



# SR003\_7: Failed Bank Report

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## Dwelling House Savings and Loan Association

501 Herron Ave  
Pittsburg, PA 15219

(1/1/1890 – 8/14/2009)

# Report Objective

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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>	31559
<b>Parent Holding Company</b>	N/A
<b>Bank Charter Class</b>	Savings Association
<b>Asset Concentration</b>	Mortgage Lending Specialization
<b>Product Specialty</b>	Personal and Business Banking Services
<b>Number of Branches</b>	N/A (as of June 30, 2009)
<b>Number of Employees</b>	8 (as of June 30, 2009)

## Executives

<b>CEO</b>	Robert W. Haines Jr.
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# What took place?

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**D**welling House Savings and Loan Association, Pittsburgh, PA was closed by the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. The estimated cost to the FDIC Deposit Insurance Fund is \$6,800,000. All deposits and \$3 million of assets acquired by PNC Bank.

# Key Performance Indicators

KPI Summary for 2009 Q2	
Normalized Income Rating	Poor
Delinquent Asset Rating	Very Poor
Asset: Liability Rating	Very Poor
Real Estate Asset Rating*	Moderate
Bankability Composite Score	-72.12** (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
<b>Assets</b>	\$ 17,500	\$ 12,950	↓ 26.00%
<b>Liabilities</b>	\$ 14,150	\$ 13,350	↓ 5.65%
<b>Net Income</b>	-\$ 58	-\$ 1,955	↓ 3270.69%

- 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 mortgage lending specialization banks, Dwelling House Savings and Loan Association's decline from Net Income is relatively large (-3270.69%) during 2009.

# Normalized Income Analysis

	2008Q1 	2008Q2	2008Q3	2008Q4 	2009Q1	2009Q2
Normalized Income	-0.26%	-0.06%	-0.48%	-16.90%	-13.74%	-0.88%
SD's from Average*	-2.05	-0.71	-1.09	-16.10	-21.69	-1.73
Ranking	Very Poor	Moderate	Poor	Very Poor	Very Poor	Poor

- Dwelling House Savings and Loan Association had a normalized income of -0.88% in the second quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (Mortgage Lending Specialization) had an average normalized income of 0.05%. The standard deviation of the normalized incomes was 0.54%, which means that Dwelling House Savings and Loan Association was 1.73 SD's below the average.
- Since the third quarter of 2008, Dwelling House Savings and Loan Association'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	14.54%	14.96%	14.32%	15.94%	20.21%	19.23%
SD's from Average*	8.52	8.17	7.79	6.57	8.50	7.93
Ranking	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor	Very Poor

- Dwelling House Savings and Loan Association had a weighted delinquent assets out of total assets ratio 19.23% in the second quarter of 2009, the quarter before it failed.
- Banks of the same asset concentration hierarchy (Mortgage Lending Specialization) had an average weighted delinquent asset of 1.69%. The standard deviation of the delinquent assets was 2.30%, which means that Dwelling House Savings and Loan Association was about 7.93 SD's above the average.
- Dwelling House Savings and Loan Association's weighted delinquent assets ratio has been extremely unhealthy in all 6 quarters prior to its failure.

 \*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	46.31%	47.57%	50.80%	61.60%	69.11%	71.06%
SD from Average*	0.73	0.83	1.05	0.12	0.54	0.63
Ranking	Poor	Poor	Poor	Moderate	Moderate	Moderate

- Dwelling House Savings and Loan Association had a R/A ratio of 71.06% in 09 Q2, the quarter before it failed.
- In 09 Q2, banks of the same asset concentration hierarchy (Mortgage Lending Specialization) had an average R/A ratio of 57.77%. The standard deviation of the R/A ratio was 21.16%, which means that Dwelling House Savings and Loan Association was actually 0.63 SD's above the average, earning the rank of "Moderate."

