



# CEOCFO

## Interviews & News!

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### First State Bancorporation Is Embarking On A Plan To Improve Their Capital Ratios Over The Next Six To Twelve Months Starting With Exiting Their Utah Operations And Deploying That Capital In Markets That Have Grown Successfully On The Deposit Side

**1ST** FIRST STATE BANCORPORATION

**Financial  
Regional – Southwest Banks  
(FSNM-NASDAQ)**

**First State Bancorporation**

**7900 Jefferson NE  
Albuquerque, NM 87109  
Phone: 505-241-7500**



**H. Patrick Dee**  
COO and Exec. Vice President

**BIO:**

**March, 1984 to present**

Executive Vice President and Chief Operating Officer for First State Bancorporation. Also President and Chief Operating Officer of its subsidiary bank, First Community Bank. The company is a \$3.3 billion bank holding company, formed in 1988. The bank is a state chartered bank formed in 1922 in Taos, New Mexico. Responsible for overall profitability and

growth of the company. During 1993, was principally involved in taking the company public, along with the C.E.O. Have helped manage a rapid growth and expansion of the organization, including the acquisitions of five separate institutions and the addition of several de novo branches.

Other areas of responsibility during this time included those of the positions of Chief Financial Officer and Chief Credit Officer, management of the organization's investment portfolio, and extensive analyses of potential acquisitions and expansion activities. Have overseen or managed the organization's financial and strategic planning processes, asset/liability management, data processing, item processing, branch operations, and relationships with external auditors and examiners. Member of the company's and the bank's Boards of Directors.

Currently President of the New Mexico Bankers' Association. Past member of the Board of Directors of the Greater Albuquerque Chamber of Commerce, including participation in its "Albuquerque Reads" literacy initiative. Also previously a member for six years of the Board of Directors of the New Mexico Museum of Natural History Foundation, and Chairman of its Finance Committee. From 1994 through 2000, was a member of the Board of Directors of ACCION New Mexico, a non-profit organization that makes loans to micro-entrepreneurs in New Mexico. Served as the Chairman of the Board of ACCION New Mexico during 1999.

**Education:**

Bachelor of Science in Accounting, cum

laude, from the University of Denver in June, 1977.

**Other:**

In 2007, received the President's Volunteer Service Award from President Bush and the Governor's Corporate Volunteer Award for the State of New Mexico. In May, 2001, was named the Financial Services Advocate of the year for the state of New Mexico, by the U.S. Small Business Administration. Granted the designation of Certified Public Accountant by the state of Colorado in January, 1979.

**Company Profile:**

First State Bancorporation (NASDAQ: FSNM) is a New Mexico based commercial bank holding company that provides services to customers from a total of 62 branches located in New Mexico, Colorado, Utah and Arizona. Through its wholly owned subsidiary First Community Bank, First State's strategy is to provide a business culture that offers individualized customer service. First State's flexible approach, which combines direct access to decision makers, the latest in technology, a wide menu of product offerings, and increasingly convenient branch locations, has allowed First State to profitably capture market share made available because of customer dissatisfaction caused by consolidation in the banking industry.

First Community Bank, which has been in operation since 1922, is a state chartered, community focused bank providing a full range of commercial banking services to small and medium size commercial businesses in New Mexico, Colorado, Utah and Arizona. They offer a full range of financial services to commercial and

individual customers, including checking accounts, short- and medium-term loans, revolving credit facilities, inventory and accounts receivable financing, equipment financing, residential and small commercial construction lending, residential mortgage loans, various savings programs, installment and personal loans, safe deposit services and credit cards.

**Interview conducted by:  
Lynn Fosse, Senior Editor  
CEOCFOinterviews.com**

**CEOCFO:** Mr. Dee, it has been a difficult year in the banking industry; what is the focus today at First State Bancorporation?

**Mr. Dee:** “Our focus now is to maximize the capital that we have. In challenging times like these capital becomes imperative for banks. In our case we are well capitalized right now at both the bank level and our holding company level. We are embarking on a plan to improve our capital ratios over the next six to twelve months. We are doing that primarily by exiting our Utah operations. We have two branches in Utah, which we will close later on this year. The challenge that we had in the Utah market was that they were extremely successful in generating loan volume but not at all successful in generating deposits. We ended up with about \$280 million in loans and only about \$20 million in deposits. We feel that the value of our franchise really lies more in the deposit base and we feel that by exiting Utah, and decreasing the loan totals there, we can deploy that capital more effectively in our other markets that have grown very successfully on the deposit side.”

