



SR003_7: Failed Bank Report

Freedom Bank

410 Cortez Road West
Bradenton, FL 34207

(5/17/2005 – 10/31/2008)

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 #	57930
Bank Charter Class	Federal Reserve Non-Member
Asset Concentration	Commercial Lending Specialization
Product Specialty	Commercial Banking Services, Deposit Products, Consumer Loans, Commercial Loans, Mortgage Lending Services
Number of Branches	6 (as of September 30, 2008)
Number of Employees	61 (as of September 30, 2008)

Executives	
CEO	David E. Zuern
Chairman	Howard Seider

What took place?

Freedom Bank, Bradenton, FL was closed by the Florida Office of Financial Regulation on October 31st, 2008. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$104,000,000, compared to the average cost of \$389,206,944. Fifth Third Bank acquired all deposits and some assets.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2007 Q3	2008 Q3	Percentage Change
Assets	\$ 290,908	\$ 270,842	↓ 6.9%
Liabilities	\$261,216	\$ 260,773	↓ 0.2%
Net Income	-\$ 1,467	-\$ 18,023	↓ 1,129%

- The average net income change for all FDIC banks was -66.92% in the same period.
- The average net income change for all the commercial lending specialization banks was -73.88% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, Freedom Bank's decline from Net Income is abnormally large (-1129%) during 2008.

Key Performance Indicators

KPI Summary for 2008 Q3	
Normalized Income Rating	Poor
Delinquent Asset Rating	Moderate
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	12.02** (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


	2007Q2	2007Q3	2007Q4 	2008Q1	2008Q2	2008Q3
Normalized Income	-0.22%	-0.08%	-1.51%	-2.69%	-2.45%	-1.19%
SD's from Average*	-1.05	-0.682	-2.29	-5.61	-3.82	-1.38
Ranking	Poor	Moderate	Very Poor	Very Poor	Very Poor	Poor

- Freedom Bank had a normalized income of -1.19% in the third quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average normalized income of -0.06%. The standard deviation of the normalized incomes was 0.82%, which means that Freedom Bank was 1.38 SD's below the average.

*Average of banks of the same asset concentration hierarchy


 Indicates sign of bank in financial distress

Delinquent Asset Analysis

	2007Q2	2007Q3	2007Q4 	2008Q1	2008Q2	2008Q3
Delinquent Asset	1.8960%	1.6530%	5.5689%	5.7394%	2.9485%	1.9129%
SD's from Average*	0.54	0.27	2.48	2.22	0.84	0.22
Ranking	Moderate	Moderate	Very Poor	Very Poor	Moderate	Moderate

- Freedom Bank had a delinquent assets out of total assets ratio 1.9% in the third quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average delinquent asset of 1.4993%. The standard deviation of the delinquent assets was 1.91%, which means that Freedom Bank was about 0.22 SD's above the average.
- During 2007 Q4 and 2008 Q1, Freedom Bank's delinquent asset ratio exceeds 5% into a very poor condition; however, after 2008 Q2, its ratio improved back to average level.

*Average of banks of the same asset concentration hierarchy

 Indicates sign of bank in financial distress


Real Estate Loan Asset Analysis

	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3
Real Estate Loan Asset Ratio	66.90%	67.82%	68.96%	69.10%	68.36%	65.26%
SD's from Average*	0.79	0.83	0.88	0.89	0.80	0.57
Ranking	Poor	Poor	Poor	Poor	Poor	Moderate

- Freedom Bank had a 65.26% of R/A ratio in 08 Q3, the quarter before it failed.
- In 08 Q3, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 56.74%. The standard deviation of the R/A ratio was 14.82%, which means that Freedom Bank was 0.57 SD's above the average.


