



SR003_7: Failed Bank Report

ANB Financial National Association

706 South Walton Blvd
Bentonville, AR 72712

(6/1/1994 – 5/9/2008)

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 #	33901
Parent Holding Company	ANB BANCSHARES, INC
Bank Charter Class	National Bank
Asset Concentration	Commercial Lending Specialization
Product Specialty	Commercial Banking Services, Car Finance, Auto Loan Services
Number of Branches	12 (as of March 31, 2008)
Number of Employees	283 (as of March 31, 2008)

Executives	
CEO	Dan Dykema
Chairman	Victor Evans
COO	Debra Jackson

What took place?

ANB Financial, NA, Bentonville, AR was closed by the Office of the Comptroller of the Currency (OCC) on May 9th, 2008. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$214,000,000, compared to the average cost of \$389,206,944. Pulaski Bank and Trust Co. of Little Rock, AR acquired insured deposits and some assets.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2007 Q1	2008 Q1	Percentage Change
Assets	\$1,768,985	\$1,895,545	↑ 7.1%
Liabilities	\$1,610,827	\$1,857,943	↑ 16.5%
Net Income	\$ 2,608	\$ 691	↓ 73.5%

- The average net income change for all the FDIC banks was -44.95% in the same period.
- The average net income change for all the commercial lending specialization banks was -25.87% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, ANB Financial's decline from Net Income is relatively large during 2008.

Key Performance Indicators

KPI Summary for 2008 Q1	
Normalized Income Rating	Moderate
Delinquent Asset Rating	Very Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Very Poor
Bankability Composite Score	-37.33** (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

	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4 	2008Q1
Normalized Income	0.54%	0.15%	0.59%	0.13%	-7.05%	0.04%
SD's from Average*	0.800	-0.156	0.932	-0.154	-10.3	-0.147
Ranking	Moderate	Moderate	Moderate	Moderate	Very Poor	Moderate


- ANB Financial had a normalized income of 0.04% in the first quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average normalized income of 0.11%. The standard deviation of the normalized incomes was 0.50%, which means that ANB Financial was 0.147 SD's below the average.

*Average of banks of the same asset concentration hierarchy




Indicates sign of bank in financial distress

Delinquent Asset Analysis

	2006Q4 	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1
Delinquent Asset	3.0790%	2.8968%	3.1767%	5.2748%	3.6470%	17.3943%
SD's from Average*	1.46	1.28	1.43	2.62	1.34	8.37
Ranking	Poor	Poor	Poor	Very Poor	Poor	Very Poor

- ANB Financial had a delinquent assets out of total assets ratio 17.4% in the first quarter of 2008, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average delinquent asset of 1.5282%. The standard deviation of the delinquent assets was 1.89%, which means that ANB Financial was about 8.4 SD's above the average.
- Since the fourth quarter of 2006, ANB Financial's delinquent assets ratio has been high in relation to banks of the same asset concentration hierarchy. During the quarter right before the bank failed, the percentage of delinquent assets suddenly increased to 17.4%.

 *Average of banks of the same asset concentration hierarchy
 Indicates sign of bank in financial distress

Real Estate Loan Asset Analysis

	2006Q4 	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1
Real Estate Loan Asset Ratio	87.87%	88.42%	84.45%	87.06%	84.00%	84.04%
SD's from Average*	2.20	2.25	1.96	2.08	1.86	1.87
Ranking	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor

- ANB Financial had a 37.35% of R/A ratio in 2008 Q1, the quarter before it failed.
- In 08 Q1, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 55.64%. The standard deviation of the R/A ratio was 15.19%, which means that Cape Fear Bank was 1.87 SD's above the average

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset: Liability Analysis

	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4 	2008Q1
Asset: Liability Ratio	109.27%	109.82%	109.42%	110.19%	101.88%	102.02%
Median A/L Ratio*	110.60%	110.70%	110.74%	110.97%	110.95%	110.93%
Ranking	Poor	Moderate	Poor	Moderate	Very Poor	Very Poor

