

SR003_7: Failed Bank Report

Citizen Community Bank

171 East Ridgewood Avenue
Ridgewood, NJ 07450

(10/28/2004 – 5/1/2009)

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 #	57563
Bank Charter Class	Federal Reserve Non-member
Asset Concentration	Commercial Lending Specialization
Product Specialty	Commercial Banking Services, Auto Loan, Personal Lending Services
Number of Branches	1 (as of March 31, 2009)
Number of Employees	14 (as of March 31, 2009)

Executives	
CEO/President	Richard C. Lanza
CFO	Keith Van Saders

What took place?

Citizens Community Bank, Ridgewood, New Jersey was closed by the New Jersey Department of Banking and Insurance on May 1st, 2009. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$18,100,000, compared to the average cost of \$389,206,944. North Jersey Community Bank of Englewood Cliffs, NJ acquired all deposits and some assets.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q1	2009 Q1	Percentage Change
Assets	\$ 45,819	\$ 40,657	↓ 11.3%
Liabilities	\$ 43,547	\$ 40,894	↓ 6.1%
Net Income	-\$ 487	-\$ 384	↑ 21.1%

- The average net income change for all FDIC banks was -59.6% in the same period.
- The average net income change for all the commercial lending specialization banks was -107.5% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, Citizen Community Bank's change in net income was positive which means that the bank's loss has been reducing in 2009.

Key Performance Indicators

KPI Summary for 2009 Q1	
Normalized Income Rating	Poor
Delinquent Asset Rating	Good
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Poor
Bankability Composite Score	-5.14** (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	-2.80%	-1.06%	-0.86%	-1.57%	-2.30%	-0.94%
SD's from Average*	-4.16	-2.35	-1.37	-1.84	-2.02	-1.61
Ranking	Very Poor	Very Poor	Poor	Poor	Very Poor	Poor


- Citizens Community Bank had a normalized income of -0.94% in the first quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average normalized income of -0.01%. The standard deviation of the normalized incomes was 0.58%, which means that Citizens Community Bank was -1.61 SD's below the average.

*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	1.6962%	1.1284%	1.6636%	3.6499%	2.3862%	1.1093%
SD's from Average*	0.19	-0.21	0.14	1.12	0.30	-0.34
Ranking	Moderate	Good	Moderate	Poor	Moderate	Good

- Citizen Community Bank had a delinquent assets out of total assets ratio 1.1% in the first quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average delinquent asset of 1.9142%. The standard deviation of the delinquent assets was 2.37%, which means that Citizen Community Bank was about 0.3 SD's below the average.
- Except 2008 Q3, Citizen Community Bank's delinquent assets ratio has been stable and stayed around the average. From the perspective of delinquent assets ratio, there were no signs of the bank's failure.

*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	65.23%	74.06%	69.60%	67.03%	66.37%	67.26%
SD from Average*	0.63	1.22	0.88	0.69	0.66	0.77
Ranking	Moderate	Very Poor	Poor	Moderate	Moderate	Poor

- Citizens Community Bank had a 67.26% of R/A ratio in 09 Q1, the quarter before it failed.
- In 09 Q1, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 56.23%. The standard deviation of the R/A ratio was 14.37%, which means that Citizens Community Bank was 0.77 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	105.50%	105.12%	104.13%	102.64%	100.32%	99.42%
Median A/L Ratio*	110.95%	110.93%	110.69%	110.65%	110.52%	110.57%
Ranking	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor

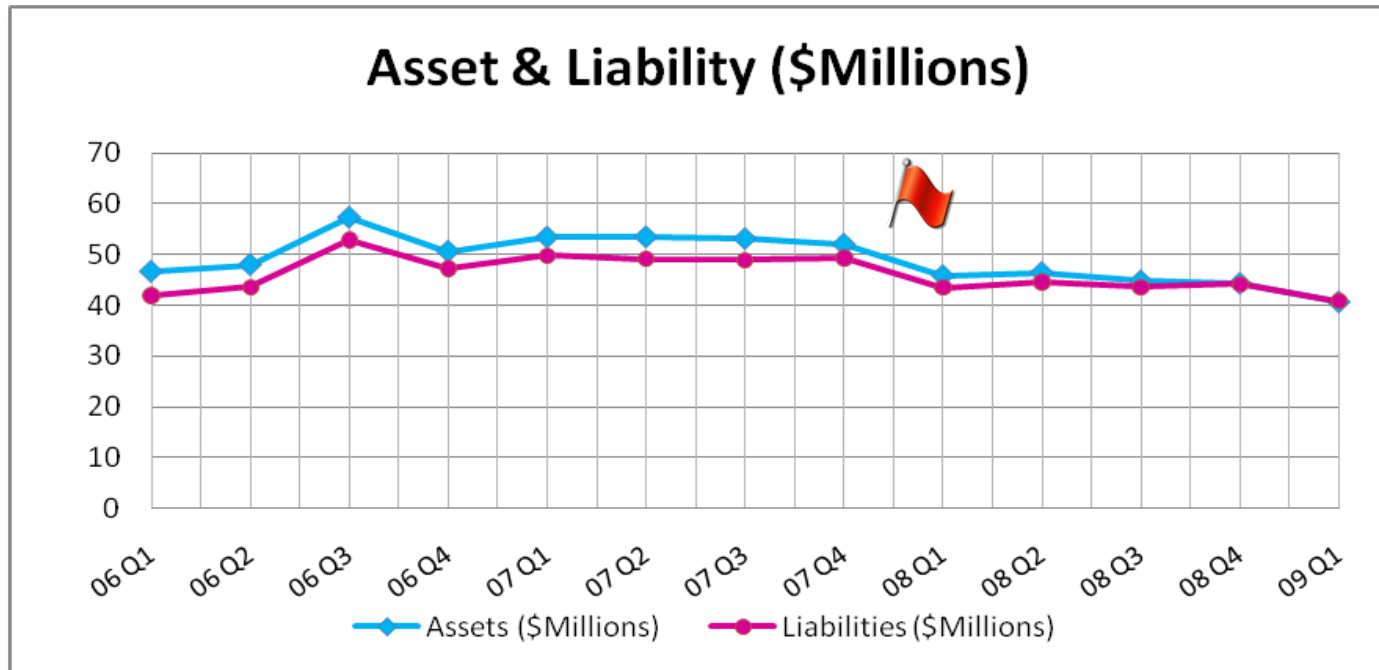
- Citizens Community Bank experienced decreasing A/L ratio in all 6 quarters.
- The bank had negative equity in the last quarter prior to failure.
- Of the banks failed in Q2 09, 87.50% of them had an A/L ratio under 107%.
- Of the bank with an A/L ratio under 106% in Q1 09, 10.75% failed in the subsequent quarter.

* Median of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Asset & Liability History