*Average of banks of the same asset concentration hierarchy

Asset: Liability Analysis

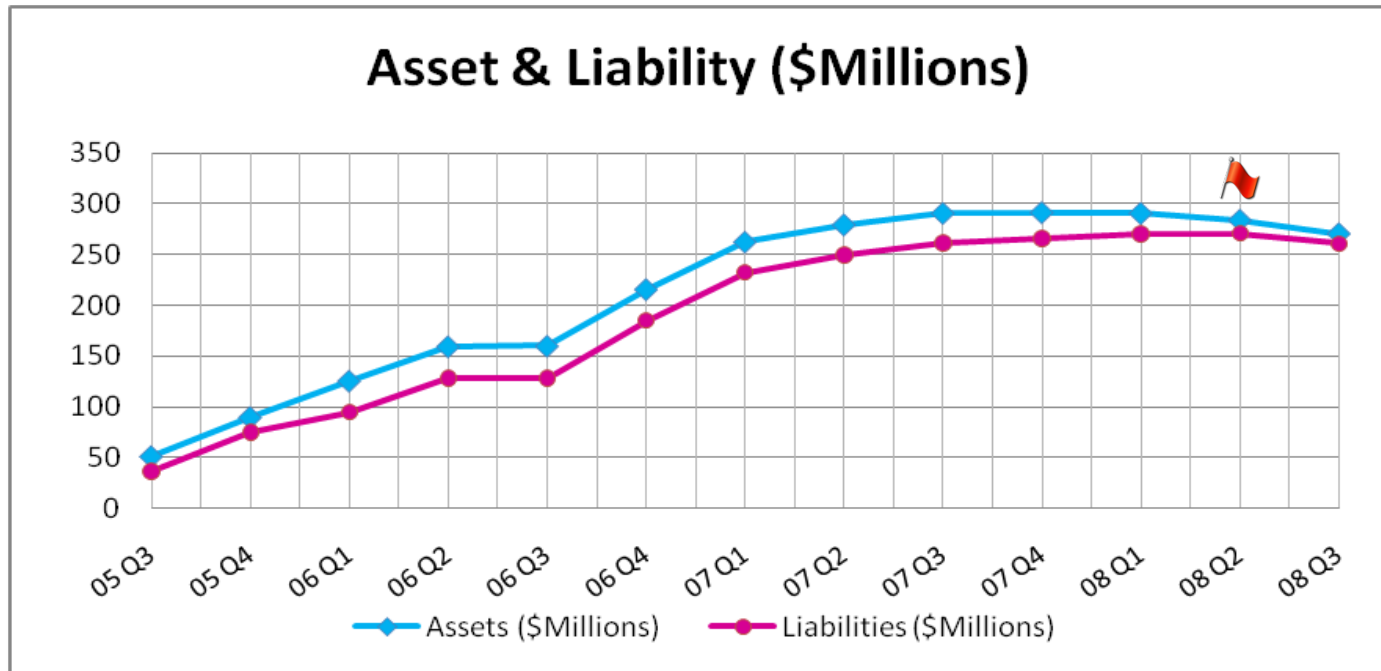
	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2 	2008Q3
Asset: Liability Ratio	111.91%	111.37%	109.56%	107.54%	104.89%	103.86%
Median A/L Ratio*	110.74%	110.97%	110.95%	110.93%	110.69%	110.65%
Ranking	Moderate	Moderate	Moderate	Poor	Very Poor	Very Poor

- Freedom Bank experienced decreasing A/L ratio in all 6 quarters.
- The bank fell into the worst ranking in 08 Q2.
- 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

