



Department of Consumer and Business Services

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Closure of Community First Bank Frequently Asked Questions

Why did Community First Bank close?

The state closed Community First Bank because it was insolvent. The bank had been experiencing critically low levels of capital, stemming primarily from a heavy dependence on residential construction loans. Many of these loans were of poorer quality and were not performing or being repaid when the economy deteriorated.

In April, the Oregon Department of Consumer and Business Services (DCBS) and the Federal Reserve Bank issued a cease-and-desist order against Community First for unsafe and unsound banking practices. To read about the specific problems the agencies found, go to http://www.cbs.state.or.us/dfcs/securities/enf/orders/09-039-WA_RB-SM.pdf.

The order specified that Community First Bank take many actions to improve its situation, but the management team was unable to address the bank's problems in a timely manner.

I'm a customer of Community First Bank - are my deposits safe?

Yes. If you have an account with Community First Bank, you should expect business as usual. Home Federal Bank has acquired Community First Bank, and you will automatically become a depositor of Home Federal Bank. On Monday, August 10, Community First's eight offices in Prineville, Bend, Redmond, Madras, LaPine, and Terrebonne will reopen as Home Federal Bank. In the meantime, you can continue to access your account through automated teller machine transactions, checks, and debit transactions.

Home Federal Bank also has acquired Community First's loans. Loan customers should make their payments as usual.

For more specific information about your account, please visit the FDIC's Web page on the closure of Community First Bank at <http://www.fdic.gov/bank/individual/failed/community-prineville.html>, or call the FDIC's toll-free phone number at 1-800-913-3062.

Will Community First Bank's closure affect other banks in Oregon?

No. Community First Bank's closure has no impact on other Oregon banks.

Are there any other banking options for residents of central Oregon?

There is no need for Community First customers to change banks. However, there are a variety of local and federal banking institutions that serve central Oregon.

How are other banks performing?

Community banks across the nation continue to face significant challenges due to the downturn in the economy, particularly the real estate market. Community First Bank is the third Oregon bank to close this year, and prior to today, 69 banks in the nation had closed this year. Oregon closed two banks last February: Pinnacle Bank in Beaverton and Silverton-based Silver Falls Bank.

In Oregon, many banks have high levels of real estate loans that funded construction and development projects when the economy was growing. When the real estate market dropped, these banks were faced with an increasing number of nonperforming loans, which reduced capital and earnings. Although the economy is showing signs of recovery, continued softness in the residential real estate market and increased weakness in commercial income property is making it difficult for banks to recover from the downturn.

With three banks in Oregon closing already this year, will we see more?

No other Oregon banks are in immediate danger of closing. However, there may be some additional consolidation among Oregon banks as the recession continues.

Leading up to the downturn, Oregon banks had been experiencing significant growth, outpacing their national counterparts in profitability and asset quality. Five new banks received Oregon charters and entered the market in the mid-2000s. Consolidation typically occurs after periods of growth as well as during economic downturns. In the long term, DCBS expects most of Oregon's community banks to emerge from the downturn and continue to serve their communities for years to come.

How do I know if my bank accounts are safe?

Deposits in all state-chartered banks and financial institutions are federally insured up to \$250,000. In addition, businesses can receive unlimited insurance coverage on non-interest bearing transactional accounts. Go to http://egov.oregon.gov/DCBS/safe_money.shtml for more information on the safety of your banking and other types of financial accounts.

Even if a bank does fail, another institution typically acquires the failed bank's deposits. In that case, customers see no disruption. They can still access their deposits and conduct transactions.

How does the state protect bank customers?

DCBS' Division of Finance and Corporate Securities conducts regular examinations of Oregon's state-chartered banks to monitor their safety and soundness. To address the increasing challenges banks are facing during the current economic downturn, the division has added five new financial examiner positions.

The division, along with the FDIC, examines all state banks at least once every two years, and when banks are rated less than satisfactory, the division revisits institutions at least every six months and often more frequently until their performance improves. Like all bank regulators, the division uses the "CAMELS" rating system adopted by the Federal Financial Institutions Examination Council. The acronym, CAMELS, includes an individual rating for Capital, Asset (loan) quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

When banks score less than satisfactory on their exams, they must enter into an agreement with the division – either formal or informal, depending on the severity of the problems – to take corrective action. The division will close the bank if the bank cannot make the necessary improvements and no longer can meet its financial obligations.

Where can I learn more about Oregon banks?

Visit the banks and trusts section of the Division of Finance and Corporate Securities' Web site at: http://www.cbs.state.or.us/dfcs/banks_trusts.html or call the division at 503-378-4140 or toll-free 866-814-9710.

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