



SR003_7: Failed Bank Report

Main Street Bank

133 West Main St
Northville, MI 48167

(3/1/2004 – 10/10/2008)

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 #	57654
Parent Holding Company	MAIN STREET BANCORP, INC.
Bank Charter Class	Federal Reserve Non-Member
Asset Concentration	Commercial Lending Specialization
Product Specialty	Commercial Banking Services, Personal Loans and Small Business Lending Services, Deposits Products including Retirement and Educational Savings Accounts
Number of Branches	2 (as of June 30, 2008)
Number of Employees	43 (as of June 30, 2008)

Executives

CEO	Rick Shaffner
President	Audrey Mistor

What took place?

Main Street Bank, Northville, Michigan was closed by the Michigan Office of Financial & Insurance Services on October 10th, 2008. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$39,000,000, compared to the average cost of \$389,206,944. Monroe Bank and Trust acquired all deposits and some assets.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2007 Q2	2008 Q2	Percentage Change
Assets	\$ 158,120	\$ 112,368	↓ 28.9%
Liabilities	\$ 144,946	\$ 109,571	↓ 24.4%
Net Income	-\$ 690	-\$ 6,537	↓ 847%

- 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, Main Street Bank's decline from Net Income is extremely large(-847%) during 2008.

Key Performance Indicators

KPI Summary for 2008 Q2	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Poor
Bankability Composite Score	-7.45** (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	-0.16%	-0.28%	-0.66%	-2.39%	-2.42%	-2.98%
SD's from Average*	-0.913	-1.20	-2.12	-3.57	-5.05	-4.64
Ranking	Moderate	Poor	Very Poor	Very Poor	Very Poor	Very Poor

- Main Street Bank had a normalized income of -2.98% 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 Main Street Bank was 4.64 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	0.6314%	4.7977%	3.9805%	3.0857%	1.6113%	3.1682%
SD's from Average*	-0.34	2.56	1.78	1.01	0.04	0.95
Ranking	Good	Very Poor	Poor	Poor	Moderate	Poor

- Main Street Bank had a delinquent assets out of total assets ratio 3.17% in the second quarter of 2008.
- 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 Main Street Bank was about 1 SD above the average.
- Since the first quarter of 2007, Main Street Bank 's delinquent assets ratio has been increasing; however, its delinquent asset ratio improved during 2008 Q1. But it became worse again in 2008 Q2 before its failure.

*Average of banks of the same asset concentration hierarchy

 Indicates sign of bank in financial distress

Real Estate Loan Asset Analysis

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2
Real Estate Loan Asset Ratio	71.07%	69.23%	70.20%	69.53%	65.61%	72.85%
SD's from Average*	1.10	0.95	0.98	0.91	0.66	1.10
Ranking	Poor	Poor	Poor	Poor	Moderate	Poor

- Main Street Bank had a 72.85% 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 15.04%, which means that Main Street Bank was 1.10 SD's above the average.


