



SR003_7: Failed Bank Report

Community Bank of Arizona

2700 N Central Ave, # 200

Phoenix, AZ 85004

(11/25/2003 – 8/14/2009)

Report Objective

This report has **two** objectives, using the bank's **data***:

1. To examine the bank finances in the quarters prior to its failure.
2. To analyze the bank finances using our Key Performance Indicator (KPI) scoring approach to determine if the bank's failure is something we could have predicted.

*Data source: FDIC and company filings.

Bank Background

FDIC Certificate #	57645
Parent Holding Company	Community Bancorp
Bank Charter Class	Commercial Bank
Asset Concentration	Commercial Lending Specialization
Product Specialty	Personal and Business Banking Services
Number of Branches	4 (as of June 30, 2009)
Number of Employees	30 (as of June 30, 2009)

Executives (Parent Holding Company)

CEO/President	Edward Jamison
EVP/CFO	Patrick Hartman
EVP/COO	Bruce Ford

What took place?

Community Bank of Arizona, Phoenix, AZ was closed by the Arizona Department of Financial Institutions, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$25,500,000. All deposits and most assets acquired by MidFirst Bank of Oklahoma. The FDIC and MidFirst agreed to share future losses on certain assets.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q2	2009 Q2	Percentage Change
Assets	\$ 124,890	\$ 158,520	↑26.93%
Liabilities	\$ 92,790	\$ 144,950	↑56.21%
Net Income	-\$ 1,390	-\$ 6,690	↓381.29%

- The average net income change for all FDIC banks was -59.6% in the same period.
- The average net income change for all the commercial lending specialization banks was -107.5% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, Community Bank of Arizona's decline from Net Income is relatively large (-381.29%) during 2009.

Key Performance Indicators



KPI Summary for 2009 Q2	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Moderate
Asset: Liability Rating	Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	29.09**(Poor)

Possible ratings: *Excellent, Good, Moderate, Poor, Very Poor.*

*This rating is relevant to the current “financial crisis” fueled by mortgage security backed loans.

**This is out of 100.

Normalized Income Analysis

	2008Q1	2008Q2	2008Q3	2008Q4 	2009Q1 	2009Q2
Normalized Income	-0.16%	-0.98%	-0.26%	-7.74%	-1.49%	-2.91%
SD's from Average*	-0.54	-1.53	-0.24	-7.03	-2.09	-3.02
Ranking	Moderate	Poor	Moderate	Very Poor	Very Poor	Very Poor


- Community Bank of Arizona had a normalized income of -2.91% in the second quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average normalized income of -0.15%. The standard deviation of the normalized incomes was 0.91%, which means that Community Bank of Arizona was more than 3 SD's below the average.
- Since the first quarter of 2008, Community Bank of Arizona's normalized income in relation to banks of the same asset concentration hierarchy has declined.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Delinquent Asset Analysis

	2008Q1	2008Q2	2008Q3	2008Q4 	2009Q1	2009Q2
Weighted Delinquent Asset	2.2412%	2.0050%	2.4489%	4.4653%	0.4673%	2.7322%
SD's from Average*	0.37	0.33	0.48	1.29	-0.61	0.46
Ranking	Moderate	Moderate	Moderate	Poor	Good	Moderate


- Community Bank of Arizona had a weighted delinquent assets out of total assets ratio 2.73% in the second quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average weighted delinquent asset of 1.76%. The standard deviation of the delinquent assets was 2.09%, which means that Community Bank of Arizona was about 0.46 SD's above the average.
- With the exception of 2008 Q4, Community Bank of Arizona's weighted delinquent assets ratio has been relatively moderate and good comparing to its peers.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Real Estate Loan Asset Analysis

	2008Q1 	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Real Estate Loan Asset Ratio	74.26%	82.61%	69.19%	59.98%	61.08%	48.44%
SD from Average*	1.23	1.75	0.84	0.22	0.34	-0.55
Ranking	Very Poor	Very Poor	Poor	Moderate	Moderate	Moderate

- Community Bank of Arizona had a R/A ratio of 48.44% in 09 Q2, the quarter before it failed.
- In 09 Q2, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 55.57%. The standard deviation of the R/A ratio was 15.14%, which means that Community Bank of Arizona was actually 0.55 SD's below the average, earning the rank of "Moderate."

* Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset: Liability Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2 
Asset: Liability Ratio	145.97%	134.58%	128.15%	115.49%	114.95%	109.36%
Median A/L Ratio*	110.93%	110.69%	110.65%	110.52%	110.54%	110.54%
Ranking	Excellent	Excellent	Excellent	Good	Good	Poor

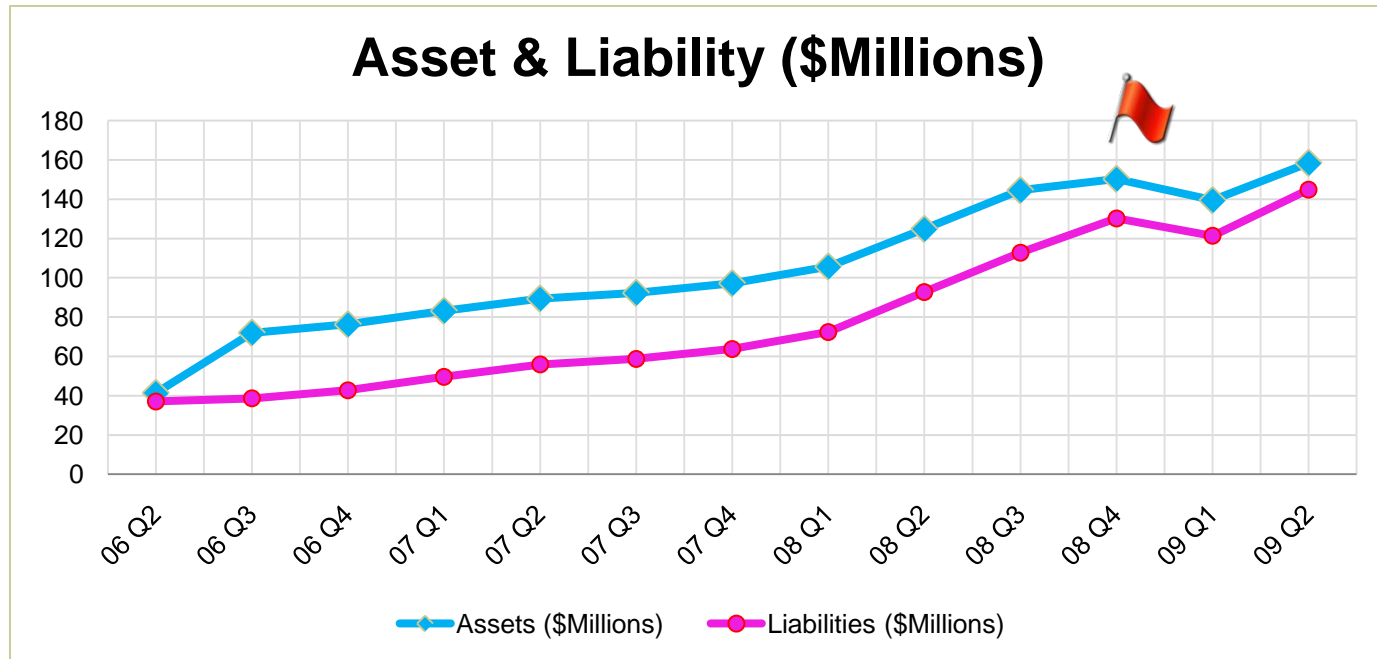
- Community Bank of Arizona's A/L ratio showed a slow decline for the last 6 quarters, eventually dropping to 109.36% in its last quarter.
- The median A/L ratio for all banks in the same asset concentration hierarchy (commercial lending specialization) was 110.54% in the same period, meaning that Community Bank of Arizona was more than 1% under the median. The median A/L ratio for all banks in 2009 Q2 was 111.00%.
- Of the 50 banks failed in 2009 Q3, 94% of them had an A/L ratio under 107%.

* Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset & Liability History

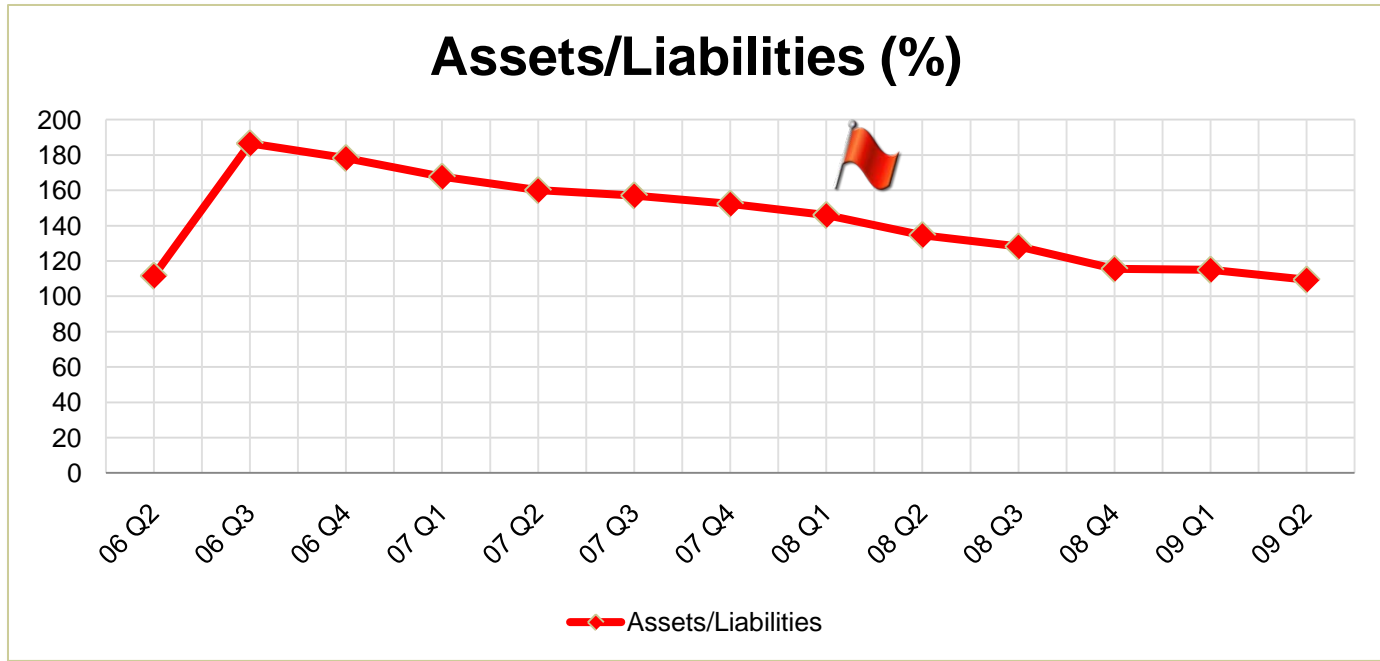


- The difference between asset and liability was getting closer in 08 Q4.



