

SR003_7: Failed Bank Report

BankUnited, FSB

255 Alhambra Circle
Coral Gables, FL 33134

(10/3/1984 – 5/21/2009)

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 #	32247
Bank Charter Class	Saving Association
Asset Concentration	Mortgage Lending Specialization
Product Specialty	Mortgage Lending Services, Consumer Banking, Deposit products and Investment Services
Number of Branches	85 (as of March 31, 2009)
Number of Employees	1,083 (as of March 31, 2009)

Executives	
Chairman	Lawrence H. Blum
CEO/President	Ramiro A. Ortiz
CFO	Humberto L. Lopez

What took place?

BankUnited, FSB, Coral Gables, FL was closed by the Office of Thrift Supervision on May 21st, 2009. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$4,900,000,000, which is the second largest cost after IndyMac Bank. BankUnited acquired all the assets and most of the liabilities from BankUnited, FSB after the closure.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q1	2009 Q1	Percentage Change
Assets	\$14,312,695	\$13,140,553	↓ 8.2%
Liabilities	\$13,199,802	\$13,617,969	↑ 3.2%
Net Income	-\$56,354	-\$402,994	↓ 615.1%

- The average net income change for all the FDIC banks was -59.6% in the same period.
- The average net income change for all the mortgage lending specialization banks was -283.9% in the same period.
- While other mortgage lending specialization banks have increase in net income, BankUnited, FSB had a huge decrease (-615%) in earning.

Key Performance Indicators


KPI Summary for 2009 Q1	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Poor
Bankability Composite Score	-40.07** (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	-0.12%	-0.39%	-0.78%	-4.11%	-3.34%	-3.07%
SD's from Average*	-0.308	-1.12	-2.23	-5.40	-3.14	-4.99
Ranking	Moderate	Poor	Very Poor	Very Poor	Very Poor	Very Poor


- BankUnited, FSB had a normalized income of -3.07% in the first quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (mortgage lending specialization) had an average normalized income of 0.08%. The standard deviation of the normalized incomes was 0.63%, which means that BankUnited, FSB was almost 5 SD's below the average.
- Since the fourth quarter of 2007, BankUnited's normalized income in relation to banks of the same asset concentration hierarchy has declined each quarter.

*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	2.2271%	2.7767%	3.2837%	3.7524%	4.5924%	4.2047%
SD's from Average*	0.3407	0.7489	0.9317	1.1011	1.3281	1.52
Ranking	Moderate	Moderate	Moderate	Poor	Poor	Poor


- BankUnited, FSB had a delinquent assets out of total assets ratio 4.20% in the first quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (mortgage lending specialization) had an average delinquent asset of 1.695%. The standard deviation of the delinquent assets was 2.2266%, which means that BankUnited, FSB was about 1.5 SD's above the average.
- Since the fourth quarter of 2007, BankUnited's delinquent assets ratio in relation to banks of the same asset concentration hierarchy has increased each quarter.

*Average of banks of the same asset concentration hierarchy



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Real Estate Loan Asset Analysis

	2007Q4 	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1
Real Estate Loan Asset Ratio	86.98%	86.90%	84.86%	72.28%	79.95%	79.68%
SD's from Average*	1.24	1.32	1.23	1.01	0.95	1.03
Ranking	Very Poor	Very Poor	Very Poor	Poor	Poor	Poor

- BankUnited, FSB had a 79.68% of R/A ratio in 2009 Q1, the quarter before it failed.
- In 09 Q1, banks of the same asset concentration hierarchy (mortgage lending specialization) had an average R/A ratio of 57.47%. The standard deviation of the R/A ratio was 21.57%, which means that BankUnited, FSB was 1.02 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	108.86%	108.43%	108.25%	105.97%	99.90%	96.49%
Median A/L Ratio*	112.01%	112.04%	111.72%	111.55%	111.63%	111.41%
Ranking	Poor	Poor	Poor	Very Poor	Very Poor	Very Poor

