



SR003_7: Failed Bank Report

Ameribank, Inc.

70 McDowell Street
Welch, WV 24801

(1/1/1906 – 9/19/2008)

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 #	6782
Bank Charter Class	Savings Association
Asset Concentration	Commercial Lending Specialization
Product Specialty	Personal and Business Banking Services, Deposit Products such as Certificates of Deposits, Retirement Accounts, and Money Market Accounts
Number of Branches	8 (as of June 30, 2008)
Number of Employees	63 (as of June 30, 2008)

Executives	
CEO	Lou Dunham
Chairman	James Sutton
COO	Ronald L. Haan

What took place?

Ameribank, Inc., Northfork, WV was closed by the Office of Thrift Supervision (OTS) on September 19th, 2008. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$42,000,000, compared to the average cost of \$389,206,944. Pioneer Community Bank of Iaeger, W. VA, and Citizens Savings Bank of Martins Ferry, OH acquired all deposits and some assets.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2007 Q2	2008 Q2	Percentage Change
Assets	\$ 157,960	\$ 103,965	↓ 34.2%
Liabilities	\$ 139,512	\$ 101,231	↓ 27.4%
Net Income	\$ 690	-\$ 6,890	↓ 1,099%

- The average net income change for all FDIC banks was -65.89% in the same period.
- The average net income change for all the commercial lending specialization banks was -50.5% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, Ameribank's decline from Net Income is extremely large (-1099%) during 2008.

Key Performance Indicators

KPI Summary for 2008 Q2	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Good
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	-11.58** (Very 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

	2007Q1	2007Q2	2007Q3 	2007Q4	2008Q1	2008Q2
Normalized Income	0.09%	0.34%	-2.44%	-5.38%	-1.07%	-5.45%
SD's from Average*	-0.305	0.325	-6.57	-7.90	-2.35	-8.43
Ranking	Moderate	Moderate	Very Poor	Very Poor	Very Poor	Very Poor

- Ameribank had a normalized income of -5.45% in the second quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average normalized income of 0.03%. The standard deviation of the normalized incomes was 0.65%, which means that Ameribank was 8.43 SD's below the average.

* Average of banks of the same asset concentration hierarchy


 Indicates sign of bank in financial distress

Delinquent Asset Analysis


	2007Q1	2007Q2 	2007Q3	2007Q4	2008Q1	2008Q2
Delinquent Asset	1.3527%	16.1633%	0.6421%	6.0791%	0.7432%	0.6800%
SD's from Average*	0.17	10.45	-0.39	2.78	-0.41	-0.39
Ranking	Moderate	Very Poor	Good	Very Poor	Good	Good

- Ameribank had a delinquent assets out of total assets ratio 0.68% in the second quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average delinquent asset of 1.3964%. The standard deviation of the delinquent assets was 1.86%, which means that Ameribank was about 0.39 SD's below the average.
- Since the first quarter of 2007, Ameribank's delinquent assets ratio has been unstable; however, during the quarter before the bank failed, the delinquent asset ratio was below the average and was in a good condition.

*Average of banks of the same asset concentration hierarchy


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Real Estate Loan Asset Analysis

	2007Q1 	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Real Estate Loan Asset Ratio	74.93%	76.90%	78.66%	69.36%	70.01%	66.65%
SD's from Average*	1.36	1.46	1.54	0.90	0.95	0.68
Ranking	Very Poor	Very Poor	Very Poor	Poor	Poor	Moderate

- Ameribank had a 66.65% of R/A ratio in 08 Q2, the quarter before it failed.
- In 08 Q2, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 56.35%. The standard deviation of the R/A ratio was 15.03%, which means that Ameribank was 0.68 SD's above the average.

