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SR003_7: Failed Bank Report

BankFirst

6100 S. Old Village Place
Sioux Falls, SD 57108

(12/7/2005 –7/17/2009)

http://www.moneyeconomics.com

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 #	**34103**
Parent Holding Company	Marshall BankFirst Corporation
Bank Charter Class	Commercial Bank
Asset Concentration	Commercial Lending Specialization
Product Specialty	Personal and Business Banking Services
Number of Branches	2 (as of June 30, 2009)
Number of Employees	68 (as of June 30, 2009)

Executives	
President	Mert Lund
CFO	Timothy Kosiek
COO	David King

What took place?

BankFirst, Sioux Falls, SD was closed by the South Dakota Division of Banking, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is $91,000,000. All deposits and some assets acquired by Alerus Financial of Grand Forks, N.D.. The FDIC sold $177 million of the failed bank’s loans to Beal Bank of Nevada.

Key Performance Indicators

KPI Summary for 2009 Q2	
Normalized Income Rating	**Very Poor**
Delinquent Asset Rating	**Moderate**
Asset: Liability Rating	**Very Poor**
Real Estate Asset Rating*	**Moderate**
Bankability Composite Score	**-161.64**(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	$ 346,300	$ 210,840	↓ 39.12%
Liabilities	$ 304,270	$ 235,620	↓22.56%
Net Income	-$ 68,310	-$ 57,830	↑15.34%

- 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.
- BankFirst had a positive change (15.34%) in net income in 2009.

Normalized Income Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Normalized Income	-3.33%	-15.72%	-2.87%	-1.25%	-5.18%	-20.61%
SD's from Average*	-6.91	-23.99	-3.39	-0.90	-7.37	-21.19
Ranking	Very Poor	Very Poor	Very Poor	Moderate	Very Poor	Very Poor

- BankFirst had a normalized income of -20.61% 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 BankFirst was more than 21 SD's below the average.
- Since the first quarter of 2008, BankFirst's normalized income in relation to banks of the same asset concentration hierarchy has been in financial distress.

*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	7.99%	3.78%	3.16%	0.73%	0.27%	3.68%
SD's from Average*	3.36	1.28	0.84	-0.47	-0.70	0.92
Ranking	Very Poor	Poor	Moderate	Good	Good	Moderate

- BankFirst had a weighted delinquent assets out of total assets ratio of 3.68% 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 BankFirst was 0.92 SD's above the average.
- BankFirst's weighted delinquent assets ratio had been improving in the 6 quarters prior to its failure, and was relatively healthy prior to its failure.

*Average of banks of the same asset concentration hierarchy

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Real Estate Loan Asset Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Real Estate Loan Asset Ratio	57.83%	63.95%	58.05%	55.23%	52.55%	49.79%
SD from Average*	0.14	0.50	0.09	-0.10	-0.26	-0.45
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

- BankFirst had a R/A ratio of 49.79% 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 BankFirst was actually 0.45 SD's below the average, earning the rank of "Moderate"

