SR003_7: Failed Bank Report

Temecula Valley Bank

27710 Jefferson Ave, Suites

Temecula, CA 92590

(12/16/1996 – 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 #	34341
Parent Holding Company	Temecula Valley Bancorp Inc.
Bank Charter Class	Commercial Bank
Asset Concentration	Commercial Lending Specialization
Product Specialty	Personal and Business Banking Services
Number of Branches	20 (as of June 30, 2009)
Number of Employees	198 (as of June 30, 2009)

Executives (Parent Holding Company)	
President/Director	Martin E. Plourd
CEO/Director	Frank Basirico Jr.
CFO	Philip Guldeman

What took place?

Temecula Valley Bank, Temecula, CA was closed by the California Department of Financial Institutions, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is $391,000,000. All non-brokered deposits and most assets acquired by First-Citizens Bank and Trust Co. in Raleigh, N.C.. First-Citizens and the FDIC agreed to share future losses on $1,300,000,000 of assets.

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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*	Very Poor
Bankability Composite Score	-8.52**(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	**$ 1,461,730**	**$ 1,396,620**	**↓4.45%**
Liabilities	**$ 1,309,970**	**$ 1,375,250**	**↑4.98%**
Net Income	**$ 660**	**-$ 72,870**	**↓ 11,140.91%**

- 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, Temecula Valley Bank's decline in Net Income was very large (-11,140.91%) during 2009.

Normalized Income Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Normalized Income	0.15%	-0.10%	-0.20%	-3.59%	-2.35%	-2.71%
SD's from Average*	0.08	-0.20	-0.17	-3.05	-3.31	-2.63
Ranking	Moderate	Moderate	Moderate	Very Poor	Very Poor	Very Poor

- Temecula Valley Bank had a normalized income of -2.71% 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 Temecula Valley Bank was 2.63 SD's below the average.
- Since the second quarter of 2008, Temecula Valley Bank's normalized income in relation to banks of the same asset concentration hierarchy has declined.

*Average of banks of the same asset concentration hierarchy

Indicates sign of bank in financial distress

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Delinquent Asset Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Weighted Delinquent Asset	1.45%	2.19%	2.25%	3.82%	2.28%	2.58%
SD's from Average*	-0.04	0.43	0.38	0.99	0.16	0.39
Ranking	Good	Moderate	Moderate	Moderate	Moderate	Moderate

- Temecula Valley Bank had a weighted delinquent assets out of total assets ratio of 2.58% 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 Temecula Valley Bank was 0.39 SD's above the average.
- Temecula Valley Bank's weighted delinquent assets ratio has been relatively moderate and showed little stress in the 6 quarters 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	85.93%	83.98%	83.49%	83.78%	81.13%	77.73%
SD from Average*	2.00	1.84	1.80	1.85	1.73	1.53
Ranking	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor

- Temecula Valley Bank had a R/A ratio of 77.73% 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 Temecula Valley Bank was actually 1.53 SD's above the average, earning the rank of "Poor".
- Temecula Valley Bank has had a R/A rank of "Very Poor" since the first quarter of 2008.

