

# SR003\_7: Failed Bank Report

## Community Bank of West Georgia

662 Highway 61  
Villa Rica, GA 30180

(3/25/2003 – 6/26/2009)

# 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

<b>FDIC Certificate #</b>	<b>57436</b>
<b>Parent Holding Company</b>	Community Bancshares of West Georgia, Inc
<b>Bank Charter Class</b>	Federal Reserve Member
<b>Asset Concentration</b>	Commercial Lending Specialization
<b>Product Specialty</b>	Personal and Business Banking Services, Car Financing and Loans
<b>Number of Branches</b>	1 (as of March 31, 2009)
<b>Number of Employees</b>	31 (as of March 31, 2009)

<b>Executives</b>	
<b>CEO/President</b>	Rick Hayden
<b>CFO</b>	Delmas L. Lindsey
<b>CCO</b>	Dwayne H. Myrick

# What took place?

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Community Bank of West Georgia, Villa Rica, GA was closed by the Georgia Department of Banking and Finance on June 26<sup>th</sup>, 2009. The Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$85,000,000, compared to the average cost of \$389,206,944. United Community Bank of Blairsville, GA, acquired all deposits and some of the assets.

# Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q1	2009 Q1	Percentage Change
<b>Assets</b>	\$ 207,620	\$ 201,222	↓ 3.1%
<b>Liabilities</b>	\$ 192,533	\$ 193,919	↑ 0.7%
<b>Net Income</b>	-\$ 1,906	-\$ 3,385	↓ 77.6%

- 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.
- Community Bank of West Georgia continued having negative net income in 2009.

# Key Performance Indicators



KPI Summary for 2009 Q1	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Moderate
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	7.45** (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	0.02%	-0.92%	-0.16%	-2.05%	-0.90%	-1.68%
SD's from Average*	-0.0657	-2.06	-0.300	-2.43	-0.644	-2.88
Ranking	Moderate	Very Poor	Moderate	Very Poor	Moderate	Very Poor


- Community Bank of West Georgia had a normalized income of -1.68% 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 Community Bank of West Georgia was almost 3 SD's below the average.
- Since the fourth quarter of 2007, Community Bank of West Georgia's normalized income in relation to banks of the same asset concentration hierarchy has been very sporadic, with rankings switching from Moderate to Very Poor quarter to 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	4.5898%	1.0543%	2.0500%	8.4261%	3.6158%	2.7930%
SD's from Average*	1.90	-0.25	0.35	3.62	0.87	0.37
Ranking	Poor	Good	Moderate	Very Poor	Moderate	Moderate

- Community Bank of West Georgia had a delinquent assets out of total assets ratio 2.8% 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 Community Bank of West Georgia was about 0.4 SD's above the average.
- Since the fourth quarter of 2007, Community Bank of West Georgia's delinquent assets ratio has been unstable and fluctuated around the average. However, right before the bank fails, its delinquent asset ratio improved and went back to the average level.

 \*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	74.96%	78.45%	75.78%	73.04%	61.73%	58.23%
SD from Average*	1.27	1.51	1.29	1.10	0.34	0.14
Ranking	Very Poor	Very Poor	Very Poor	Poor	Moderate	Moderate

- Community Bank of West Georgia had a 58.23% 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 Community Bank of West Georgia was 0.14 SD's above the average.

\* Average of banks of the same asset concentration hierarchy



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# Asset: Liability Analysis

	2007Q4	2008Q1	2008Q2	2008Q3 	2008Q4	2009Q1
Asset: Liability Ratio	108.74%	107.84%	108.88%	106.66%	105.67%	103.77%
Median A/L Ratio*	110.95%	110.93%	110.69%	110.65%	110.52%	110.57%
Ranking	Poor	Poor	Poor	Very Poor	Very Poor	Very Poor