*Average of banks of the same asset concentration hierarchy

Asset: Liability Analysis

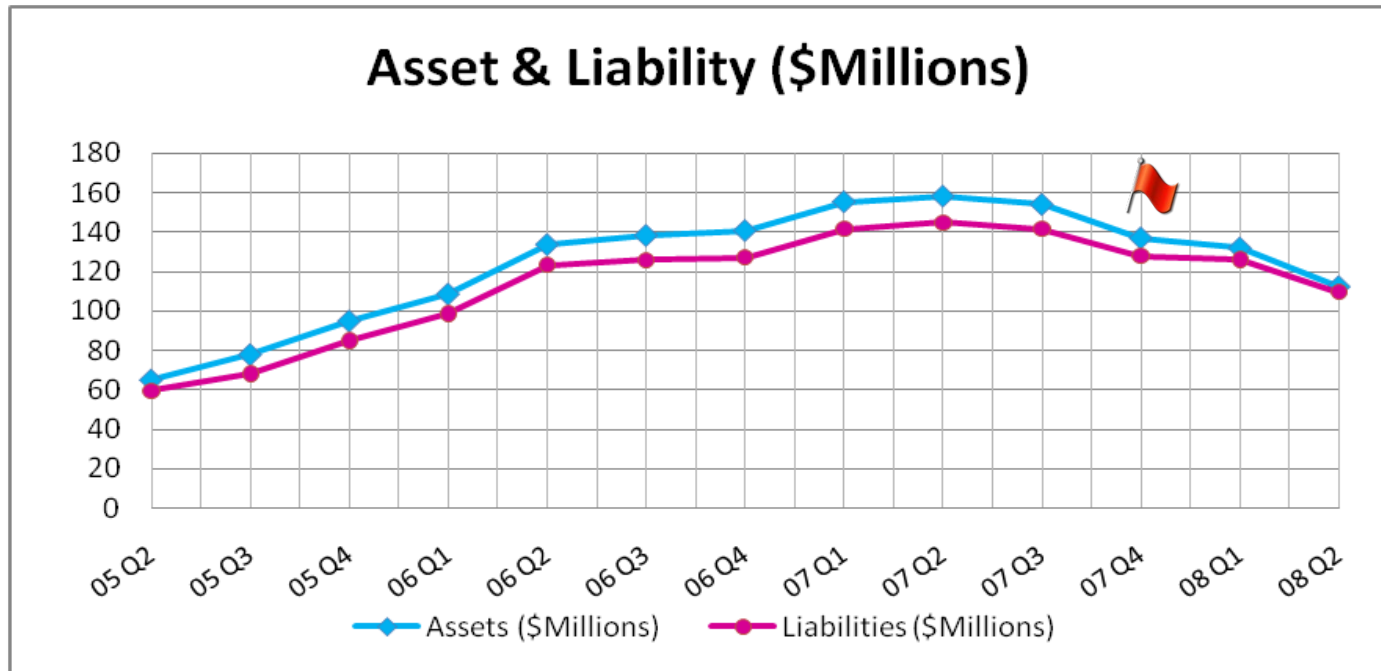
	2007Q1	2007Q2	2007Q3	2007Q4 	2008Q1	2008Q2
Asset: Liability Ratio	109.66%	109.09%	108.68%	107.06%	104.68%	102.55%
Median A/L Ratio*	110.70%	110.74%	110.97%	110.95%	110.93%	110.69%
Ranking	Moderate	Poor	Poor	Poor	Very Poor	Very Poor

- Main Street Bank's A/L ratio was decreasing in all 6 quarters prior to failure.
- The bank fell into the worst ranking in 08 Q1.
- Of the banks failed in 08 Q4, 83.33% 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