\* 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	123.97%	123.71%	123.01%	105.27%	96.40%	96.99%
Median A/L Ratio*	112.04%	111.72%	111.55%	111.63%	111.41%	111.47%
Ranking	Excellent	Excellent	Excellent	Very Poor	Very Poor	Very Poor

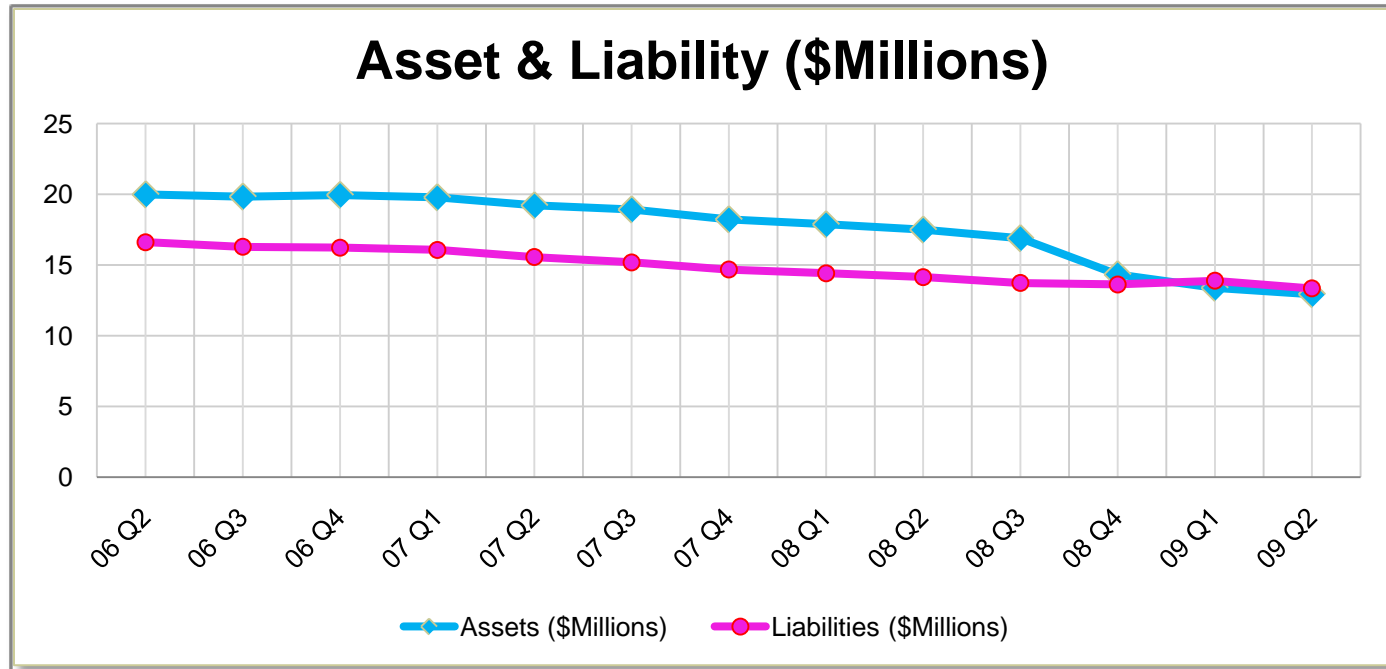
- Dwelling House Savings and Loan Association's A/L ratio declined steadily, dropping to 96.40% and 96.99% in the two quarters before it failed, where its liabilities exceeded its assets.
- The median A/L ratio for all banks in the same asset concentration hierarchy (Mortgage Lending Specialization) was 111.47% in the same period, meaning that Dwelling House Savings and Loan Association was more than 14% 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