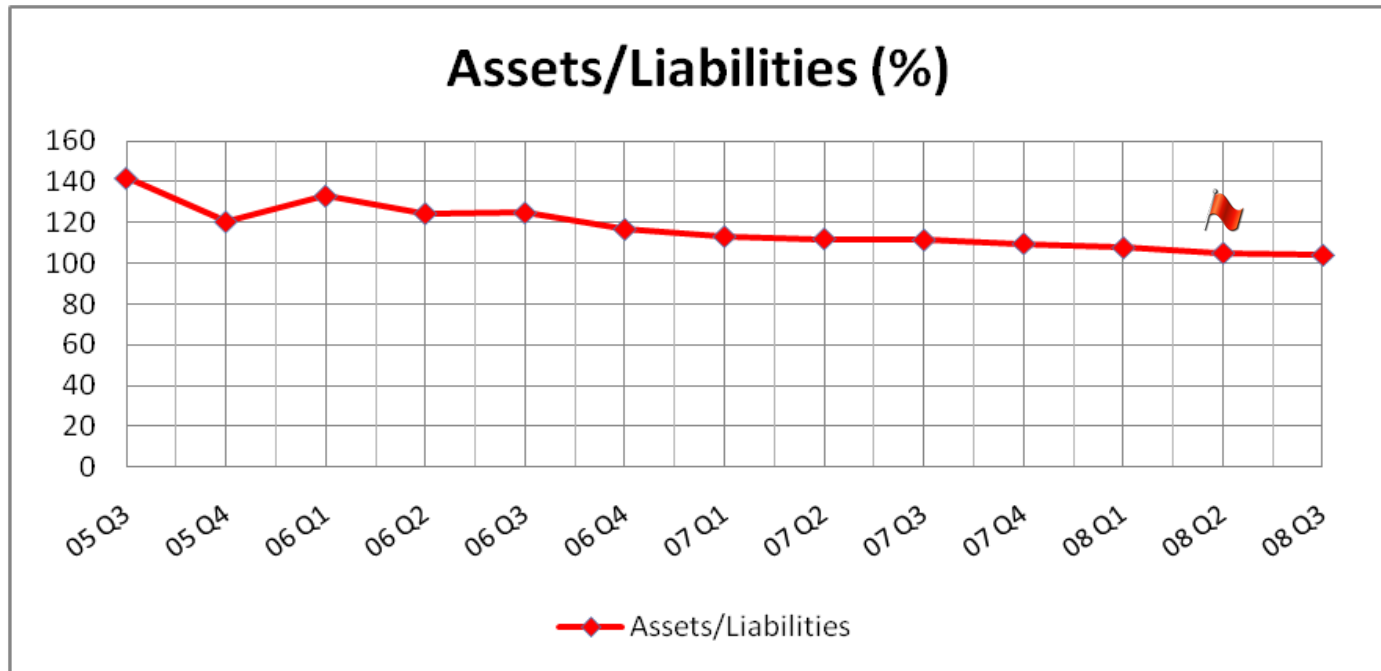
Asset & Liability History




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

 Indicates sign of bank in financial distress

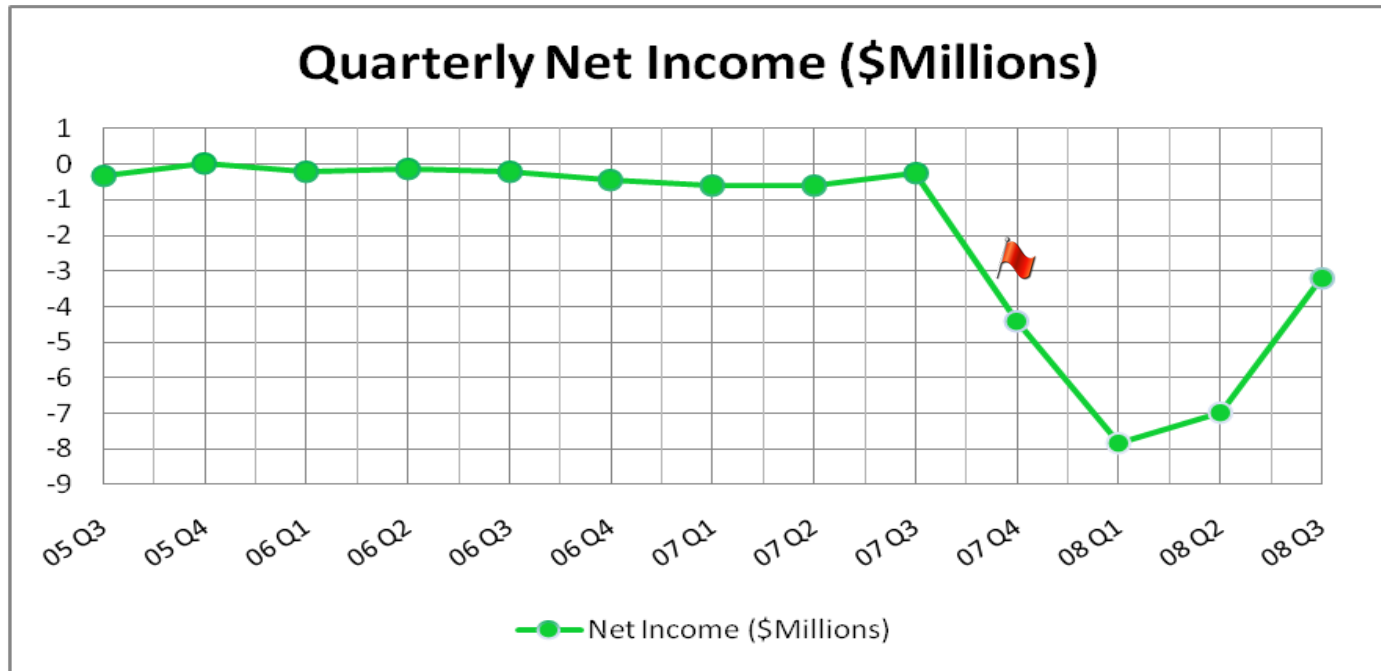
Asset/Liability History



- The A/L ratio was decreasing since 06 Q3.