Indicates sign of bank in financial distress

Asset/Liability History

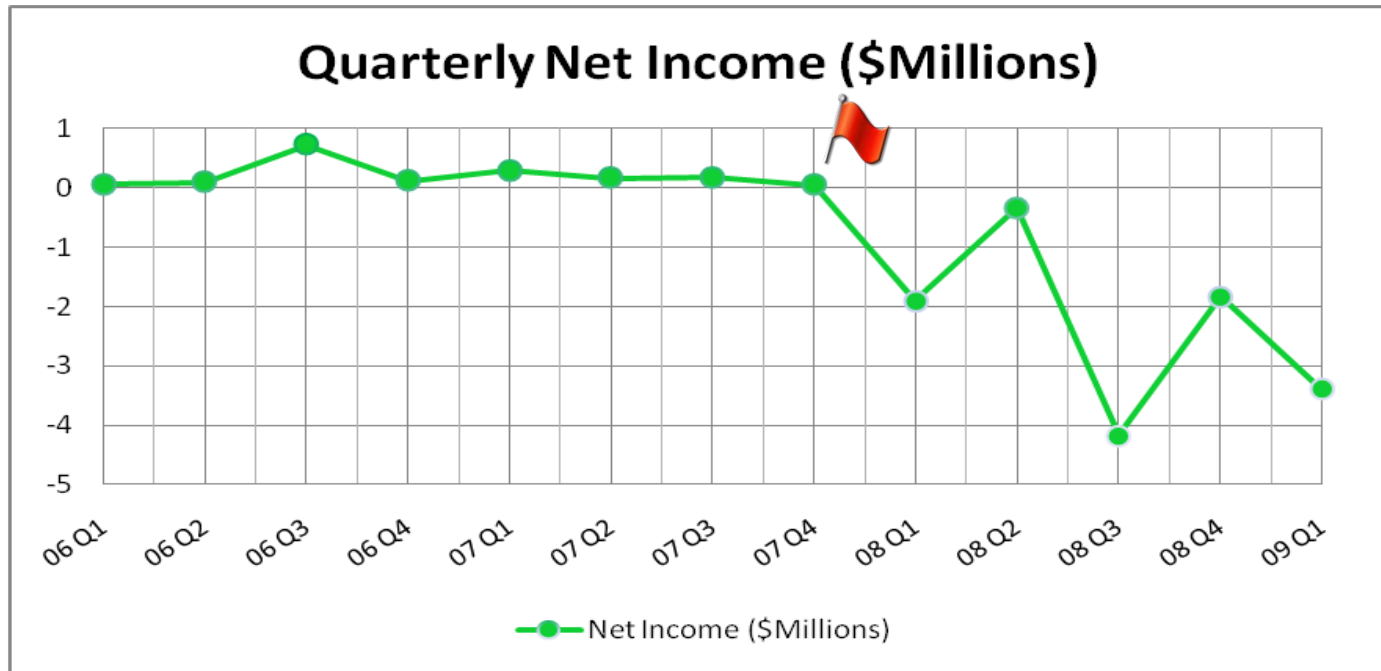


- The A/L ratio was decreasing steadily since 08 Q1.



