SR003_7: Failed Bank Report

Wachovia Bank

301 South College Street
Charlotte, NC 28288

(1/11/1994 – 9/29/2008)

http://www.moneyeconomics.com

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.

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Bank Background

FDIC Certificate #	**33869**
Parent Holding Company	WACHOVIA CORPORATION
Bank Charter Class	National Bank
Asset Concentration	All other Over 1 Billion
Product Specialty	Commercial Banking Services, Personal Loans and Small Business Lending Services, Corporate Checking and Business Investment Checking Services
Number of Branches	3,360 (as of June 30, 2008)
Number of Employees	85,401 (as of June 30, 2008)

Executives	
CEO	Robert Steel
Chairman	Lanty Smith
CFO	Thomas J. Wurtz

What took place?

On December 31st, 2008, Wachovia Corporation was bought by and became a subsidiary of Wells Fargo. The Wachovia brand will be merged with the Wells Fargo brand over the next three years. Wells Fargo had announced on October 3rd of 2008 that it would be merging with Wells Fargo. Originally, Citigroup Inc. had a deal to acquire the banking operations of Wachovia with the facilitation of the FDIC which did not go through.

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Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2007 Q2	**2008 Q2**	**Percentage Change**
Assets	**$ 524,113,000**	**$ 670639,000**	**↑ 28.0%**
Liabilities	**$ 471,105,000**	**$ 600,841,000**	**↑ 27.5%**
Net Income	**$ 3,193,000**	**-$ 1,732,000**	**↓ 154.2%**

- The average net income change for all FDIC banks was -65.89% in the same period.
- The average net income change for banks that have the same asset concentration hierarchy was -86.4% in the same period.
- Compared with the whole industry and banks that have the same asset concentration hierarchy, Wachovia Bank's decline from Net Income is relatively large (-154%) during 2008.

Key Performance Indicators

KPI Summary for 2008 Q2	
Normalized Income Rating	Moderate
Delinquent Asset Rating	Poor
Asset: Liability Rating	Moderate
Real Estate Asset Rating*	Poor
Bankability Composite Score	57.64** (Moderate)

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	0.31%	0.31%	0.22%	0.07%	-0.06%	-0.20%
SD's from Average*	0.243	0.232	0.0739	-0.183	-0.484	-0.637
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

- Wachovia had a normalized income of -0.20% in the second quarter of 2008, the quarter before it was acquired by Wells Fargo.
- Banks of the same asset concentration hierarchy (all other > $1 Billion) had an average normalized income of 0.28%. The standard deviation of the normalized incomes was 0.76%, which means that Wachovia was 0.637 SD's below the average.
- Since the first quarter of 2007, Wachovia's normalized income in relation to banks of the same asset concentration hierarchy has declined each quarter.

*Average of banks of the same asset concentration hierarchy

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Delinquent Asset Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Delinquent Asset	0.5209%	0.5343%	0.6292%	0.9866%	1.0450%	1.3995%
SD's from Average*	-0.42	-0.40	-0.40	0.21	0.60	1.2
Ranking	Good	Good	Good	Moderate	Moderate	Poor

- Wachovia Bank had a delinquent assets out of total assets ratio 1.4% in the second quarter of 2008, the quarter before it went into trouble.
- Banks of the same asset concentration hierarchy (All other Over 1 Billion) had an average delinquent asset of 0.60%. The standard deviation of the delinquent assets was 0.68%, which means that Wachovia Bank was about 1.2 SD's above the average.
- Since the first quarter of 2007, Wachovia Bank's delinquent assets ratio has been better than the average in relation to banks of the same asset concentration hierarchy. However, the delinquent assets kept increasing until 2008 Q2 into a poor condition.

