

# VERIBANC

800-837-4226

Beyond 'CAMELS'

## VERIBANC'S RATINGS PROVIDE EARLY WARNING TO TRUST PREFERRED SECURITIES (TruPS) POOLS

In the past few years at least four bank holding companies have opted, successfully, to use a particular section of the Chapter 11 bankruptcy code - section 363 in order to recapitalize a subsidiary bank. This section (363) was used to provide a mechanism by which the holding company could recapitalize a subsidiary in order to meet regulator demands or for the purpose of selling the subsidiary. The ability to recapitalize a subsidiary bank overcomes the usual legal or dilution blocking refusals presented by pools of TruPS holders.

In order to explore this subject we needed to first confirm that the four candidate bank holding companies in this study group did successfully navigate section 363 of the bankruptcy code. Once a section 363 was confirmed we then extracted both our ratings and any regulatory enforcement actions levied against the four holding companies and any of their subsidiary banking organizations.

Our findings, presented below, show that our model detected the continuing deterioration at both the subsidiary and holding company level with significant lead time. VERIBANC has been able to detect the deterioration of bank holding companies and/or their subsidiaries since the early 1990s with great reliability.

We do wonder why the controlling documents do not contain wording that addresses adverse trigger events or negative threshold changes in a holding company or their subsidiary's financial position.

Setting a rating threshold or a trigger based on an adverse regulatory edict in the controlling document would mitigate the need for legal "creativity" as section 363 represents, as well as the resulting expense.

The following holding companies, their subsidiaries, date of bankruptcy filing, our ratings, and any regulatory enforcement actions are provided. Although we could have extracted earlier ratings and/or enforcement actions, in general, we started with the quarter that reflected the transition from having little to no deterioration to the beginning of seeing modest deterioration.



VERIBANC’s color code and star rating track record has always been published. You can find it on our web site at: <http://www.veribanc.com/TrackRecord.php>

Our Rating System’s Performance

Rating(Abbreviation)	Probability of Failing#
Green with Three Stars (G/3)	0.0001
Green with Two Stars (G/2)	0.0003
Yellow with Two Stars (Y/2)	0.0008
Green with One Star (G/1)	0.0021
Yellow with One Star (Y/1)	0.0085
Green with No Stars (G/U)	0.0231
Yellow with No Stars (Y/U)	0.0643
Red with No Stars (R/U)	0.4013

# From 1991 through 2011 - On the average, banks with our highest G/3 rating have a 1 in 10,000 chance of failure each year. Those with our lowest R/U rating have, on average about a 2/5 chance of failing (40%) each year.

Each entity below showed a ratings track record over many quarters that demonstrated financial difficulties. The following discussion reflects the observations gleaned from the ratings history as well as the amount of time between ratings downgrades and the filing for bankruptcy.

1. Americanwest Bancorporation and its subsidiary Americanwest Bank both began exhibiting signs of financial deterioration with the quarter ending 12/31/2007. Beginning with the quarter ending 09/30/2008 they dropped down to our lowest rating of Red with No Stars and never achieved a rating higher than a Yellow with One Star rating. This financial fall was detected more than two years prior to their bankruptcy filing.
2. Premier Bank Holding Company and its subsidiary Premier Bank both started signs of weakness beginning with the quarter ending 09/30/2008. Although they had earlier received several quarters of Green with Two Stars and one quarter of Yellow with Two Stars, their consistent rating of Yellow with Two Stars for five quarters in a row was indicative of their struggles. Their decline, although very slow, was detected more than three and one half years prior to their bankruptcy filing.
3. Big Sandy Holding Company and its subsidiary Mile High Bank both received our Yellow with Two Stars rating for the quarter ending 09/30/2009. From this quarter on neither the holding company nor its subsidiary received a rating higher than our Yellow with No Star rating. These problems were detected more than two and one half years prior to their bankruptcy filing.

# VERIBANC

800-837-4226

Beyond 'CAMELS'

4. First Place Financial Corp.'s subsidiary First Place Bank received our Yellow with Two Stars rating for the quarter ending 03/31/2010 and never received higher than our Green with One Star rating. This consistent failing to perform was detected more than two years prior to their bankruptcy filing.

Following are the summaries of the sources we found that confirmed bankruptcy along with our database extracts of regulatory enforcement actions:

1. Americanwest Bancorporation, Spokane, WA – Federal Reserve ID: 1031627  
Bankruptcy filed – 10/28/2010 – Morrison & Foerster LLP, February 2011 *Client Alert*  
Regulatory Formal Agreement levied on 9/15/2009

Subsidiary: Americanwest Bank, Spokane, WA – FDIC #: 22441  
Regulatory Cease and Desist levied on 05/11/2009  
Regulatory Capital Directive levied on 02/24/2010

2. Premier Bank Holding Company, Tallahassee, FL – Federal Reserve ID: 2815468  
Bankruptcy filed 08/14/12 – business-bankruptcies.com  
Regulatory Formal Agreement levied on 07/07/2010

Subsidiary: Premier Bank, Tallahassee, FL – FDIC #: 33992  
Regulatory Cease and Desist levied on 05/05/2010

3. Big Sandy Holding Company, Limon, CO – Federal Reserve ID: 1919770  
Bankruptcy filed 09/27/12 – business-bankruptcies.com  
Regulatory Formal Agreement levied on 05/20/2010

Subsidiary: Mile High Bank, Longmont, CO – FDIC #: 3036  
Regulatory Cease and Desist levied on 02/05/2010  
Regulatory Capital Directive levied on 12/01/2011

4. First Place Financial Corp., Warren, OH – Federal Reserve ID: 3795866  
(previously an S&L Holding Company – OTS ID: H3282)  
Bankruptcy filed 10/29/12 – globenewswire.com

Subsidiary: First Place Bank, Warren, OH – FDIC #: 34657  
Regulatory Formal Agreement levied on 03/01/2011  
Regulatory Cease and Desist levied on 07/13/2011

# VERIBANC

800-837-4226

Beyond 'CAMELS'

All of these holding companies consist of one subsidiary banking entity (one bank holding companies). Although VERIBANC's model does account for subsidiary risk at the holding company rating level, in cases of one bank holding companies any deterioration or enforcement action by the other impacts both. VERIBANC's ratings either at the subsidiary level or at the Holding Company level would have provided sufficient time to react to any financial problems.

