

# SR003\_7: Failed Bank Report

## New Frontier Bank

2425 35<sup>th</sup> Avenue  
Greeley, CO 80634

(12/1/1998 – 4/10/2009)

# 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>	<b>34881</b>
<b>Parent Holding Company</b>	NEW FRONTIER BANCORP
<b>Bank Charter Class</b>	Federal Reserve Non-member
<b>Asset Concentration</b>	Agricultural Specialization
<b>Product Specialty</b>	Retail Banking, Mortgage Banking, Business Finance and Merchant Processing Services
<b>Number of Branches</b>	3 (as of March 31, 2009)
<b>Number of Employees</b>	227 (as of March 31, 2009)
<b>Executives</b>	
<b>CEO/Chairman</b>	Mark Kreloff

# What took place?

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**N**ew Frontier Bank, Greeley, CO was closed by the State Bank Commissioner, by order of the Banking Board of the Colorado Division of Banking, on April 10<sup>th</sup>, 2009. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$670,000,000, compared to the average cost of \$389,206,944. The failed bank could not find a buyer for its deposits and assets, so the FDIC created a temporary Deposit Insurance National Bank of Greeley, allowing customers to move their money into other banks.

# Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q1	2009 Q1	Percentage Change
<b>Assets</b>	<b>\$ 2,022,506</b>	<b>\$ 1,774,588</b>	<b>↓ 12.3%</b>
<b>Liabilities</b>	<b>\$ 1,855,884</b>	<b>\$ 1,714,079</b>	<b>↓ 7.6%</b>
<b>Net Income</b>	<b>\$ 1,644</b>	<b>-\$ 98,040</b>	<b>↓ 6,064%</b>

- The average net income change for all FDIC banks was -59.6% in the same period.
- The average net income change for all the agricultural specialization banks was -31.6% in the same period.
- Compared with the whole industry and other agricultural specialization banks, New Frontier Bank's decline from Net Income is abnormally large (-6064%) during 2009.

# Key Performance Indicators

KPI Summary for 2009 Q1	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Very Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Very Poor
Bankability Composite Score	-66.30** (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

	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 
Normalized Income	-0.06%	0.08%	-0.07%	-0.07%	-0.50%	-5.52%
SD's from Average*	-1.04	-0.632	-1.21	-0.623	-1.61	-16.0
Ranking	Poor	Moderate	Poor	Moderate	Poor	Very Poor

- New Frontier Bank had a normalized income of -5.52% in the first quarter of 2009, 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 0.36%, which means that New Frontier Bank was 16 SD's below the average.
- New Frontier Bank had the second lowest normalized income for banks of the same asset concentration during the quarter before it failed.


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

# Delinquent Asset Analysis


	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4 	2009Q1
Delinquent Asset	3.6866%	5.1294%	4.5630%	3.3829%	9.8419%	20.5800%
SD's from Average*	1.56	1.91	1.82	1.41	5.74	10.57
Ranking	Poor	Very Poor	Poor	Poor	Very Poor	Very Poor

- New Frontier Bank had a delinquent assets out of total assets ratio 20.6% in the first quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (agricultural specialization) had an average delinquent asset of 1.6418%. The standard deviation of the delinquent assets was 1.79%, which means that New Frontier Bank was about 10.6 SD's above the average.
- Since the fourth quarter of 2007, New Frontier Bank's delinquent assets ratio has been much higher than the average. Especially, right before the bank fails, its delinquent assets ratio suddenly increased to 20% and went into a very poor condition.

\*Average of banks of the same asset concentration hierarchy


 Indicates sign of bank in financial distress

# Real Estate Loan Asset Analysis

	2007Q4 	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1
Real Estate Loan Asset Ratio	54,51%	53.52%	51.93%	49.89%	48.74%	53.18%
SD from Average*	1.67	1.61	1.46	1.26	1.18	1.53
Ranking	Very Poor	Very Poor	Very Poor	Very Poor	Poor	Very Poor

- New Frontier Bank had a 53.18% of R/A ratio in 09 Q1, the quarter before it failed.
- In 09 Q1, banks of the same asset concentration hierarchy (agriculture lending specialization) had an average R/A ratio of 32.06%. The standard deviation of the R/A ratio was 13.85%, which means that American Southern Bank was 1.53 SD's above the average.

