



SR003_7: Failed Bank Report

John Warner Bank

301 South Side Square
Clinton, IL 61727

(4/11/1867 – 7/2/2009)

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 #	12093
Parent Holding Company	Scott County Bancorp, Inc.
Bank Charter Class	Commercial Bank
Asset Concentration	Commercial Lending Specialization
Product Specialty	Personal and Business Banking Services, Loans
Number of Branches	3 (as of June 30, 2009)
Number of Employees	23 (as of June 30, 2009)

Executives

CEO/President	Richard Howell
VP	Randy Bruenger
Director/Owner	Doug Campbell

What took place?

John Warner Bank, Clinton, IL was closed by the Illinois Department of Financial and Professional Regulation, Division of Banking, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$10,000,000. All deposits and most assets acquired by State Bank of Lincoln in Lincoln, Ill. The FDIC and State Bank of Lincoln agreed to share future losses on some assets.

Key Performance Indicators

KPI Summary for 2009 Q2	
Normalized Income Rating	Poor
Delinquent Asset Rating	Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Good
Bankability Composite Score	-4.49** (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.

Bank Financial Snapshot

Financial Data Overlay (thousands)			
	2008 Q2	2009 Q2	Percentage Change
Assets	\$ 85,023	\$ 69,609	↓ 18.13%
Liabilities	\$ 77,148	\$ 68,220	↓ 11.57%
Net Income	-\$ 223	-\$ 6,625	↓ 2,870.85%

- The average net income change for all FDIC banks was -176.66% in the same period.
- The average net income change for all the commercial lending specialization banks was -139.89% in the same period.
- Compared with the whole industry and other commercial lending specialization banks, John Warner Bank's decline in Net Income was relatively large (-2,870.85%) during 2009.

Normalized Income Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 	2009Q2
Normalized Income	0.11%	-0.38%	0.01%	-1.82%	-8.03%	-1.31%
SD's from Average*	-0.51	-1.53	-0.25	-1.42	-11.46	-1.18
Ranking	Moderate	Poor	Moderate	Poor	Very Poor	Poor


- John Warner Bank had a normalized income of -1.31% in the second quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average normalized income of -0.17%. The standard deviation of the normalized incomes was 0.96%, which means that John Warner Bank was 1.18 SD's below the average.
- Since the fourth quarter of 2008, John Warner Bank's normalized income in relation to banks of the same asset concentration hierarchy has declined significantly.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Delinquent Asset Analysis

	2008Q1	2008Q2	2008Q3	2008Q4 	2009Q1	2009Q2
Weighted Delinquent Asset	-0.13%	0.15%	2.92%	6.16%	5.59%	4.38%
SD's from Average*	-0.98	-0.90	0.76	2.08	1.57	1.25
Ranking	Good	Good	Moderate	Very Poor	Poor	Poor

- John Warner Bank had a weighted delinquent assets out of total assets ratio of 4.38% in the second quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (commercial lending specialization) had an average weighted delinquent asset of 1.76%. The standard deviation of the delinquent assets was 2.07%, which means that John Warner Bank was about 1.25 SD's above the average.
- John Warner Bank's weighted delinquent assets ratio has shown signs of stress since the fourth quarter of 2008.

*Average of banks of the same asset concentration hierarchy



Indicates sign of bank in financial distress

Real Estate Loan Asset Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Real Estate Loan Asset Ratio	26.64%	25.45%	27.85%	28.72%	30.73%	32.38%
SD from Average*	-0.93	-1.01	-0.89	-1.91	-1.78	-1.69
Ranking	Good	Good	Good	Excellent	Excellent	Excellent

- John Warner Bank had a R/A ratio of 32.38% in 09 Q2, the quarter before it failed.
- In 09 Q2, banks of the same asset concentration hierarchy (commercial lending specialization) had an average R/A ratio of 56.21%. The standard deviation of the R/A ratio was 14.07%, which means that John Warner Bank was actually 1.69 SD's below the average, earning the rank of "Excellent".