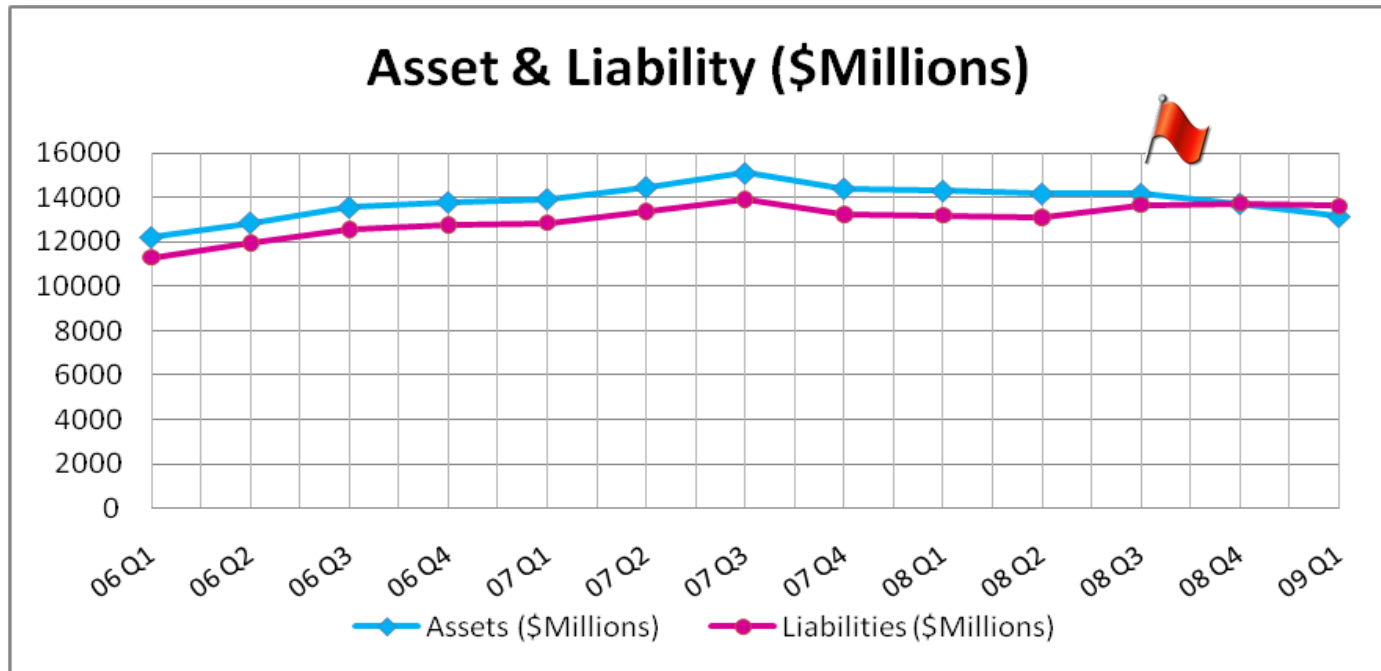
- BankUnited, FSB experienced 5% drop of A/L ratio in two consecutive quarters.
- The bank fell into the worse ranking in 08 Q3.
- The bank's A/L ratio was decreasing in all 6 quarters.
- Of the banks failed in Q2 09, 87.50% of them had an A/L ratio under 107%.
- Of the bank with an A/L ratio under 106% 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