Indicates sign of bank in financial distress

*Average of banks of the same asset concentration hierarchy

Real Estate Loan Asset Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Real Estate Loan Asset Ratio	34.41%	34.74%	33.46%	38.76%	37.28%	36.09%
SD's from Average*	-1.32	-1.34	-1.43	0.70	0.82	0.87
Ranking	Excellent	Excellent	Excellent	Poor	Poor	Poor

- Wachovia Bank, National Association had a 36.09% of R/A ratio in 08 Q2, the quarter before it failed.
- In 08 Q2, banks of the same asset concentration hierarchy (all other>$1 billion) had an average R/A ratio of 23.03%. The standard deviation of the R/A ratio was 15.08%, which means that Wachovia Bank, National Association was 0.87 SD's above the average.
- Before 07 Q4, Wachovia Bank was a in a commercial lending specialization.

Indicates sign of bank in financial distress

*Average of banks of the same asset concentration hierarchy

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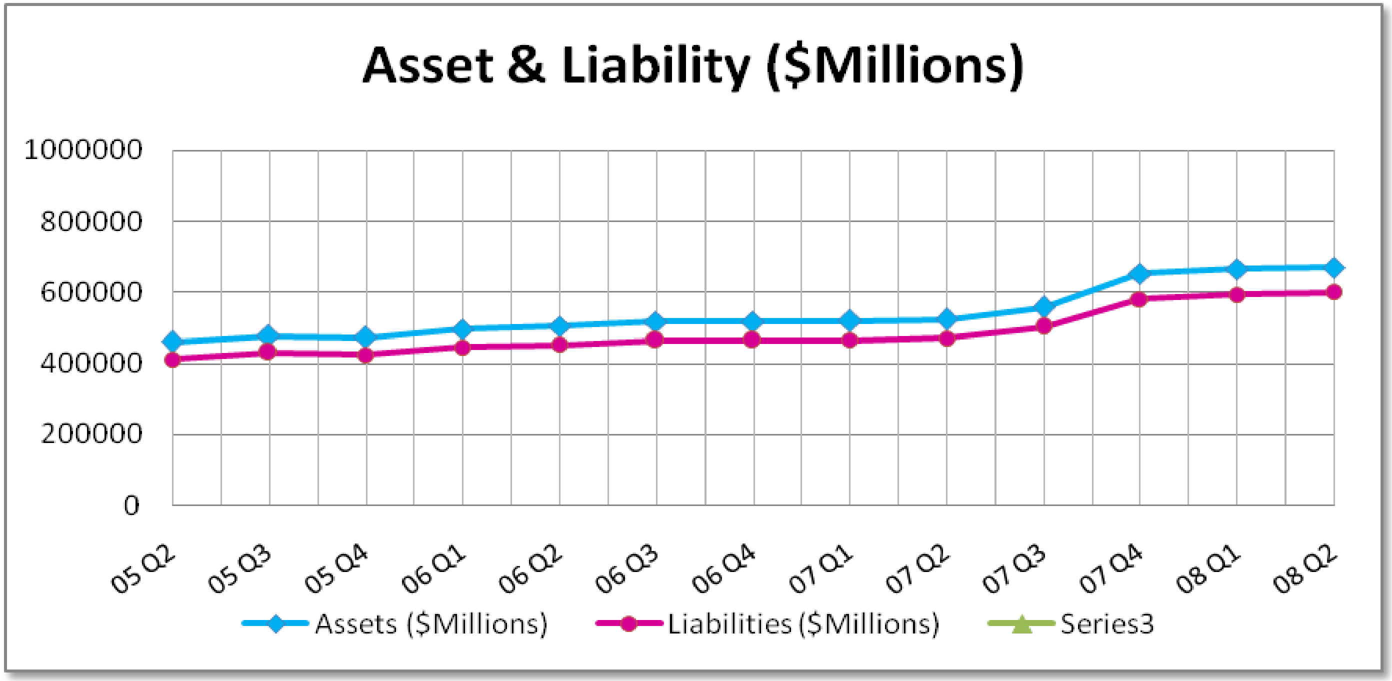
Asset: Liability Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Asset: Liability Ratio	111.42%	111.25%	110.90%	112.46%	112.06%	111.62%
Median A/L Ratio*	110.70%	110.74%	110.97%	110.95%	110.93%	110.69%
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