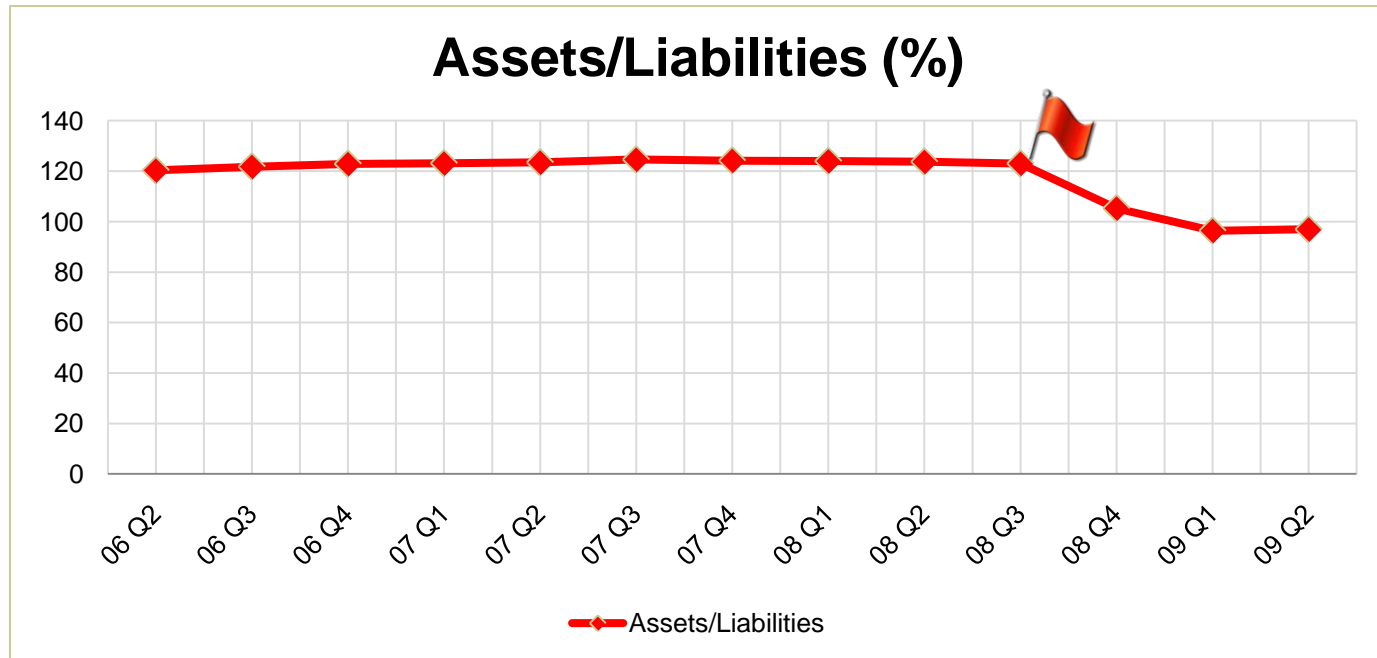


- The difference between asset and liability was getting closer in 08 Q3.



