

# SR003\_7: Failed Bank Report

## Hume Bank

Main Street  
Hume, MO 64752

(6/23/1909 – 3/7/2008)

# Report Objective

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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

<b>FDIC Certificate #</b>	1971
<b>Parent Holding Company</b>	HUME BANCSHARES ACQUISITION CORP
<b>Bank Charter Class</b>	Federal Reserve Non-Member
<b>Asset Concentration</b>	Agricultural Specialization
<b>Product Specialty</b>	Commercial Lending Services, Personal and Business Banking Services
<b>Number of Branches</b>	1 (as of December 31, 2007)
<b>Number of Employees</b>	9 (as of December 31, 2007)

## Executives

<b>President</b>	Jeffrey W. Thompson
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# What took place?

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**H**ume Bank, Hume, MO was closed by the Missouri Division of Finance on March 7<sup>th</sup>, 2008. The Federal Deposit Insurance Corporation was named Receiver. Security Bank of Rich Hill, MO acquired insured deposits and some assets.

# Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2006 Q4	2007 Q4	Percentage Change
<b>Assets</b>	\$18,674	\$18,682	↑ 0.04%
<b>Liabilities</b>	\$15,638	\$15,888	↑ 1.3%
<b>Net Income</b>	\$123	-\$283	↓ 330.1%

- The average net income change for all the FDIC banks was -29.96% in the same period.
- The average net income change for all the agricultural specialization banks was 4.5% in the same period.
- Compared with the whole industry and other agricultural specialization banks, Hume Bank had a significant loss (Net Income decreased 330%) during 2007.
- The percentage changes of assets and liabilities are relatively small and insignificant.

# Key Performance Indicators


KPI Summary for 2007 Q4	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Very Poor
Asset: Liability Rating	Good
Real Estate Asset Rating*	Moderate
Bankability Composite Score	37.35** (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

	2006Q4	2007Q1	2007Q2	2007Q3 	2007Q4
Normalized Income	0.17%	0.21%	0.27%	-0.22%	-1.78%
SD's from Average*	-0.129	-0.322	-0.105	-1.67	-7.17
Ranking	Moderate	Moderate	Moderate	Poor	Very Poor

- Hume Bank had a normalized income of -1.78% in the fourth quarter of 2007, the quarter before it failed.
- Banks of the same asset concentration hierarchy (agricultural specialization) had an average normalized income of 0.23%. The standard deviation of the normalized incomes was 0.28%, which means that Hume Bank was 7.17 SD's below the average.
- During the quarter before it failed, Hume Bank had the third lowest normalized income of banks with the same asset concentration hierarchy.

\*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

# Delinquent Asset Analysis

	2006Q3	2006Q4	2007Q1	2007Q2	2007Q3 	2007Q4
Delinquent Asset	1.1126%	0.3192%	0.8492%	1.6284%	10.9212%	15.2971%
SD's from Average*	-0.16	-0.71	-0.42	0.09	6.09	9.21
Ranking	Good	Very Good	Very Good	Moderate	Very Poor	Very Poor

- Hume Bank had a delinquent assets out of total assets ratio 15.30% in the last quarter of 2007, the quarter before it failed.
- Banks of the same asset concentration hierarchy (agricultural specialization) had an average delinquent asset of 1.3230%. The standard deviation of the delinquent assets was 1.5170%, which means that Hume Bank was about 9.2 SD's above the average.
- Since the third quarter of 2007, Hume Bank's delinquent assets ratio has rapidly increased into a dangerous zone.

\*Average of banks of the same asset concentration hierarchy



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# Real Estate Loan Asset Analysis

	2006Q3	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4
Real Estate Loan Asset Ratio	34.96%	37.28%	35.34%	37.36%	37.01%	37.35%
SD's from Average*	0.22	0.41	0.27	0.39	0.35	0.42
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

- Hume Bank had a 37.35% of R/A ratio in 2007 Q4, the quarter before it failed.
- In 07 Q4, banks of the same asset concentration hierarchy (agriculture lending specialization) had an average R/A ratio of 31.52%. The standard deviation of the R/A ratio was 13.77%, which means that Hume Bank was 0.42 SD's above the average.