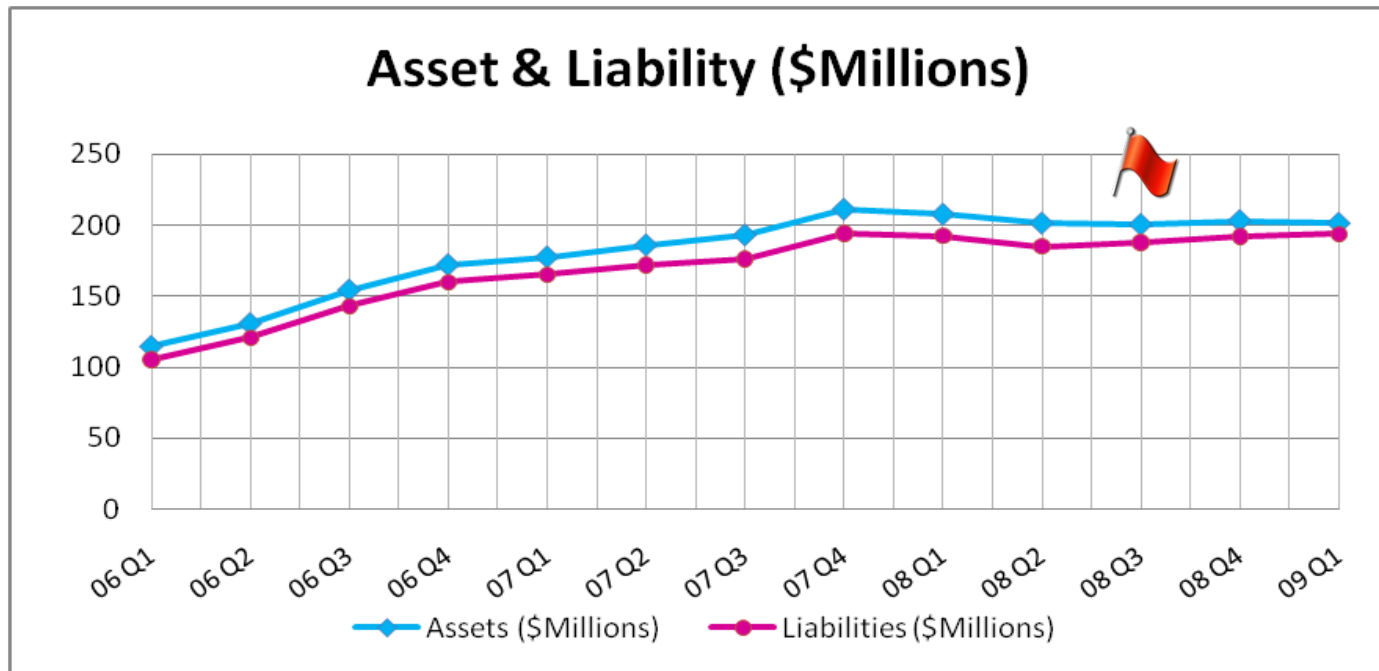
- Community Bank of West Georgia experienced decreasing A/L ratio since 08 Q2.
- The bank fell into the worst ranking in 08 Q3.
- Of the banks failed in Q2 09, 87.50% of them had an A/L ratio under 107%.
- Of the bank with an A/L ratio under 106% in Q1 09, 10.75% failed in the subsequent quarter.

\* Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

# Asset & Liability History

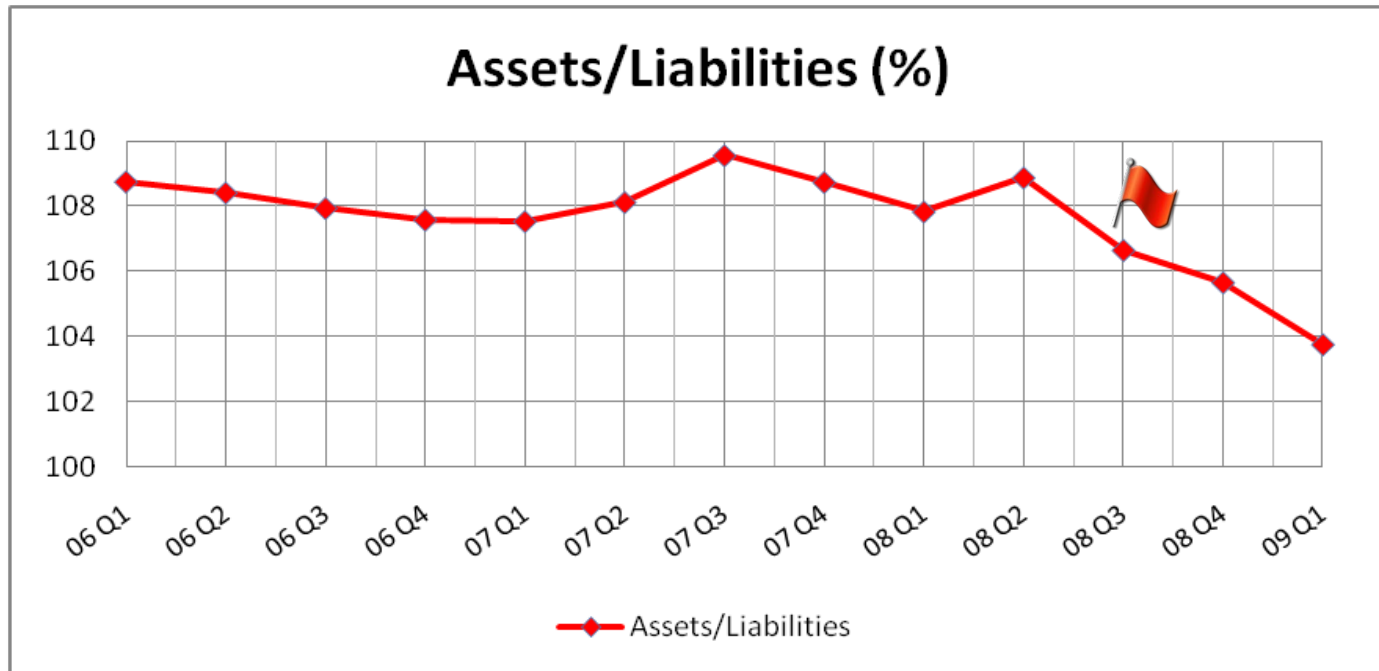


- The difference between asset and liability was getting closer in 08 Q3.