Indicates sign of bank in financial distress

Net Income History

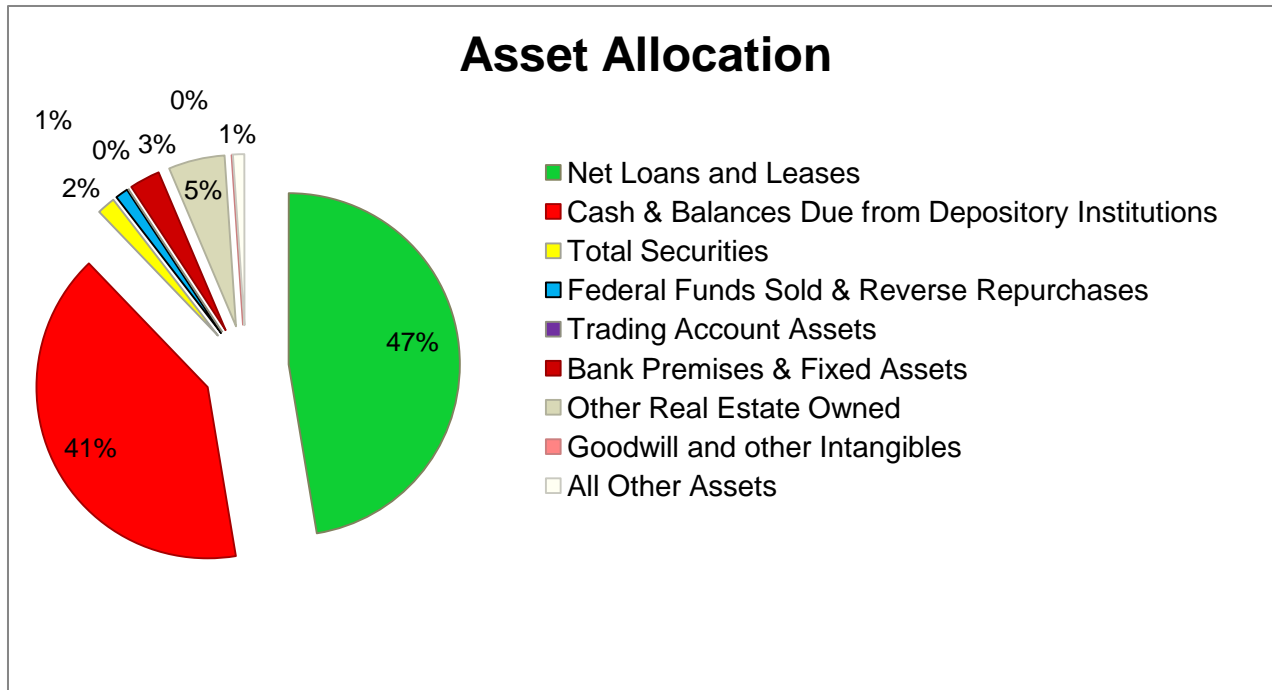


- The bank recorded big losses in the last three quarters prior to failure.
- Net income has been unstable since 07 Q4.



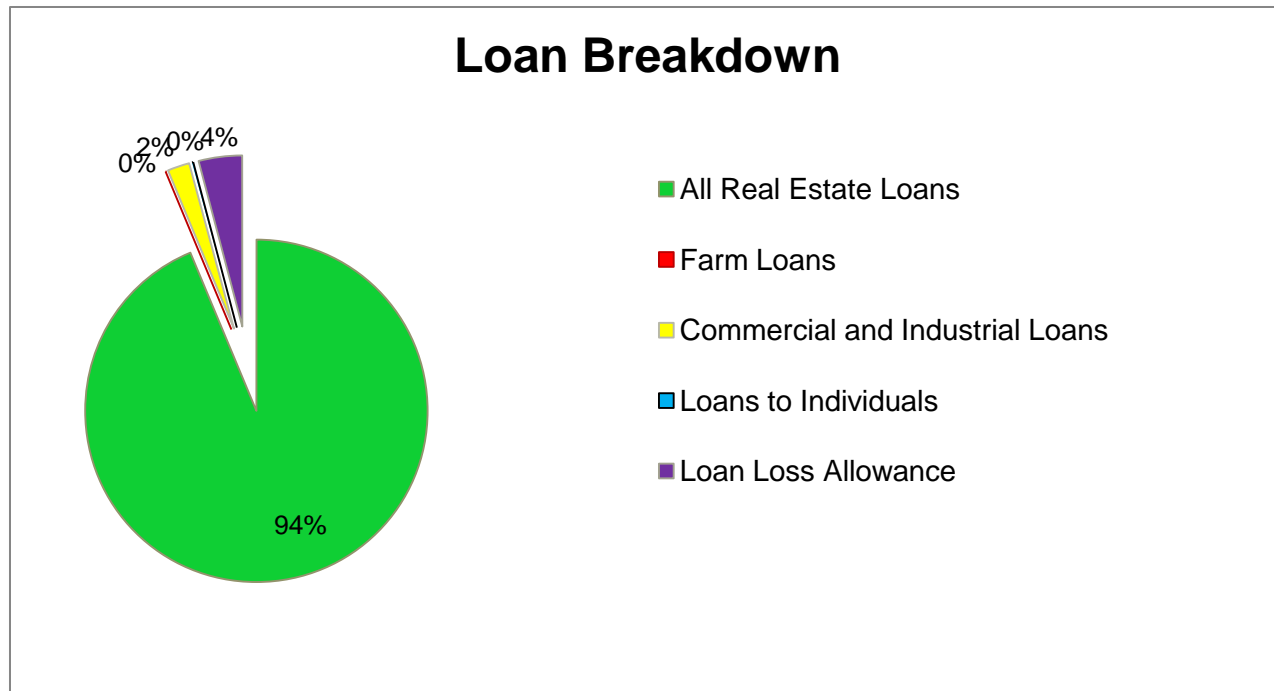
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2009 was 67.77%.
- The average Net Loan percentage of all banks in the second quarter of 2009 was 55.70%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2009 was 68.42%.
- The average percentage for all banks in the second quarter of 2009 was 63.47%.

