



SR003_7: Failed Bank Report

Citizens State Bank

51066 Washington Street
New Baltimore, MI 48047

(6/3/1922 – 12/18/2009)

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 #	1006
Parent Holding Company	Citizens State Bancorp, Inc.
Bank Charter Class	Commercial Bank
Asset Concentration	Commercial Lending Specialization
Product Specialty	Personal and Business Banking Services
Number of Branches	7 (as of September 30, 2009)
Number of Employees	158 (as of September 30, 2009)

Executives	
CEO	Paul T Socia
Chairman	Oscar F Socia

What took place?

Citizens State Bank, New Baltimore, MI was closed by The Michigan Office of Financial and Insurance Regulation and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$76,600,000. The FDIC couldn't find a buyer for the bank, so it set up a temporary bank to allow customers 45 days to close accounts.

Key Performance Indicators

KPI Summary for 2009 Q3	
Normalized Income Rating	Poor
Delinquent Asset Rating	Good
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Poor
Bankability Composite Score	-0.07** (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.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q3	2009 Q3	Percentage Change
Assets	\$ 197,898	\$ 168,551	↓ 14.83%
Liabilities	\$ 181,334	\$ 166,621	↓ 8.11%
Net Income	-\$ 3,044	-\$ 11,161	↓ 266.66%

- The average net income change for all FDIC banks was -72.27% in the same period.
- The average net income change for all the commercial lending specialization banks was -184.42% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, Citizens State Bank's decline in Net Income was relatively mild (-266.66%) during 2009.

Normalized Income Analysis

	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2 	2009Q3
Normalized Income	-0.08%	-1.19%	-1.68%	-0.28%	-4.50%	-1.32%
SD's from Average*	-0.17	-1.36	-1.30	-0.35	-4.49	-1.33
Ranking	Moderate	Poor	Poor	Moderate	Very Poor	Poor

- Citizens State Bank had a normalized income of -1.32% in the third 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 0.88%, which means that Citizens State Bank was 1.33 SD's below the average.
- Citizens State Bank's normalized income in relation to banks of the same asset concentration hierarchy shown strong signs of distress in the last 2 quarters, incurring losses total to nearly 6% of its total assets.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Delinquent Asset Analysis

	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3
Weighted Delinquent Asset	4.90%	5.49%	5.20%	4.38%	5.48%	5.49%
SD's from Average*	1.88	2.01	1.62	1.05	1.79	2.01
Ranking	Poor	Very Poor	Poor	Poor	Poor	Very Poor

- Citizens State Bank had a weighted delinquent assets out of total assets ratio 5.49% in the third 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 2.20%, which means that Citizens State Bank was about 2.01 SD's above average.
- Citizens State Bank's weighted delinquent assets ratio has shown relative signs of stress in 5 of the last 6 quarters compared to banks in the same specialization.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Real Estate Loan Asset Analysis

	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3
Real Estate Loan Asset Ratio	70.07%	69.20%	68.33%	67.08%	66.85%	71.64%
SD from Average*	0.91	0.84	0.79	0.75	0.76	1.14
Ranking	Poor	Poor	Poor	Poor	Poor	Poor

- Citizens State Bank had a R/A ratio of 71.64% in 2009 Q3, the quarter before it failed.
- In 2009 Q3, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 55.78%. The standard deviation of the R/A ratio was 13.91%, which means that Citizens State Bank was actually 1.14 SD's above the average, earning the rank of "Poor."

* Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset: Liability Analysis

	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3 
Asset: Liability Ratio	110.79%	109.13%	107.13%	106.82%	102.27%	101.16%
Median A/L Ratio*	110.69%	110.65%	110.51%	110.53%	110.52%	110.57%
Ranking	Good	Poor	Poor	Very Poor	Very Poor	Very Poor

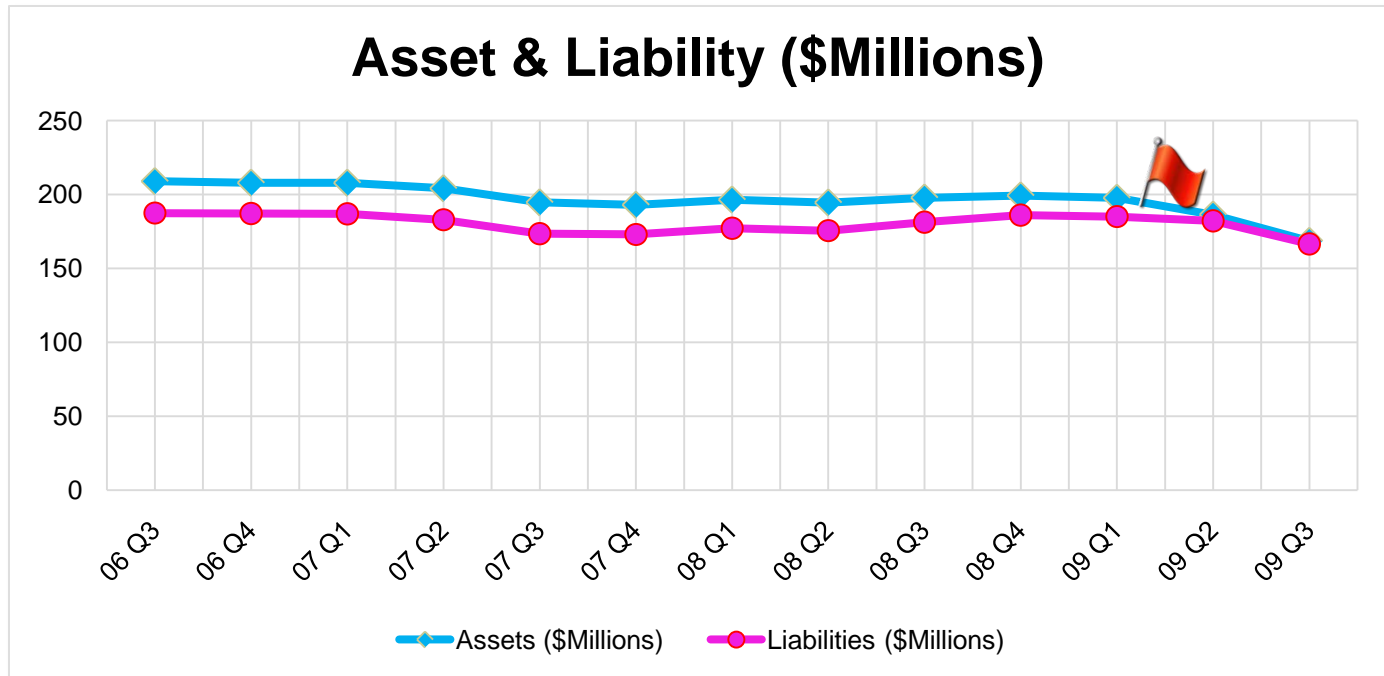
- Citizens State Bank's A/L ratio has been declining every quarter and showed strong signs of stress in the last 3 quarters, at 101.16% before it failed.
- The median A/L ratio for all banks in the same asset concentration hierarchy (commercial lending specialization) was 110.57% in the same period, meaning that Citizens State Bank was more than 9% under the median. The median A/L ratio for all banks in 2009 Q3 was 111.16%.
- Of the 45 banks failed in 2009 Q4, 89% 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

