



SR003_7: Failed Bank Report

First State Bank of Altus

721 North Main Street

Altus, OK 73521

(1/1/1909 –7/31/2009)

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 #	9873
Parent Holding Company	FSB Bancorp, Inc.
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	43 (as of June 30, 2009)

Executives

Acting CEO	Edward Green
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What took place?

First State Bank of Altus, Altus, OK was closed by the Oklahoma State Banking Department, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$25,200,000. All deposits and most of the loans acquired by Herring Bank.

Key Performance Indicators

KPI Summary for 2009 Q2	
Normalized Income Rating	Very Poor
Delinquent Asset Rating	Very Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	-179.51**(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	\$ 124,090	\$ 90,870	↓ 26.77%
Liabilities	\$ 118,260	\$ 98,620	↓ 16.61%
Net Income	-\$ 3,780	-\$ 13,140	↓ 247.62%

- 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, First State Bank of Altus' decline in Net Income was relatively large (-247.62%) during 2009.

Normalized Income Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2 
Normalized Income	0.19%	-3.23%	-1.03%	-0.13%	-0.33%	-14.08%
SD's from Average*	0.15	-4.97	-1.17	0.12	-0.42	-14.42
Ranking	Moderate	Very Poor	Poor	Moderate	Moderate	Very Poor

- First State Bank of Altus had a normalized income of -14.08% 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 First State Bank of Altus was more than 14 SD's below the average.
- Since the second quarter of 2008, First State Bank of Altus' 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

Delinquent Asset Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1 	2009Q2
Weighted Delinquent Asset	16.12%	15.66%	18.52%	22.14%	31.36%	24.94%
SD's from Average*	7.59	7.65	8.58	9.60	12.58	11.09
Ranking	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor

- First State Bank of Altus had a weighted delinquent assets out of total assets ratio of 24.94% 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 First State Bank of Altus was 11.09 SD's above the average.
- First State Bank of Altus' weighted delinquent assets ratio has been extremely unhealthy for all 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	45.44%	47.00%	50.35%	53.37%	53.40%	56.32%
SD from Average*	-0.67	-0.62	-0.43	-0.23	-0.20	0.01
Ranking	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

- First State Bank of Altus had a R/A ratio of 56.32% 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 First State Bank of Altus was actually 0.01 SD's above the average, earning the rank of "Moderate".

* Average of banks of the same asset concentration hierarchy



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Asset: Liability Analysis

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2 
Asset: Liability Ratio	109.00%	104.93%	104.90%	105.50%	105.18%	92.14%
Median A/L Ratio*	110.92%	110.69%	110.65%	110.51%	110.53%	110.52%
Ranking	Poor	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor