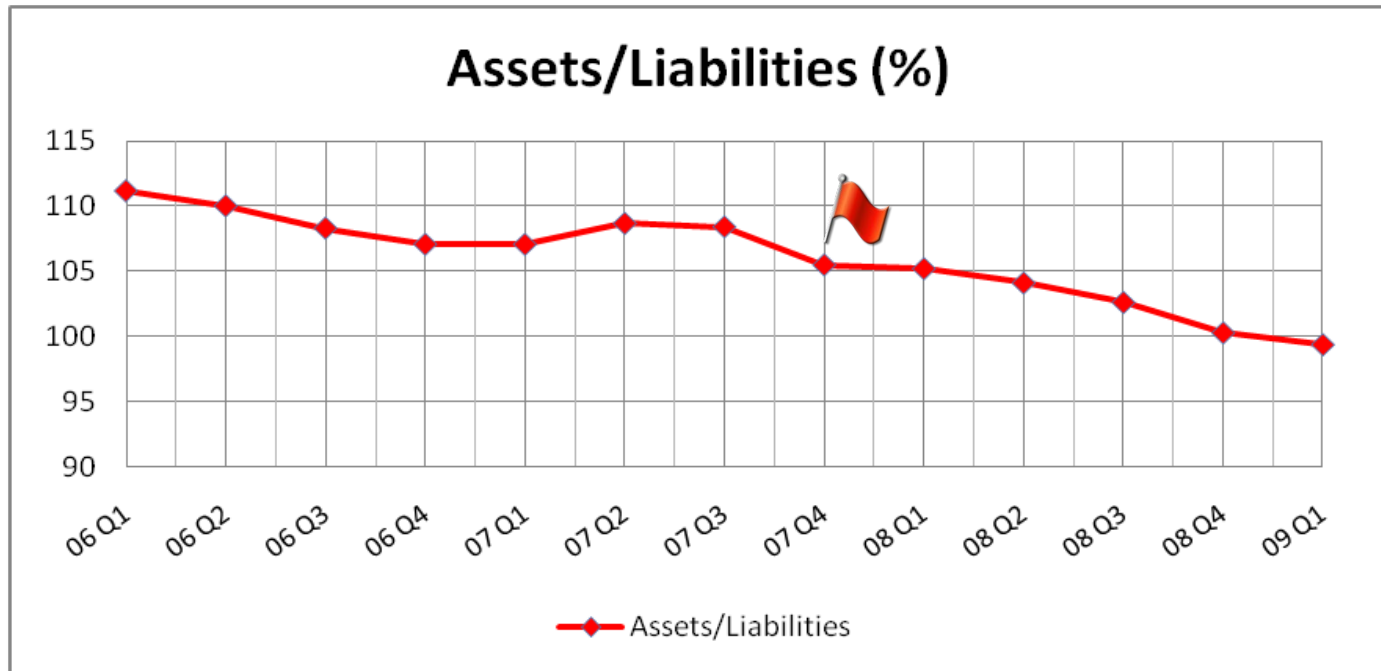


- The difference between asset and liability was getting closer in 07 Q4.
- The liability exceeded asset in 09 Q1.



Indicates sign of bank in financial distress

Asset/Liability History

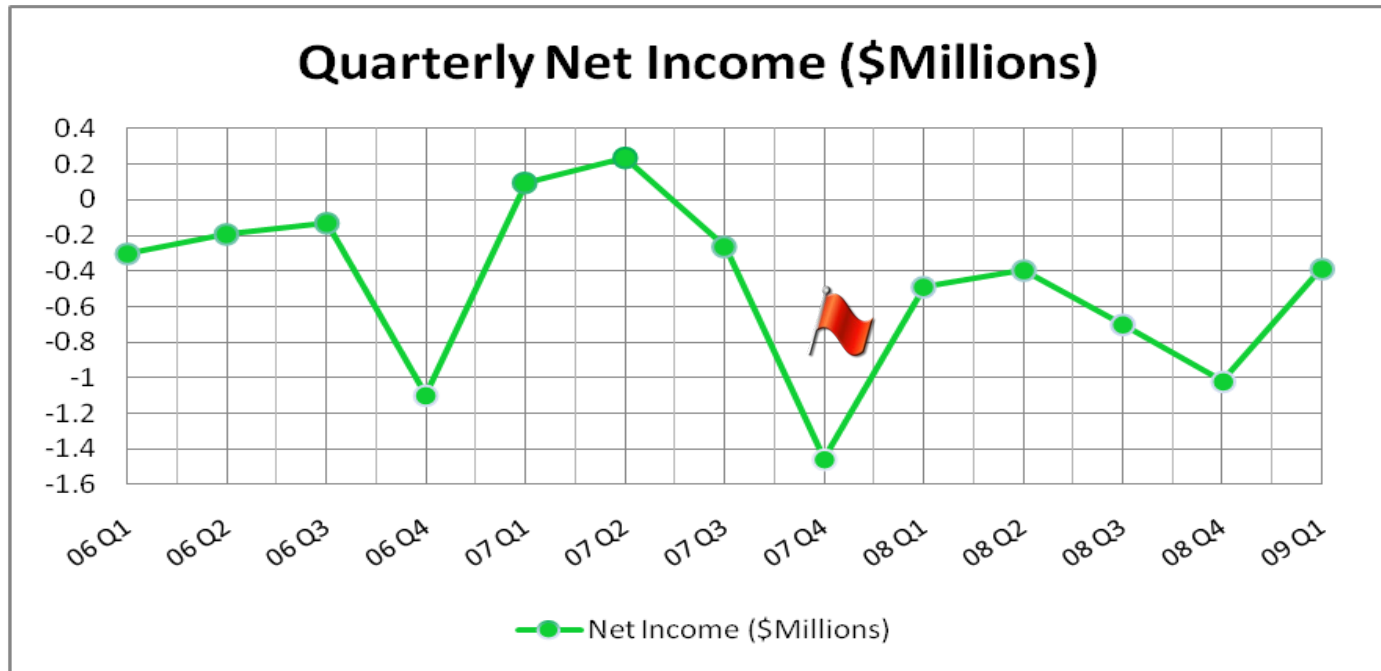


- The A/L ratio was decreasing since 07 Q2.