\*Average of banks of the same asset concentration hierarchy

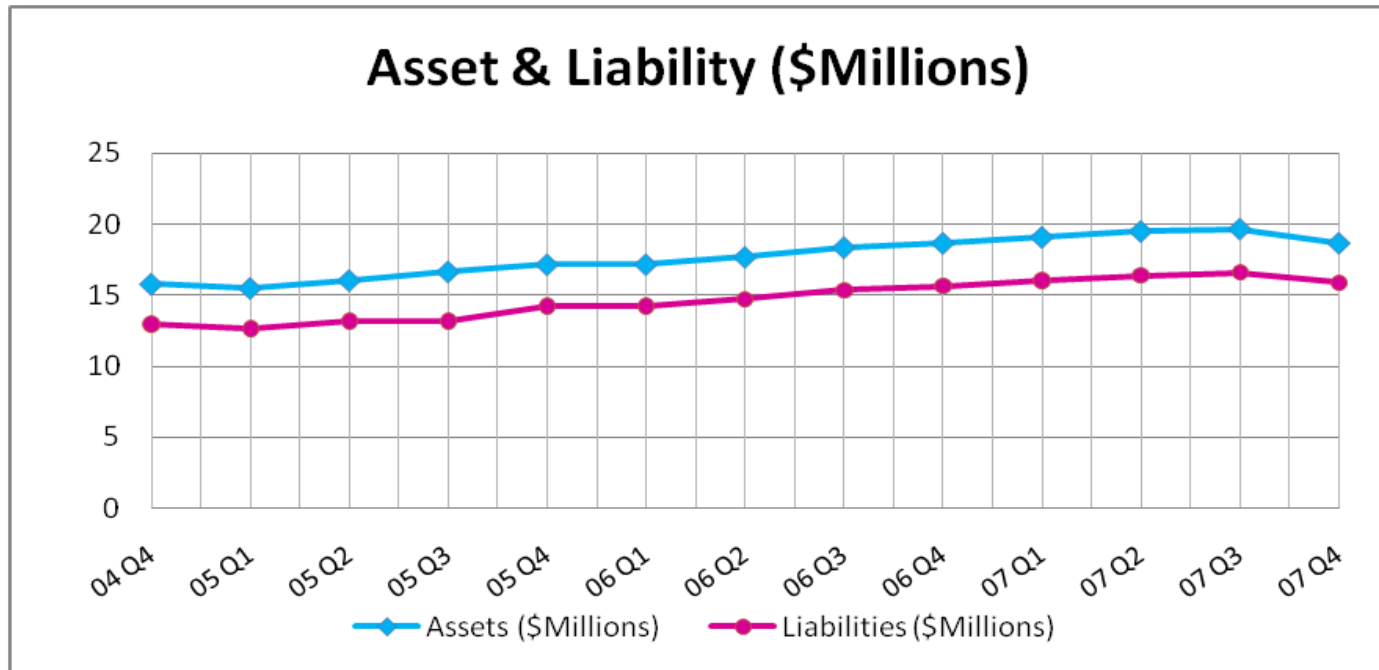
# Asset: Liability Analysis

	2006Q3	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4
Asset: Liability Ratio	119.52%	119.41%	119.26%	119.06%	118.56%	117.59%
Median A/L Ratio*	113.40%	113.14%	113.53%	114.10%	113.60%	113.38%
Ranking	Good	Good	Good	Good	Good	Good

- Hume Bank had the highest A/L ratio in all the fail banks since 08 Q1.
- Hume Bank experienced decreasing A/L ratio for all 6 quarters prior to failure.