* Average of banks of the same asset concentration hierarchy


Indicates sign of bank in financial distress

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Asset: Liability Analysis

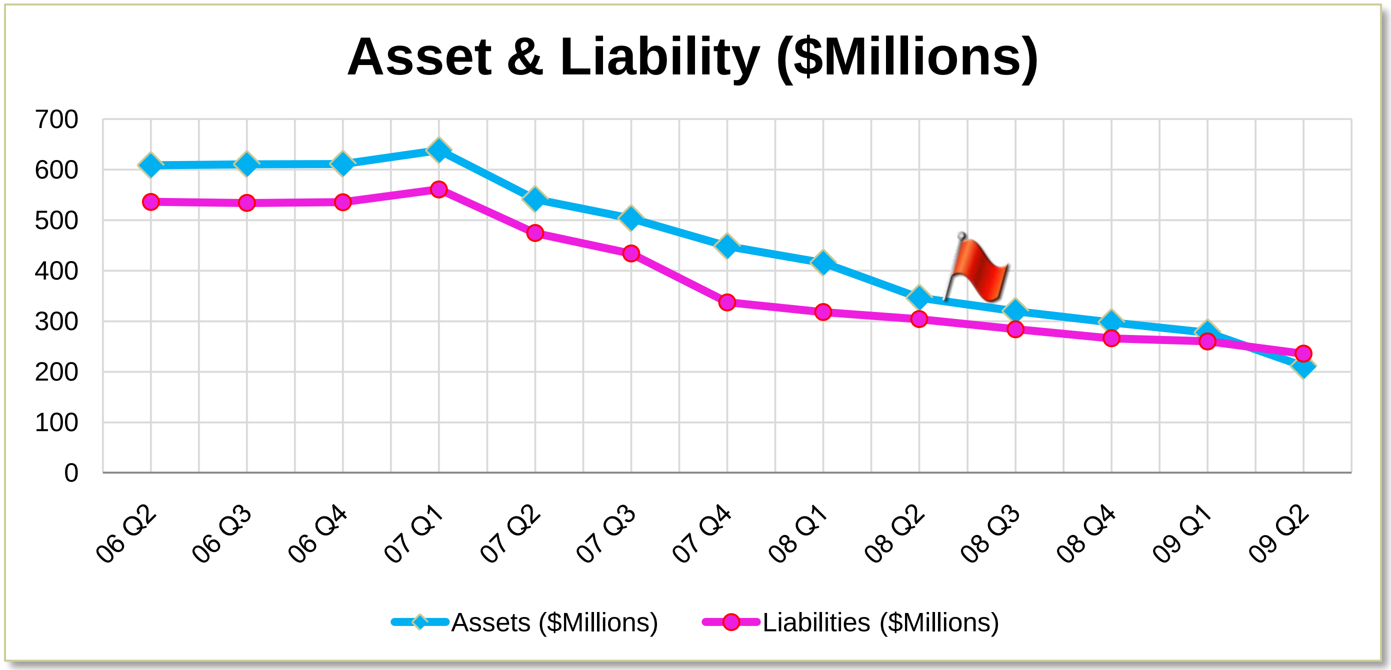
	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Asset: Liability Ratio	130.62%	113.81%	112.61%	111.88%	106.71%	89.49%
Median A/L Ratio*	110.92%	110.69%	110.65%	110.51%	110.53%	110.52%
Ranking	Excellent	Good	Moderate	Moderate	Very Poor	Very Poor

- BankFirst's A/L ratio had been declining every quarter prior to its failure, and it dropped to 89.49% in the quarter before it failed, where its liabilities exceeded its assets.
- 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 BankFirst was more than 21% 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