*Average of banks of the same asset concentration hierarchy


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Asset: Liability Analysis

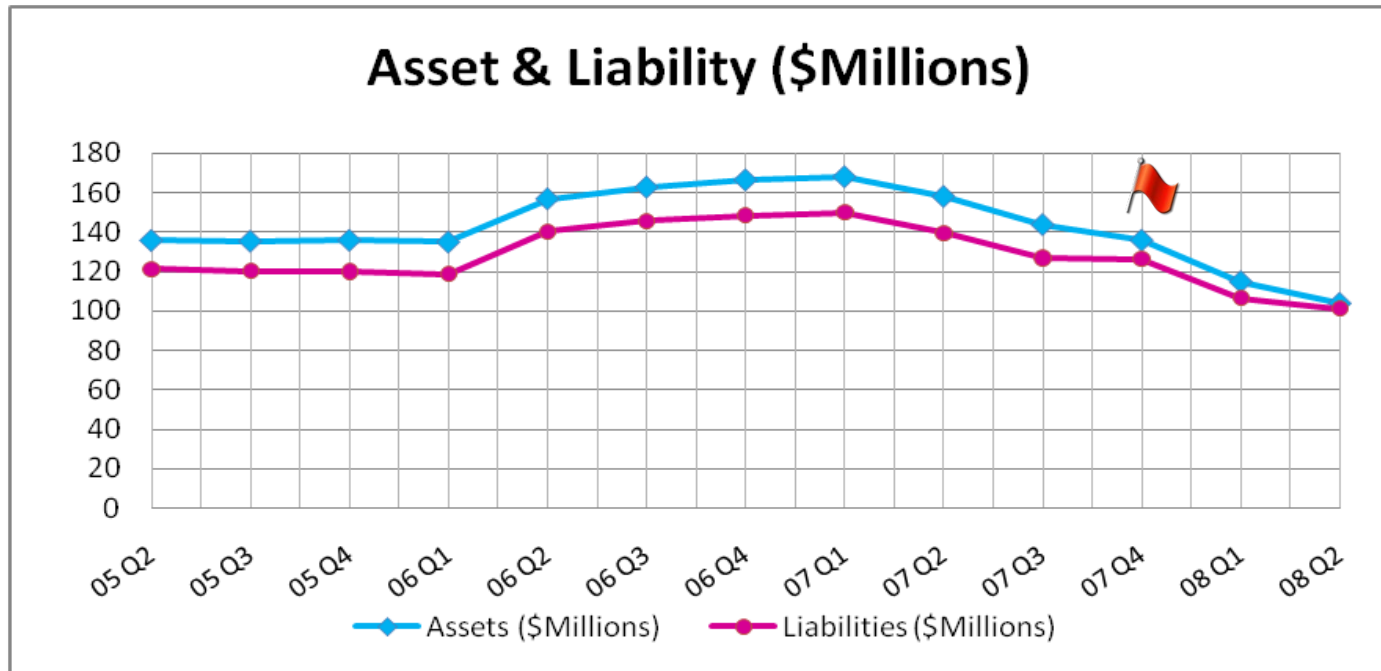
	2007Q1	2007Q2	2007Q3	2007Q4 	2008Q1	2008Q2
Asset: Liability Ratio	112.01%	113.22%	113.36%	107.62%	107.89%	102.70%
Median A/L Ratio*	110.70%	110.74%	110.97%	110.95%	110.93%	110.69%
Ranking	Good	Good	Good	Poor	Poor	Very Poor

- Ameribank experienced over 5% A/L ratio decrease in 07 Q3 and 08 Q2.
- Of the banks failed in 08 Q2, 77.78% of them had an A/L ratio under 107%.