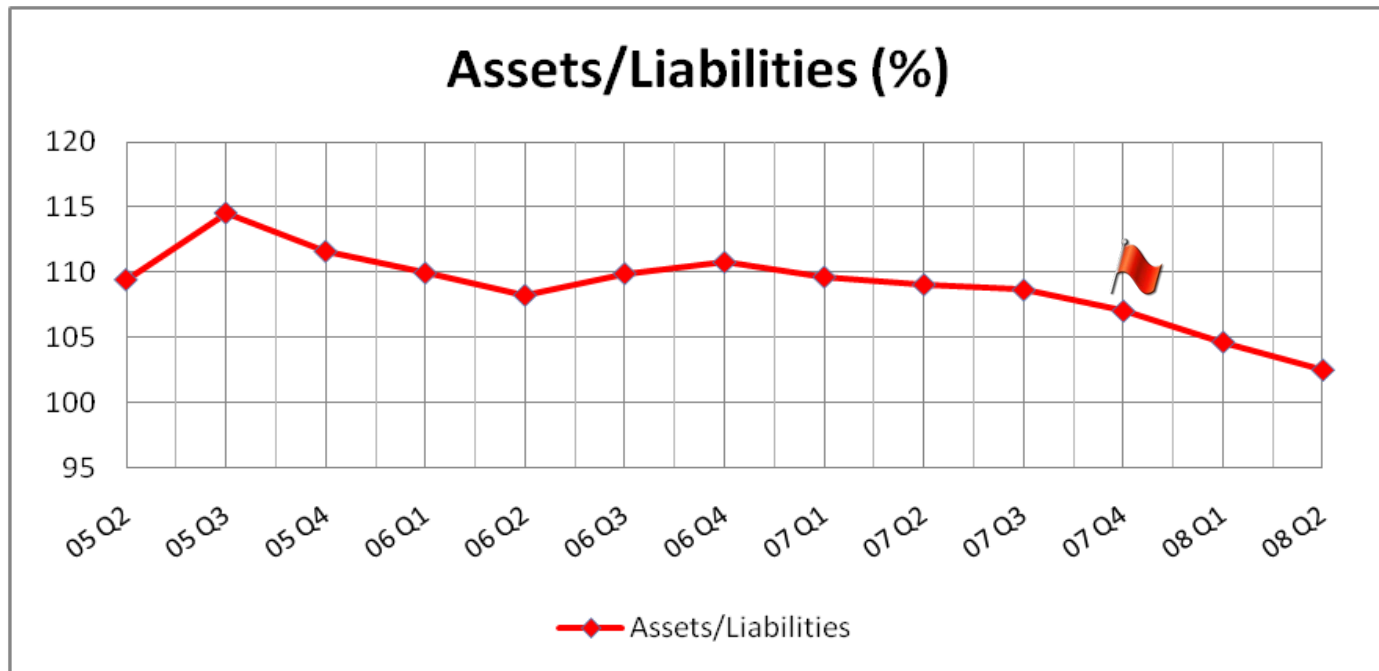


- The difference between asset and liability was getting closer after 07 Q4.