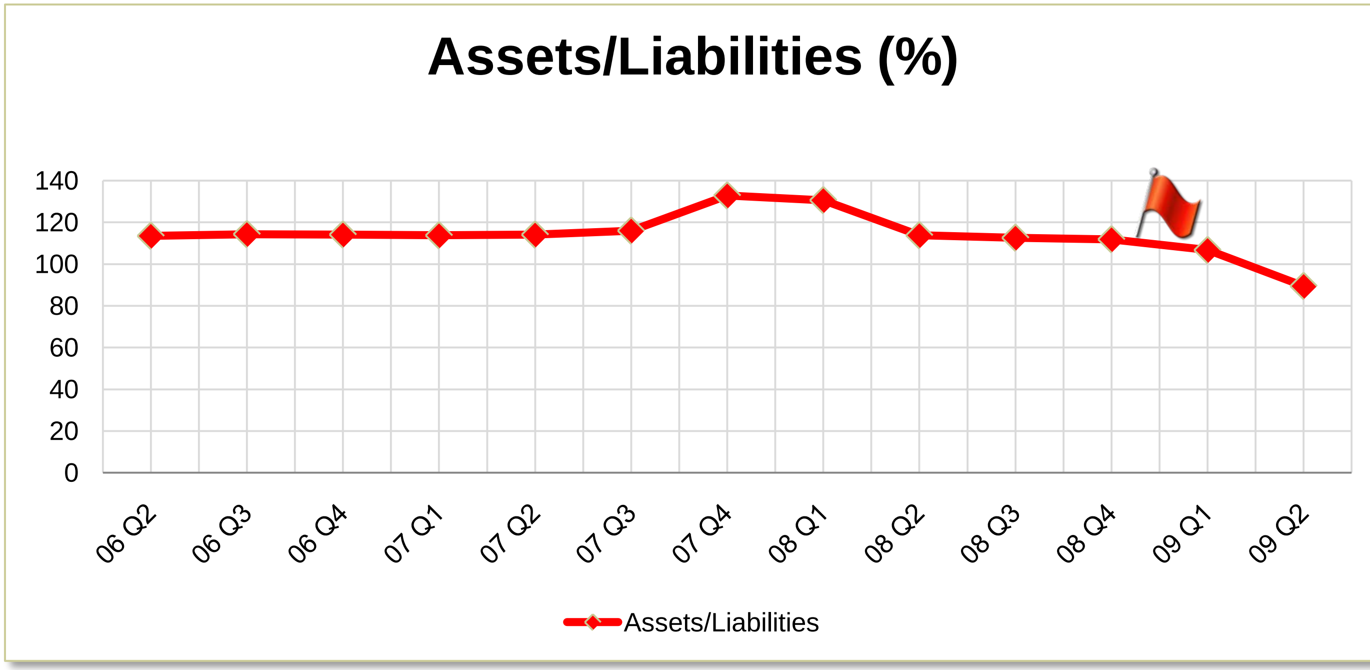
Asset & Liability History



- The difference between asset and liability was getting closer in 08 Q2.