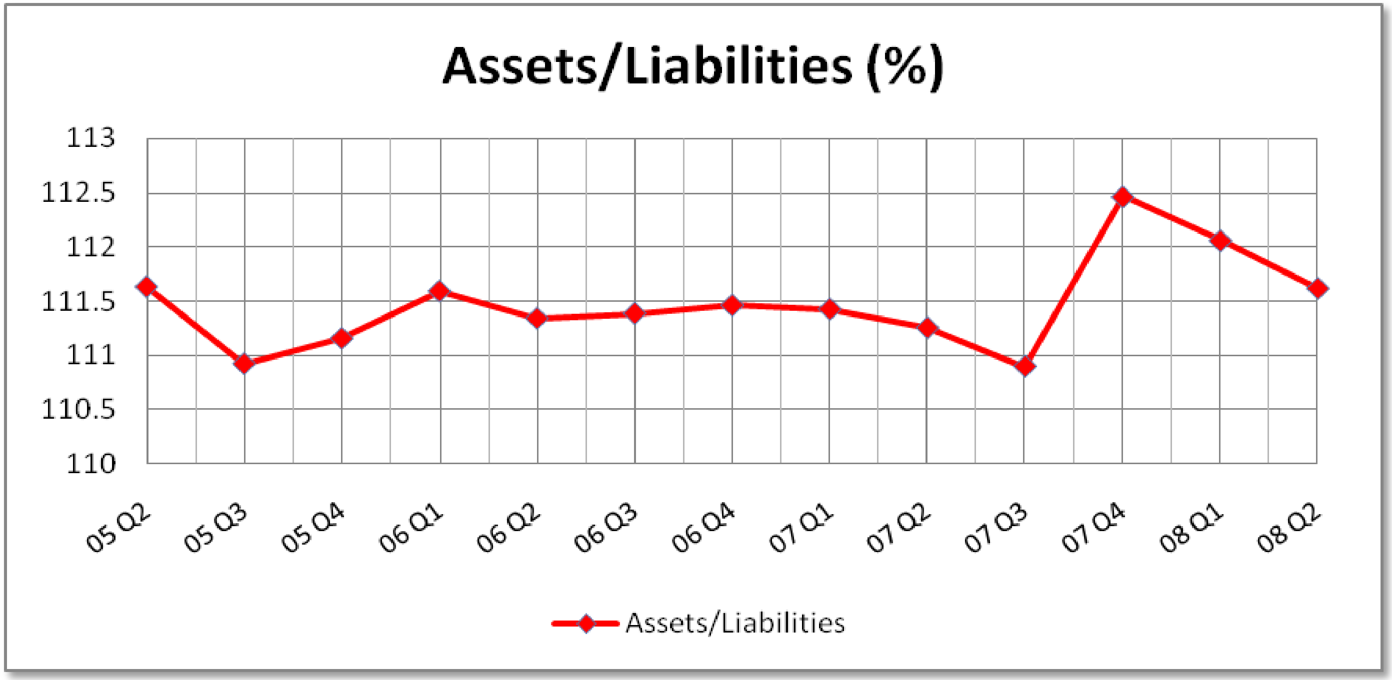
- Wachovia Bank’s A/L ratio was decreasing from 07 Q4 to 08 Q2.

