

Special Report



Agent Lucy Kelts says some luxury houses have been on the market for two years.

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FDIC Seeks Bids for San Diego National Bank's Parent Company

Regulators Shopping FBOP Amid Below-Standard Capital Ratios

By MIKE ALLEN

Federal bank regulators were reviewing bid packages last week for Chicago's FBOP Corp., including subsidiary San Diego National Bank, in what may be the second-largest bank to fail this year, according to several local bank sources.

Neither SDNB nor the Federal Deposit Insurance Corp. would confirm that FBOP, worth an estimated \$18 billion, is being shopped by regulators to other banks, but local bankers say the transaction is imminent.

"Clearly, with the below-standard capital ratios at San Diego National and California National Bank (another FBOP subsidiary bank in Los Angeles) the regulators don't have a lot of choice. The regulations mandate it," said Larry Hartwig, president of California Community

Bank in Escondido.

Mike Perry, president of San Diego Trust Bank, said the evidence is piling up that federal regulators have decided not to extend a Sept. 30 deadline for FBOP to increase its capital levels, and will soon seize the company's eight banks in California, Arizona, Illinois and Texas.

"Certainly, when the FDIC is requesting bids on an institution, that is a clear indication they are going to take some form of action,"

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Getting to the Nexus of Things

TECHNOLOGY:

Trade Group Launches Innovative Incubator

By RICHARD GINCEL

EvoNexus, a nonprofit incubator focused on high-tech startups, is on track to officially open its doors and become one of the nation's first technology incubators funded almost entirely by contributions from the community, including corporate and private donors.

"The concept was to have an incubator that was totally pro bono for the incubator companies, so there's no cost to them," said Rory Moore, CEO of CommNexus, a nonprofit network of communications companies, service providers and trade groups that is spearheading the venture. "We felt there was enough excess stuff during the recession — be it



Melissa Jacobs

From left, CommNexus' Rory Moore is working with EvoNexus' Cathy Pucher and Rick Kornfeld to gear up for EvoNexus' official opening Nov. 2.

Wireless.

EvoNexus will house up to 12 startups for up to 24 months. Three companies have

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real estate, services, and so on — to form an incubator without having to spend millions of dollars."

The incubator will operate as a sister organization to CommNexus, working under one roof within a designated 25,000-square-foot area in Sorrento Valley, donated by Cricket, a subsidiary of Leap

Navy Secretary Calls for Greening Of the Fleet

DEFENSE: Building a Sustainable Navy

By BRAD GRAVES

Navy Secretary Ray Mabus laid out a vision for a greener Navy during a visit to San Diego last week.

In remarks before San Diego military and business leaders, Mabus said the United States must reduce its dependence on fossil fuels for both national security and to be "better stewards of the Earth." To that end, the secretary set a 2020 deadline for the U.S. Navy to get half its energy from alternative sources.

Defense contractors need to work greener, too. The secretary said the government may one day evaluate its contractors on two new criteria: first, their products' fuel cost over a lifetime of use, and second, where the manufacturer gets its power.

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Ray Mabus

With \$53M Acquisition, Kaiser Permanente Expands to New Facility

HEALTH CARE: Nonprofit to Offer Specialty Services in UTC Area

By HEATHER CHAMBERS

Beginning next year, Kaiser Permanente will start moving specialty services out of its Zion Avenue hospital to make room for an expanded neonatal intensive-care unit and postpartum maternity suites.

The nonprofit health care giant, which serves half a million members in San Diego, closed escrow last week on a six-story, 175,000-square-foot building located just south of University Towne Center off Interstate 805 and state Route 52. The

property was valued at \$53.3 million, based on property transfer taxes recorded by the San Diego County assessor-recorder-clerk's office.

Kaiser will move into the building in two stages, beginning next year with podiatry, orthopedics and general surgery, according to San Diego Kaiser spokeswoman Casey Hart. The second phase, anticipated for 2011, includes gastrointestinal services, urology, an ambulatory surgery center and an outpatient procedures suite.

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Stephen Whalen Photography

Kaiser Permanente plans to move some services from its Zion Avenue hospital into this complex starting next year.

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Bank:

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Perry said.

Large Local Lender

With about \$3.4 billion in total assets, SDNB has 28 branches in the county and about 400 employees. It's the fifth-largest, locally based lender in the county.

Last month, SDNB agreed to a consent order with its primary regulator, the Comptroller of the Currency, to increase its capital ratios, or core reserves, to above minimum standards.

FBOP, which is entirely owned by Chicago billionaire Michael Kelly, also was operating under a similar order from the Federal Reserve Bank of Chicago to do the same thing by the end of September. In securities filings, FBOP and its subsidiary banks stated it was making progress on a transaction that would result in all its banks exceeding regulatory capital standards by Sept. 30.