Indicates sign of bank in financial distress

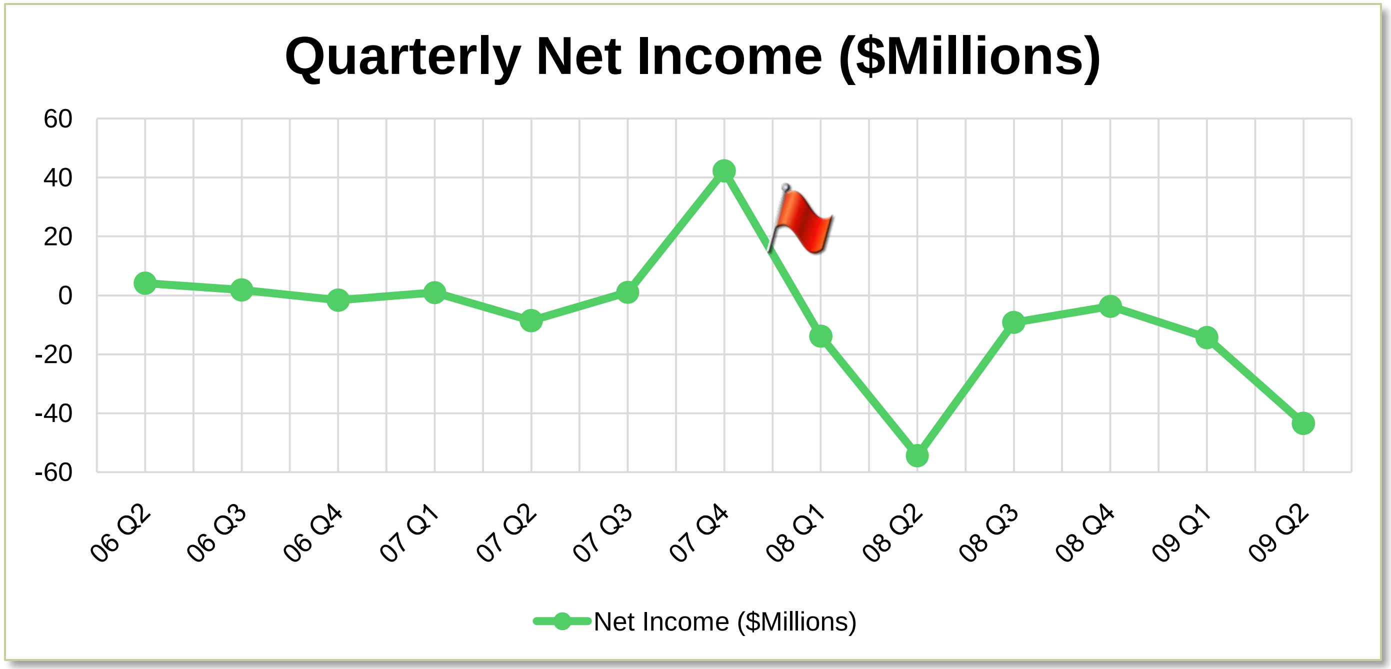
Asset/Liability History



- The A/L ratio starts to decrease faster after 08 Q4.

Indicates sign of bank in financial distress

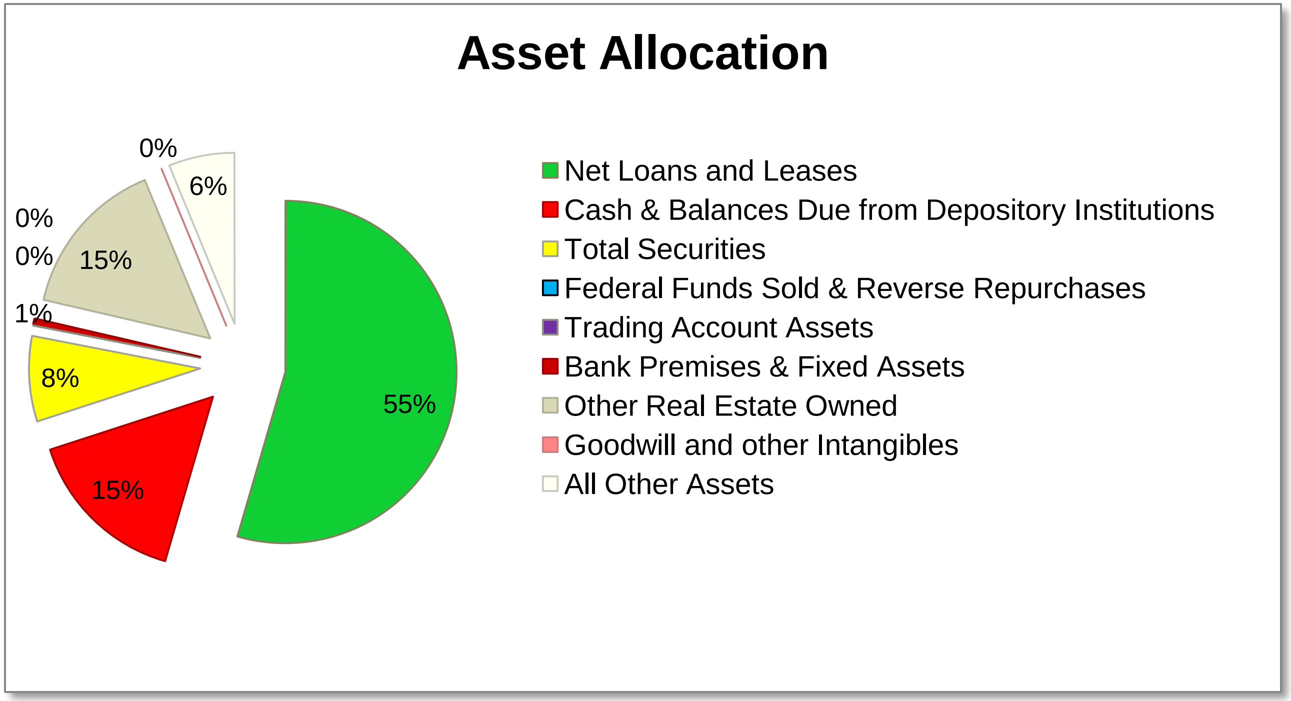
Net Income History



- Net income dropped steeply after 07 Q3.
- Quarterly net income has remained unstable.