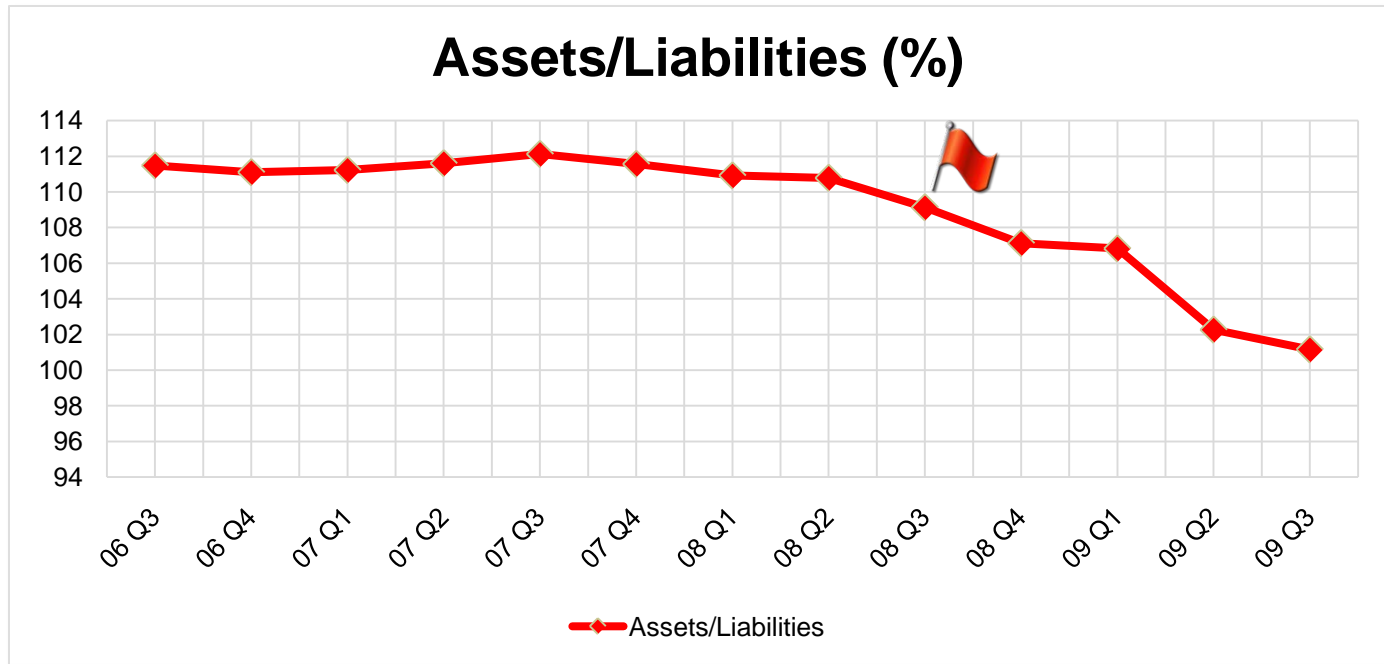


- The difference between asset and liability was getting closer in 09 Q1.