*Average of banks of the same asset concentration hierarchy

Asset & Liability History

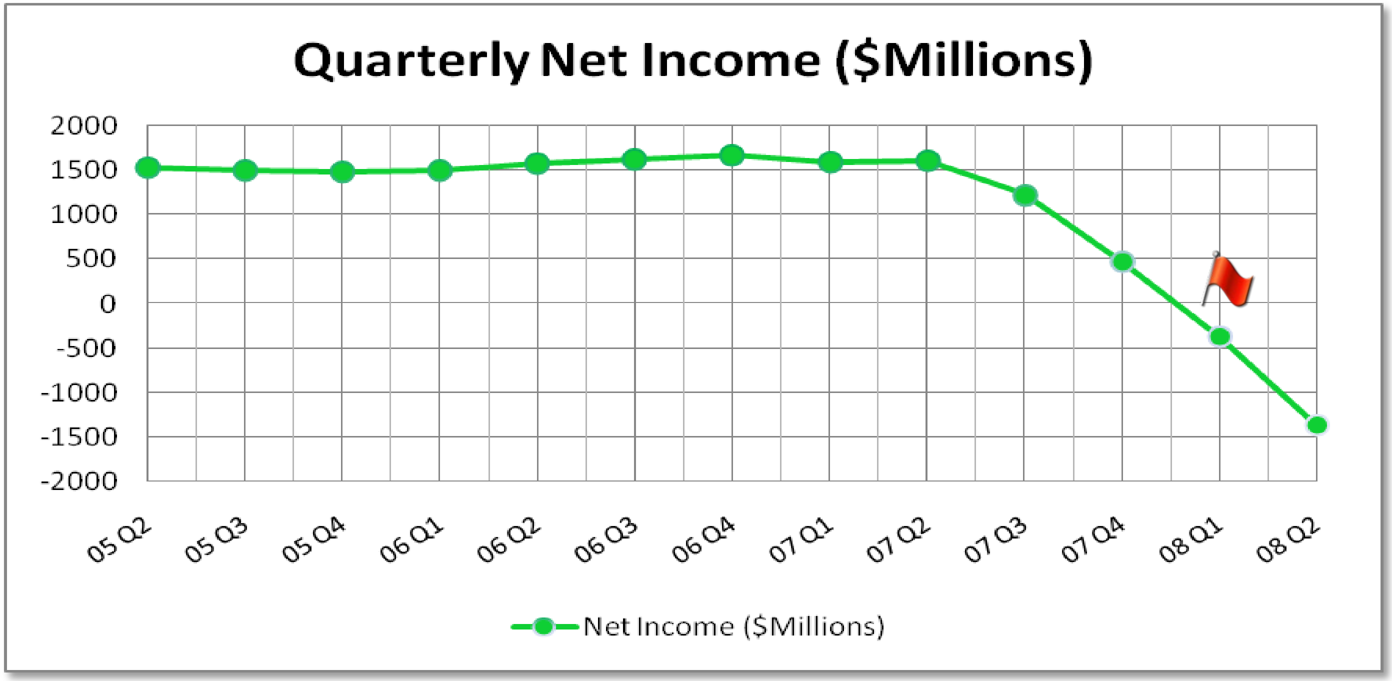


Asset/Liability History



- The A/L ratio was decreasing since 07 Q4.

Net Income History



- The bank’s income was declining since 07 Q2.

