the administration was talking about, and I don't take any cash bonuses, so it doesn't really affect us."

The final stimulus bill didn't mention salary levels, but the White House had previously proposed a salary cap of $500,000 for companies that take "extraordinary assistance" from the government.

"I think it would be almost impossible for them to implement that [salary cap]," Bangert said. "You've got money center banks where executives are making $4 million or $5 million a year, and in some cases are getting paid $14 million or $15 million bonuses. How do you put a $500,000 cap on them? I guess they could do it, but I think they're scared of the consequences. They don't want to lose all the executives at the country's largest banks."

Bangert's salary was $500,000 in 2007, according to a regulatory filing. The other Colorado banks that have received money are privately held and don't have to disclose their executives' pay.

Wylie said the bonus cap further blurs the distinction between TARP "bailout" money and the capital purchase program. Only healthy banks qualify for the CPP program, and they pay what amounts to a 5 percent annual interest rate to borrow the money. More than 400 banks across the country participate in the program.

"There's bailout money going to troubled banks and investment banks that were doing irresponsible things, and then there's the capital purchase program, which is supposed to be a good thing for healthy banks," Wylie said. "But Dodd's basically coming out and saying 'we can't allow these Wall Street crooks to pay out bonuses,' including people who took CPP money.

"Well, wait a minute. We're not on Wall Street, and we're not crooks. We're healthy banks that are being encouraged to grow and lend money."

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iStockAnalyst

Healthy Banks Take Injection Three in Colorado Tap TARP As an 'Insurance Policy'

Friday, February 20, 2009 7:51 AM

(Source: Rocky Mountain News)By David Milstead

Three Colorado banks have taken money from the federal TARP bailout program, but none say they were in a position to need a bailout.

Colorado Business Bank, Bankers' Bank of the West and First Western Trust Bank all made strong capital levels stronger with the federal capital injection, they say.

In fact, the emerging pattern with federal TARP - Troubled Asset Relief Program - money is that it's the healthiest banks who are getting the funds, while more troubled institutions may be deemed ineligible. Regulators stepped in at Greeley-based New Frontier Bank late last year and demanded new capital and new management. But that came from private investors, not from TARP.

"(The Treasury) doesn't want to put capital into banks where the capital is the only thing to save the bank from failure," says consultant Larry Martin of Banking Strategies. Martin wasn't speaking about New Frontier because he's subject to a confidentiality agreement.

"Regulators are reluctant to put money into those banks in case something happens to them," he said.

The three Colorado banks that took TARP funds won't be the last, says local banking attorney Ernie Panasci, who's advising clients on how to participate in the program.

"The level of interest is very high," Panasci, of Jones & Keller, said. "Banks are concerned about the potential for commercial real estate values to decline in the next two years. With the difficulty in raising new equity capital due to the lack of capital in all industries, banks are looking at TARP equity as a buffer for economic uncertainty in the coming year."

The TARP program began in the Bush administration last year as a way to get problem loans and other toxic assets off banks' balance sheets.

It morphed into a kind of investment fund that injected money into banks, in return for ownership stakes, in order to shore up the banks' capital.

BAILED-OUT BANKS

Three Colorado banks, none in a position to need a bailout, took money from the federal Troubled Asset Relief Program - TARP.

Bankers' Bank of the West

At year-end 2008, Bankers' Bank of the West had a risk-based capital ratio of 12.4 percent, high enough to be considered very well capitalized.

"We needed an insurance policy to continue to provide the products and services we provide to commercial banks," said Bill Mitchell, CEO of Bankers' Bank of the West.

Mitchell's bank serves 350 community banks in 11 states by buying their loans and managing lines of credit from the Federal Reserve. Yet it went ahead with a government investment, obtaining $12.64 million from the Treasury earlier this month.

The bank issued the government preferred stock that pays 5 percent interest, plus another batch of preferred stock, equal to 5 percent of the amount requested, that pays 9 percent.

Considering the costs of the stock, and the fact that the interest it's paying the Treasury is not tax-deductible, Bankers' Bank of the West figures it'll pay $4 million in interest over the next five years for participating.

"It's extremely expensive capital, but we did this as a good- faith investment for our banks," Mitchell said. "The government will do very well on this program."

First Western

Scott Wylie, CEO of First Western, said his bank borrowed on the same terms, but he doesn't think the capital is expensive at all.

"For a growth company like us to raise new equity, people are looking for 15 percent to 20 percent returns over time," Wylie said. "To get preferred stock from this program is an inexpensive form of capital."

First Western's assets nearly doubled in 2008 to about $450 million. At the same time, its capital ratio was above 10 percent, Wylie said.