*Average of banks of the same asset concentration hierarchy

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Asset & Liability History

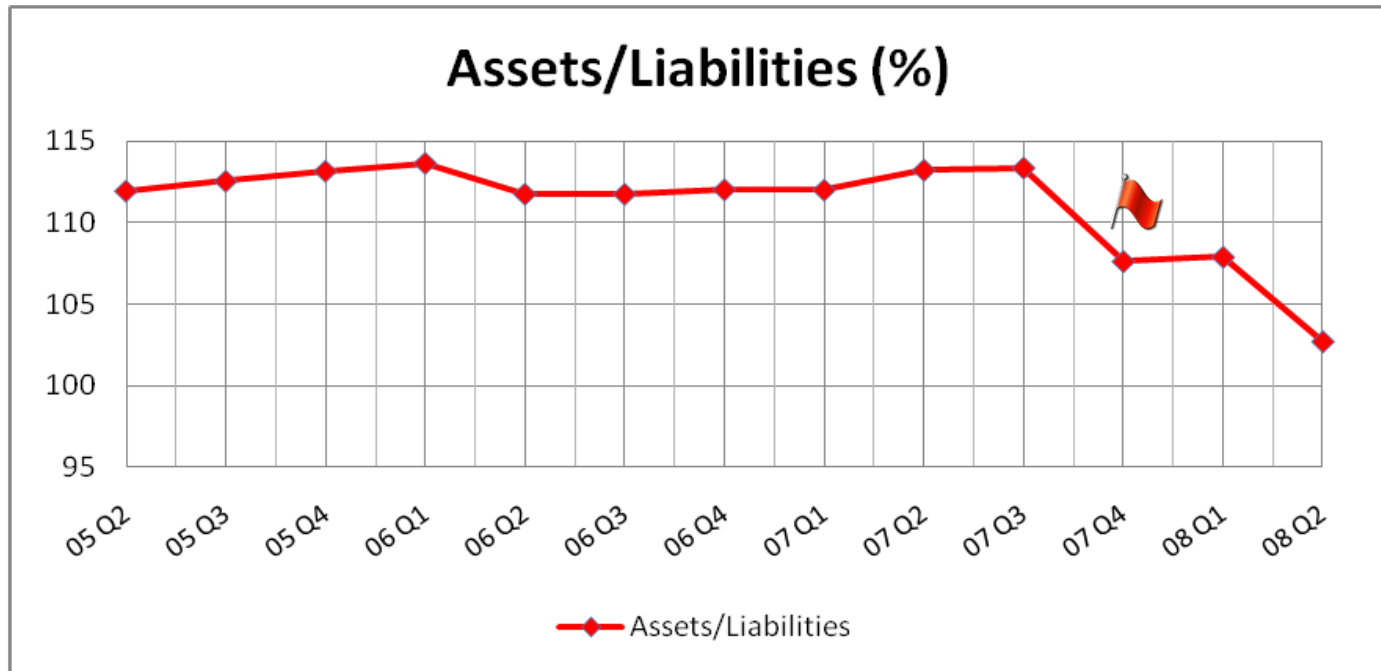


- The difference between asset and liability was getting closer in the last three quarters prior to failure.



Indicates sign of bank in financial distress

Asset/Liability History

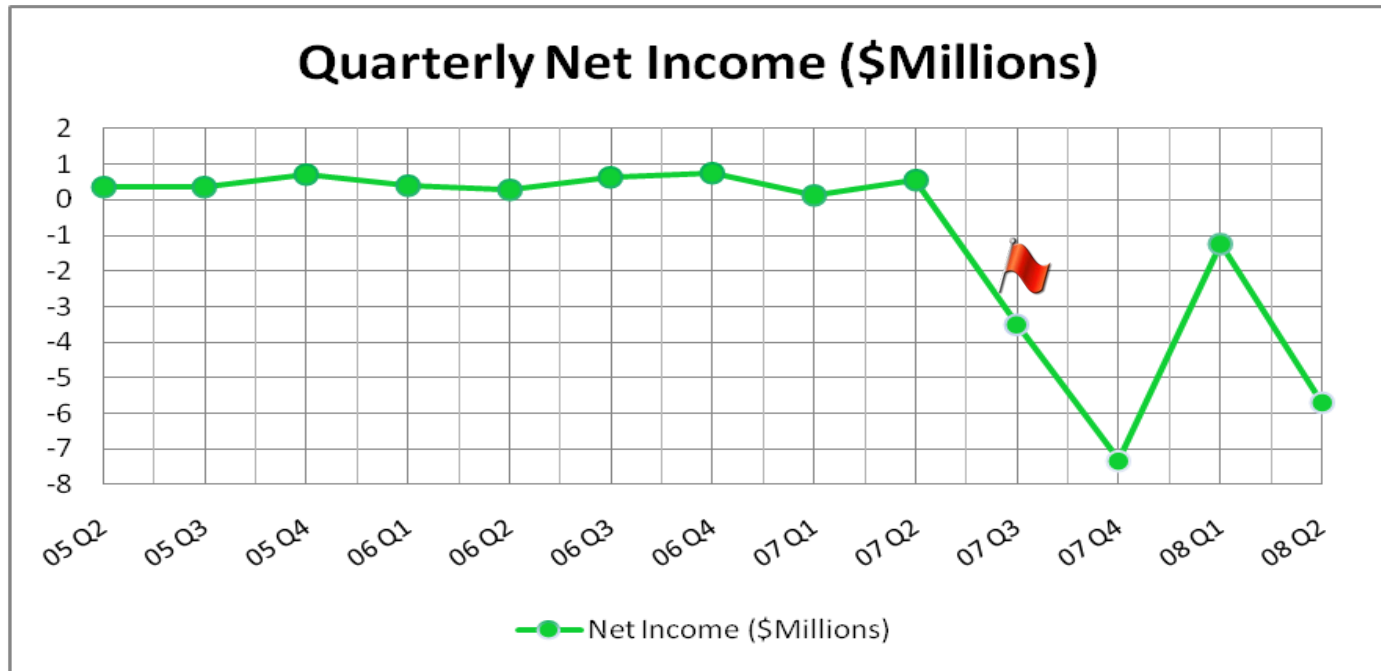


- The A/L ratio was decreasing since 07 Q3.