Indicates sign of bank in financial distress

Asset/Liability History

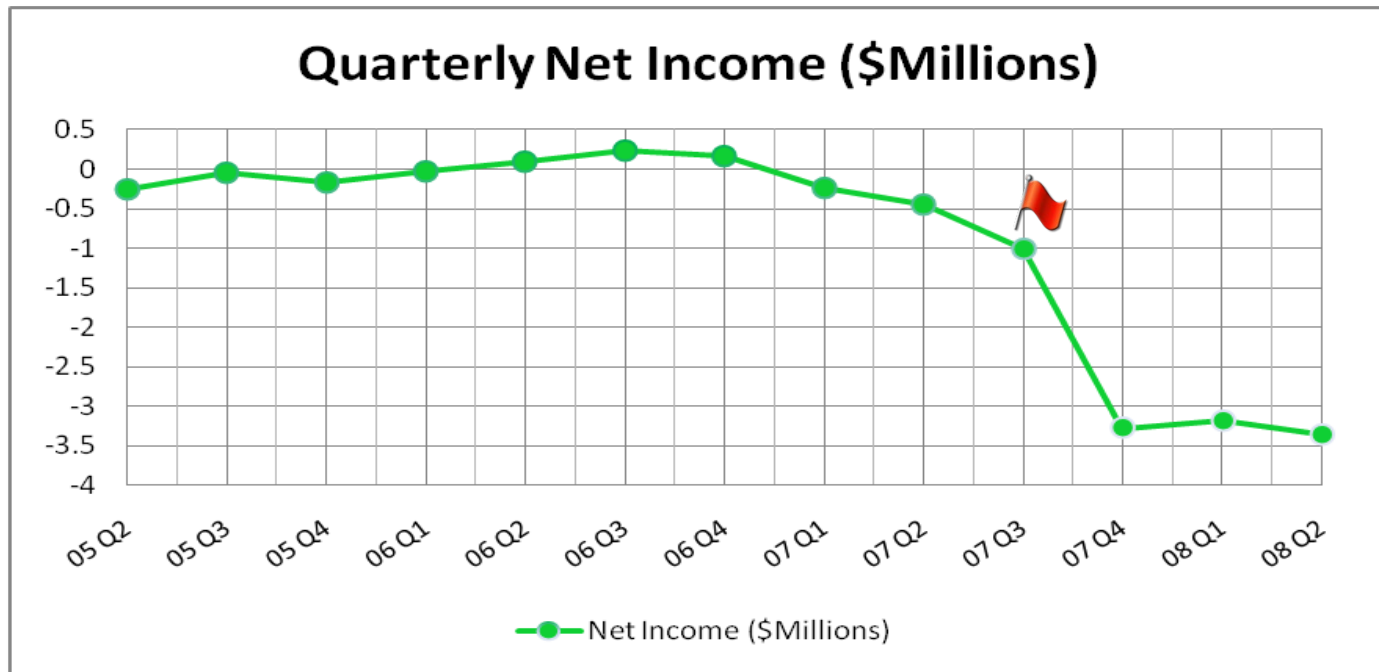


- The A/L ratio was decreasing since 06 Q4.




Indicates sign of bank in financial distress

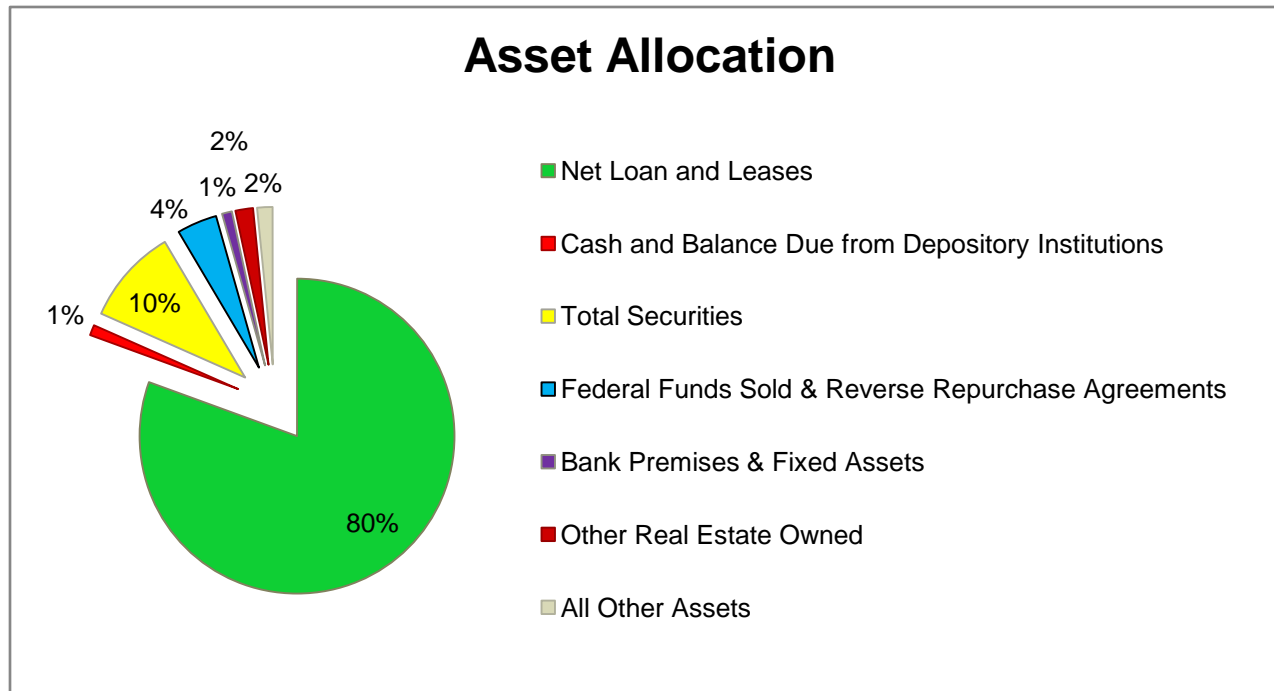
Net Income History



- The bank recorded a big loss in the last three quarters prior to failure.
- The bank started reporting losses since 07 Q1.