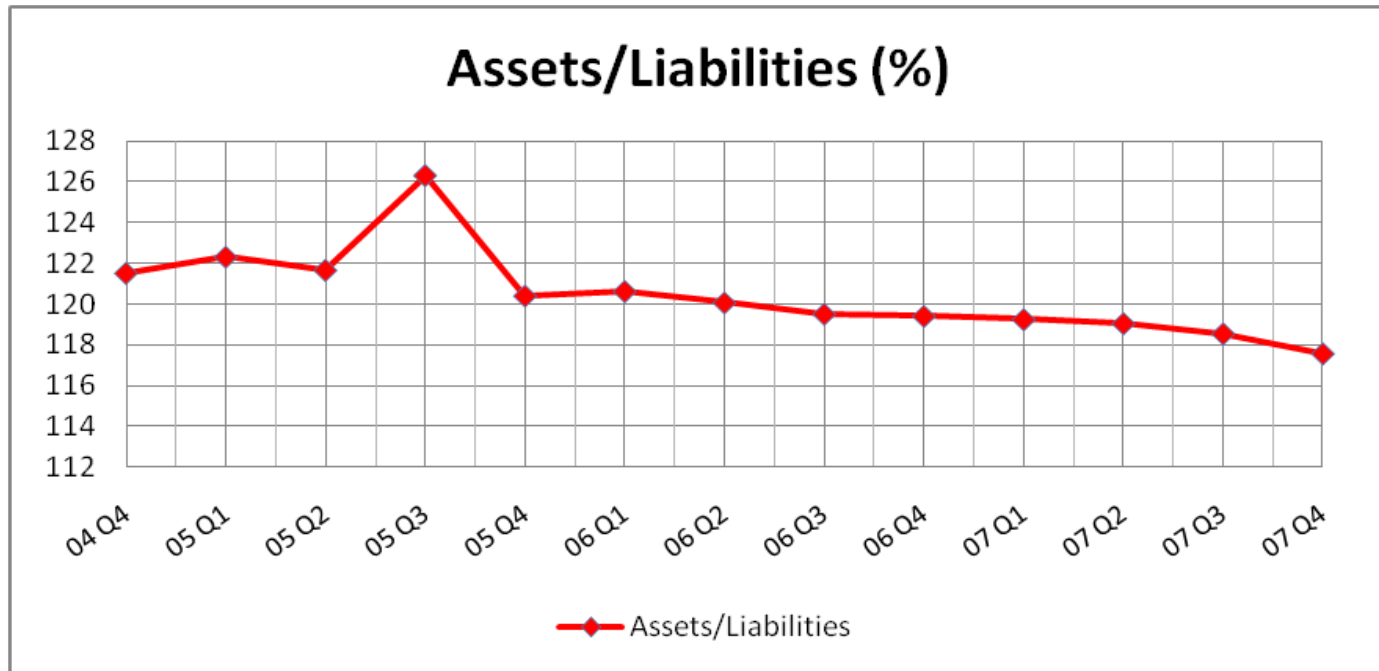
\*Median of banks of the same asset concentration hierarchy

# Asset & Liability History



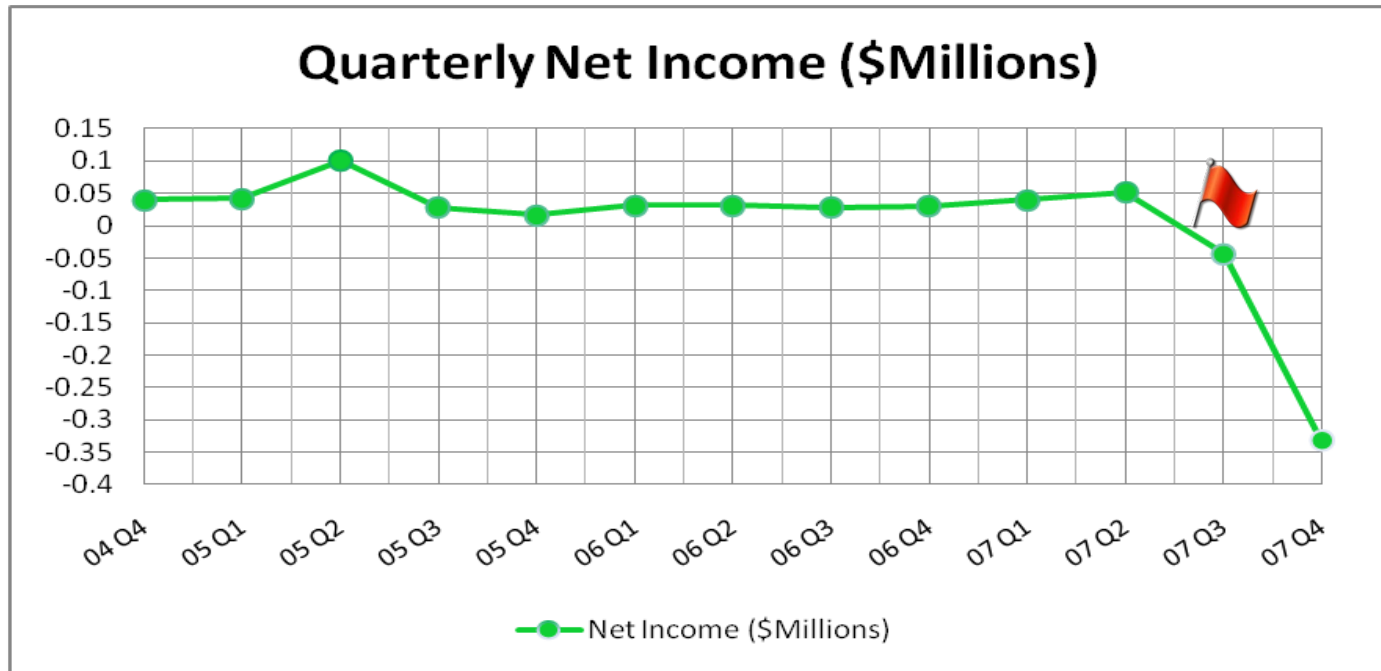
- The difference between Asset and Liability was consistent in all these quarters.