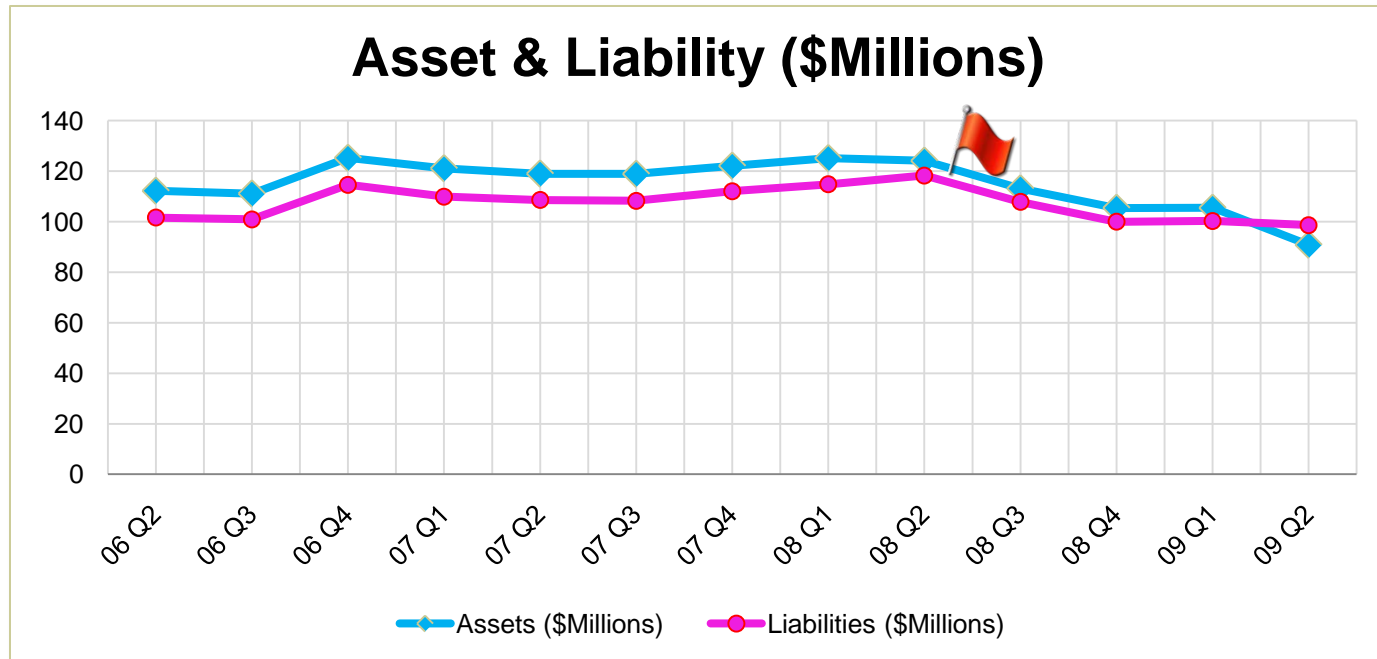
- First State Bank of Altus' A/L ratio had been declining in every quarter prior to its failure, and it dropped to 92.14% in the quarter before it failed, where its liabilities exceeded its assets.
- The median A/L ratio for all banks in the same asset concentration hierarchy (commercial lending specialization) was 110.52% in the same period, meaning that First State Bank of Altus was over 18% 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