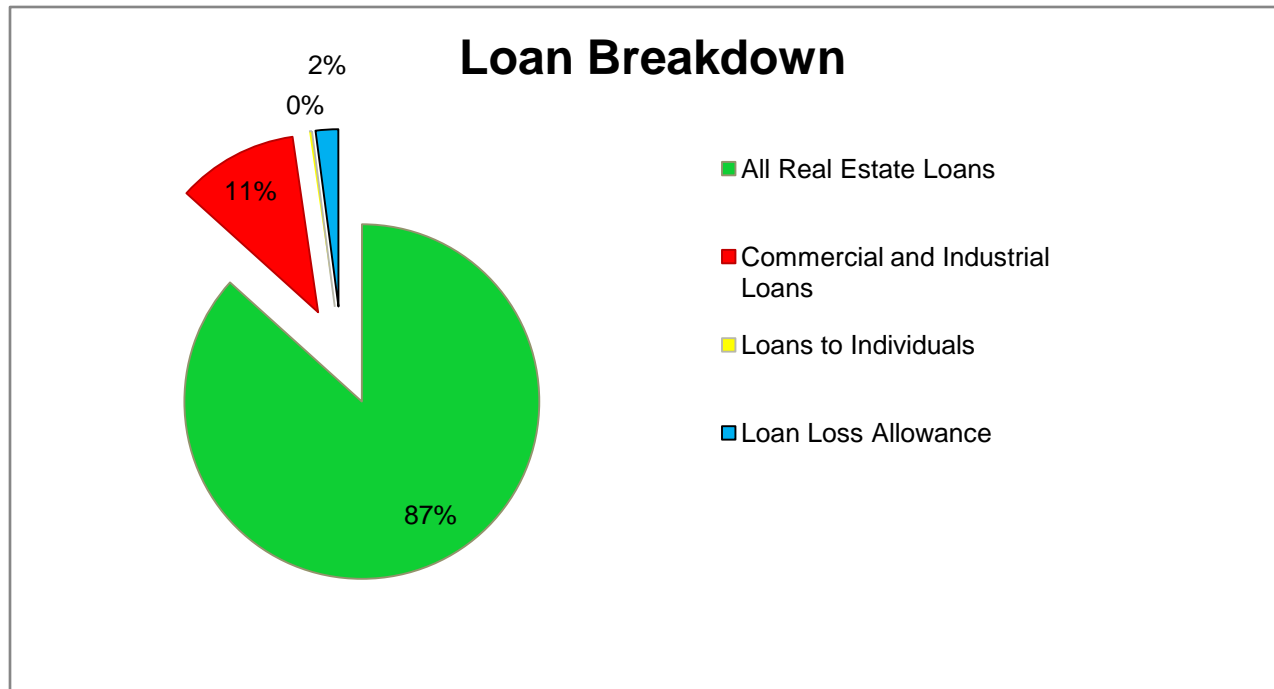
 Indicates sign of bank in financial distress

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.
- June, 30, 08** - Loan loss reserves cover 2.10% of total loans.

Events Timeline

June 30, 08 - Nonperforming assets comprise 9.49% of total assets.

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.

Oct. 7, 08 - Emergency Economic Stabilization Act of 2008 Temporarily Increases Basic FDIC Insurance Coverage from \$100,000 to \$250,000 per Depositor.

Oct. 10, 08 - Main Street Bank was closed by FDIC and Monroe Bank & Trust acquires all the deposits of Main Street Bank.

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** - 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.

Events Timeline

- 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 Main Street Bank, its failure was ***not a surprise***.

Here are the indications that Main Street Bank should fail:

- 1) **Main Street Bank had a normalized income that was more than 2 SD's below average since 2007 Q3.**
- 2) **Its delinquent asset percentage was poor during the quarter before it failed. In 2007 Q2 almost 5% of its assets were delinquent.**
- 3) **In the quarter before it failed, Main Street Bank had an asset to liability ratio of 102%, which is far below the danger line of 107%.**
- 4) **Main Street Bank's bankability composite score was -7.45 the quarter before it failed and 11.05 the quarter before. These scores indicate Main Street Bank's overall poor financial health.**

References

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