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West Coast Bancorp Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Mathew Clarke.

Matthew Clark

Good morning guys.

Robert Sznewajs

Good morning.

Matthew Clark

Can you guys touch on the two-step of the existing \$11.8 million of reserve that's less there? Can you give us some -- I guess what gives you increased comfort but that's going to be enough I guess to address the delinquencies that are still there assuming they clone a non-accrual and then also the non-accruals there as well. I know the losses that you took here in the first quarter were somewhat distorted by the change in policy but if you can get us a sense for I guess potential severity in that portfolio, I guess with what's left?

Robert Sznewajs

Well, as you know and as you commented on, we have changed policies and policies did result in a \$20 million charge-off associated with the two-step portfolio which took -- part of the accrual reserve and distributed it across those loans that we discussed. The \$11.8 million was determined consistent with our reserve model and as I have mentioned, we have tested the assumptions that underlie that reserve model, probability to default and loss given default and have run that consistently against the remaining portfolio and that's how we determined the \$11.8. I believe it's adequate.

Matthew Clark

Okay, great. And then, can you maybe discuss any differences by market -- I guess within that two-step portfolio. Any differences that you are seeing or is it just more so that the type of borrower that was?

Robert Sznewajs

With regard to markets, I think that of course, there are different factors that come into play depending upon where the homes are located and it's difficult to characterize those. Of course, we have got the Den market which is in the Shoots County, which has a high level of inventory and slow sales. So, naturally we would expect the impacts there, but again, we do have separate cities homes are located that all different submarkets responding a little bit differently. So it's difficult for me to characterize each one individually other than to say that they are facing generalized slower sales and higher inventory levels out there.

Matthew Clark

Okay and then on the margin -- the basis for the improvement here in the coming quarter? Anything expected?

Robert Szniewajs

Well, it's a combination of two things. Three things, actually; the expect the interest reversals, material lower interest reversals in the second quarter as some of those interest reversals are that -- normally are into the old policy I should say. They have been taken -- they got taken in second quarter -- was taken in the first quarter, so that's part of it. Then we have a couple of offsetting factors. One is the cost that carry the nonperforming assets, the average nonperforming balances that will be significantly higher in the second quarter and then the first, that's an offset, but they also believe we can improve our spread somewhat as well in the second quarter compared to the first quarter, so let's move to the things going on at the same time.

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