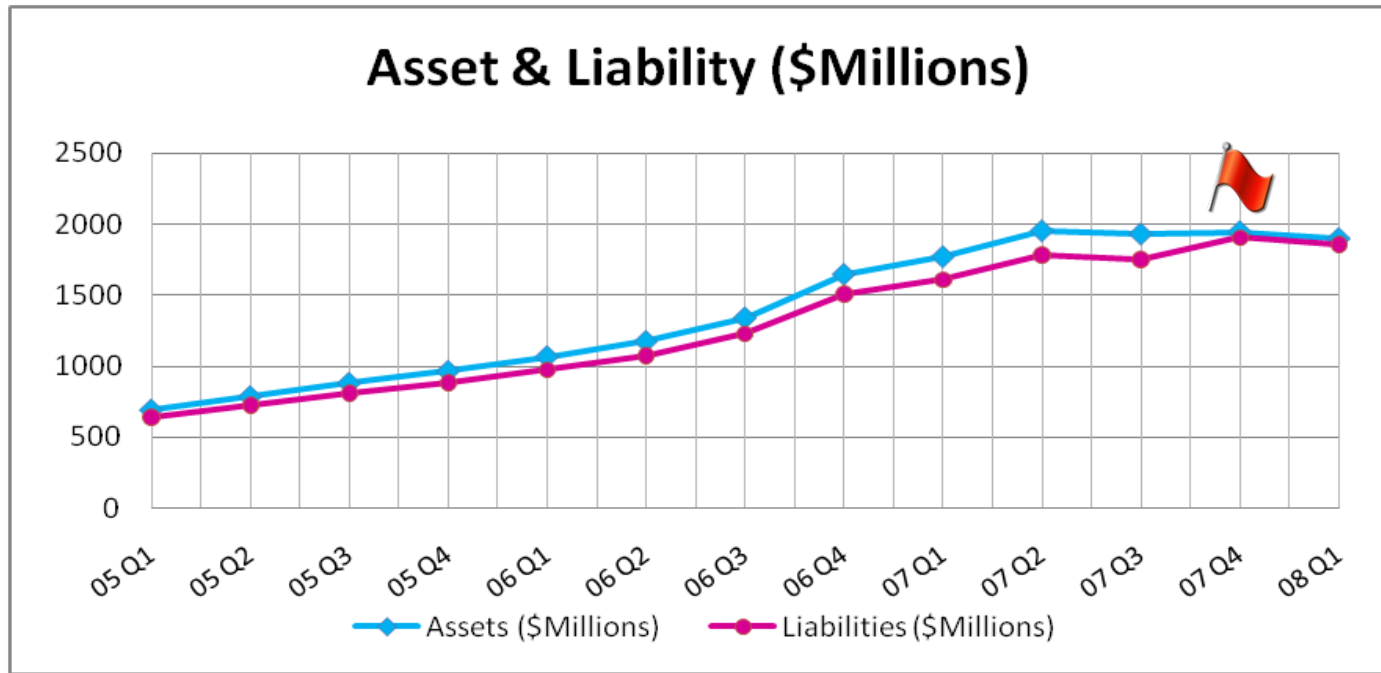
- ANB Financial National Association had a over 8% A/L ratio decrease in 07 Q4.
- The bank fell into the worst ranking in 07 Q4.

*Median of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset & Liability History