* Average of banks of the same asset concentration hierarchy




Indicates sign of bank in financial distress

Asset: Liability Analysis

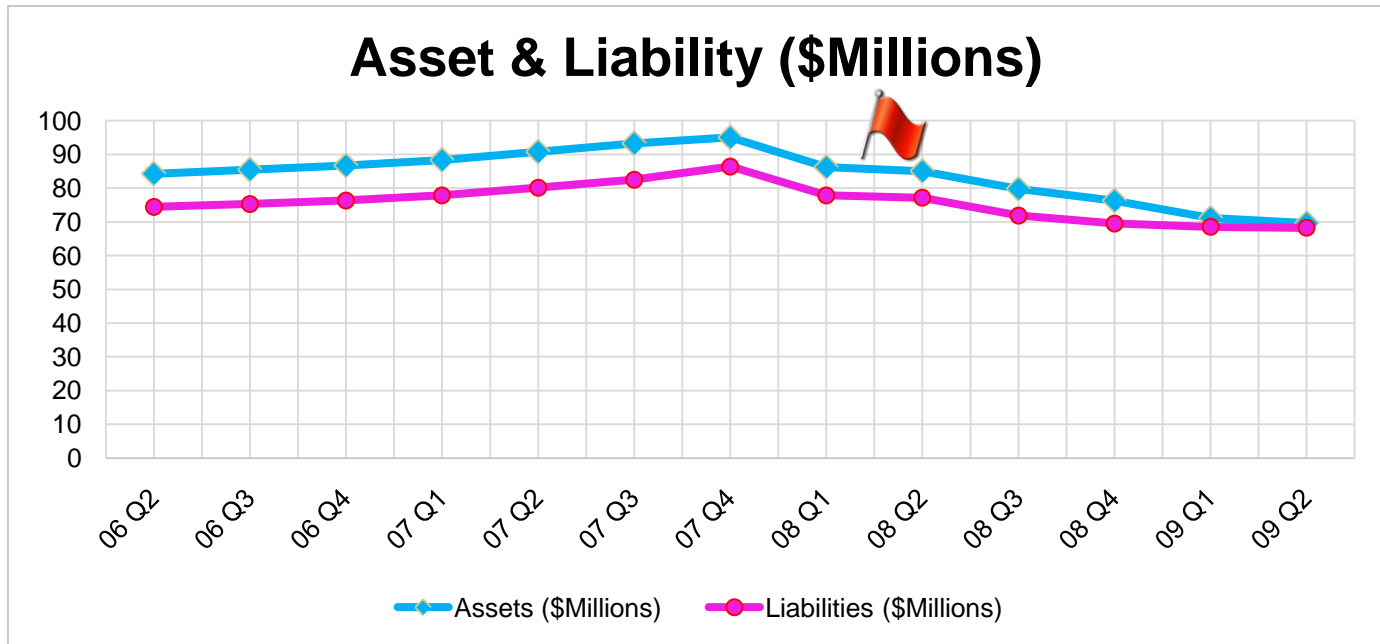
	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 	2009Q2
Asset: Liability Ratio	110.75%	110.21%	110.95%	109.75%	103.81%	102.04%
Median A/L Ratio*	110.92%	110.69%	110.65%	110.51%	110.53%	110.52%
Ranking	Moderate	Moderate	Moderate	Moderate	Very Poor	Very Poor

- John Warner Bank experienced decreasing A/L ratio since 08 Q4, and dropped to 102.04% in the quarter before it failed.
- The median A/L ratio for all banks in the same asset concentration hierarchy (commercial lending specialization) was 110.52% in the same period, meaning that John Warner Bank was over 8% under the median. The median A/L ratio for all banks in 2009 Q2 was 110.98%.
- Of the 50 banks failed in 2009 Q3, 94% of them had an A/L ratio under 107%.