**CEOCFO:** What would you say is behind your deposit growth?

**Mr. Dee:** “Our deposit growth through the first half of the year was quite good. We have been doing a very good job of targeting deposit growth as being a goal for all of our people. I think the problems in the banking market have created some opportunities for us to get business from some of the other banks that are experiencing problems of various types. We have seen recently some concern from depositors because of the publicity around some of the bank failures. Therefore, I

think deposit growth in the third quarter is going to be a challenge for us but we expect to get back on track and show some good results for the year overall. It is a challenge now just because of the concern about bank safety, but we have done a lot to reassure our customers that we are very safe and sound, and well capitalized, which has gone a long way towards easing their concerns.”

**CEOCFO:** How do you reassure people?

**Mr. Dee:** “We do that in a variety of ways. The most important one is tapping into those personal relationships that many of our customers have with people at the bank, whether it be the CSR in a local branch or a commercial lender or someone such as I. We try to reach out to a lot of our customers and contact them and talk to them about it. We are very open about the financial condition of our bank and our company. As a publicly traded company, the information is out there for anyone who wants to seek it out, but we have tried to be proactive in terms of putting that information in the hands of our customers and taking it to them so they don't have to look for it. That gives us some credibility and it also gives us the chance to explain to them some of the details about our financial condition. We also had a lunch meeting here in Albuquerque where we invited a large number of customers to come and hear our story first hand. We had over 400 people in the room to listen to bank senior management talk about the condition of the bank and clear up some of the misperceptions that were in the community about banks in general and about our company in particular. We have been very proactive with that and it has been very effective for us.”

**CEOCFO:** What is the economy like in the area you service?

**Mr. Dee:** “Generally fairly good, especially compared to most of the country. New Mexico is the state where the majority of our assets are and our economy here has been very solid and steady of late. We tend to not have the peaks and valleys of rapid growth and then contraction that other parts of the country have. We have had a fairly stable economic base. Our unemployment rate here is below 4%, we have had good job growth and our housing market has seen very little pullback in

prices. In the city of Albuquerque, housing prices on average increased slightly from May of 2007 to May of 2008. We are blessed with a very stable economy here.

In Colorado it has been a little more of a mixed bag but the real challenge in Colorado is the housing market, in particular in two counties. Those are Weld County and Adams County, where we have very little loan exposure. The housing market in general in Colorado has slowed down but in most of the counties that we operate in, it has held up fairly well. We have had a few challenges in terms of asset quality in our construction loan portfolio in Colorado, but the commercial side of the business continues to do quite well. Job growth has been good in Colorado, and their unemployment rate is below the national average. It is a little over 5% right now, but still below the national average and again they have good population growth and good job growth.

In Arizona, which is our newest market, we actually have no non-performing assets at all at this point and a lot of that is due to the timing of our entry into that market. We really got geared up with our lending activities in late 2006 and early 2007. We have been very pleased with what we have seen out of Arizona at this point. The housing market there is experiencing some significant problems but we have very little exposure to residential housing in the Phoenix area. We are very optimistic about the long-term opportunities in Arizona where the unemployment rate is much lower than the national average. They are below 5% right now, and they continue to see good population growth. We think Arizona is an outstanding long-term opportunity for us.”

**CEOCFO:** What about mortgages in general?

**Mr. Dee:** “The mortgages that we have originated over the past several years we have sold in the secondary market, so we have very little exposure on our balance sheet. We did acquire in a couple of our acquisitions, mortgage loan portfolios that are generally well seasoned and we are not seeing significant problems in those. Mortgage origination is a source of income for us, and it has slowed down a

little bit but it has been fairly steady. One of the benefits of our market is that there continues to be a reasonable amount of housing activity. The new building has slowed dramatically; it is about half of what it was a year ago here in New Mexico and probably less than that in Colorado and Arizona. The mortgage business that we have done has been primarily in New Mexico and Colorado and that has stayed at a fairly solid and somewhat surprisingly strong level for us this year. It is not as much of an income source as we would like it to be but it is doing fairly well in a slow market.”

**CEO CFO:** What are the areas where you are seeing increases or good returns and are there new areas you would like to undertake?

**Mr. Dee:** “Probably the best areas for us have been our core commercial services, in particular commercial real estate, both on the construction and permanent loan side. About 80% of our loan portfolio is secured by real estate and the vast majority of that is commercial real estate. The commercial real estate markets across our footprint have done fairly well; vacancy rates are at very reasonable levels, lease rates have held up, and probably about 60% to 65% of our commercial real estate mortgage portfolio is owner-occupied property. We are looking to the cash flow of the business to service the debt as opposed to a group of lessees. That has been very good business for us, and it continues to be profitable from a pricing standpoint. We have low delinquency rates and relatively low non-performing levels in that portfolio, so that is the strongest part of our business right now. We are not looking to do anything new and different at this point. We are focused now on continuing to generate good core deposits primarily from that commercial deposit base as well as continue to service our commercial real estate customers.”