 Indicates sign of bank in financial distress

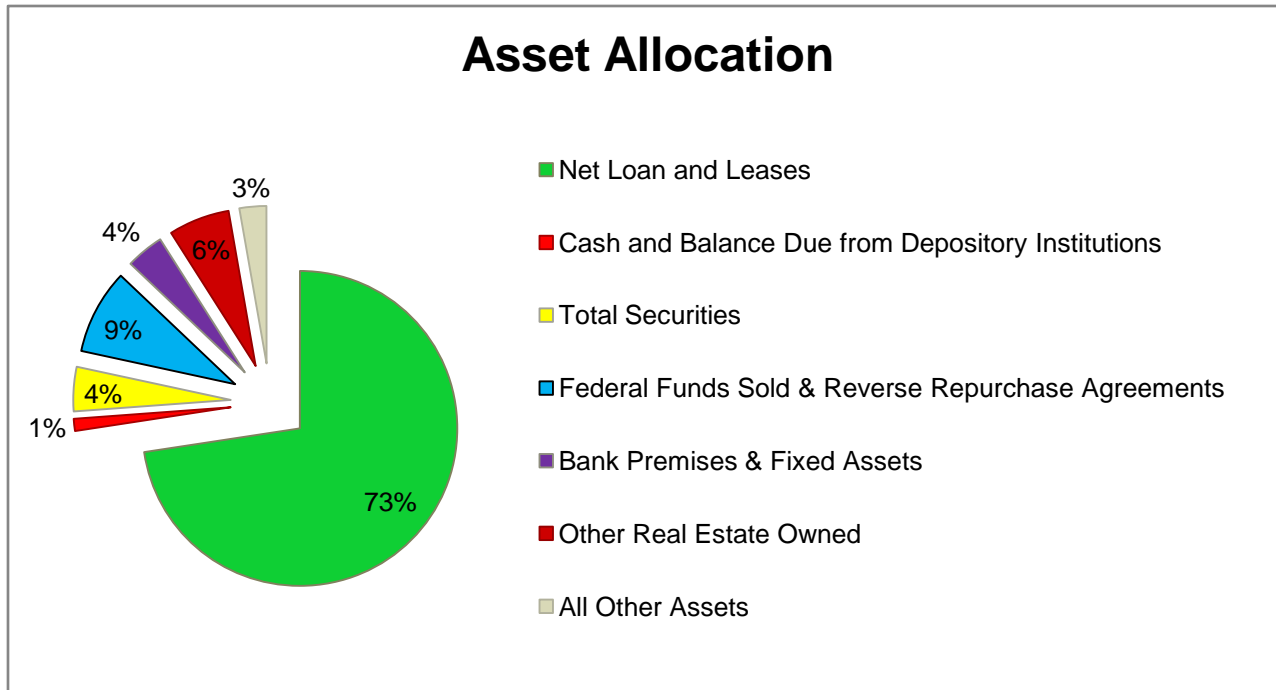
Net Income History



- The bank recorded big losses in the last 4 quarters prior to failure.
- The bank reported losses since 06 Q1.