* Median of banks of the same asset concentration hierarchy

 Indicates sign of bank in financial distress

Asset & Liability History

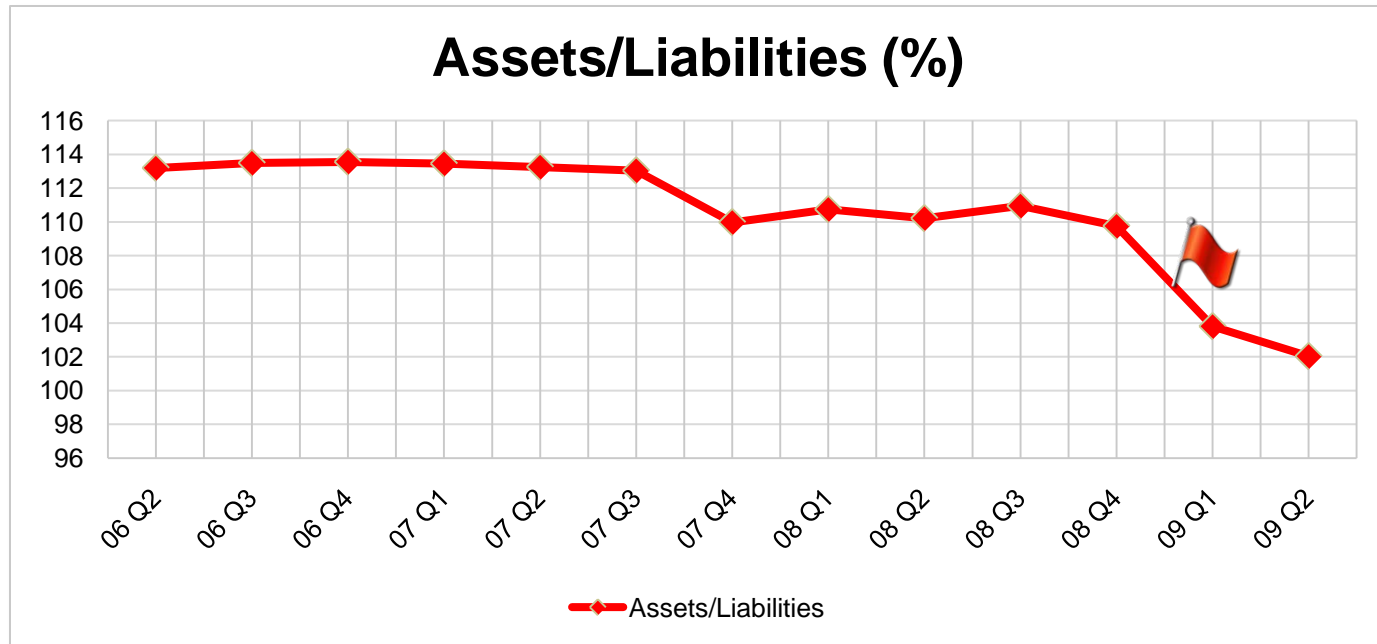


- The difference between asset and liability was decreasing in 08 Q1.