Events Timeline

- Mar 4, 08** - SEC voted to disclose information for the secondary market ETF investors in Form N-1A.
- Mar 7, 08** - The Fed will initiate a series of term repurchase transactions that are expected to cumulate to \$100 billion.
- Mar 19, 08** - Fannie Mae and Freddie Mac is expected to provide support to the U.S. mortgage market, up to \$200 billion immediate liquidity.
- May 29, 08** - U.S.-Canada mutual recognition arrangement: U.S. Securities markets and certain U.S. financial service firms could gain greater freedom to operate in Canada under SEC.
- Jun 10, 08** - FDIC releases a supervisory letter to all banks on interest reserves that examines the risks that this underwriting practice presents.
- Jun 11, 08** - SEC voted on a comprehensive series of credit rating agency reforms to bring increased transparency to credit rating process.
- Jun 17, 08** - New HOPE NOW guidelines to deal with issues surrounding second mortgages and short sales.
- Jun 26, 08** - FDIC adopts Basel II-Based Standardized Approach as an alternative risk-based capital framework available to all banks except the largest and most complex banks.
- Jun 26, 08** - FRS, FDIC, and OCC issued the host state loan-to-deposit ratios, which help indicate branches outside of the home state that were established or acquired for the purpose of deposit production.

Events Timeline

- Jul 13, 08** - Paulson Announces a three-part plan for GSEs: a temporary increase in the line of credit, a temporary authority for Treasury to purchase equity, and an advisory role is given to the Fed.
- Aug 20, 08** - FDIC's implementation in Loan Modification Program will help to modify troubled IndyMac mortgages loans.
- Sep 17, 08** - SEC clarified that bank support of money market mutual funds generally are not required to present the fund on-balance sheet, but disclosure of the nature of the support provided is expected.
- Sep 18, 08** - SEC requires that certain institutional money managers report their new short sales of certain publicly traded securities.
- Sep 19, 08** - SEC prohibited short selling in 779 financial institutions.
- Sep 20, 08** - Treasury Secretary Hank Paulson releases \$700 billion proposal to purchase troubled mortgage-related assets.
- Oct 7, 08** - Emergency Economic Stabilization Act of 2008 Temporarily Increases Basic FDIC Insurance Coverage from \$100,000 to \$250,000 per Depositor.
- Oct 14, 08** - FDIC creates new program to guarantee bank debts and fully insure non-interest bearing deposit transaction accounts.
- Oct 14, 08** - The Treasury Department will invest up to \$250 billion in the nation's banks via the Capital Purchase Program.

Events Timeline

- Nov 20, 08** - FDIC announces the availability of IndyMac Loan Modification Model.
- Nov 25, 08** - Created the Term Asset-Backed Securities Loan Facility to support the issuance of asset-backed securities collateralized by loans.
- Dec 3, 08** - SEC approved measures to strengthen oversight of credit rating agencies.
- Dec 16, 08** - Troubled banks have to provide certain position level and counterparty level data and QFC counterparty and portfolio identifiers to FDIC in a timely manner.
- Dec 23, 08** - Treasury provides TARP funds to focal Banks by purchasing \$2.8 billion investment from 49 banks.
- Dec 30, 08** - The Fed announced that it will purchase mortgage-backed securities.
- Jan 15, 09** - The Senate voted to allow access to the remaining bailout funds of \$350 billion.
- Jan 27, 09** - As part of the Capital Purchase Program, Treasury announced investments of \$386 million in 23 healthy banks.
- Feb 10, 09** - A Capital Assistance Program to help ensure banks hold sufficient capital, produce a more consistent and forward-looking assessment of risks on banks' balance and their potential capital needs.
- Feb 10, 09** - A Public-Private Investment Fund will combine public and private capital with government financing to help free up capital to support new lending.
- Feb 10, 09** - Geithner rolls out the Financial Stability Plan, promises to perform "stress tests" on big banks, and commit \$100 billion to boost the TALF.