* Average of banks of the same asset concentration hierarchy

Indicates sign of bank in financial distress

Asset: Liability Analysis

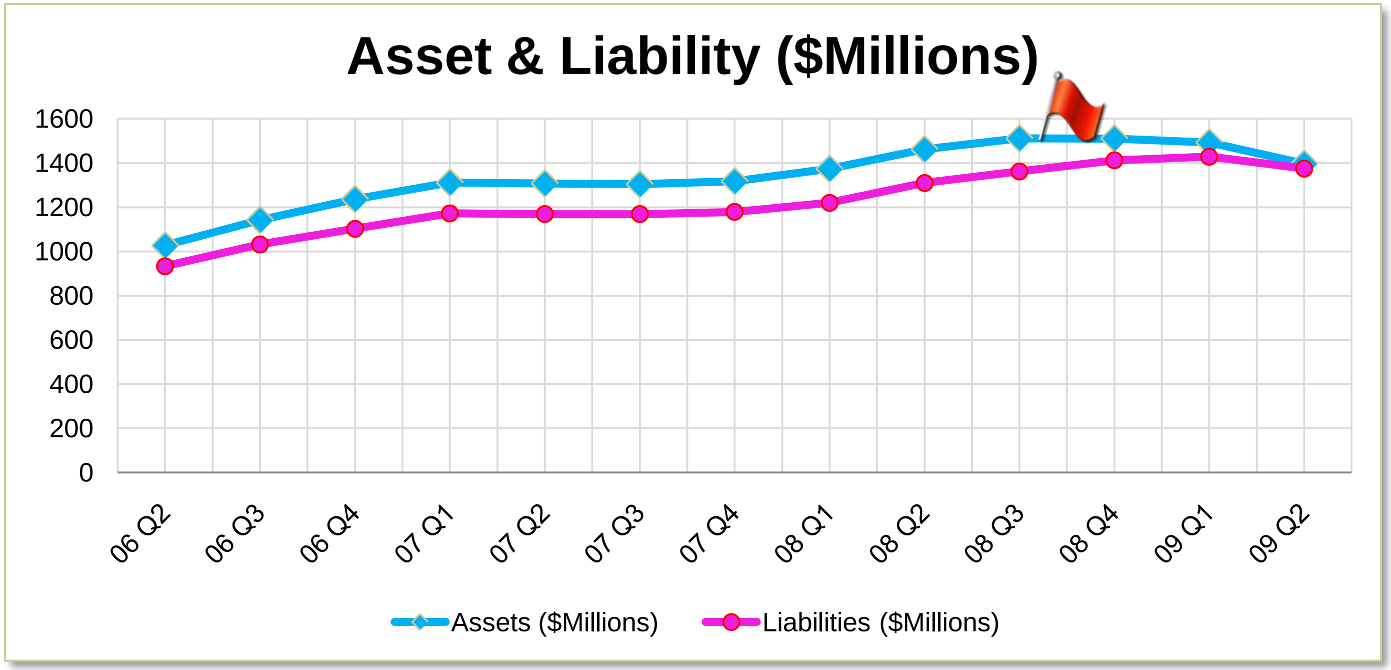
	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Asset: Liability Ratio	112.54%	111.59%	110.93%	106.97%	104.46%	101.55%
Median A/L Ratio*	110.92%	110.69%	110.65%	110.51%	110.53%	110.52%
Ranking	Moderate	Moderate	Moderate	Very Poor	Very Poor	Very Poor

- Temecula Valley Bank's A/L ratio had been declining in every quarter prior to its failure, and it dropped to 101.55% 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 Temecula Valley Bank was almost 9% 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%.