Indicates sign of bank in financial distress

Asset/Liability History

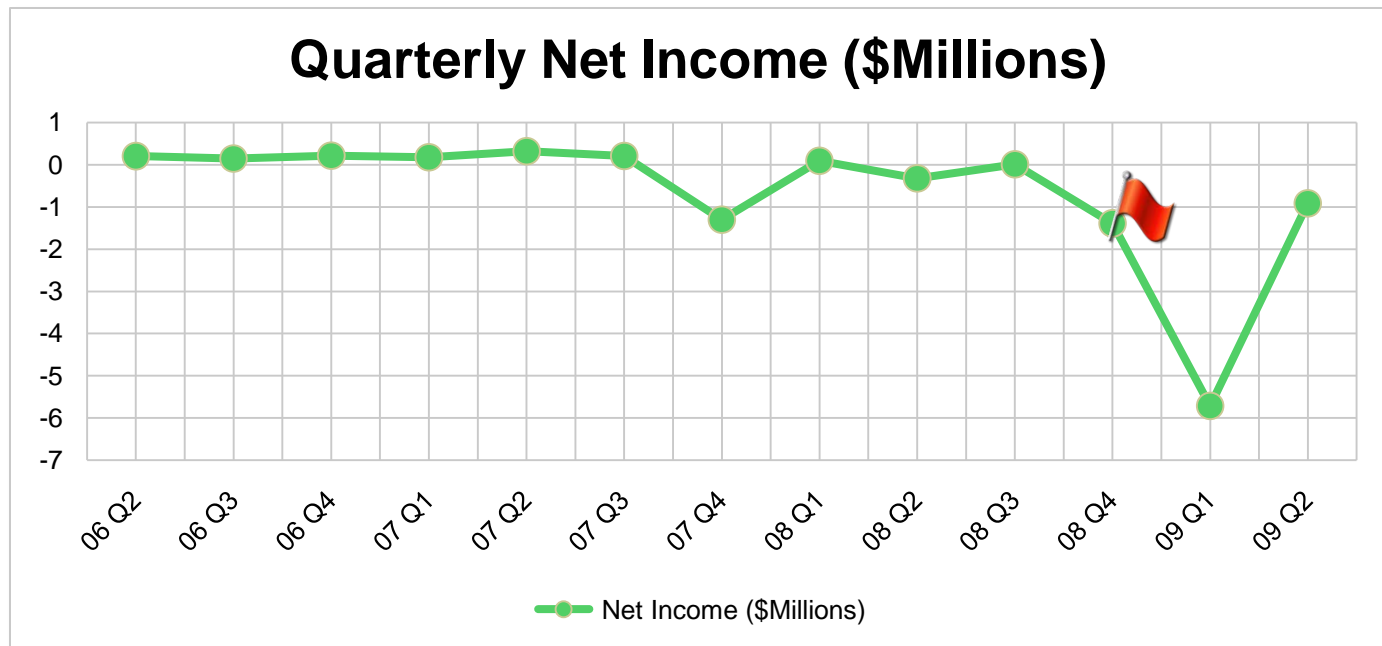


- The A/L ratio has decreased significantly in 08 Q4.



Indicates sign of bank in financial distress

Net Income History

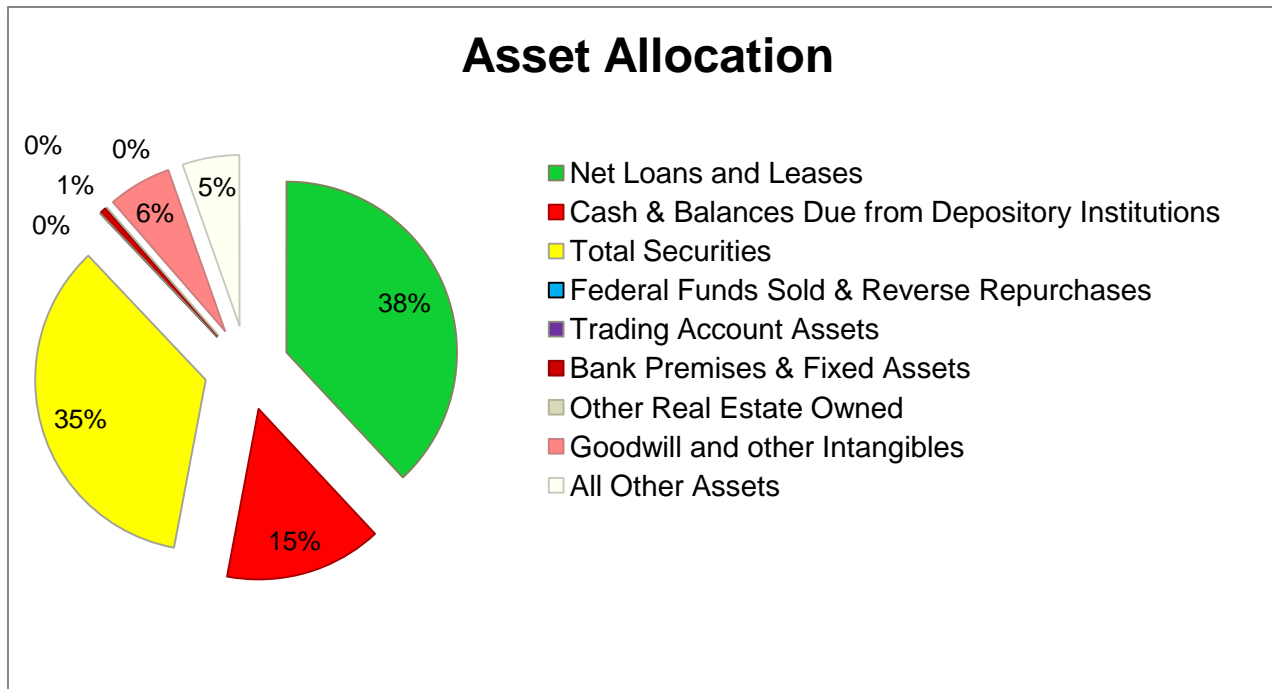


- The bank recorded big losses in the last three quarters prior to failure.
- Quarterly net income remained negative after 08 Q2.