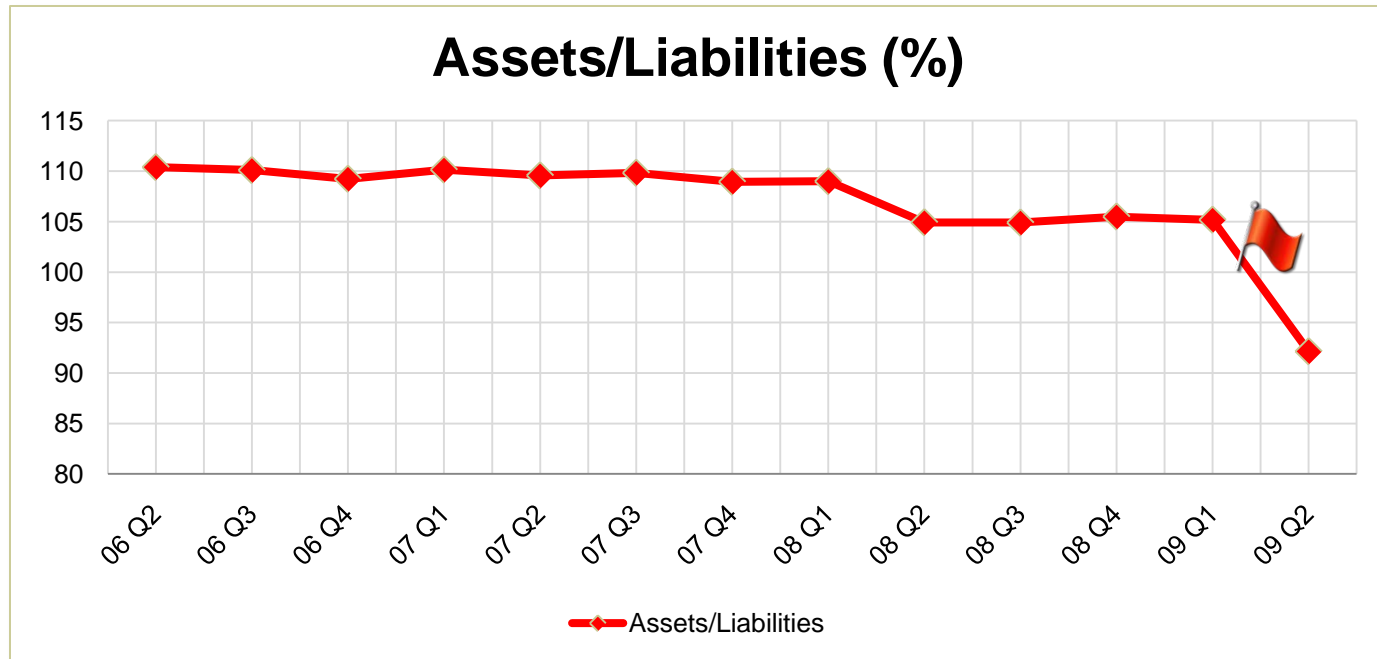


- The difference between asset and liability was getting closer in 08 Q2.



Indicates sign of bank in financial distress

Asset/Liability History

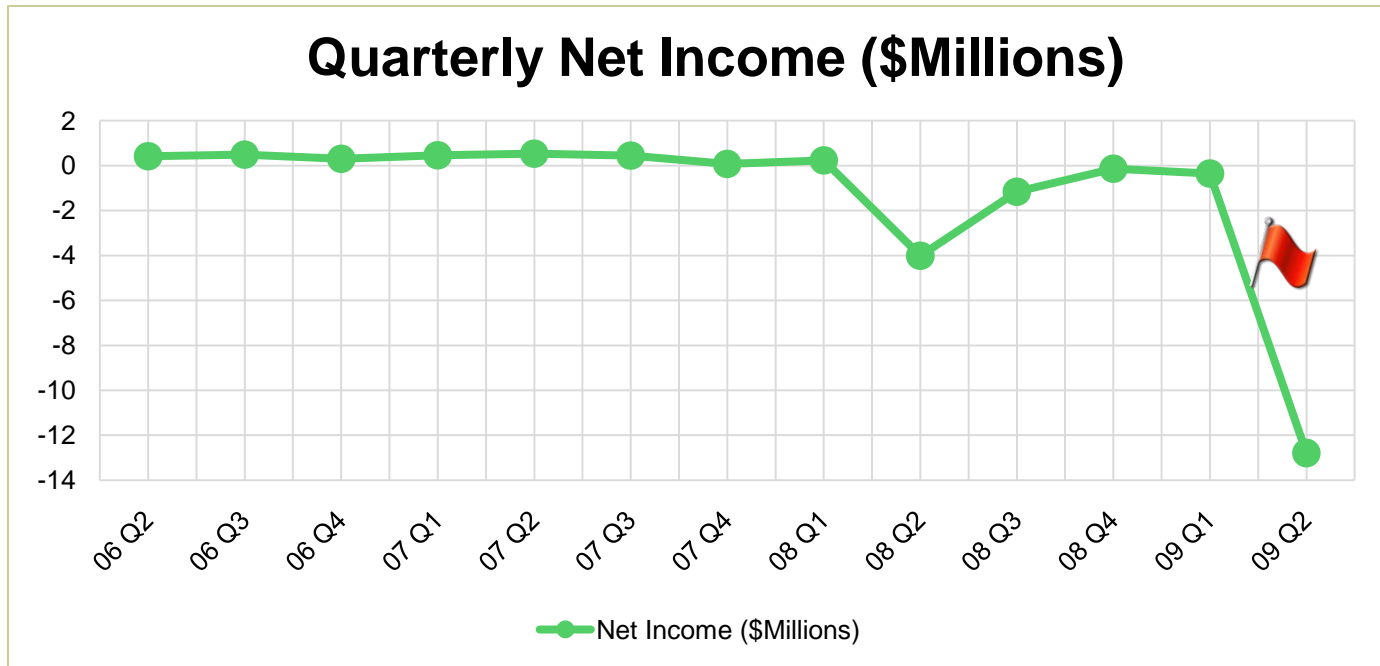


- The A/L ratio drops to a dangerous level in 09 Q1.