* 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

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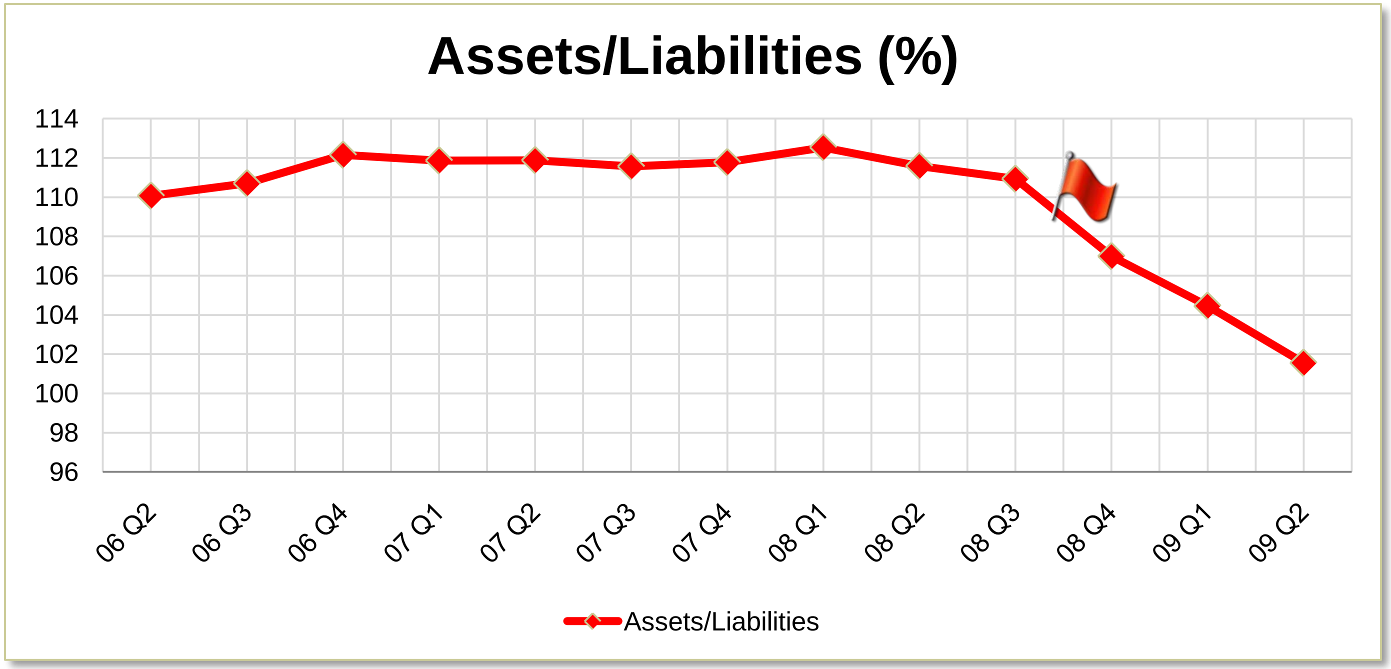
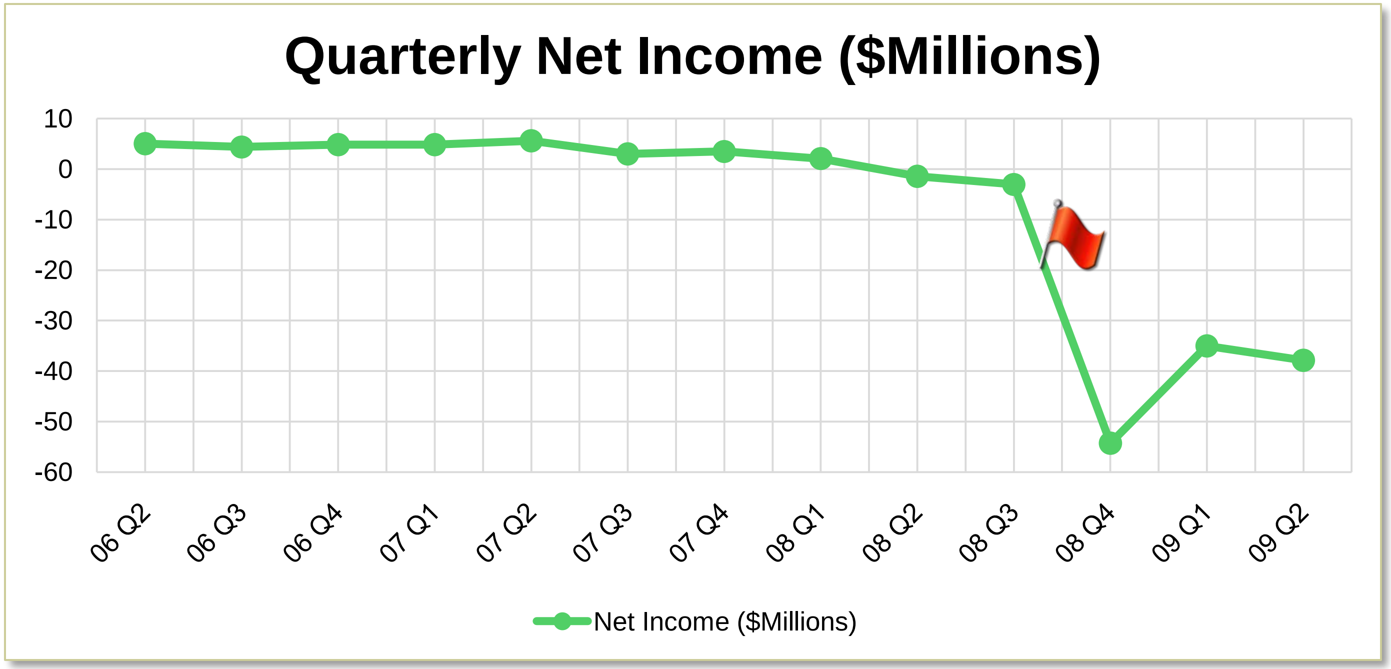
Asset/Liability History



- The A/L ratio was decreasing faster after 08 Q2.