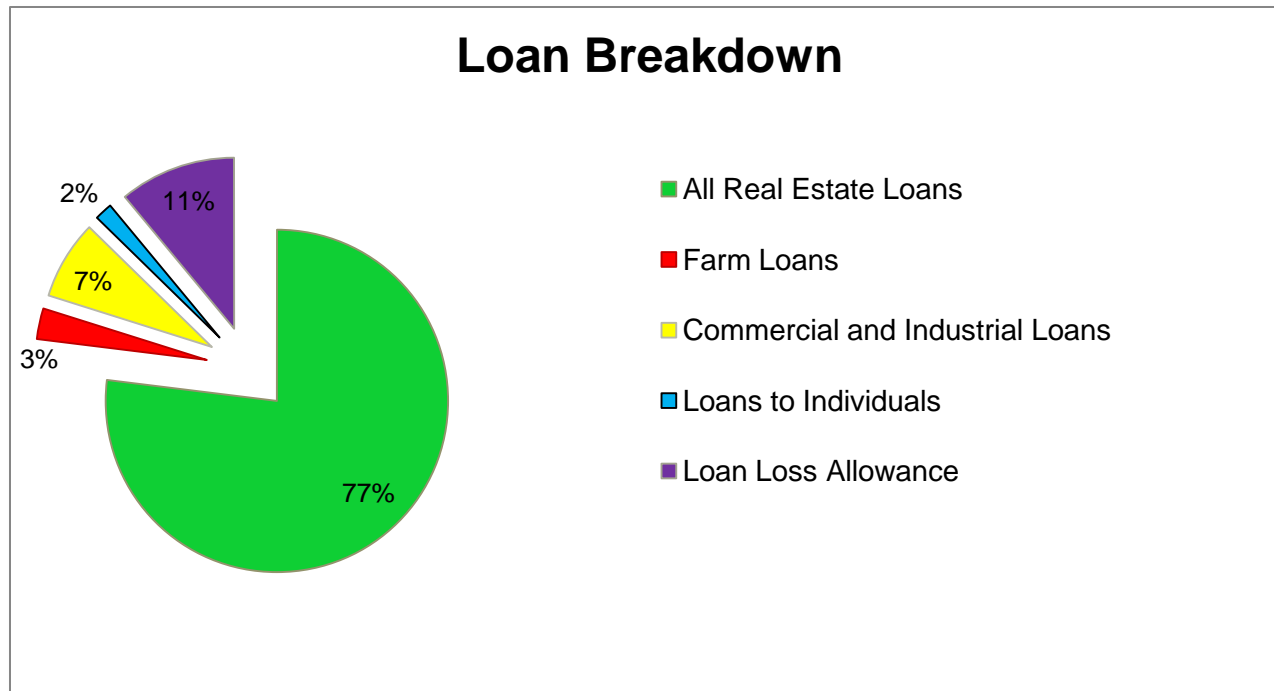
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2009 was 67.77%.
- The average Net Loan percentage of all banks in the second quarter of 2009 was 55.79%.

Loan Breakdown



- The average percentage of Real Estate Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2009 was 68.36%.
- The average percentage for all banks in the second quarter of 2009 was 63.40%.

Events Timeline

- 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.
- 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 commits \$100 billion to boost the TALF.

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. 30, 09** - State Bank of Lincoln paid a premium of 4.1% to acquire deposits.
- May. 1, 09** - The Fed announces that, starting in June, commercial mortgage backed securities and securities backed by insurance premium finance loans will be eligible collateral under the TALF. The Treasury purchases a total of \$45.5 million in preferred stock from 7 U.S. banks under the Capital Purchase Program.
- May. 8, 09** - The Treasury purchases of total of \$42 million in preferred stock from 7 U.S. banks under the Capital Purchase Program.
- May. 13, 09** - The Treasury proposes amendments to the Commodity Exchange Act and securities laws to enhance govt. regulation of over the counter derivatives markets.
- May. 14, 09** - SEC proposed rule amendments to strengthen safeguards of investor funds controlled by investment advisers.
- May. 15, 09** - The Treasury purchases a total of \$107.6 million in preferred stock from 14 U.S. banks under the Capital Purchase Program.

* All internal news are written in [blue color](#).