The bank was attempting to raise about

\$500 million in new equity, according to several published reports.

FBOP reported losing \$937 million in 2008, mainly caused by having to write down the value of stock it owned in two federal government sponsored entities, Fannie Mae and Freddie Mac. The two largest purchasers of mortgages in the nation were seized by the government in September 2008, rendering that investment worthless.

Founded in 1981, SDNB took a major earnings hit last year because of securities losses in mortgage companies. In 2008, SDNB lost nearly \$100 million. For the first six months of 2009, the bank lost \$40.7 million.

At the end of June, SDNB reported holding \$123 million in nonperforming loans and foreclosed real estate. That meant 3.62 percent of its portfolio was nonperforming or not paying all interest and principle, requiring the bank to set aside higher reserves.

During the first half of 2009, SDNB increased its reserve balance from

\$35.7 million to \$89.5 million as of June 30 to cover actual and potential loan losses.

Those actions severely depleted SDNB's capital ratios, causing them to fall below minimum levels required by regulators.

As of June 30, SDNB reported Tier 1 leverage or core capital of 1.69 percent, and total risk-based capital of 3.35 percent. The minimum ratios to be adequately capitalized for those measurements are 4 percent and 8 percent respectively.

The bank did not respond to a request for comment from SDNB President Robert Horsman.

Likely Bidder

Several banking sources say the lead bidder for FBOP Corp is U.S. Bancorp. The Minneapolis-based bank has acquired some \$16 billion in assets owned by failed banks over the past year, including the purchase of two big savings banks in Southern California, Downey Savings, with more than \$9 billion in assets, and PFF Bank & Trust, with some \$2.4 billion in assets.

U.S. Bancorp is among the nation's

largest lenders and has \$263 billion in total assets and some 2,850 branches in 24 states, mostly in the Midwest and East. Included in that figure are 58 branches in San Diego County.

Rick Levenson, president of **Western Financial Corp.**, a San Diego investment bank specializing in community banks, said U.S. Bancorp, which has 692 employees in the county, would be a natural fit for taking over SDNB.

"This is a nice franchise for somebody like U.S. Bancorp, and allows them to pick up a good branch structure," he said.

The fact that the FDIC had already contacted potential buyers for FBOP was ample evidence the nation's bank insurer was no longer extending a deadline to get a deal done, bankers said.

John Eggemeyer, chairman of **Castle Creek Capital** in Rancho Santa Fe and of **PacWest Bancorp** in San Diego, was well-acquainted with the FDIC's sale process of failed institutions. PacWest's **Pacific Western Bank** made two failed bank purchases this year.

Kaiser:

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"Right now, the Kearny Mesa facility is really to free up space in the hospital," Hart said.

Designed For Large Tenants

The complex, known as the Terraces at Copley Point, is also home to **Cricket Communications** and North Island Credit Union. It features natural stone and glass exteriors, terraces off the upper floors and an on-site deli and "sport court" complete with basketball court and putting green.

Project architect Sean Chen of **Architects Hanna Gabriel Wells** in Ocean Beach said

the project, which achieved LEED silver status, was designed with 90 percent recycled steel and energy-saving interiors.

"Every type of material we selected to use for indoor environment of the building would have to be zero or low volatile organic content," he said.

Rick Reeder, leasing agent with **Grubb & Ellis/BRE Commercial**, said the property was designed with large tenants in mind.

"It's one of the most successful projects out there, having been leased or sold within a year of completion," he said.

World Class Hospital Experience

Meanwhile, the Zion facility will undergo extensive renovations during the next six to eight years, according to Hart.

"Our goal is just to create a world class hospital experience," Hart said.

Most recently, Kaiser opened a 31,000-square-foot medical office building on Bernardo Center Drive in Rancho Bernardo. The building, triple the size of its previous facility, includes a larger pharmacy and expanded laboratory and radiology services.

It houses 16 physicians — 12 primary care doctors, two pediatricians and two obstetrician gynecologists — and a nurses clinic, where members can obtain wound care, blood pressure checks and procedures ordered by their physician.

"As the membership changes and grows, we're looking at doing different things,"

Hart said.

Declining Enrollment

While membership numbers have held steady in San Diego, Hart said, the health plan overall has lost 37,712 members in the most recent quarter, according to data from the state Department of Managed Health Care. It counted 6.8 million enrollees in California as of June 30.

Despite enrollment losses, Kaiser reported a net income of \$1.1 billion for the first six months of the year, compared with \$601 million in 2008.

Kaiser's net income for the most recent quarter was \$620 million, compared with \$351 million for the same quarter last year.