Indicates sign of bank in financial distress

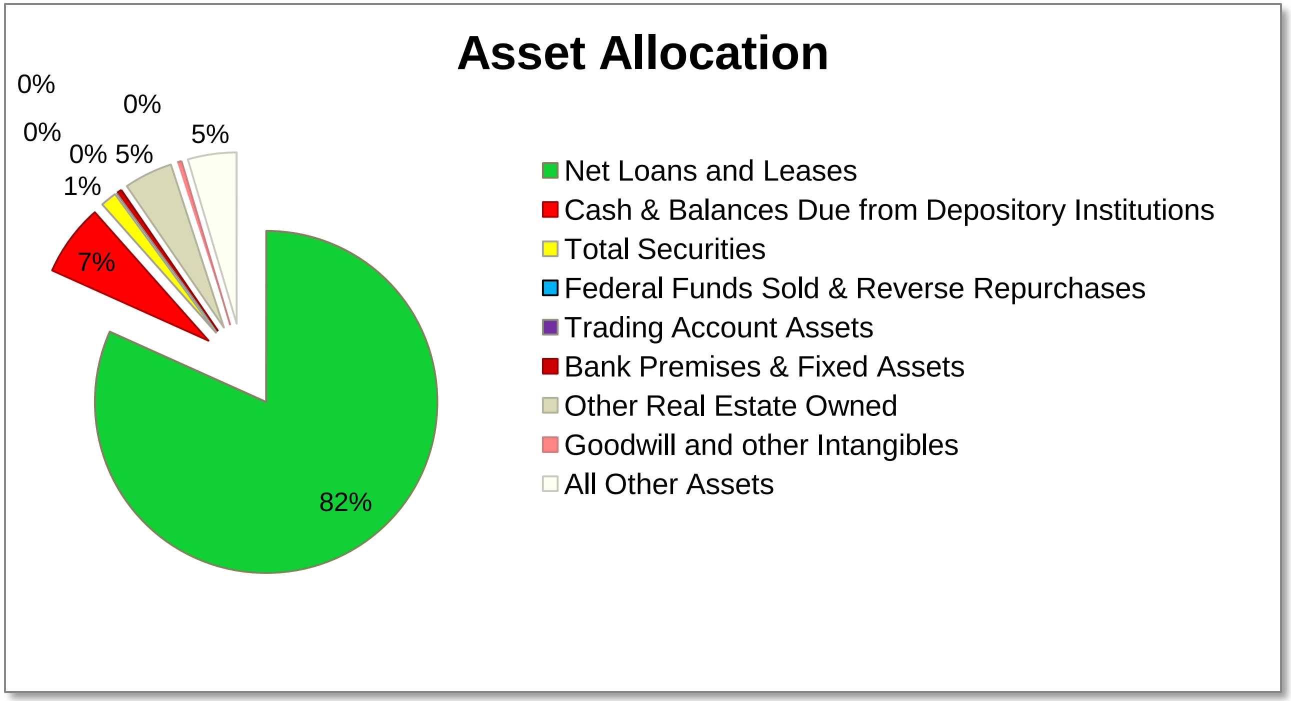
Net Income History



- The bank recorded big losses in the last three quarters prior to failure.
- Net income dropped steeply after 08 Q2.