Indicates sign of bank in financial distress

Asset/Liability History

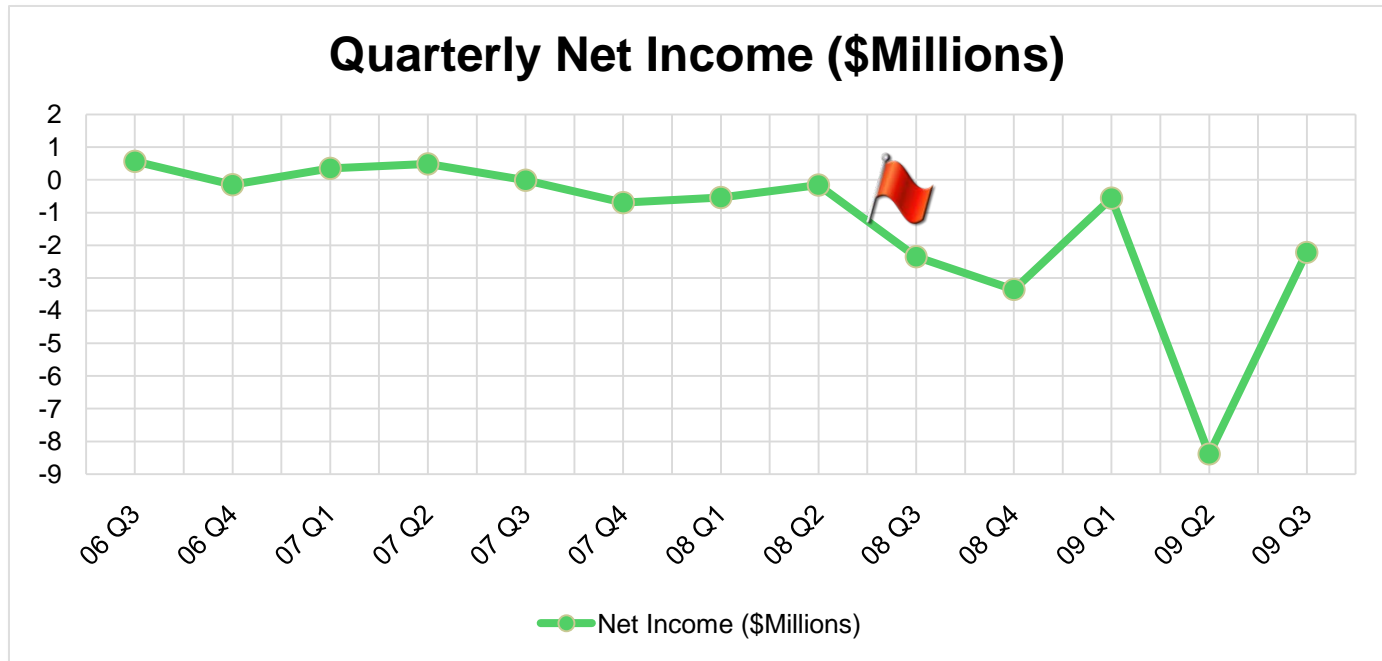


- 2009 Q3 asset/liability ratio experienced a decrease of 7.31% as compared to the same quarter in 2008.
- The average asset/liability ratio for all FDIC banks experienced an decrease of 3.92%.
- The average asset/liability ratio for all banks in the Commercial Lending Specialization experienced an decrease of 0.05%.