Indicates sign of bank in financial distress

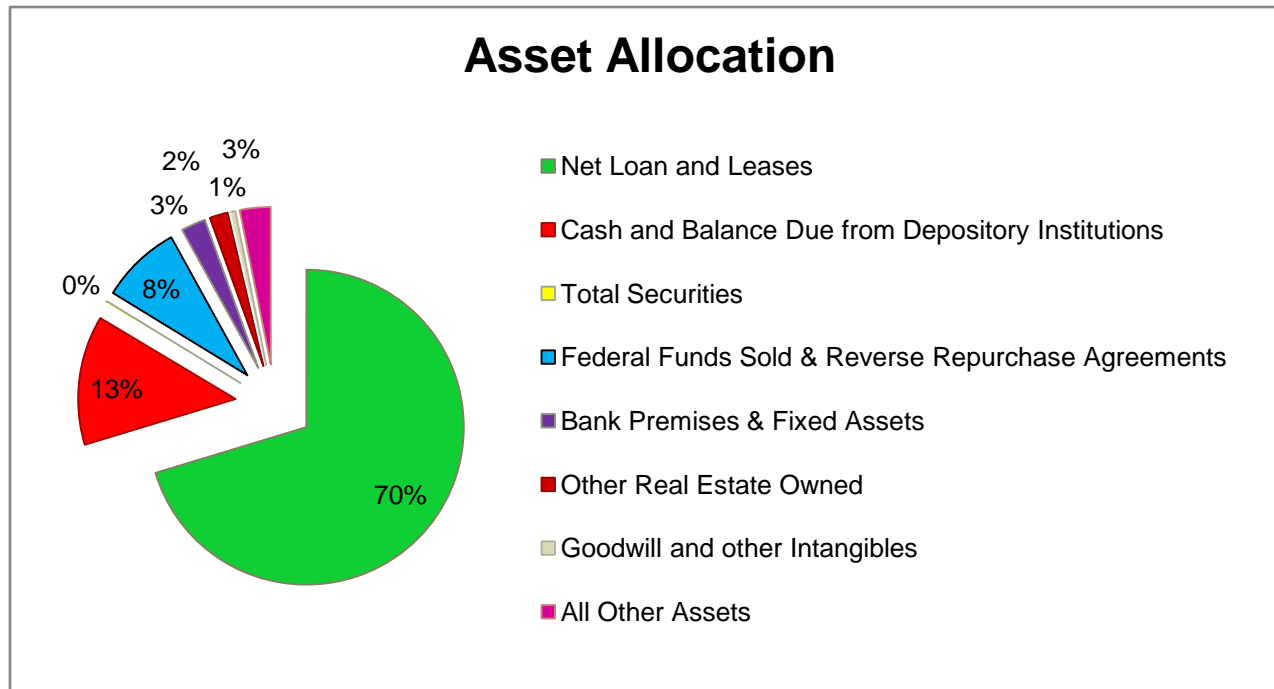
Net Income History



- The bank recorded big losses in the last four quarters prior to failure.