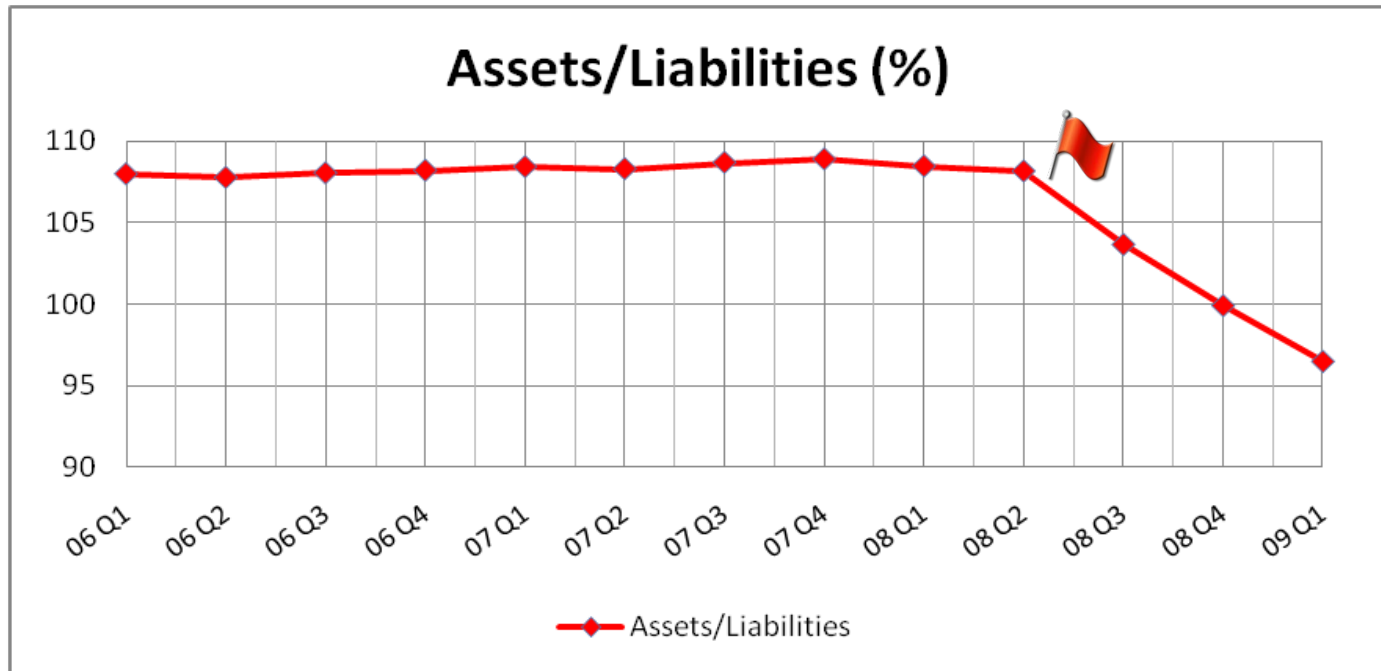


- The difference between asset and liability is getting closer in Q3 08, and liability eventually exceed asset in Q1 09.