\*Average of banks of the same asset concentration hierarchy


 Indicates sign of bank in financial distress

# Asset: Liability Analysis

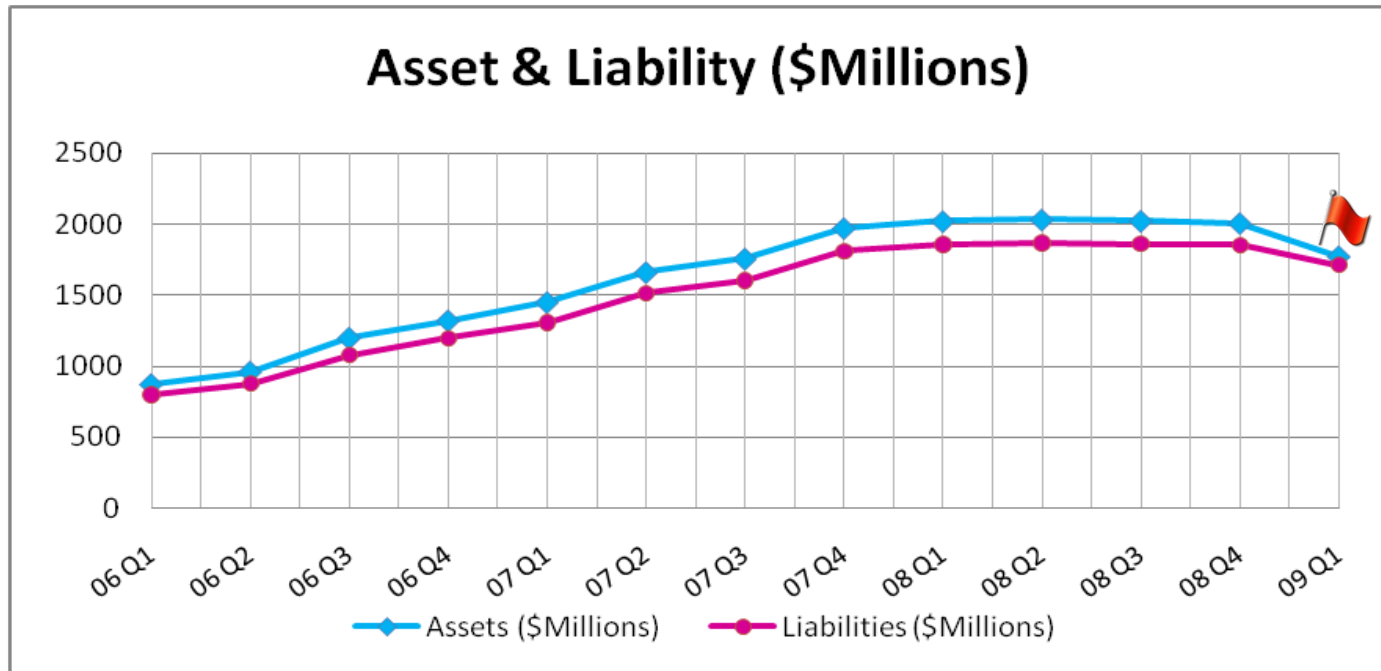
	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 
Asset: Liability Ratio	108.94%	108.98%	108.81%	108.87%	108.50%	103.53%
Median A/L Ratio*	111.69%	111.74%	111.45%	111.67%	111.67%	111.74%
Ranking	Poor	Poor	Poor	Poor	Poor	Very Poor

- New Frontier Bank's A/L ratio decreased 5% in 09 Q1.
- The bank fell into the worst ranking in 09 Q1.
- Of the banks failed in Q2 09, 87.50% of them had an A/L ratio under 107%.
- Of the bank with an A/L ratio under 106% in Q1 09, 10.75% failed in the subsequent quarter.