Indicates sign of bank in financial distress

# Asset/Liability History

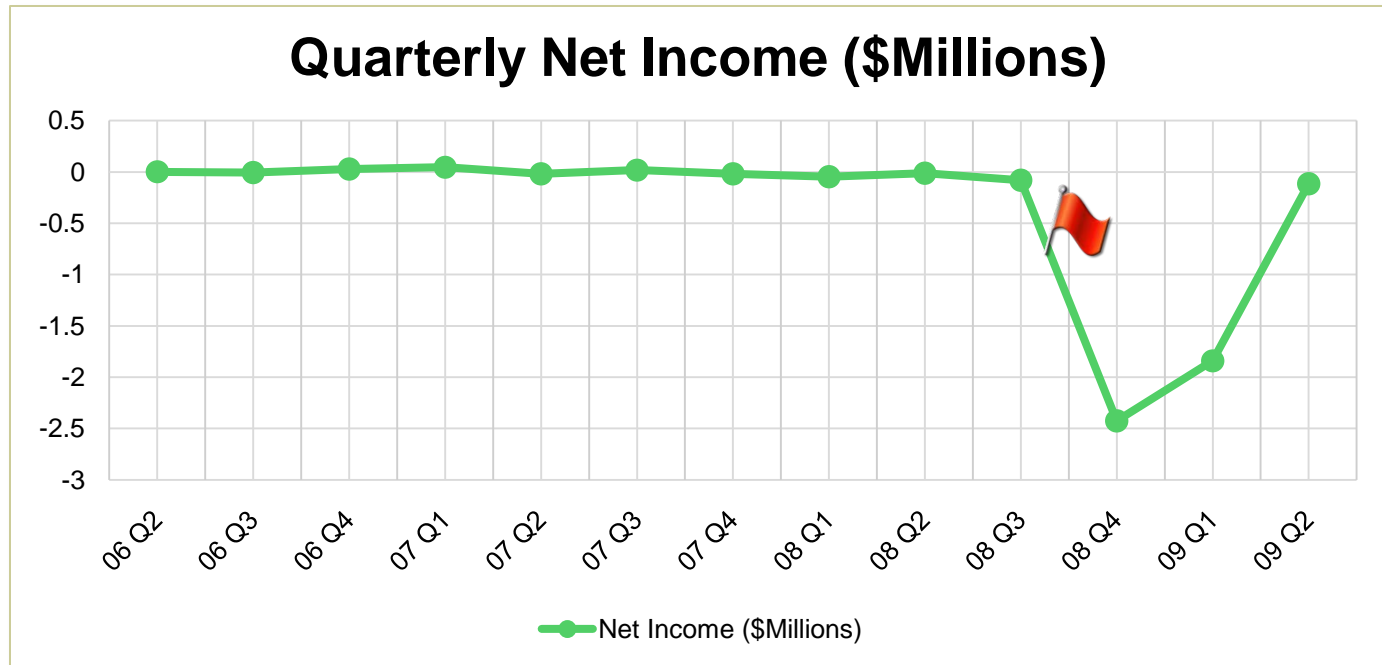


- The A/L ratio was decreasing more quickly after 08 Q3.



Indicates sign of bank in financial distress

# Net Income History

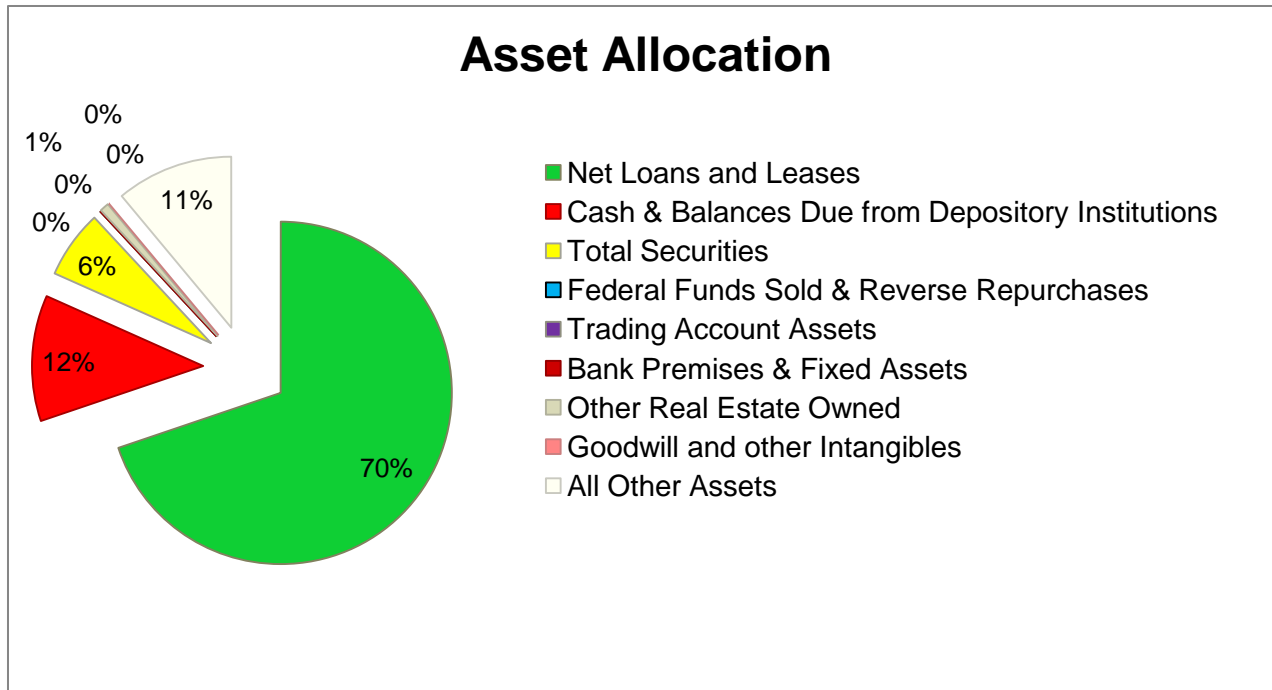


- The bank was close to turning profitable prior to failure.
- The bank reported a big loss in 08 Q4.