Indicates sign of bank in financial distress

Net Income History

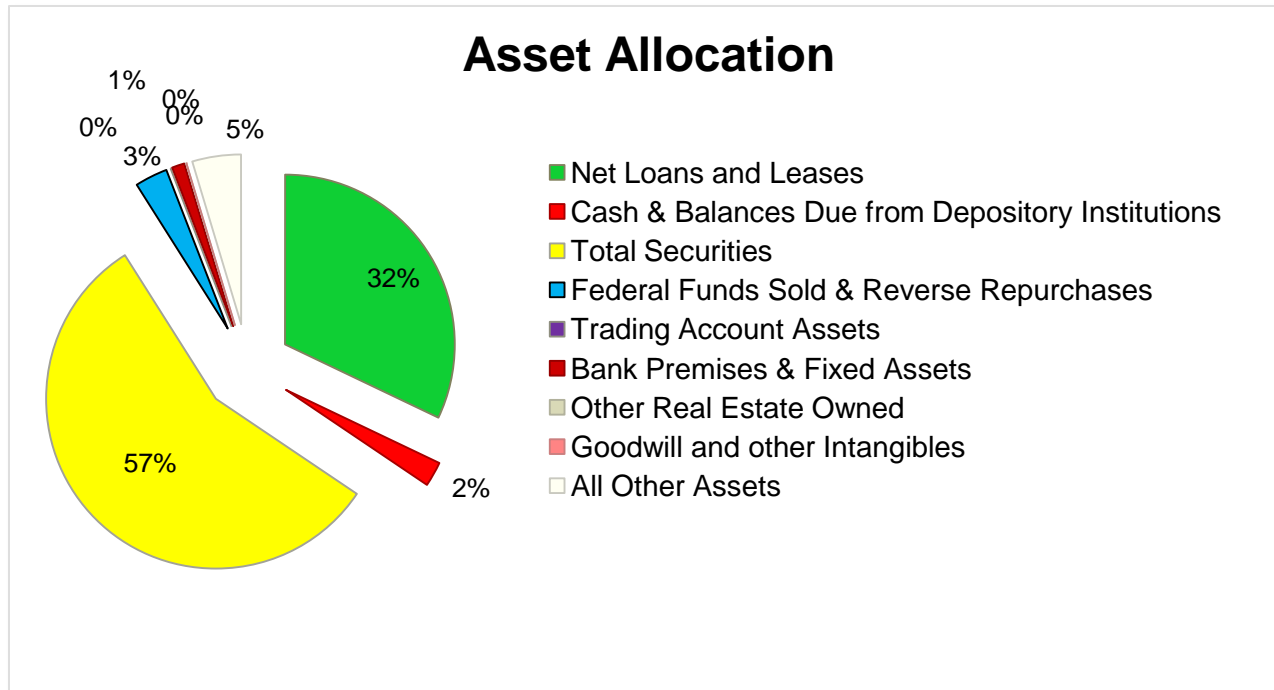


- The bank recorded big losses in the last quarter prior to failure.
- The bank's net income remained unstable after 08 Q2.



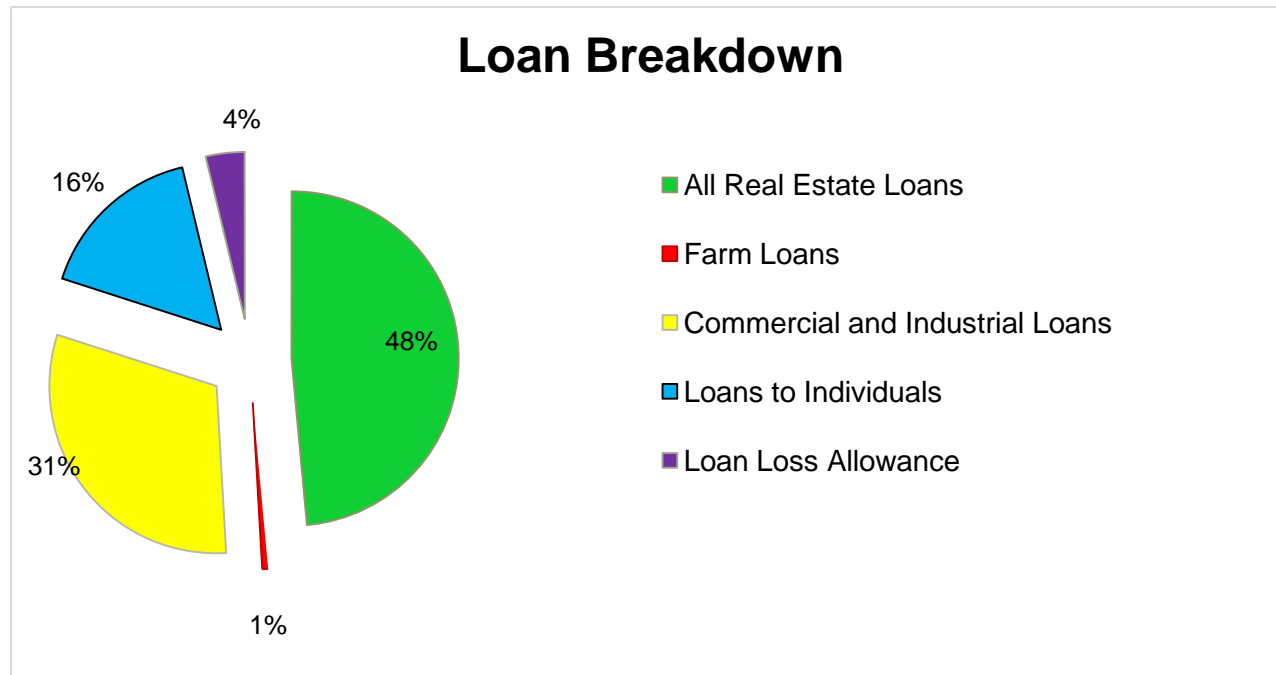
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the third quarter of 2009 was 24.16%.
- The average Net Loan percentage of all banks in the third quarter of 2009 was 54.30%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the third quarter of 2009 was 63.73%.
- The average percentage for all banks in the third quarter of 2009 was 63.51%.