Indicates sign of bank in financial distress

Asset/Liability History

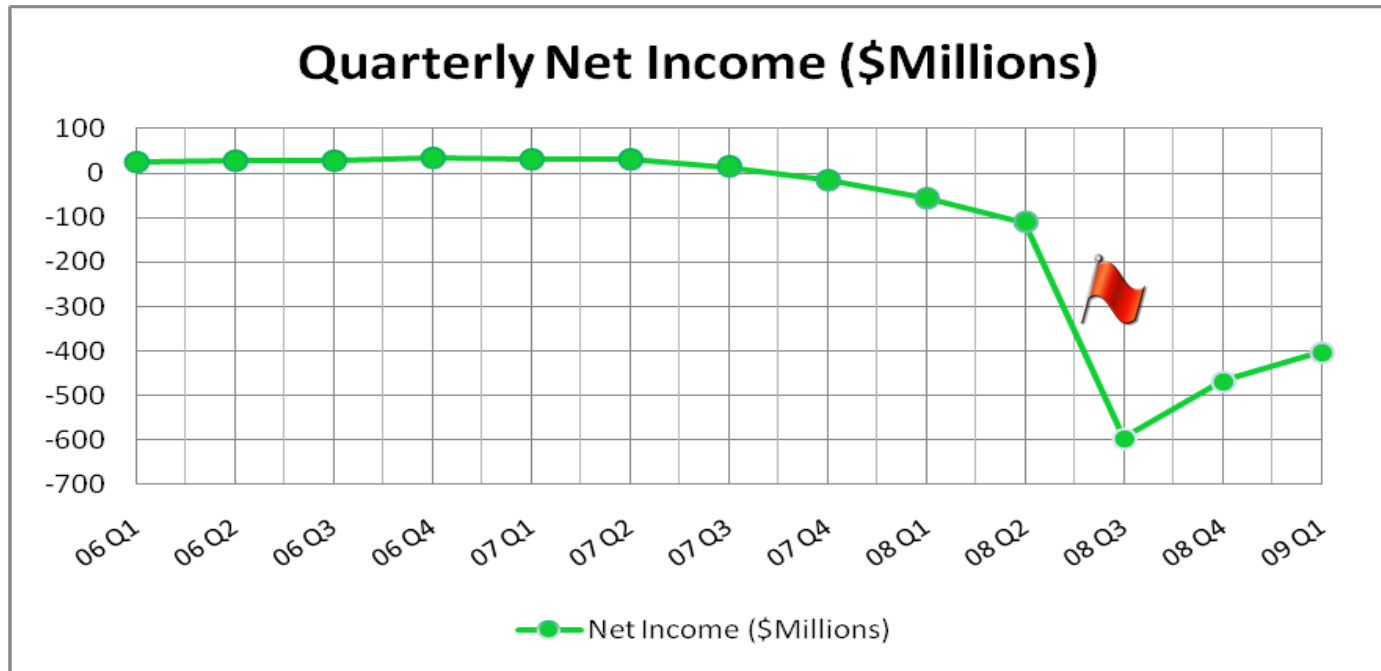


- The bank's A/L ratio was decreasing since 08 Q2.