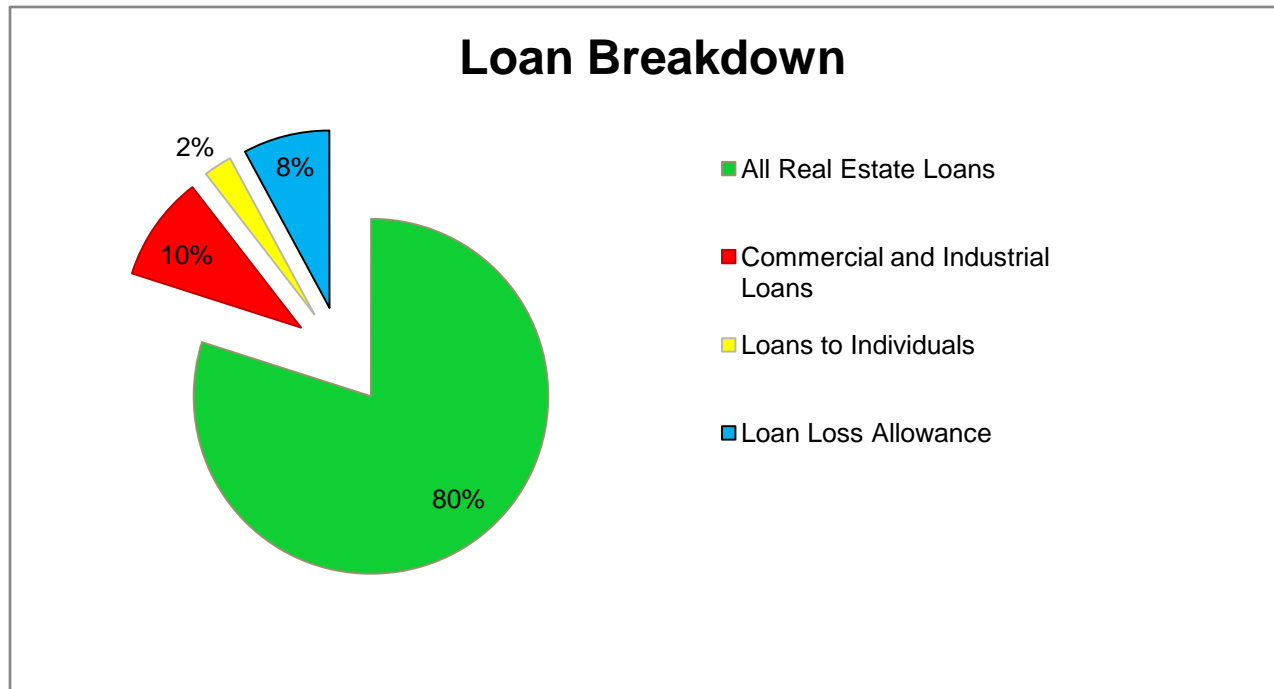
 Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2008 was 72.63%.
- The average Net Loan percentage of all banks in the second quarter of 2008 was 66.00%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2008 was 76.04%.
- The average percentage for all banks in the second quarter of 2008 was 70.68%.

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.
- June 10, 08** - FDIC releases a supervisory letter to all banks on interest reserves that examines the risks that this underwriting practice presents.
- June 11, 08** - SEC voted on a comprehensive series of credit rating agency reforms to bring increased transparency to credit rating process.
- June 17, 08** - New HOPE NOW guidelines to deal with issues surrounding second mortgages and short sales.
- June. 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
- June. 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.

Jul. 21, 08 – Ameribank is closing the Florida branch it opened in 2003.

Aug. 20, 08 - FDIC's implementation in Loan Modification Program will help to modify troubled IndyMac mortgages loans.

Sept. 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.

Sept. 18, 08 - SEC requires that certain institutional money managers report their new short sales of certain publicly traded securities.

Sept. 19, 08 - SEC prohibited short selling in 779 financial institutions.

Sept. 19, 08 - Pioneer Community Bank, Inc. will pay a premium of 2% for all deposits of the West Virginia branches.

Sept. 19, 08 - The Citizens Saving Bank will pay a premium of 1.14% for all deposits of the Ohio branches. Both banks will purchase about \$23 million in Ameribank assets.

Sept. 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.

Events Timeline

- 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.
- 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** – Geithner rolls out the Financial Stability Plan, promises to perform “stress tests” on big banks, and commit \$100 billion to boost the TALF.
- 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.

Events Timeline

- 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** - Treasury and Fed expanded 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 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.
- June 9, 09** - 10 Of the largest U.S financial institutions are expected to make CPP repayments to Treasury.
- Jul. 2, 09** - FDIC proposed guidelines require private equity firms to hold bank purchases for 3yrs and maintain capital levels.

Report Summary – *Surprise?*

Based on the methods with which we analyzed Ameribank, its failure was *not a surprise*.

Here are the indications that Ameribank should fail:

- 1) **Ameribank's normalized income was more than 2 SD's below average for the four quarters before failure.**
- 2) **Although Ameribank's delinquent asset rating was Good the quarter before its failure, during the second quarter of 2007 16% of its assets were delinquent.**
- 3) **Ameribank's asset to liability ratio of 102% was extremely low the quarter before it failed.**
- 4) **Ameribank's bankability composite score was 36 and 11.58 the two quarters before it failed, indicating its poor financial health overall.**

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