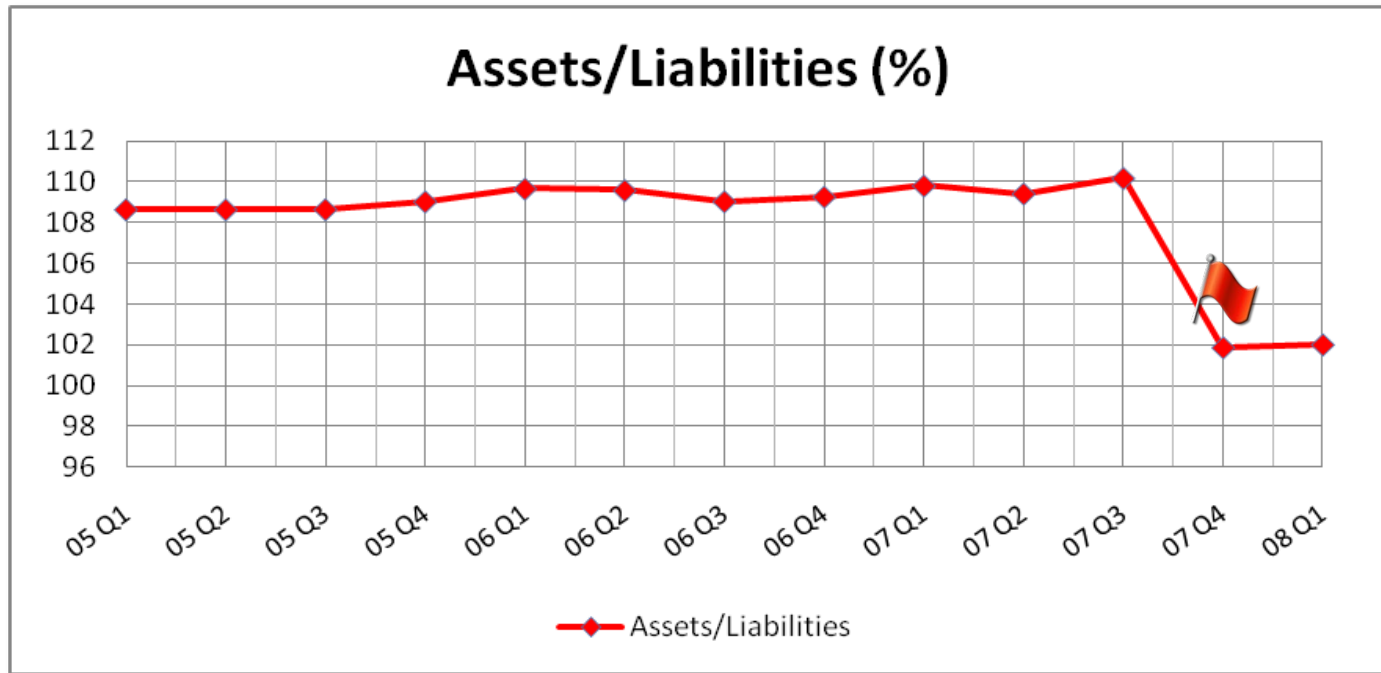


- The difference between asset and liability was almost disappeared in 07 Q4.