Events Timeline

- 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.
- 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.

Events Timeline

- 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.
- May 14, 09** – Citizens State Bank had a total assets of \$200.7 mil, equity capital of \$14.8 mil, deposits held in domestic offices of \$174.3 mil, return on assets (ROA) of -2.54%, quarterly return on assets of -3.90% .

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

Events Timeline

- Aug 29, 09** - The SEC issued an Order approving the application of the Financial Industry Regulatory Authority, Inc. (FINRA) for relief from a statutory disqualification to permit David Bonrouhi to associate with Fallbrook Capital Securities Corporation (Fallbrook), a member of FINRA.
- 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.
- 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.
- 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.

Events Timeline

- 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.
- Aug 29, 09** - The SEC issued an Order approving the application of the Financial Industry Regulatory Authority, Inc. (FINRA) for relief from a statutory disqualification to permit David Bonrouhi to associate with Fallbrook Capital Securities Corporation (Fallbrook), a member of FINRA.
- 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.
- Sep 30, 09** - Citizens State Bank had \$168 million in assets, \$157 million in deposits, net loans of \$126.7 million and a leverage capital ratio of 1.23 percent, far under federal guidelines. The bank joins Michigan Heritage Bank of Farmington Hills, Warren Bank and Home Federal Savings Bank of Detroit as state banks to be closed by regulators
- Sep 30, 09** - The bank's troubled asset ratio is 316.4 while national average is 14.1.

* All internal news are written in blue color.

Events Timeline

- Oct 2, 09** - The Securities and Exchange Commission announced that the smallest publicly reporting companies will begin complying in nine months with the final portion of a key provision of a 2002 corporate governance law, which requires companies to report to the public about the effectiveness of their internal control over financial reporting.
- Oct 5, 09** - SEC Suspends Trading in the Securities of SpongeTech Delivery Systems and Inc. Lori Schock Named Director of SEC Office of Investor Education and Advocacy SEC Approves New Exchange Rules for Breaking Clearly Erroneous Trades.
- Oct 14, 09** - SEC approved a temporary rule and form amendments that postpone the date by which companies that are non-accelerated filers must begin to comply with the auditor attestation report on internal control over financial reporting mandated by Section 404(b) of the Sarbanes-Oxley Act of 2002.
- Oct 14, 09** - SEC Orders Hearing on Registration Revocation Against Six Public Companies for Failure to Make Required Periodic Filings.
- Oct 15, 09** - The SEC announced that Barry Walters has been named Chief Freedom of Information Act and Privacy Act Officer. The House Financial Services Committee began its formal deliberations regarding the President's financial reform plan.
- Oct 16, 09** - Adam Storch Named Managing Executive of SEC's Enforcement Division.
- Oct 21, 09** - The Senior Supervisors Group (SSG) today issued a report that evaluates how weaknesses in risk management and internal controls contributed to industry distress during the financial crisis.
- Oct 21, 09** - The SEC today voted unanimously to propose measures intended to increase transparency of dark pools so investors get a clearer view of stock prices and liquidity.