# Asset/Liability History



- Hume Bank had an approximately 6% A/L ratio drop in 05 Q4.
- The A/L ratio had been decreasing since 06 Q1.

# Net Income History

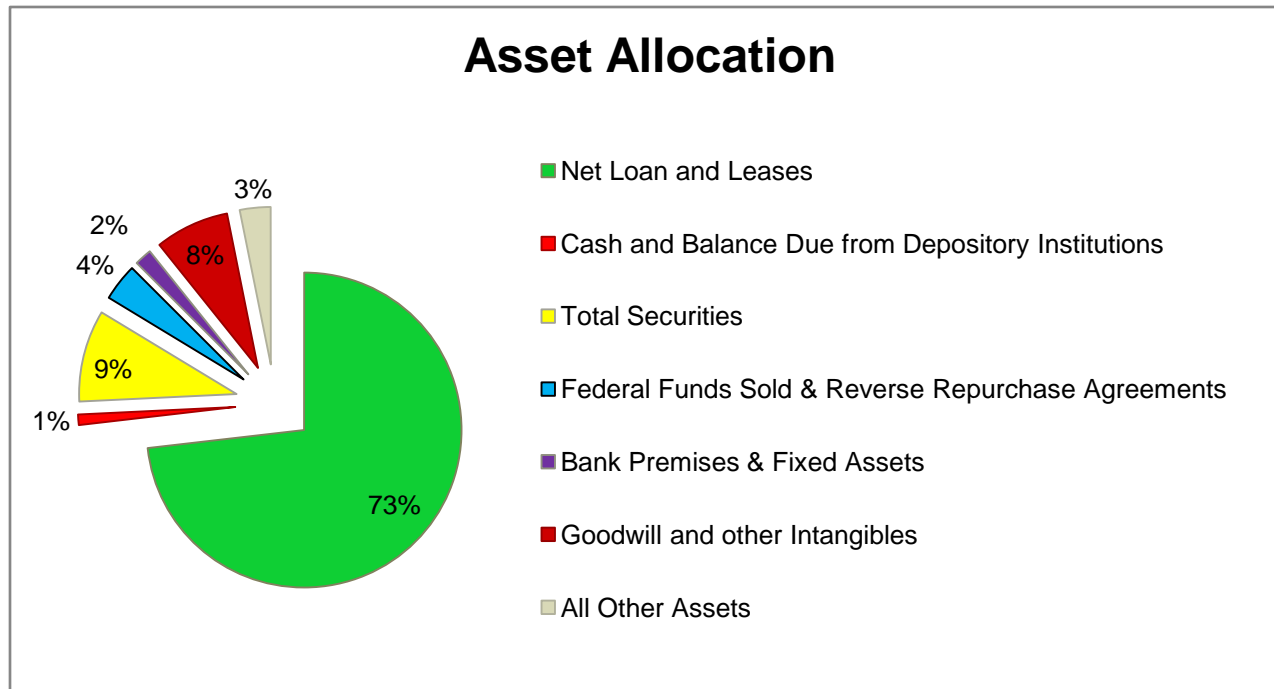


- The bank recorded a big loss (2 percent of total asset) in the last 2 quarters prior to failure.