Events Timeline

- Feb 10, 09** - Treasury and Fed expended the Term Asset-Backed Securities Lending facility up to \$1 trillion.
- Feb 18, 09** - President Obama signs the American Recovery and Reinvestment Act of 2009, which limits bonuses of the highest earning executives.
- Mar 4, 09** - Treasury announced loan modification guidelines under the Administration's Homeowner Affordability and Stability Plan.
- Mar 23, 09** - Using TARP capital and capital from private investors, the Public-Private Investment Program will generate \$500 billion in purchasing power to buy legacy assets.
- May 1, 09** - The Fed announces that, starting in June, commercial mortgage backed securities and securities backed by insurance premium finance loans will be eligible collateral under the TALF. The Treasury purchases a total of \$45.5 million in preferred stock from 7 U.S. banks under the Capital Purchase Program.
- May 8, 09** - The Treasury purchases of total of \$42 million in preferred stock from 7 U.S. banks under the Capital Purchase Program.
- May 13, 09** - The Treasury proposes amendments to the Commodity Exchange Act and securities laws to enhance govt. regulation of over the counter derivatives markets.
- May 14, 09** - SEC proposed rule amendments to strengthen safeguards of investor funds controlled by investment advisers.

Events Timeline

- May 29, 09** - FDIC tightens the deposit interest rates paid by banks that are less than well capitalized. Generally, such banks will be permitted to offer to "national rate" plus 75 basis points.
- Jun 9, 09** - 10 Of the largest U.S financial institutions are expected to make CPP repayments to Treasury.
- Jun 30, 09** - Community Bank of Arizona had total assets of \$158.5 million and total deposits of approximately \$143.8 million.
- Jul 2, 09** - FDIC proposed guidelines require private equity firms to hold bank purchases for 3yrs and maintain capital levels.
- Jul 8, 09** - The Legacy Securities program is designed to facilitate price discovery to re-deploy capital and extend new credit to households and businesses. Treasury will invest up to \$30 billion of equity and debt
- Jul 15, 09** - SEC voted unanimously to propose rule amendments to improve the quality and timeliness of municipal securities disclosure.
- Jul 29, 09** - SEC announced several actions that would protect against abusive short sales and make more short sale information available to the public.

* All internal news are written in [blue color](#).

Events Timeline

- Aug 14, 09** - Community Bank of Arizona was closed by the Arizona Department of Financial Institutions. MidFirst bank assumed all deposits.
- Aug 26, 09** - Banking organizations affected by the new accounting standards generally will be subject to higher minimum regulatory capital requirements. New standards for investors interested in acquiring or investing in the deposit liabilities of failed banks or thrifts.
- Aug 27, 09** - Aggregate net loss of \$3.7 billion in the second quarter of 2009, a decline of \$8.5 billion from the \$4.8 billion in profits the industry reported in the second quarter of 2008.
- Sep 9, 09** - FDIC Board adopted a Notice of Proposed Rulemaking (NPR) that reaffirms the expiration of the debt guarantee component of the Temporary Liquidity Guarantee Program.
- Sep 17, 09** - SEC voted unanimously to take several rulemaking actions to bolster oversight of credit ratings agencies by enhancing disclosure and improving the quality of credit ratings.
- Sep 24, 09** - Credit quality declined sharply for loan commitments of \$20 million or more held by multiple federally supervised institutions.
- Sep 28, 09** - SEC (Section 31) fee rate applicable to securities transactions on the exchanges and in the over-the-counter markets will be set at \$12.70 per million dollars.
- Sep 29, 09** - Institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012.

* All internal news are written in [blue color](#).

Report Summary – *Surprise?*

Based on the methods with which we analyzed Community Bank of Arizona, its failure was ***not a surprise***.

Here are the indications that The Community Bank of Arizona should fail:

- 1) **The Community Bank of Arizona's normalized income experienced a total loss (of its total asset) of over 12% over the last 3 quarters.**
- 2) **The bank has a fair amount of delinquent assets in the quarters before its failure.**
- 3) **The bank's asset to liability ratio dropped 109.36% the quarter before it failed.**
- 4) **The Community Bank of Arizona had a bankability composite score of 29.09 the quarter before it failed, indicating the bank's poor overall financial health and likelihood to fail.**

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