Indicates sign of bank in financial distress

Net Income History

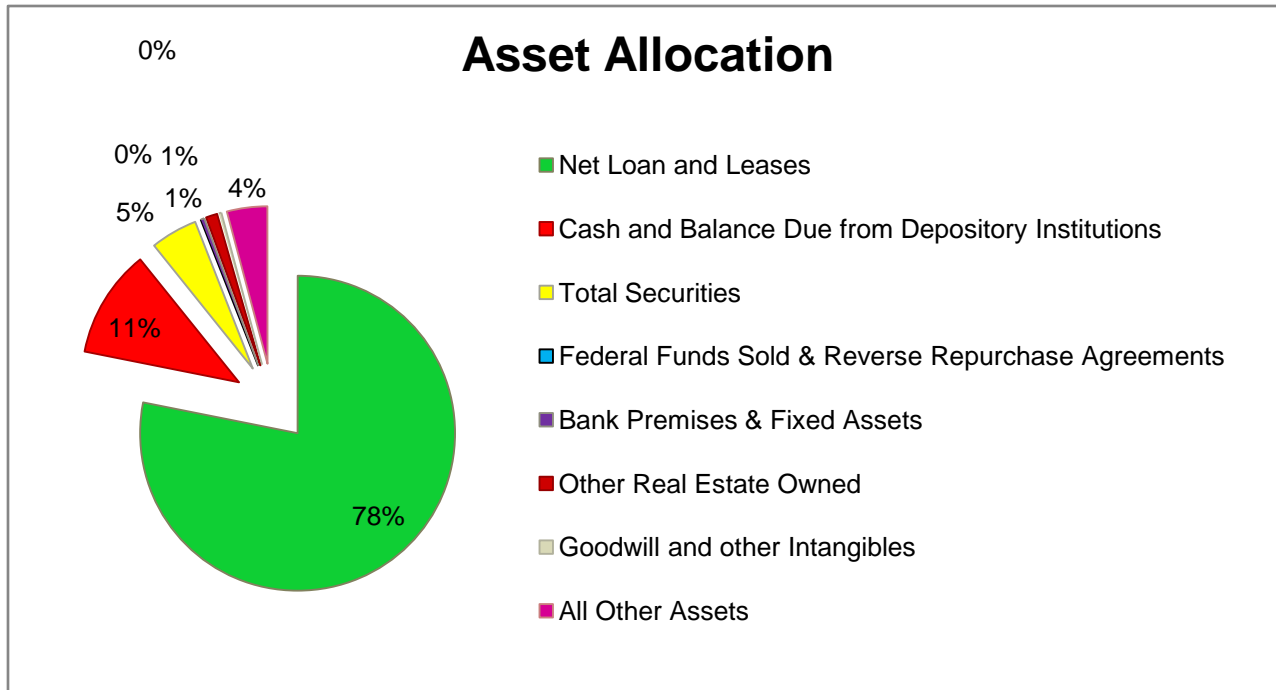


- The bank recorded big losses in the last 3 quarters prior to failure.
- The bank started reporting losses since 07 Q4.



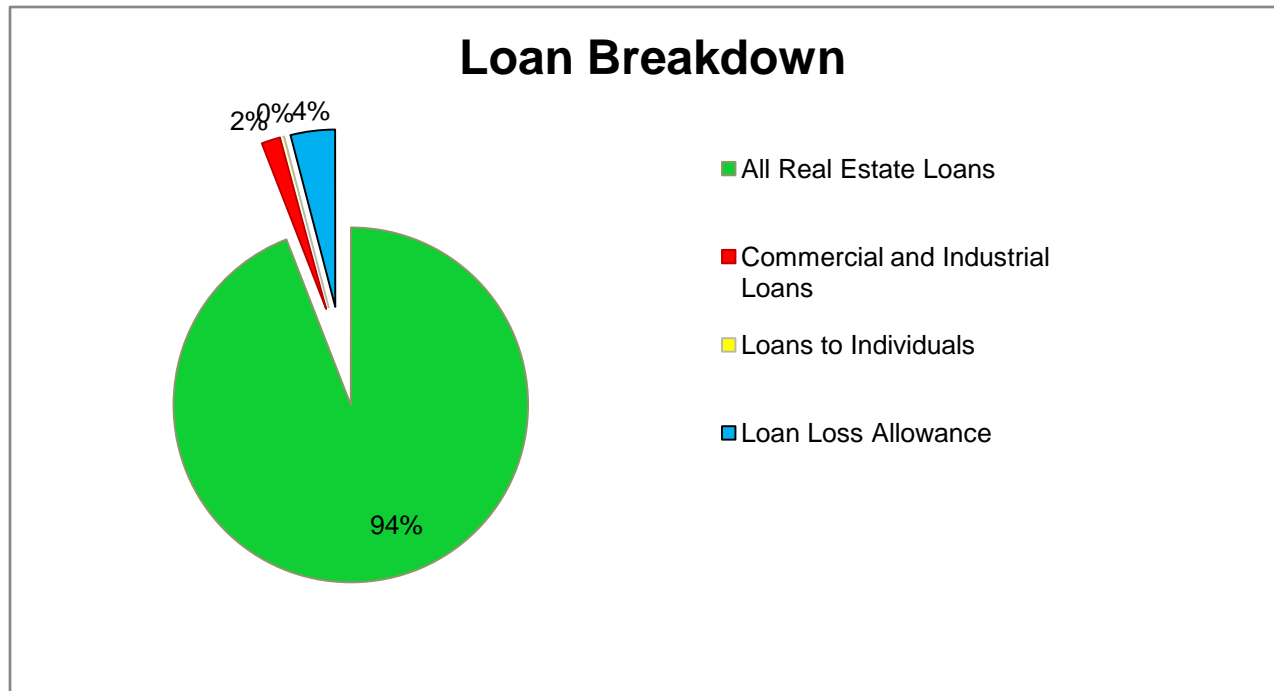
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the first quarter of 2009 was 61.95%.
- The average Net Loan percentage of all banks in the first quarter of 2009 was 68.49%.