Indicates sign of bank in financial distress

Asset/Liability History

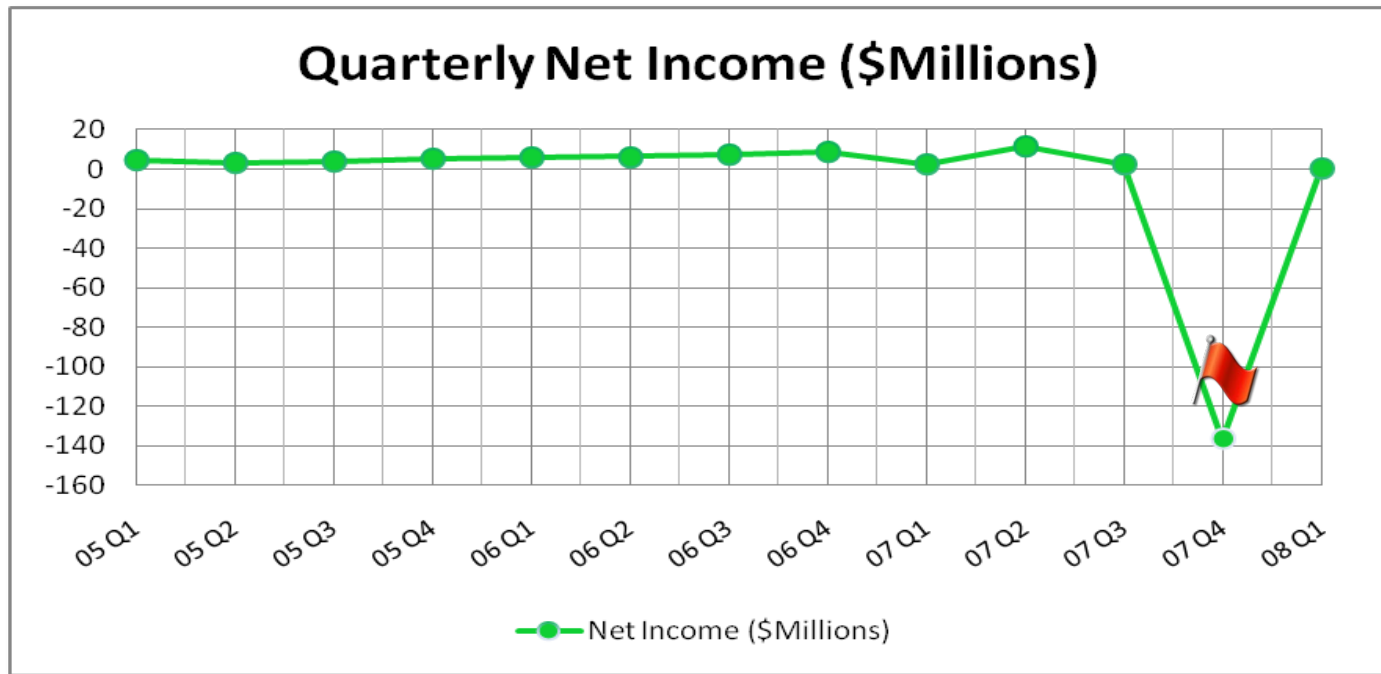


- The A/L ratio dropped 8% in 07 Q4.



Indicates sign of bank in financial distress

Net Income History

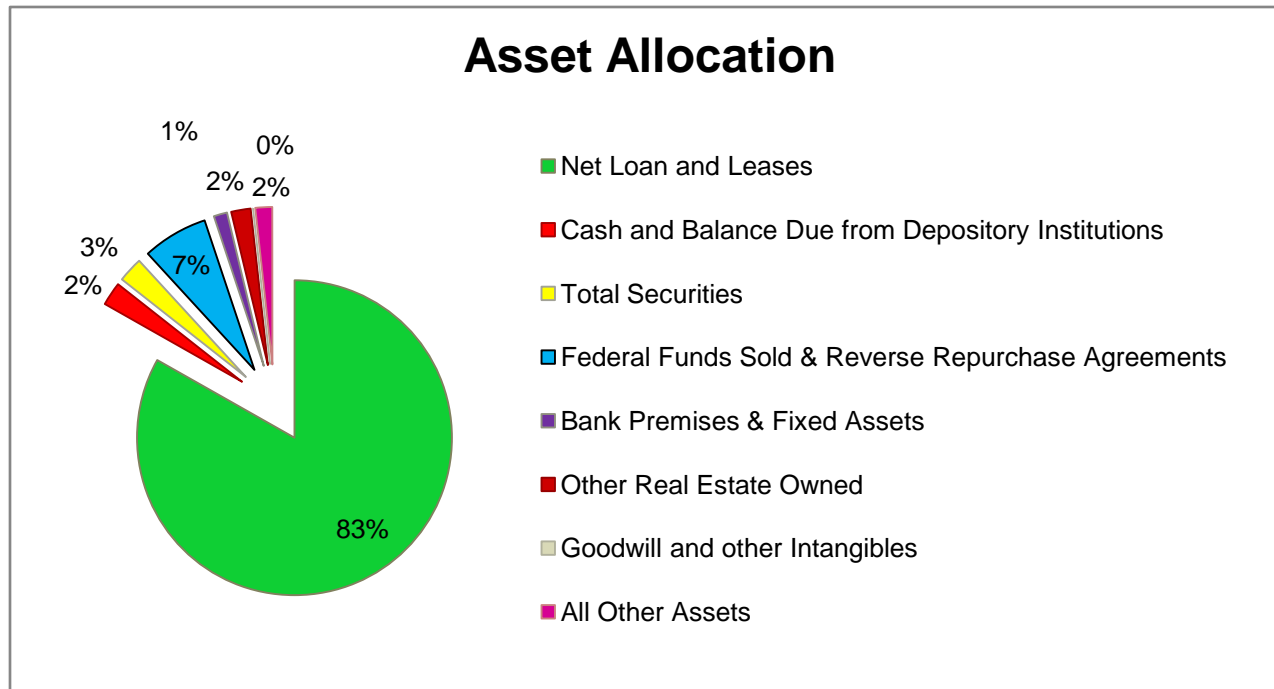


- The bank recorded a big loss in 07 Q4.