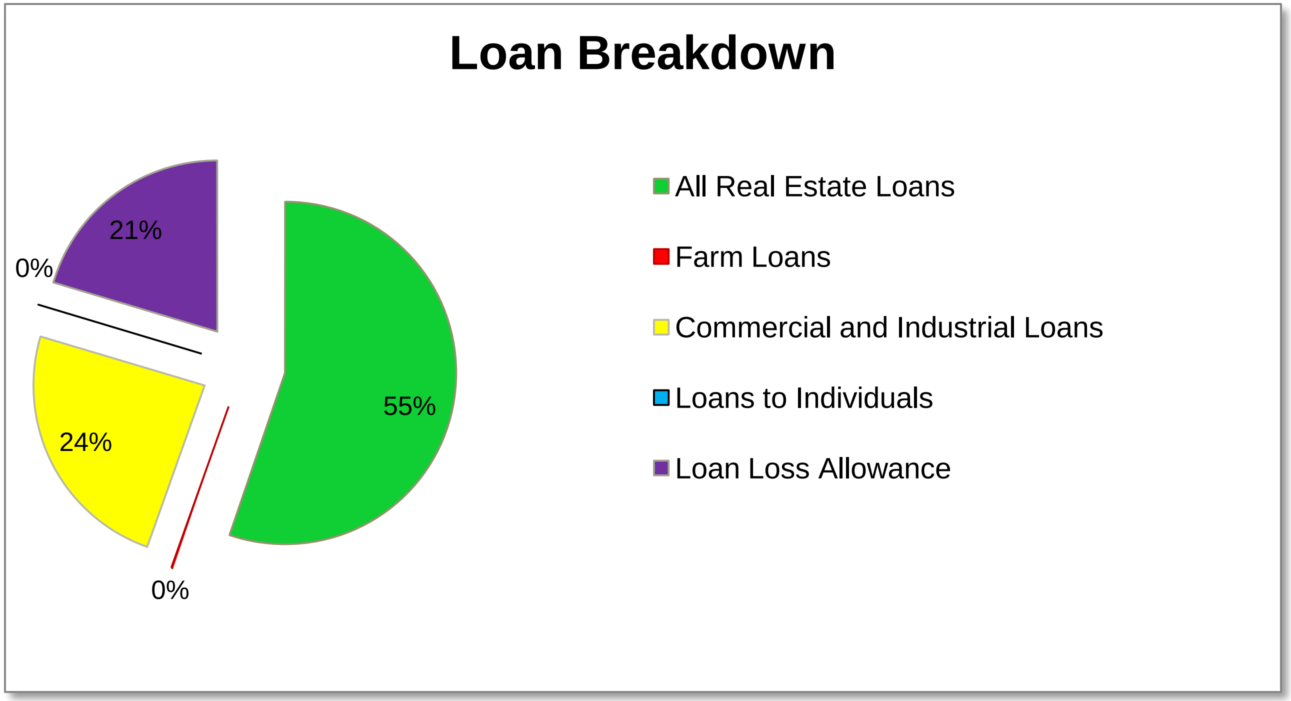

Indicates sign of bank in financial distress

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 I 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.

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Events Timeline

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. 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 - 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 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.

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Events Timeline

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 3 years and maintain capital levels.

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. 17, 09 - BankFirst was closed by South Dakota Division of Banking. Alerus Financial will be taking all of its deposits.

Jul. 29, 09 - SEC announced several actions that would protect against abusive short sales and make more short sale information available to the public.

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.

* All internal news are written in blue color.

Events Timeline

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 BankFirst, its failure was ***not a surprise***.

Here are the indications that BankFirst should fail:

1) **BankFirst's normalized income experienced a total loss (of its total assets) of almost 26% over the last 2 quarters.**
2) **The bank had a fair amount 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 89.49% ratio the quarter before it failed.**
4) **BankFirst had a bankability composite score of -161.64 the quarter before it failed, indicating the bank's very poor overall financial health and likelihood to fail.**

References

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