Indicates sign of bank in financial distress

Net Income History

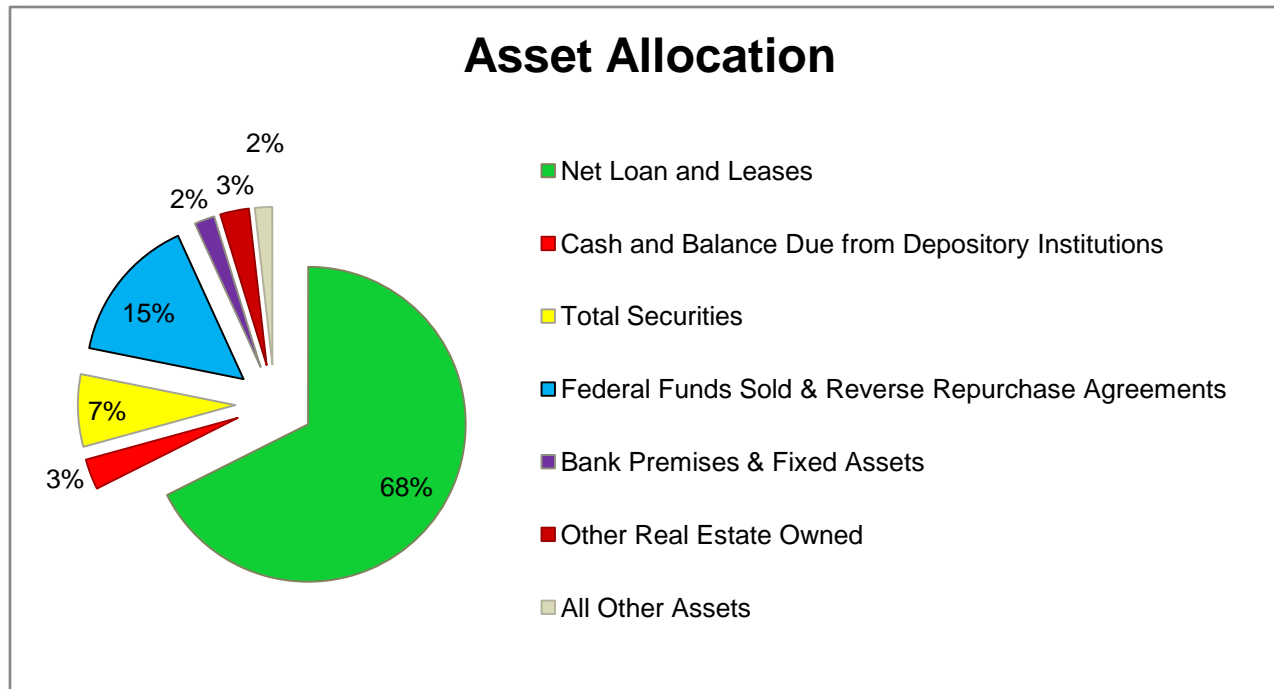


- The bank started reporting losses since 07 Q3.