Loan Breakdown



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

Events Timeline

- Jan. 24, 08** - A loss in 1Q due to a \$65 million loan-loss provision.
- Jan. 24, 08** - Sold \$379 million of residential mortgage loans during the quarter ended 12/31/07, for gain of \$2.3 million.
- Feb. 13, 08** - Stock sank 5.8 % to \$5.97.
- 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 6, 08** - 27% loan loss reserve coverage ratio.
- 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 18, 08** - Share tumbled nearly a third.

Events Timeline

- June 20, 08** - Announce the launch of a public offering of its Class A common stock, with gross proceeds of \$400 million.
- 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.
- 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. 18, 08** - Share price soared more than 135%.
- Aug. 20, 08** - FDIC's implementation in Loan Modification Program will help to modify troubled IndyMac mortgages loans.
- Sept. 5, 08** - The OTS had lowered its capital status from well-capitalized to adequately capitalized.
- 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** - Lays off 160 employees about 12% of its workforce.
- 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. 21, 08** - To raise capital, BankUnited announced that CEO is stepping down.
- Nov. 18, 08** - Lost nearly a quarter of its capital in the last quarter, weighed down by mortgages that permitted payments below the amount of interest accrued each month.
- 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. 15, 08** - BankUnited partnered with Mortgage Modification Legal Network.
- 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. 23, 08** - Received a notice from NASDAQ that the company is not in compliance with listing rules b/c the report wasn't filed on time.

Events Timeline

- 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. 20, 09** - The loss for quarter ended Sept. 30 was \$315.7 million, rather than the \$261.1 million loss it reported in Nov.
- Jan. 27, 09** - As part of the Capital Purchase Program, Treasury announced investments of \$386 million in 23 healthy banks.
- Jan. 28, 09** - TheStreet.com Rating lowered its financial strength rating on BankUnited Financial to E- (very weak), in response to the company's warning in a regulatory filing that it could be shut down by regulators.
- 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.
- Feb. 13, 09** - The bank will temporarily suspend foreclosures on owner-occupied homes until the Treasury Department's Financial Stability Plan home loan modification program is finalized.
- Feb. 18, 09** - President Obama signs the American Recovery and Reinvestment Act of 2009, which limits bonuses of the highest earning executives.

Events Timeline

- 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.
- Mar. 31, 09** - The US Treasury is examining whether the suspended acting head of the OTS allowed BankUnited to overstate its capital.
- Apr. 16, 09** - Federal regulator rejected the bank's plan to raise capital and ordered it to sell itself or most of its assets within 20 days.
- May 2, 09** - BankUnited parent's shares soared 64% on NASDAQ.
- May 13, 09** - BankUnited Financial Corp. estimated a massive loss of \$443.1 million for the fiscal second quarter.
- May 21, 09** - A newly chartered federal saving bank, BankUnited, acquired the banking operations of BankUnited.
- 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 BankUnited, its failure was ***not a surprise.***

Here are the indications that BankUnited should fail:

- 1) **Since the last quarter of 2007, its normalized income fell into a very poor condition. During 2008 Q3, it had -4% normalized income.**
- 2) **From the perspective of delinquent asset, its delinquent asset ratio was around the average before 2008 Q2, but the ratio gradually increased and eventually became twice as large right before the bank's failure.**
- 3) **BankUnited's real estate loan asset ratio has always been poor.**
- 4) **BankUnited's asset:liability ratio rapidly decreased. Two quarters before the bank's failure, its assets were less than the liabilities, which means BankUnited had negative equity.**
- 5) **Its Bankability Composite Score was -40.07 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.

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