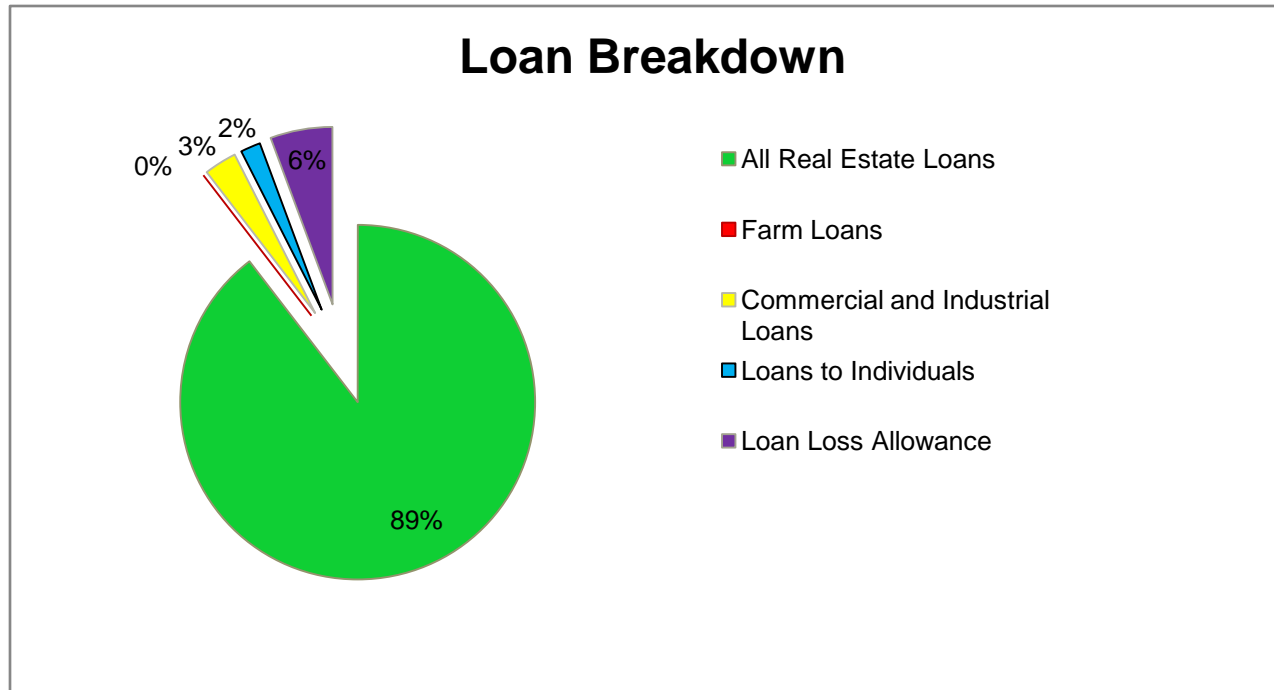
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the first quarter of 2008 was 71.77%.
- The average Net Loan percentage of all banks in the first quarter of 2008 was 64.77%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the first quarter of 2008 was 75.94%.
- The average percentage for all banks in the first quarter of 2008 was 70.74%.

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. 09, 08** - ANB Financial was closed by FDIC and all its deposits would be transferred to Pulaski Bank and Trust Company.
- May. 21, 07** - ANB Financial had a 920% increase in non-performing assets compare to a year ago.
- 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.
- Jul. 07, 07** - ANB Financial had 25.5% of delinquent loan equity ratio as of March 31, 2007.
- 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. 14, 08** - FDIC creates new program to guarantee bank debts and fully insure non-interest bearing deposit transaction accounts.

Events Timeline

- 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.
- 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.

Events Timeline

- 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, ANB Financial, its failure was **not a surprise.**

Here are the indications that ANB Financial should fail:

- 1) **ANB Financial lost over 7% of its total asset in 07 Q4.**
- 2) **Delinquent Loan was ranked between poor and very poor in all 6 quarters. Especially in the last quarter, the delinquent loan accounted over 17% of its asset.**
- 3) **ANB Financial's real estate loan: asset analysis was ranked very poor in all 6 quarters.**
- 4) **ANB Financial asset: liability ratio was ranked very poor in the last 2 quarters prior to failure. The A/L ratio decreases 8% in 07 Q4.**
- 5) **Its Bankability Composite Score was -37.33 before its failure, which was considered to be very poor.**

The combination of all these five measures being poor obviously shows that the bank could fail anytime.

References

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