\*Average of banks of the same asset concentration hierarchy

 Indicates sign of bank in financial distress

# Asset & Liability History

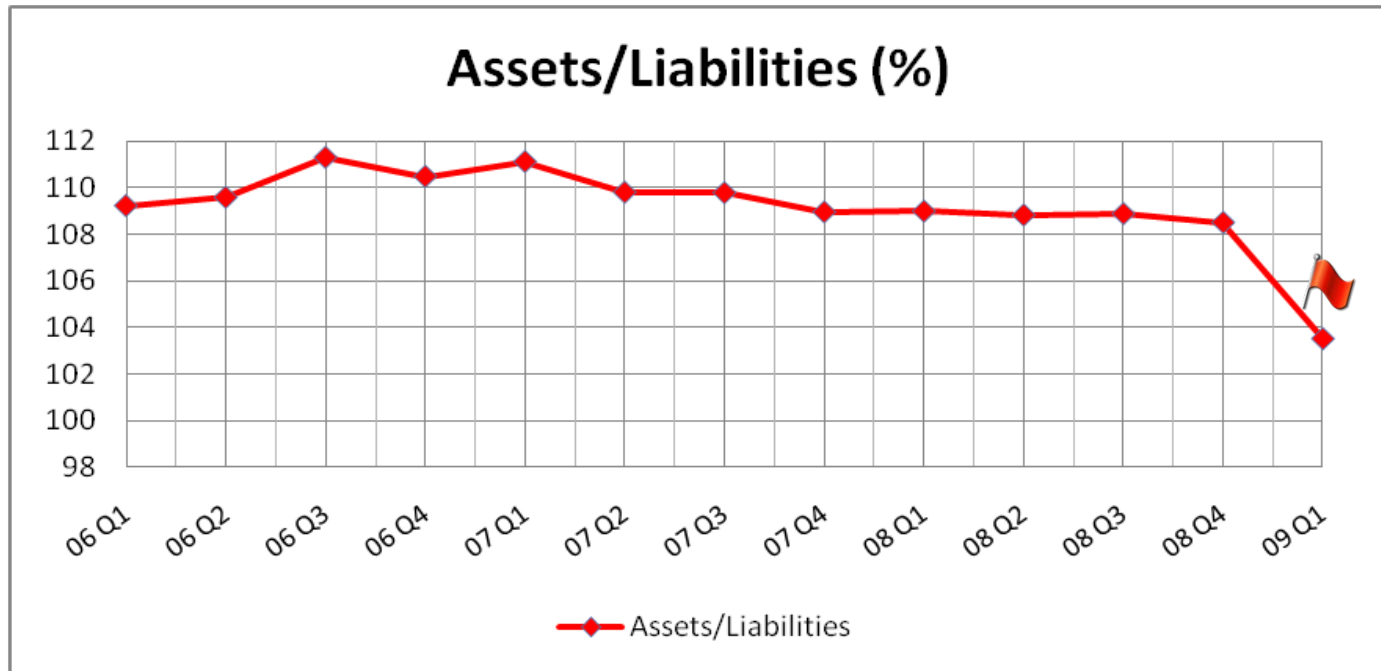


- The difference between asset and liability was getting close in 09 Q1.