"We were encouraged by the regulators to do it, so we asked our investment bankers and lawyers whether we should take it because of the possible stigma," Wylie said. "They said, 'You're already a kind of partner with government because you're highly regulated.'

"I don't really look at it as participating in TARP, because it stands for 'troubled assets.' They've done a really poor job of explaining to the public there's a capital purchase program where they're trying to get healthy banks to loan and grow."

CoBiz Financial

CoBiz Financial, the parent company of Colorado Business Bank, struck a deal with the Treasury in November. For its $64.5 million, it issued preferred stock to the government that pays 5 percent for the first five years and 9 percent after. Because the bank has publicly traded stock, it also had to give the Treasury warrants to purchase 895,968 shares of CoBiz common stock at an exercise price of $10.79 per share.

CoBiz shares have been battered in the financial crisis, down more than two-thirds from their 52-week high. The company ran into problems with its Arizona commercial real estate portfolio, and its Colorado loans are now showing signs of weakness. The company announced an $8.6 million net loss for its fourth quarter, thanks to a $23.44 million provision for loan losses. That followed a $5.34 million loan-loss provision in the third quarter.

By the end of the third quarter, before the provision, Colorado Business Bank still had a risk- based capital ratio above 12 percent. It was 14.5 percent at Dec. 31.

"The thought was we would take advantage of (TARP) and shore up our capital base," said CoBiz CEO Lyne Andrich.

"In this environment, more capital is always better than less. We're going to use it for growth. We believe this environment creates a lot of opportunities for acquisitions, but we didn't take the capital primarily for that purpose."

INFOBOX

TERMINOLOGY

* Capital: A bank's capital is similar to its shareholders' equity, or its assets minus its liabilities. It's supposed to represent what would be left for shareholders if the bank were liquidated. Banking regulators have established lengthy rules for what banks can and cannot include in calculating capital, because capital is the basis for various ways of measuring a bank's health. The most solid form of capital is called "Tier 1" capital.

* Risk-based capital ratio: The ratio compares a bank's capital to its assets, with the various assets weighted differently based on their risk. Cash is not viewed as risky; loans are.

* Warrants: Similar to stock options, warrants give the holder the right to purchase stock in the future at a set price. Banks that get capital from the TARP program are giving the government warrants as part of the deal.

* Loan-loss provision: When banks determine that a loan might not be repaid, they take a charge against their profits and add that amount to a loan-loss reserve. If the loan indeed goes bad, it's then "charged off" and the amount in the reserve decreases.

Originally published by David Milstead, Rocky Mountain News.

Denver News

Colorado Banks Turn Down Federal Funds

Banks That Took Money Second Guessing Choice

By Dayle Cedars, 7NEWS Reporter

POSTED: 9:46 pm MST February 25, 2009

Related To Story

Video: Some Colo. Banks Refuse Gov't Money

DENVER -- As thousands of banks across the country are getting millions of dollars from the government, a handful of community banks in Colorado are turning down the funding.

Solera Bank, based in Lakewood, applied for the money, but later decided to decline the option.

"Given the amount of funds that Solera would qualify for and the significant expense it would take for Solera to go through the legal and accounting hoops we would have to go through to issue the preferred stock to treasury, it just did not seem to make sense," said President and CEO Doug Crichfield.

Crichfield said Solera has ample capital and does not need the extra funds.

FirstBank didn't even apply for the government money. Dave Baker, FirstBank's chief operating officer, said the bank did not need the funding because its balance sheet is strong and it continues to lend capital to both businesses and individuals.

But one local bank that took the money said the funds will help the economy in Colorado.

CoBiz Financial received $64.5 million.

"They set up a program within TARP called the Capital Purchase Program," said Steve Bangert, CEO of CoBiz Financial. "That was money targeted only toward the healthy institutions, really encouraging them to take the money with the goal of them having to lend the money out."

But since CoBiz received the money, Bangert said he has had to justify and explain the decision as the money seems to come with a negative perception.

"It was never intended to be bailout money," said Bangert. "But I realized it quickly turned to bailout money when some of the large financial institutions started struggling."

CoBiz said the $64.5 million it received means $645 million will be pumped into Colorado and Arizona.

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CoBiz success in loans wins TARP infusion

By Miles Moffeit
The Denver Post

Posted: 03/01/2009 12:30:00 AM MST

CoBiz Financial chairman Steve Bangert and chief financial officer Lyne Andrich. CoBiz is receiving $64.5 million in TARP funds. (Andy Cross | The Denver Post)

As the invisible financial hand behind hundreds of loans, CoBiz Financial Inc. has helped airport businesses expand, furniture companies merge and contracting firms plug potholes.

There have been flops, too — commercial real estate deals, for example, that left land tracts ghostly bare in northern Boulder County.