Indicates sign of bank in financial distress

# Asset/Liability History

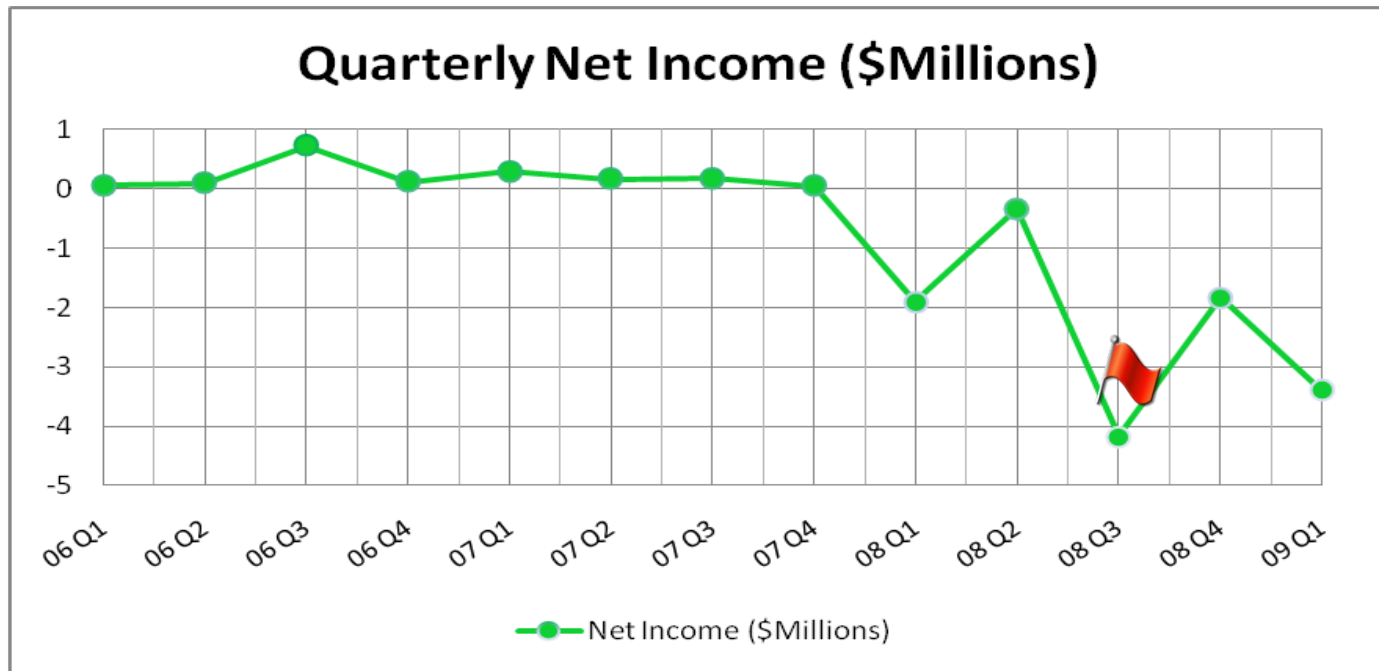


- The A/L ratio was decreasing since 08 Q2.



Indicates sign of bank in financial distress

# Net Income History

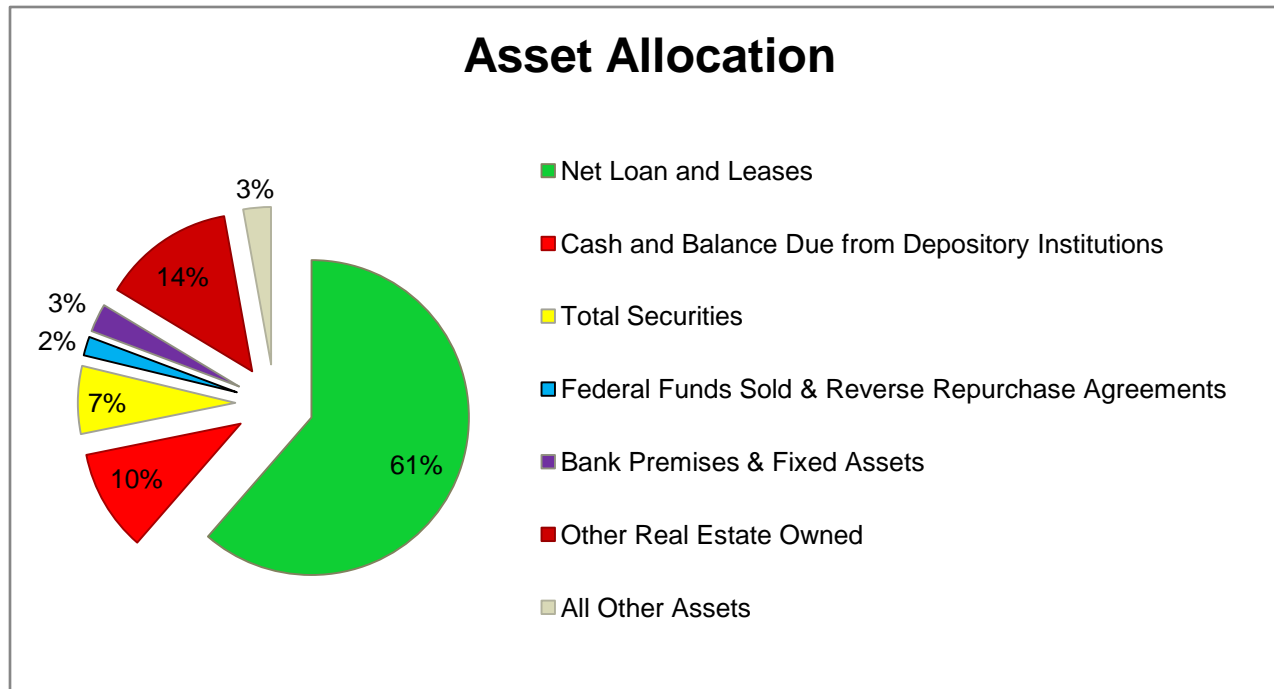


- The bank recorded big losses in the last three quarters prior to failure.
- The bank started reporting losses since 08 Q1.