**CEO CFO:** Do you do much advertising?

**Mr. Dee:** “We do a little bit from time to time. Most of it is image advertising. Re-

cently we have promoted the CDARS product because of the concern of bank safety and FDIC insurance coverage. That product allows us to give individual customers up to \$50 million of FDIC insurance coverage by essentially spreading their money among other banks nationwide. Therefore, that has been a product that we have advertised recently. Most of our advertising is pretty low-key image advertising.”

**CEO CFO:** You mentioned reaching out to people; do you find people are coming into you more for advice on how to be safe and secure than they did in the past?

**Mr. Dee:** “Definitely! The average person in the US is very inclined to seek out assistance from someone that they feel is

**“To sum it up, this is a very challenging banking environment. Our CEO and I have been through much tougher markets in the late 1980’s and early 1990’s, so what we see right now are not necessarily challenges as much as opportunities. We have an outstanding group of people to work with in our organization from senior management right down to the front lines; we are very proud of our people and their ability to get the job done. We are confident that they are going to help us be very successful over the next several years. We will work through this current tough environment, and provide some very nice returns for our shareholders and great long-term results both for our employees and our shareholders.”**

**- H. Patrick Dee**

able to help them, and we have built up a good deal of credibility with our customer base over the years. We have seen a huge increase in that activity especially in the last sixty to ninety days.”

**CEO CFO:** What are some of your key concerns and how do you get beyond them?

**Mr. Dee:** “Right now one of our key concerns is our stock price. The market, in particular the short sellers have been very pessimistic on bank stocks and so we have seen our stock price go down considerably. It went down so much in the first half of this year that it necessitated that we take a large good will impairment charge, which we did in the second quar-

ter. Our focus is rebuilding the confidence in the market place about our company and our long-term prospects. We are focused now on preserving our capital and deploying it as effectively as we can. The market seems to have presumed that many banks, ours included, are going to have to go out and issue new capital. At the present time, that is not a very attractive alternative for most banks with depressed stock prices. In our case we are trading well below our tangible book value; it just doesn’t make sense for us to go out and bolster our capital so we are taking a different approach. We do expect to shrink our balance sheet a little bit between now and year-end primarily through the reduction in the Utah operation as well as run-off in our remaining residential construction portfolio.

Because of the slowness in the market, we are not originating a lot of new residential construction business right now so we are seeing that portfolio shrink as well. We built up our allowance for loan losses and we did that substantially in the second quarter. Therefore, we are targeted on having a reasonable amount of profitability in the second half of the year, shrinking our balance sheet a little bit and getting those capital ratios up to a higher level. In 2009 we think we will start to see a substantial recovery in most of our markets and we want to be well positioned at that point with

good capital ratios and an operation that can take advantage of some of the opportunities where other banks may be having ongoing problems. We think we can tap into that and steal some of the market share throughout our footprint, which has been a major part of our success over the years. It is a bit more of a defensive mode for us now, so that we can be positioned for much better success in 2009.”

**CEO CFO:** Why should potential investors pay attention to First State?

**Mr. Dee:** “The key here is that we have a very valuable franchise in a part of the country that over the long-haul is going to do extremely well because of popula-

tion growth and other trends. Our bank now is positioned to where we have good capital levels and we are trying to improve those a bit more so that we can capitalize on the opportunities that are going to be there. Our stock is cheaper than it has ever been before, by whatever measure you use. Whether you look at it in terms of our earnings potential, our tangible book value, or our core deposit franchise; our stock is an absolute bargain in the market place at this point. We think that in the next year or so we will start to demonstrate very clearly that we

do have continued long-term opportunities for investors to do extremely well especially getting into our stock at current levels.”

**CEOCFO:** Final thoughts, what should people remember most about First State Bancorporation today?

**Mr. Dee:** “To sum it up, this is a very challenging banking environment. Our CEO and I have been through much tougher markets in the late 1980’s and early 1990’s, so what we see right now are not necessarily challenges as much as

opportunities. We have an outstanding group of people to work with in our organization from senior management right down to the front lines; we are very proud of our people and their ability to get the job done. We are confident that they are going to help us be very successful over the next several years. We will work through this current tough environment, and provide some very nice returns for our shareholders and great long-term results both for our employees and our shareholders.”



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