To the federal government, the Denver bank's record of success makes it a worthwhile wager to add oomph to the Colorado economy. Or at least help stabilize it.

CoBiz won a $64.5 million infusion of U.S. Treasury bailout funds, the largest share given to any state financial institution to date. Nationally, its share ranks in the top 25 percent of 441 institutions snagging Toxic Asset Relief Program funds.

The

James Martinez puts together boxes for the avionic department during work at Boulder Airport-based Air Comm Corp. Air Comm fits helicopters with air conditioning and heaters. It was given a loan by CoBiz made possible by federal TARP money. (RJ Sangosti | The Denver Post)

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potential impact is big: The $64.5 million could be leveraged conservatively to make $645 million in loans to Colorado businesses and, theoretically, up to $1 billion, analysts say. That could translate into business startups, expansions or other job-generating investments.

Just how long it will take to put that money into circulation through loans and just what other investments could be made with the money is still not entirely clear to CoBiz executives, they say. Plus, Treasury officials are still crafting guidelines for a TARP program left virtually open-ended by the Bush administration. Few conditions apply to the money, and that has generated intense debates nationally about how banks should handle the money.

Members of Congress have appealed to banks to quickly inject the money into the economy through lending. But CoBiz executives say the flow could instead resemble a slow-dripping syringe.

"Realistically, it could take us 24 to 30 months" to move the money into the economy, said CoBiz chairman Steve Bangert. "We're not going to take on undue risk."

CoBiz, like other banks, is tightening underwriting standards to keep risky bets at bay. But demand for loans also isn't high at the moment, he said.

The bank also is considering using perhaps half its allocation to acquire another bank, though it won't discuss details of those plans.

The appetite for bank takeovers frustrates some economic analysts who believe the banks have too much leeway and that Treasury should have restricted the money to giving out loans.

Dean Canova, an international monetary expert at Chapman University School of Law, said the best way to maximize the funding is through loans, not an acquisition that doesn't provide direct boosts to the economy and reduces choices for consumers.

"There's no reason to believe any of this money will be lent," said Canova, referring to TARP banks in general.

Banking analyst Ben Crabtree of Stifel, Nicolaus & Co. predicts CoBiz will put the money to valid uses such as lending. He also agrees it will take time.

"Getting this money into the economy won't be easy to accomplish over a short term without being foolish," Crabtree said. "These guys are not foolish."

CoBiz, a $2.7 billion company founded in 1980, is no Goldman Sachs or Citi Group. Its main focus is business lending. It hasn't shelled out tens of millions in bonuses to executives or splurged on jet renovations.

Bangert pulled in more than $1 million in salary and benefits in 2007, regulatory filings show. His bonuses periodically hover around $50,000 or lower annually. Under new executive compensation rules, he will have to forgo his

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bonuses until the money is paid back, unless it comes through restricted stock.

The vast majority of CoBiz's clients are "heartland businesses," as Bangert describes them, small businesses with annual sales between $5 million and $75 million.

As an example of how CoBiz's TARP money, though a small amount, already has been used to lend, Bangert points to three loans or refinancings — valued at more than $4 million altogether — made in late 2008, around the time the government allocation was made. The government grants gave the bank confidence to make the loans, Bangert said, at a time of worsening uncertainty.

Among them was a $2 million line of credit to Boulder Airport-based Air Comm Corp., a manufacturer of air conditioners for turbine helicopters.

Owner Keith Steiner said the loan allowed him to remodel and build more space. And he's going to be able to add more employees.

By several measures, CoBiz has performed well as a lender. Its Texas ratio — bad loans compared with its tangible equity — is among the lowest of the hundreds of TARP recipients. And its loan growth has been steady during the past five years, only dipping slightly last year.

The recession did hit CoBiz Financial hard in the fourth quarter. It lost $8.6 million and reported a $23 million provision for bad loans.

Currently, regulators are particularly sensitive about banks that have heavy concentrations of commercial real estate loans in their portfolios, and CoBiz has exceeded the 300 percent limit recommended by the FDIC since 2007, its executives acknowledge.

Overall, though, regulators are satisfied with CoBiz's risk management controls, said Lyne Andrich, chief financial officer for CoBiz.

"We don't have too much exposure in any one particular pocket," she said. "We've got a well diversified portfolio."

CoBiz has put new controls in place after some loans for real estate went bad. Those controls will help CoBiz make smart loans with TARP money, bank executives say.

Bangert agrees with analysts that the bank should be able to leverage much of its TARP money at least 10 times when it comes to lending.

"You balance the need to be prudent with the need to get the money out," Bangert said. "We feel the pressure to get the money invested. We also think a 30-month time period is reasonable."

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