Events Timeline

- Oct 22, 09** - The Securities and Exchange Commission today launched its first-ever Web site devoted exclusively to investor education, providing investors with in-depth information and "top tips" on how to invest wisely, plan for the future, and avoid being scammed.
- Oct 23, 09** - The President restates his commitment to small business as key to economic recovery -- from the Recovery Act to Financial Stability to Health Reform -- and pledges more to come.
- Oct 28, 09** - SEC Publishes 2010-2015 Draft Strategic Plan for Public Comment.
- Oct 29, 09** - Data released by the Commerce Department shows that real GDP grew at an annual rate of 3.5 percent in the third quarter of the year. Motor vehicle output added the largest contribution to quarterly economic growth in over a decade of 1.7% in the third quarter. **Oct 30, 09** - SEC Office of the Chief Accountant releases staff accounting bulletin which shows the Recovery Act creating Jobs throughout the Nation. The President cites the recent dramatic turnaround in gross domestic product as a sign of better things to come, he also applauds the fact that the Recovery Act has now created or saved more than a million jobs.
- Nov 3, 09** - Norm Champ Named Associate Regional Director for Examinations in SEC New York Regional Office.
- Nov 6, 09** - Payroll employment declined 190,000 in October and, the employment loss in both August and September was revised down substantially.
- Nov 10, 09** - Robert W. Cook Named Director of SEC Division of Trading and Markets.
- Nov 13, 09** - Paul Beswick Named SEC Deputy Chief Accountant in Charge of Accounting Group.
- Nov 16, 09** - The retail sales report showed that sales rose even more than expected, 1.4%, which was a full half point more than the consensus forecast.

Events Timeline

- Nov 17, 09** - The Federal Reserve Board announced proposed rules that would restrict the fees and expiration dates that may apply to gift cards. President Obama Establishes Interagency Financial Fraud Enforcement Task Force.
- Nov 17, 09** - Eight federal regulatory agencies today released a final model privacy notice, which will make it easier for consumers to understand how financial institutions collect and share information about consumers. 11/25/09 SEC Surpasses \$2 Billion in Fair Fund Distributions in 2009.
- Nov 30, 09** - The Federal Reserve offered \$25 billion in 42-day credit through its Term Auction Facility.
- Dec 7, 09** - Special Advisor and Former Deputy Director of the Division of Enforcement George Curtis Leaves the SEC.
- Dec 11, 09** - SEC Chairman Schapiro made Statement on House-Passed Financial Regulatory Reform Legislation.
- Dec 14, 09** - SEC Re-Opens Public Comment Period for Shareholder Director Nomination Proposal, and Announces \$418 Million Fair Fund Distribution to Harmed Investors in Invesco Mutual Funds.
- Dec 16, 09** - Eric Bustillo Named Regional Director of SEC's Miami Regional Office. SEC Approves Enhanced Disclosure About Risk, Compensation and Corporate Governance.
- Dec 16, 09** - The Federal Reserve Board approved an interim final rule to implement a recent statutory amendment requiring that notice be given to consumers when their mortgage loan has been sold or transferred.

Events Timeline

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- Nov 13, 09** - Paul Beswick Named SEC Deputy Chief Accountant in Charge of Accounting Group.
- Nov 16, 09** - The retail sales report showed that sales rose even more than expected, 1.4%, which was a full half point more than the consensus forecast.
- Nov 18, 09** - Citizens State Bank, New Baltimore, MI was closed by The Michigan Office of Financial and Insurance Regulation and the Federal Deposit Insurance Corporation (FDIC) was named Receiver.
- Dec 22, 09** - SEC Proposes Rule Amendments to facilitate access to capital markets.
- Dec 22, 09** - The federal Reserve Board published its annual notice of the asset-size exemption threshold for depository institutions under Regulation C, which implements the Home Mortgage Disclosure Act (HMDA)
- Dec 31, 09** - The Federal Reserve Board has approved amendments to Appendix A of Regulation CC that reflect the restructuring of the Federal Reserve Banks' check-processing operations.

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

Report Summary – *Surprise?*

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

Here are the indications that Citizens State Bank should fail:

- 1) **Citizens State Bank's normalized income experienced a total loss (of its total asset) of nearly 6% over the last 2 quarters.**
- 2) **The bank's asset to liability ratio dropped to 101.16% the quarter before it failed.**
- 3) **Citizens State Bank had a bankability composite score of -0.07 the quarter before it failed, indicating the bank's very poor overall financial health and likelihood to fail.**

References

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Yahoo Finance:

<http://finance.yahoo.com/>



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