The Perfect Team

Cox Business and San Diego County Credit Union*

Story by Andy McRory / Photo by Tim Mantoani

ALTHOUGH SDCCU STARTED small in 1938 (as San Diego County Employees' Credit Union) with just one branch serving local government employees, SDCCU eventually opened membership to all San Diego County residents in the 1970s and instituted its now-familiar marketing tagline "Growing Together" with 27 branches in three counties and over \$4.8 billion in assets.

A Leader Emerges

SDCCU offers all of its customers unmatched convenience, an exceptional customer experience, and a host of banking services that include checking and savings accounts, money market accounts, and certificate accounts. They also offer a variety of home, auto, and commercial loans, Visa credit cards, and individual retirement accounts.

As a proactive community participant, SDCCU supports a number of organizations that hold many of the same values and principles.

DREAM TEAM

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Financial services

The Make-A-Wish Foundation of San Diego*, National Multiple Sclerosis Society*, San Diego Blood Bank and Rady Children's Hospital are just a few of more than 75 non-profit organizations supported by the credit union in its drive to help better the lives of the people in the community.

As this financial leader grew, it began a long-term relationship with Cox Business in San Diego, taking advantage of its full spectrum of business communications. Cox Business, a division of Cox Communications, Inc., was perfectly poised to team up with SDCCU and help upgrade their communication infrastructure.

Trusted Provider

Irene Oberbauer, President & CEO of SDCCU, says that Cox Business has become her credit union's trusted communication and Internet service provider. "It started with how hard Cox worked to accurately evaluate the state of our communications to ensure that we'd get what we needed," Oberbauer says. "And [Cox] didn't just meet our needs, [they] exceeded them."

Oberbauer says that this attention to her company's needs exemplified the value of working with Cox Business. "San Diego County Credit Union is San Diego's largest locally based financial institution and we serve over two hundred thousand happy customers. Cox's new state-of-the-art network infrastructure will

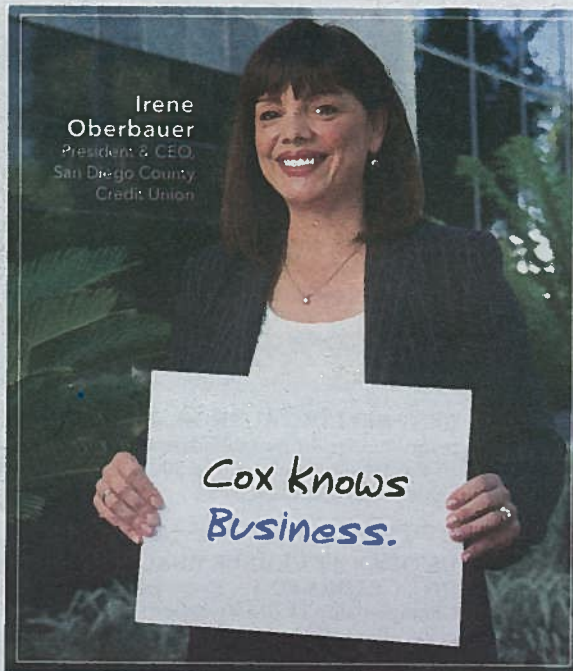
meet our growing business needs."

"You know, it's personal for me. I'm a Cox customer [at home] and I have had nothing but the best relationship with Cox Communications — with [their] bundling packages, etc.," she says.

Cox Business professionals examined SDCCU's data needs and recommended a four-part installation. First was a powerful "T LAN," or transparent local area network. Next came new, upgraded phone lines using Cox Digital Phone service. This service doesn't use any proprietary "gadgets," which means SDCCU can keep their existing phone system hardware, and even their phone numbers. Along with the phone lines came a new PRI, or primary rate interface, which carries multiple voice and data transmissions reliably and securely. Cox Optical Internet enables award-winning speed and reliability over fiber-optic cabling.

The Extra Mile

"I couldn't believe Cox Business went as far as they did," Oberbauer says. "We needed to have the new cable go from point A to point B, across Mira Mesa Boulevard, which is a major thoroughfare. They had to literally shut down the street in the middle of the night, brave as they were, and there was no disruption to our service. Cox Business did that of course to accommodate us, because we didn't want to have to shut down service during the day for our customers. It was phenomenal that they were very successful in making it happen with no disruption whatsoever."



ADVERTORIAL

"There were a lot of people at Cox Business who helped establish this relationship, including a number of the executive staff," she says. "I know the top-notch service that we get through Cox Business, and it's second to none. They're a lot like us—we make service number one with our customers; they definitely make service number one with theirs."

Oberbauer says that as SDCCU continues to grow—not just in the San Diego market—the company knows there will be other opportunities to do many other things with Cox Business. "There is so much technology opportunity that Cox has to offer," she says, "we're looking forward to sampling additional products so we can continue our relationship with Cox Business. Cox knows business."