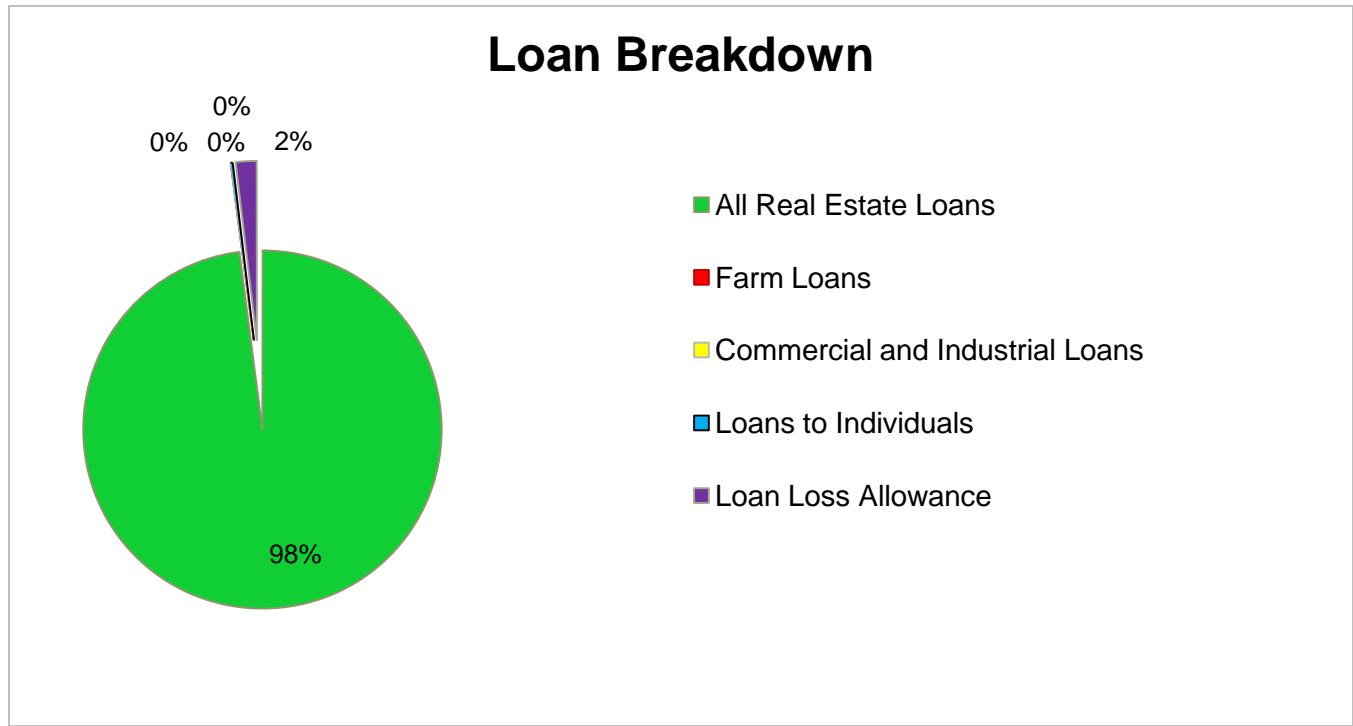
Indicates sign of bank in financial distress

# Asset Allocation



- The average percentage of Net Loans for banks of the same Asset Concentration Hierarchy in the second quarter of 2009 was 63.95%.
- 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 92.21%.
- 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** - 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.

# Events Timeline

- 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 commit \$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.
- 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 14, 09** - SEC proposed rule amendments to strengthen safeguards of investor funds controlled by investment advisers.

# 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.
- Jun 14, 09** - The bank is known for providing home mortgages to residents whose credit risk is too high and assets are too low to qualify for a conventional bank loan.
- Jun 16, 09** - Dwelling House received a "corrective action directive" from its chief regulator, mandating the necessity to raise more capital or risk closing or a forced merger.
- 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 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 14, 09** - Dwelling House Savings and Loan Association was closed by the Office of Thrift Supervision
- 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?*

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Based on the methods with which we analyzed Dwelling House Savings and Loan Association, its failure was ***not a surprise***.

Here are the indications that Dwelling House Savings and Loan Association should fail:

- 1) **Dwelling House Savings and Loan Association's normalized income experienced a total loss (of its total assets) of over 30% over the last 3 quarters.**
- 2) **The bank has a mounting volume of delinquent assets in the quarters before its failure.**
- 3) **The bank's asset to liability ratio dropped below 100% the two quarters prior to its failure, meaning it was no longer able to fulfill its obligations.**
- 4) **Dwelling House Savings and Loan Association had a bankability composite score of -72.12 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

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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.*