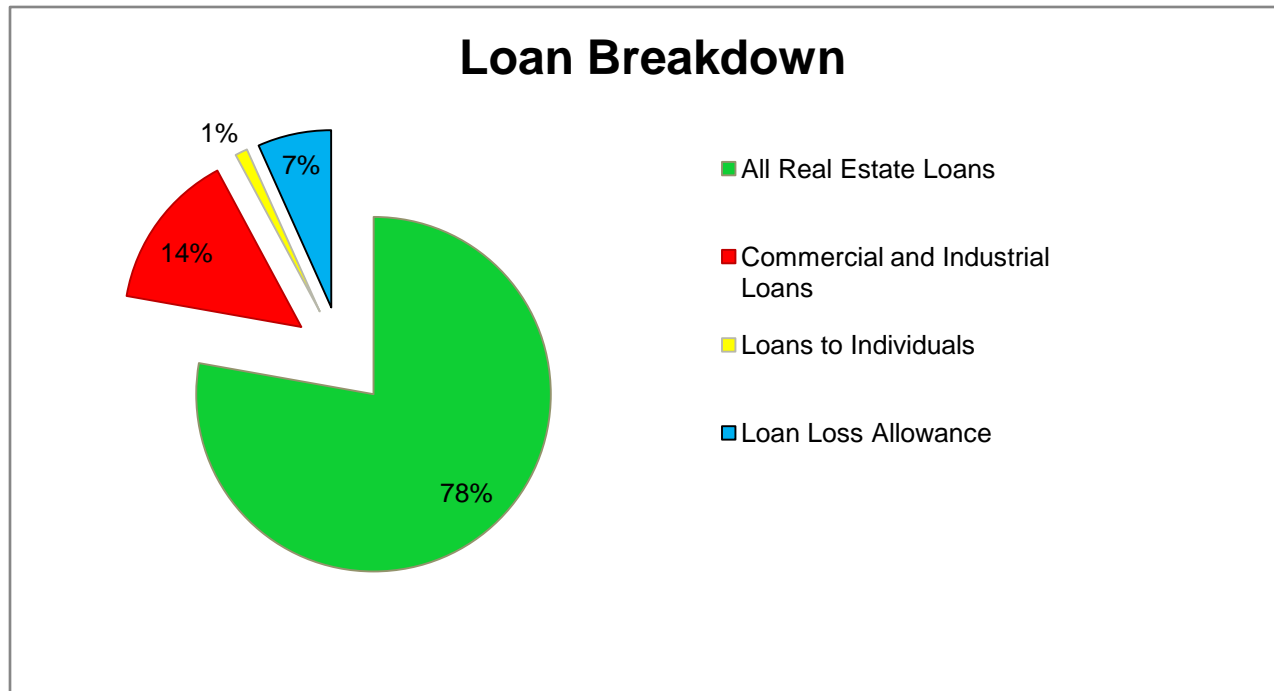
 Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the third quarter of 2008 was 72.85%.
- The average Net Loan percentage of all banks in the third quarter of 2008 was 66.63%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the third quarter of 2008 was 76.31%.
- The average percentage for all banks in the third quarter of 2008 was 70.99%.

Events Timeline

- Mar. 3, 08** - Freedom Bank posted a 1Q loss of \$7.83 million, more than the \$5.87 million it lost in all of 2007.
- 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.
- Mar. 31, 08** - Freedom reported \$19.9 million in non-earning loans, an unhealthy 8.3% of its loan portfolio.
- 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

Events Timeline

- 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** - Freedom reported \$35.9 million in problem loans, representing 15.5% of its total loan portfolio.
- 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. 30, 08** - Freedom signed a deal to sell \$5 million worth of stock to private equity fund.
- Aug. 20, 08** - FDIC's implementation in Loan Modification Program will help to modify troubled IndyMac mortgages loans.
- Sept. 6, 08** – Freedom has been hit with a “regulatory order” by the FDIC.
- Sept. 8, 08** - Freedom Bank completes negotiation of regulatory order with FDIC.
- 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. 22, 08** - Freedom Bank earned its zero grade from BauerFinancial for the 2Q.
- 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.
- Oct. 31, 08** - Freedom Bank was closed by the Commissioner of the Florida Office of Financial Regulation. Fifth Third Bank acquires all the deposits of Freedom Bank.
- 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.

Events Timeline

- 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 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 Freedom Bank, its failure was ***not a surprise.***

Here are the indications that Freedom Bank should fail:

- 1) **Freedom Bank report losses every quarter since the second quarter of 2007. With the exception of 2008 Q3, Freedom Bank's losses continuously increased since 2007 Q3.**
- 2) **Freedom Bank's asset to liability ratio dropped below 107% two quarters before failure, indicating solvency problems.**
- 3) **Freedom Bank's bankability composite score was 12.02 the quarter before it failed and 7.54 the quarter before. These scores indicate the bank's very poor overall financial health.**

References

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Contact Information

For additional information regarding this report series, you can contact us at:

By E-mail:

info@moneyeconomics.com

By Mail:

Money Economics
P.O. Box 587
Alameda, CA 94501

By Phone:*

510.550.1694

**For media inquiry only please.*