 Indicates sign of bank in financial distress

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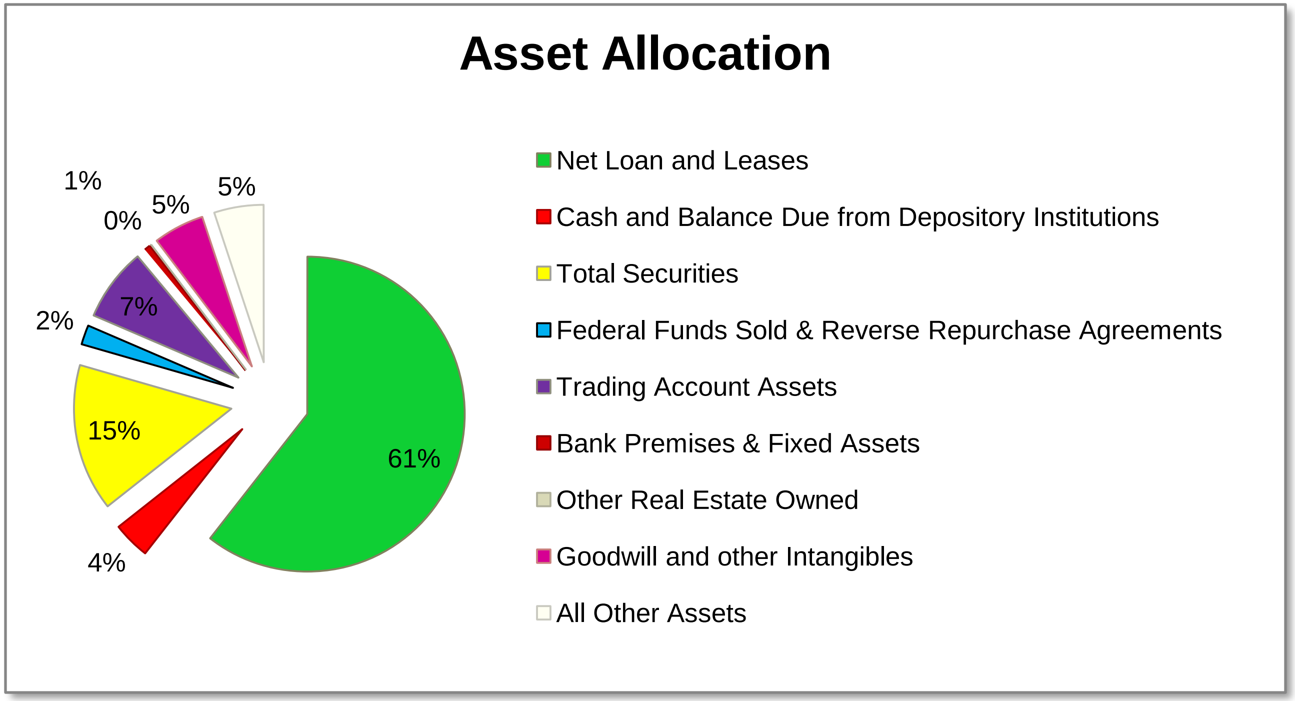
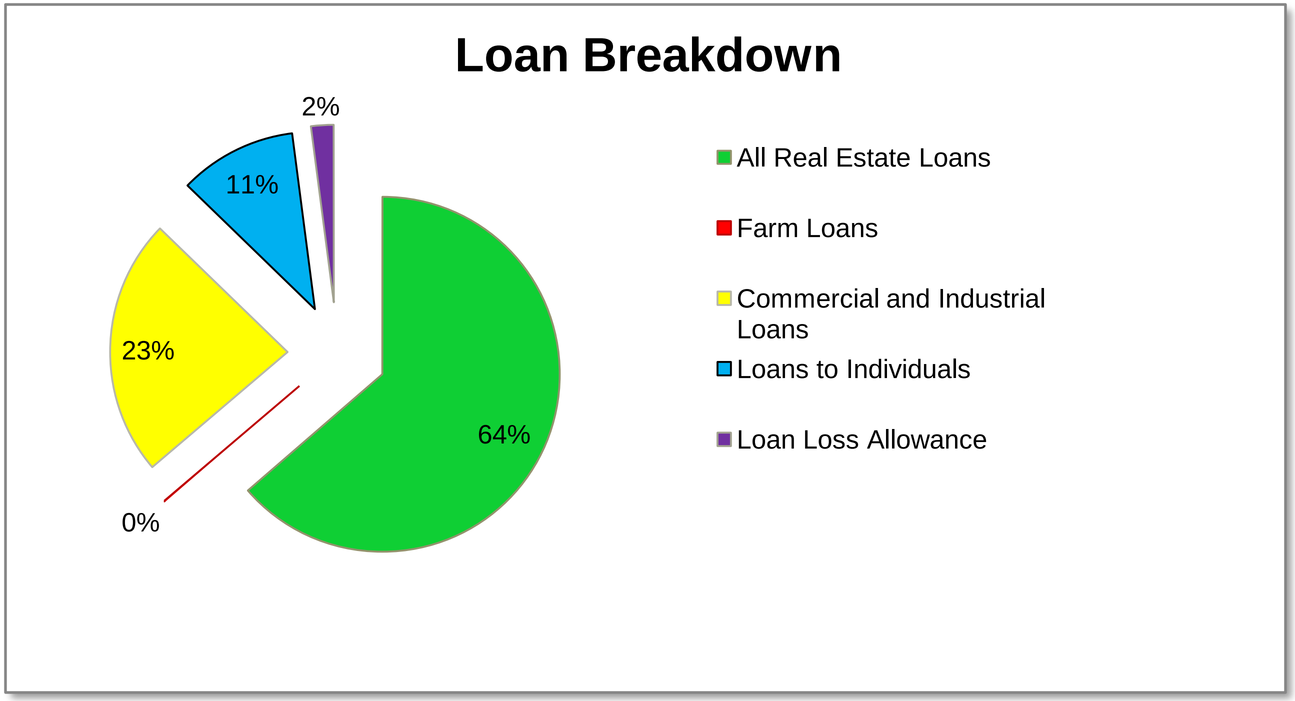
Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2008 was 40.62%.
- 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 61.18%.
- The average percentage for all banks in the second quarter of 2008 was 70.68%.