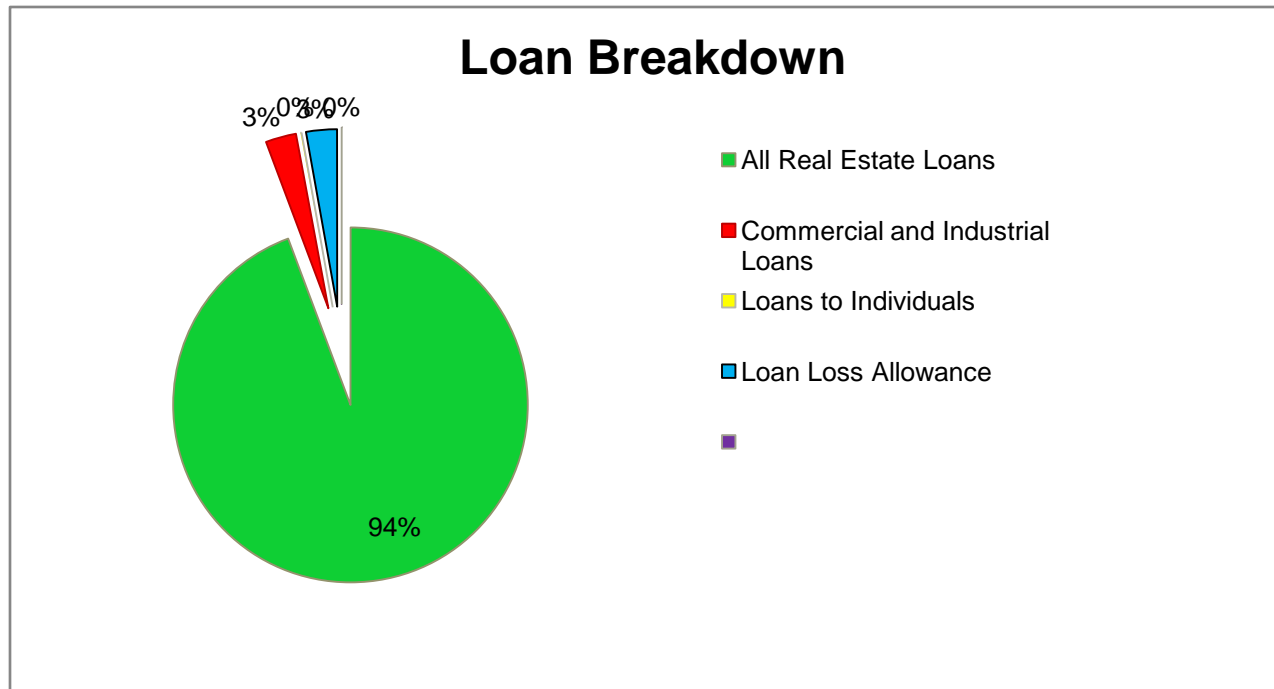
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the first quarter of 2009 was 71.42%.
- 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 76.90%.
- 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.
- Mar. 25, 08** - Citizens Community selected Financial Crossing Liability Manager to expend its service offering to financial advisors and other intermediaries nationally.
- 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. 4, 08** - Citizens Community received a cease-and-desist order from FDIC.
- Nov. 20, 08** - FDIC announces the availability of IndyMac Loan Modification Model.

Events Timeline

- 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

- 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 1, 09** – Citizens Community Bank was closed by the New Jersey Department of Banking and Insurance. North Jersey Community Bank assumed all of the deposits.
- 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, Citizen Community Bank, its failure was **not a surprise**.

Although Citizen Community Bank's delinquent asset analysis was relatively typical of banks with the same asset concentration hierarchy, there are other indications that Citizen Community Bank should fail:

- 1) **Citizen Community Bank's normalized income has always been poor or very poor since 2007 Q4.**
- 2) **Citizen Community Bank's real estate loan ratio was in a poor condition during 2009 Q1, the quarter prior to its failure.**
- 3) **Citizen Community Bank's asset: liability ratio has always been very poor from 2007 to 2009. Right before the bank failed, its asset: liability ratio was down to 99.4%.**
- 4) **Its Bankability Composite Score was -5.14 before its failure, which was considered to be very poor.**

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

References

CNN:

<http://www.cnn.com>

FDIC:

<http://www.fdic.gov>

Federal Reserve:

<http://www.federalreserve.gov/>

Google News:

<http://news.google.com/>

Money Economics:

<http://www.moneyeconomics.com/1911>

SEC:

<http://www.sec.gov/>

The Wall Street Journal:

http://online.wsj.com/public/resources/documents/info-Failed_Banks-sort.html

Treasury:

<http://www.treas.gov/>

Wikipedia:

<http://www.wikipedia.org/>

Yahoo Finance:

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



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.*