Indicates sign of bank in financial distress

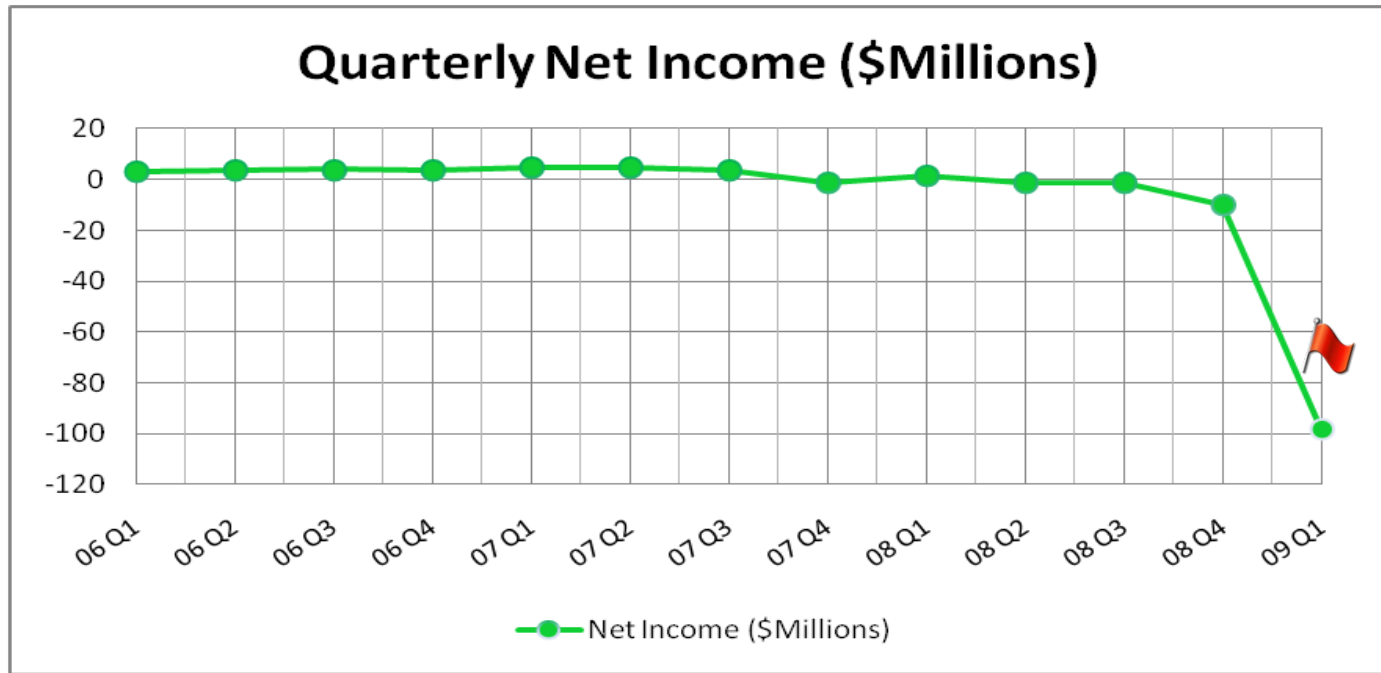
# Asset/Liability History



- The A/L ratio decreased 5% in 09 Q1.

 Indicates sign of bank in financial distress

# Net Income History

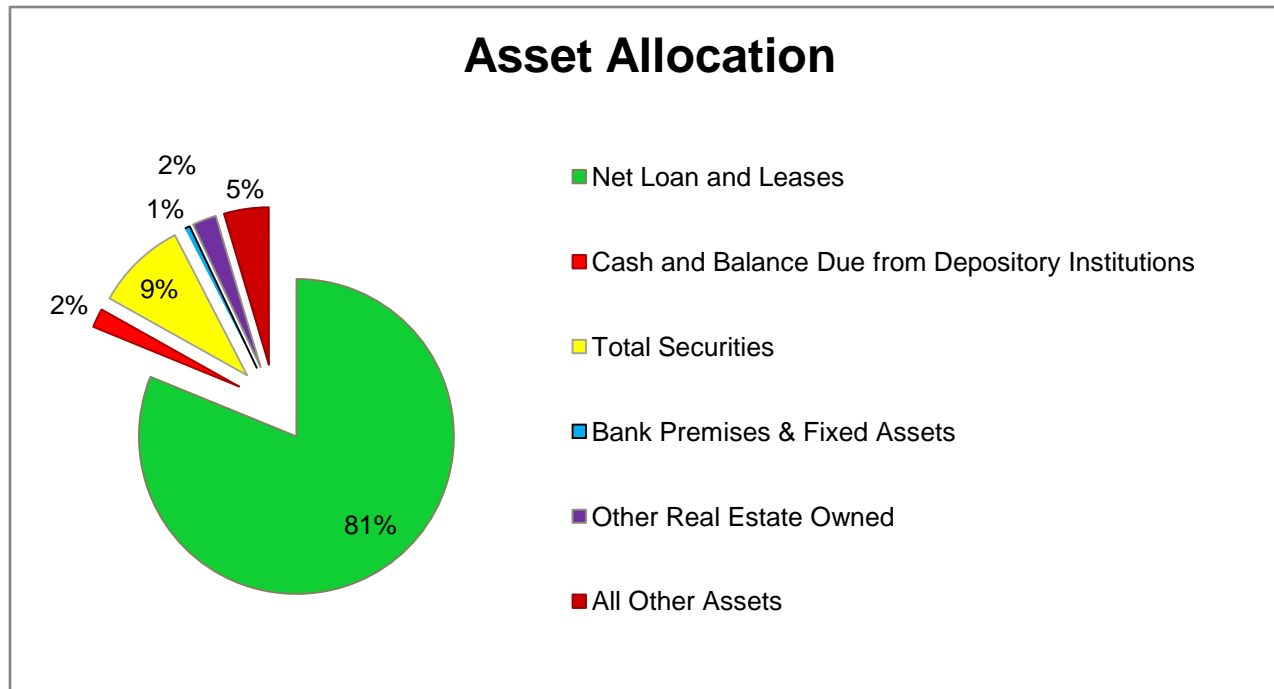


- The bank recorded a big loss in last quarter prior to failure.