Events Timeline

Oct. 19, 07 - Wachovia profit fell 10% in 3Q, hurt by $1.3 billion in losses and write-downs.

Dec. 12, 07 - Wachovia doubled its estimate of loan loss provisions to about $1 billion for 4Q.

Jan. 22, 08 - Net income dropped significantly to $51 million from $2.3 billion in 4Q 2006.

Jan. 30, 08 - Wachovia lowered its prime interest rate to 6% from 6.5%.

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. 14, 08 - Wachovia expects to sell more than 100 branches to American Realty.

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.

Apr 14, 08 - Issued common stock and perpetual convertible preferred shares valued at $7 billion, in addition to cutting its quarterly dividend to $0.375 per share.

Apr. 30, 08 - Lowered its prime interest rate to 5%.

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.

Events Timeline

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.

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.

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. 20, 08 - Treasury Secretary Hank Paulson releases $700 billion proposal to purchase troubled mortgage-related assets.

Events Timeline

Sept. 29, 08 - Citigroup will absorb up to $42 billion of losses on a $312 billion pool of loans with FDIC supervision. Citigroup will pay $2.1 billion to Wachovia Corporation.

Oct. 2, 08 - Wells Fargo offer to purchase Wachovia Corp. as an intact company and without govt. assistance in a stock-for-stock merger transaction.

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 I the nation’s banks via the Capital Purchase Program.

Oct, 16, 08 - Wachovia seeking to recover $5 million from a Virginia Beach developer and a partner from a loan the bank made two yrs ago for a condominium development.

Oct. 22., 08 - A net loss in the 3Q of $23.89 billion.

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.

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Events Timeline

Dec. 30, 08 - The Fed announced that it will purchase mortgage-backed securities.

Jan 1. 09 - Wels Fargo and Wachovia Merger Completed.

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.

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 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.

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.

June 9, 09 -10 0f 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.

* All internal news are written in blue color.

Report Summary – *Surprise?*

Based on the methods with which we measured Wachovia Bank, its failure was ***a surprise***.

Wachovia Bank had a moderate normalized income rating the quarter before it failed. And despite its poor rating in delinquent assets, asset to liability ratio, and real estate loan concentration, the bank still had a moderate bankability composite score of 57.64. This points to external factors outside of the KPI's we measured such as:

1) Washington Mutual's seizure
2) Decreased bank lending confidence

The FDIC was concerned that Wachovia would not be able to fulfill its short term lending obligations after a silent bank run. It was afraid that other banks would not lend to Wachovia and forced its sale to Wells Fargo.

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