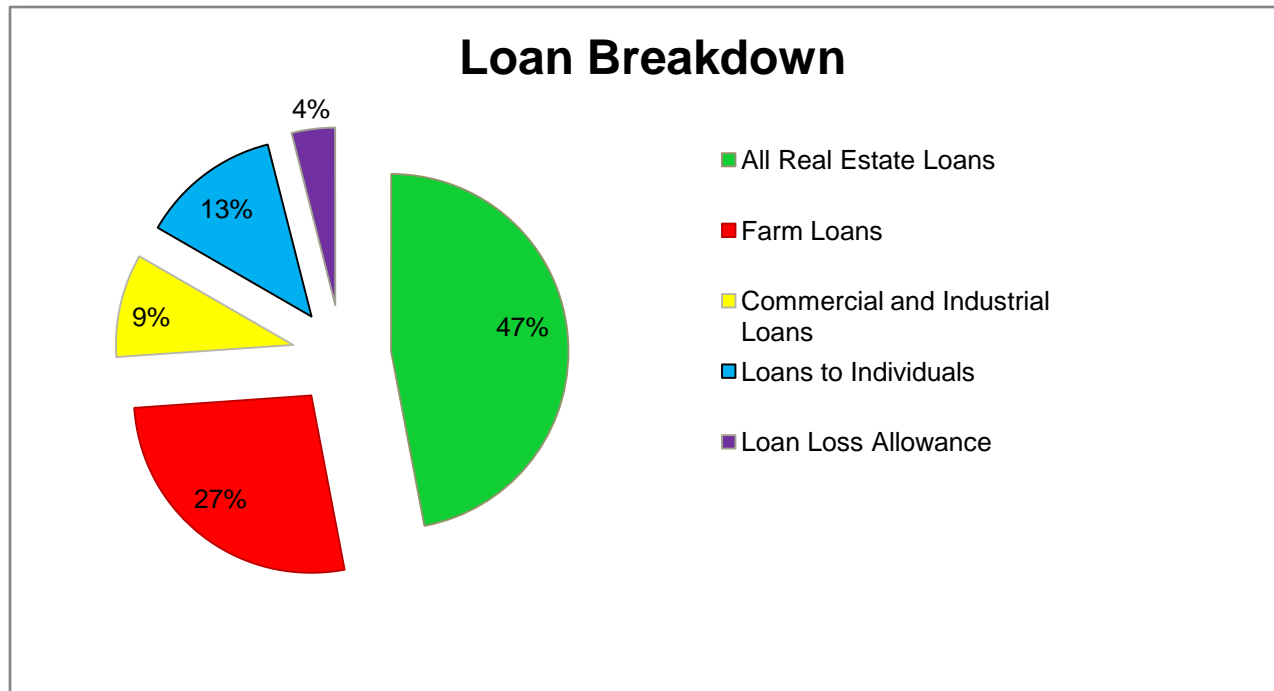
Indicates sign of bank in financial distress

# Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the fourth quarter of 2007 was 61.22%.
- The average Net Loan percentage of all banks in the fourth quarter of 2007 was 65.45%

# Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in first quarter of 2009 was 90.04%
- The average percentage for all banks in the first quarter of 2009 was 71.75%.

# 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. 07, 08** - Hume Bank was shut down and \$12.5 million of deposits would be assumed by Security Bank.
- Mar. 10, 08** - After Hume Bank was closed down, Investigators found out that the problem loan in Hume Bank was under-reported and some false records was created to support its claims.
- 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

# Events Timeline

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- 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.
- 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.
- Nov. 20, 08** - FDIC announces the availability of IndyMac Loan Modification Model.

# Events Timeline

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- 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

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- 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?*

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

Here are the indications that Hume Bank should fail:

- 1) **Hume Bank's normalized income was ranked poor and very poor in the last two quarters. It lost 1.78% of its total asset the last quarter.**
- 2) **Hume Bank's delinquent loan asset ratio was ranked very poor in the last two quarters. Each quarter has more than 10% delinquent loan.**
- 3) **Hume's Bankability Composite Score was 37.35 (a rank of poor) in the last quarter.**

The combination of all these three measures shows that the failure of Hume Bank was in our prediction.

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