Indicates sign of bank in financial distress

Net Income History

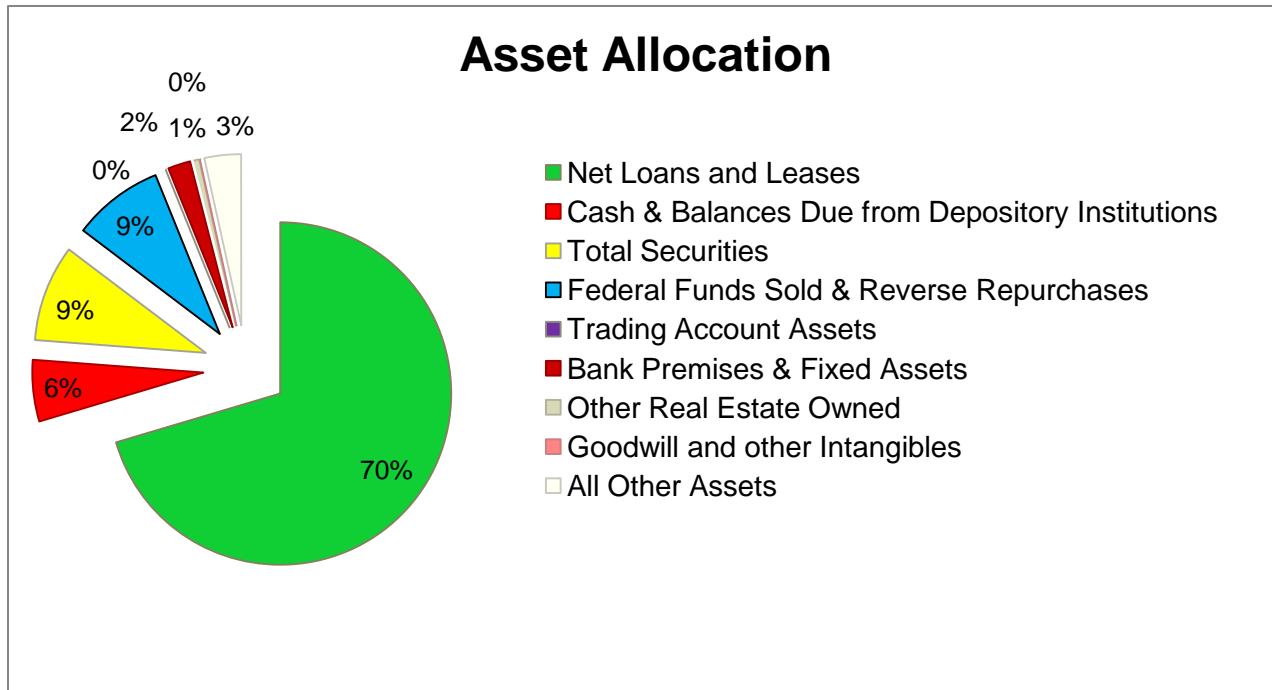


- Net income decreases by a lot in 09 Q1.