Events Timeline

- May. 19, 09** - The Fed announces that, starting in July, certain high quality commercial mortgage backed securities issued before Jan. 1, 2009 will become eligible collateral under the TALF.
- May. 20, 09** - President Obama signs the Helping Families Save Their Homes Act of 2009, which temporarily raises FDIC deposit insurance coverage from \$100,000 per depositor to \$250,000 per depositor.
- May. 22, 09** - The Treasury purchases a total of \$108 million in preferred stock from 12 U.S. banks under the Capital Purchase Program.
- 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.
- May. 29, 09** - The Treasury purchases a total of \$89 million in preferred stock from 8 U.S. banks under the Capital Purchase Program.
- June. 1, 09** - The Fed announces the criteria it will use to evaluate redemption application from the 19 bank holding companies that received U.S. Treasury capital as part of the Supervisory Capital Assessment Program.
- June. 5, 09** - The Treasury purchases a total of \$40 million in preferred stock from 3 U.S. bank under the Capital Purchase Program.
- June. 9, 09** - The Treasury announces that 10 of the largest U.S. financial institutions participating in the Capital Purchase Program have met the requirements for repayment established by the primary federal banking supervisors. 10 of the largest U.S financial institutions are expected to make CPP repayments to Treasury.

Events Timeline

- June. 12, 09** - Amendment of accounting and disclosure standards for off balance sheet vehicles. The Treasury purchases a total of \$39 million in preferred stock from 7 U.S. Banks under the Capital Purchase Program.
- June. 19, 09** - The Treasury purchases a total of \$84.7 million in preferred stock from 10 U.S. banks under the Capital Purchase Program.
- June. 24, 09** - The SEC proposes rule amendments designed to strengthen the regulatory framework for money market funds.
- Jul. 2, 09** - FDIC proposed guidelines require private equity firms to hold bank purchases for 3 years and maintain capital levels.
- Jul. 2, 09** - John Warner Bank was closed by Illinois Department of Financial and Professional Regulation.
- Jul. 3, 09** - All deposit accounts have been transferred to State Bank of Lincoln.
- Jul. 8, 09** - The Legacy Securities program is designed to facilitate price discovery to re-deploy capital and extend new credit to households and businesses. Treasury will invest up to \$30 billion of equity and debt.
- Jul. 15, 09** - SEC voted unanimously to propose rule amendments to improve the quality and timeliness of municipal securities disclosure.
- Jul. 29, 09** - SEC announced several actions that would protect against abusive short sales and make more short sale information available to the public.
- * All internal news are written in blue color.

Events Timeline

- Aug. 26, 09** - Banking organizations affected by the new accounting standards generally will be subject to higher minimum regulatory capital requirements. New standards for investors interested in acquiring or investing in the deposit liabilities of failed banks or thrifts.
- Aug. 27, 09** - Aggregate net loss of \$3.7 billion in the second quarter of 2009, a decline of \$8.5 billion from the \$4.8 billion in profits the industry reported in the second quarter of 2008.
- Sep. 9, 09** - FDIC Board adopted a Notice of Proposed Rulemaking (NPR) that reaffirms the expiration of the debt guarantee component of the Temporary Liquidity Guarantee Program.
- Sep. 17, 09** - SEC voted unanimously to take several rulemaking actions to bolster oversight of credit ratings agencies by enhancing disclosure and improving the quality of credit ratings.
- Sep. 24, 09** - Credit quality declined sharply for loan commitments of \$20 million or more held by multiple federally supervised institutions.
- Sep. 28, 09** - SEC (Section 31) fee rate applicable to securities transactions on the exchanges and in the over-the-counter markets will be set at \$12.70 per million dollars.
- Sep. 29, 09** - Institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012.

Report Summary – *Surprise?*

Based on the methods with which we analyzed John Warner Bank, its failure was ***not a surprise***.

Here are the indications that John Warner Bank should fail:

- 1) **John Warner Bank's normalized income experienced a total loss (of its total assets) of over 11% over the last 3 quarters.**
- 2) **The bank had a mounting volume of delinquent assets in the quarters before its failure.**
- 3) **The bank's asset to liability ratio dropped below 107% two quarters prior to failure. It had a 102.04% ratio the quarter before it failed.**
- 4) **John Warner Bank had a bankability composite score of -4.49 the quarter before it failed, indicating the bank's very poor overall financial health and likelihood to fail.**

References

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