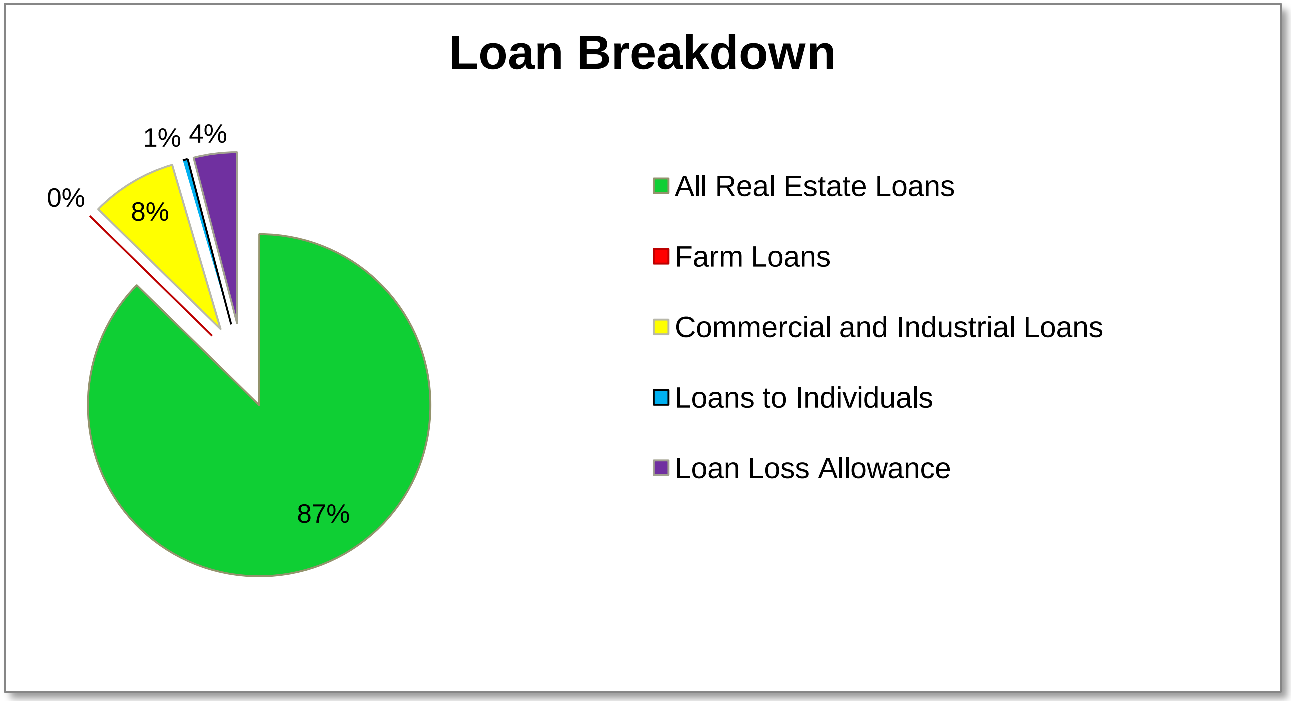
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the 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 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%.

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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 6, 09 – The bank cut 12% of its work force and sharply curtailed its lending outside California as it struggled with bad loans.

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.

* All internal news are written in blue color.

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 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.

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 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.

Events Timeline

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.

Jun 9, 09 - 10 of the largest U.S financial institutions are expected to make CPP repayments to Treasury.

Jul 1, 09 - A proposed $210 million capital infusion from Bancroft Capital won't happen and the bank needs an alternate solution. Temecula Valley Bank was supposed to comply with a cease and desist order.

Jul 2, 09 - FDIC proposed guidelines require private equity firms to hold bank purchases for 3yrs 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 - Temecula Valley Bank was closed by the California Department of Financial Institutions. First-Citizens Bank and Trust Company will assume all 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.

* 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 Temecula Valley Bank, its failure was ***not a surprise****.*

Here are the indications that Temecula Valley Bank should fail:

1) **The Temecula Valley Bank's normalized income experienced a total loss (of its total assets) of almost 9% over the last 3 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% three quarters prior to failure. It had a 101.55% ratio the quarter before it failed.**
4) **Temecula Valley Bank had a bankability composite score of -8.52 the quarter before it failed, indicating the bank's very poor overall financial health and likelihood to fail.**

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