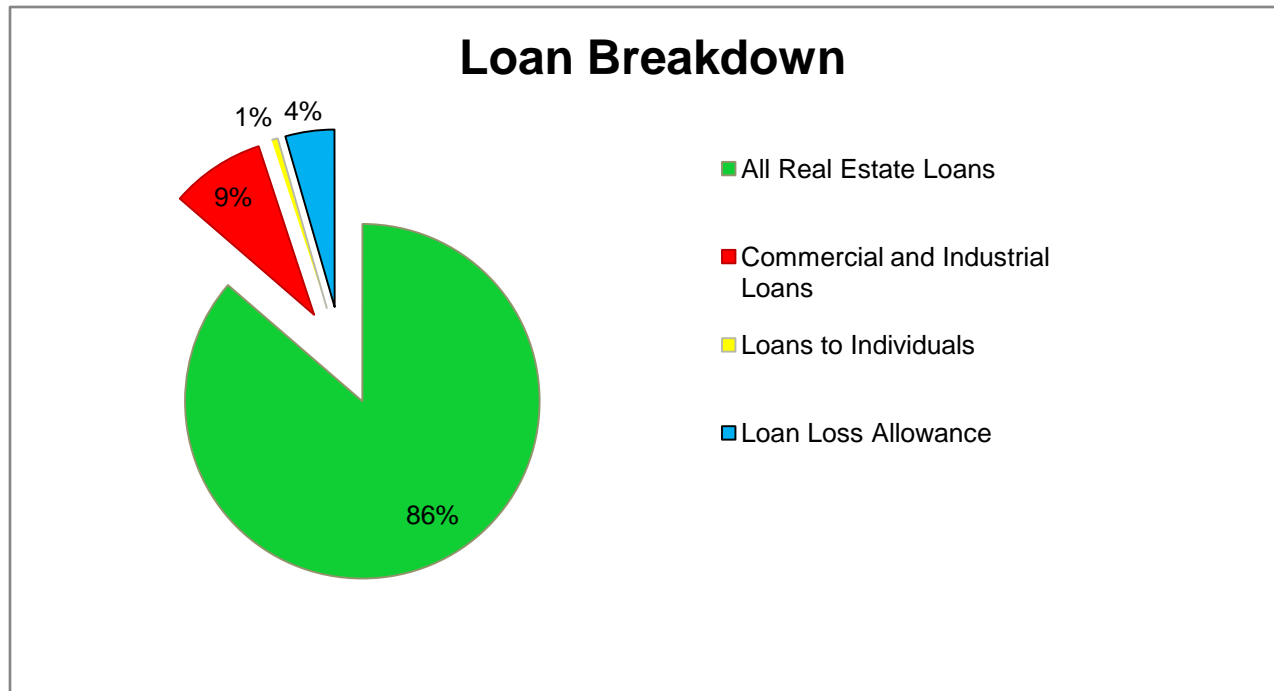
Indicates sign of bank in financial distress

# 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.
- 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.
- Sept. 23, 08** - Reported \$2.2 million in losses during the first 6 months of the year.
- Sept. 23, 08** - Federal and state regulators have ordered Community Bank of West Georgia to improve its management and lending practices.
- 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.

# Events Timeline

- Oct. 19, 08** - Notified the FDIC that its bad loans increased from \$22,000 in 6/2007 to \$10.8 million in 6/2008.
- Nov. 7, 08** - Problem loans increased from 10.66% in 2Q to 23.17% in 3Q.
- 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 expended 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 21, 09** - Given 30 days to shore up capital or else face the possibility of being shut down.
- 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.
- June 26, 09** - Community Bank of West Georgia was closed by the Georgia Department of Banking and Finance. FDIC approved the payout of insured deposits.
- 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, Community Bank of West Georgia, its failure was **not a surprise**.

Here are the indications that Community Bank of West Georgia should fail:

- 1) **The normalized income was negative in 5 out of 6 quarters. It lost 4.5% of its total asset in the last three quarters combined.**
- 2) **Delinquent Loan was accounted to 8% of its total asset in 08 Q3.**
- 3) **The bank's real estate loan: asset analysis was ranked very poor in 3 out of 6 quarters.**
- 4) **Community Bank of West Georgia's asset: liability ratio was ranked between poor and very poor in all 6 quarters. The A/L ratio was 103.77% in 09 Q1, which is much lower than the dangerous line 107%.**
- 5) **Its Bankability Composite Score was 7.45 before its failure, which was considered to be very poor.**

The combination of all these five indications shows that the failure of Community Bank of West Georgia is within our prediction.

# 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.*