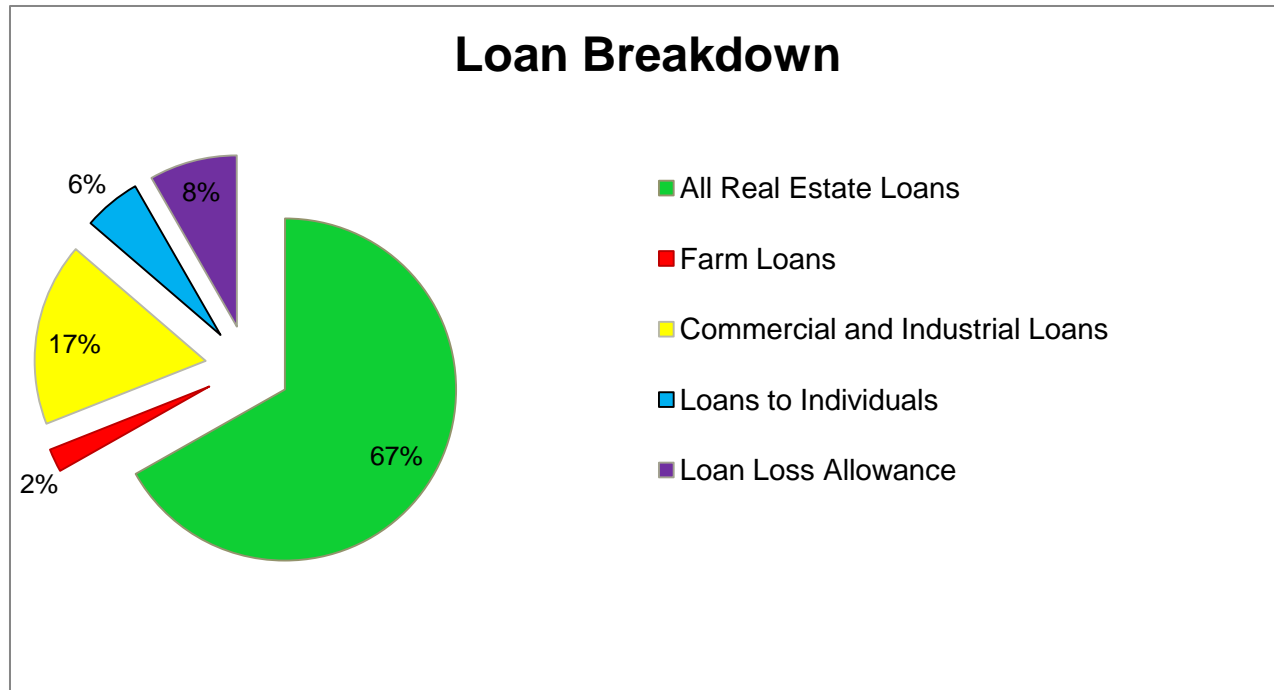
Indicates sign of bank in financial distress

Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the 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.
- Dec 31, 08** – [First State Bank of Altus lost \\$5 million. The bank had more than \\$17 million in loans listed as nonaccrual.](#)
- 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 expanded 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.
- Feb 28, 09** - \$8.7 million in loans was more than 90 days past due.
- Feb 28, 09** - State and federal regulators have placed First State Bank of Altus under supervision for hazardous lending, inadequate capital and earnings, and an excessive level of bad loans.
- 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.

* All internal news are written in blue color.

Events Timeline

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

Events Timeline

- Jul 31, 09** - First State Bank of Altus closed by Oklahoma State Banking Department. Herring Bank assumed all of the deposits.
- 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.

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

Report Summary – *Surprise?*

Based on the methods with which we analyzed First State Bank of Altus, its failure was ***not a surprise***.

Here are the indications that First State Bank of Altus should fail:

- 1) **First State Bank of Altus' normalized income experienced a total loss (of its total assets) of over 14% over the last 2 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% five quarters prior to failure. It had a 92.14% ratio the quarter before it failed.**
- 4) **First State Bank of Altus had a bankability composite score of -179.51 the quarter before it failed, indicating the bank's very poor overall financial health and likelihood to fail.**

References

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Contact Information

For additional information regarding this report series, you can contact us at:

By E-mail:

info@moneyeconomics.com

By Mail:

Money Economics
P.O. Box 587
Alameda, CA 94501

By Phone:*

510.550.1694

**For media inquiry only please.*