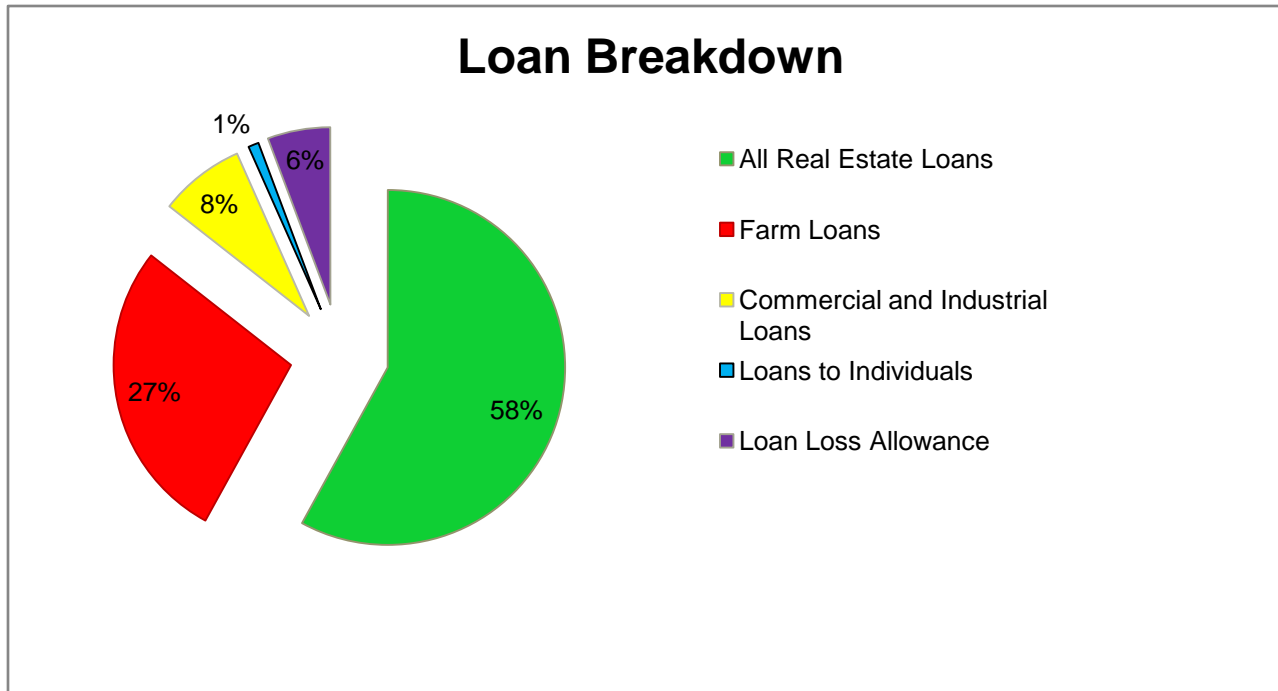
Indicates sign of bank in financial distress

# Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the first quarter of 2009 was 59.72%.
- The average Net Loan percentage of all banks in the first quarter of 2009 was 64.89%.

# Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the first quarter of 2009 was 51.99%.
- 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. 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.

# Events Timeline

- 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.
- 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.

# Events Timeline

**Dec. 2, 08** - New Frontier under a cease-and desist order.

**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.

**Dec. 31, 08** - The Street.com Ratings had assigned New Frontier a D-minus rating.

**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.
- Apr. 10, 09** - New Frontier Bank was closed by the State Bank Commissioner. The FDIC creates a deposit insurance National Bank to Facilitate the resolution of New Frontier.
- 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 New Frontier Bank, its failure was ***not a surprise***.

Here are the indications that New Frontier Bank should fail:

- 1) **New Frontier Bank had a normalized income that was 16 SD's below average the quarter before it failed.**
- 2) **More than a fifth of New Frontier Bank's assets were delinquent the quarter before it failed.**
- 3) **New Frontier Bank had an asset to liability ratio of 103.5% the quarter before it failed.**
- 4) **New Frontier Bank had a bankability composite score of -66.30 the quarter before it failed and 15.38 the quarter before. These scores indicate the bank's very poor overall financial health and likelihood to fail.**

# References

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# Contact Information

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

**By E-mail:**

[info@moneyeconomics.com](mailto:info@moneyeconomics.com)

**By Mail:**

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

**By Phone:\***

510.550.1694

*\*For media inquiry only please.*