The following ratings for both the holding company and its subsidiary are provided up until the last quarter in which the entity filed a "Call Report" or in which the latest data has been filed.

## 1. Americanwest Bancorporation ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/***	2007-09-30	YELLOW/*	2009-03-31
YELLOW/**	2007-12-31	YELLOW/*	2009-06-30
YELLOW/**	2008-03-31	RED/U	2009-09-30
YELLOW/**	2008-06-30	RED/U	2009-12-31
RED/U	2008-09-30	YELLOW/U	2010-03-31
YELLOW/*	2008-12-31	YELLOW/U	2010-06-30
		RED/U	2010-09-30

## Subsidiary: Americanwest Bank ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/***	2007-09-30	YELLOW/*	2009-03-31
YELLOW/**	2007-12-31	YELLOW/*	2009-06-30
YELLOW/**	2008-03-31	RED/U	2009-09-30
YELLOW/**	2008-06-30	RED/U	2009-12-31
RED/U	2008-09-30	YELLOW/U	2010-03-31
YELLOW/*	2008-12-31	YELLOW/U	2010-06-30
		RED/U	2010-09-30

# VERIBANC

800-837-4226

Beyond 'CAMELS'

## 2. Premier Bank Holding Company ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/**	2007-09-30	GREEN/*	2010-03-31
YELLOW/**	2007-12-31	YELLOW/*	2010-06-30
GREEN/**	2008-03-31	YELLOW/*	2010-09-30
GREEN/**	2008-06-30	RED/U	2010-12-31
YELLOW/**	2008-09-30	RED/U	2011-03-31
YELLOW/**	2008-12-31	RED/U	2011-06-30
YELLOW/**	2009-03-31	RED/U	2011-09-30
YELLOW/**	2009-06-30	YELLOW/U	2011-12-31
YELLOW/**	2009-09-30	YELLOW/U	2012-03-31
RED/U	2009-12-31	YELLOW/U	2012-06-30
		YELLOW/U	2012-09-30

## Subsidiary: Premier Bank ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/**	2007-09-30	GREEN/*	2010-03-31
YELLOW/**	2007-12-31	YELLOW/*	2010-06-30
GREEN/**	2008-03-31	YELLOW/*	2010-09-30
GREEN/**	2008-06-30	RED/U	2010-12-31
YELLOW/**	2008-09-30	RED/U	2011-03-31
YELLOW/**	2008-12-31	RED/U	2011-06-30
YELLOW/**	2009-03-31	RED/U	2011-09-30
YELLOW/**	2009-06-30	YELLOW/U	2011-12-31
YELLOW/**	2009-09-30	YELLOW/U	2012-03-31
RED/U	2009-12-31	YELLOW/U	2012-06-30
		YELLOW/U	2012-09-30

## 3. Big Sandy Holding Company ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/***	2009-06-30	GREEN/U	2011-03-31
YELLOW/**	2009-09-30	YELLOW/U	2011-06-30
YELLOW/*	2009-12-31	RED/U	2011-09-30
YELLOW/*	2010-03-31	RED/U	2011-12-31
YELLOW/*	2010-06-30	RED/U	2012-03-31
RED/U	2010-09-30	RED/U	2012-06-30
RED/U	2010-12-31	YELLOW/U	2012-09-30

# VERIBANC

800-837-4226

Beyond 'CAMELS'

Subsidiary: Mile High Bank ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/***	2009-06-30	GREEN/U	2011-03-31
YELLOW/**	2009-09-30	YELLOW/U	2011-06-30
YELLOW/*	2009-12-31	RED/U	2011-09-30
YELLOW/*	2010-03-31	RED/U	2011-12-31
YELLOW/*	2010-06-30	RED/U	2012-03-31
RED/U	2010-09-30	RED/U	2012-06-30
RED/U	2010-12-31	YELLOW/U	2012-09-30

4. First Place Financial Corp (Previously an S&L holding company – not rated\*)

Subsidiary: First Place Bank ratings:

RATING	QUARTER ENDING	RATING	QUARTER ENDING
GREEN/***	2009-12-31	YELLOW/*	2011-06-30
YELLOW/**	2010-03-31	GREEN/*	2011-09-30
YELLOW/**	2010-06-30	GREEN/*	2011-12-31
YELLOW/**	2010-09-30	GREEN/*	2012-03-31
GREEN/*	2010-12-31	GREEN/*	2012-06-30
YELLOW/*	2011-03-31	GREEN/*	2012-09-30

\* All S&Ls were mandated by Dodd-Frank to become banks in the first quarter of 2012. All S&L holding companies must transition to bank holding companies.

## Summary.

The four holding companies and their subsidiary banks had significant regulatory enforcement actions levied against them at least one year prior to filing for bankruptcy.

However, even in the absence of these, their financial deterioration, as evidence by the history of our low ratings, provided plenty of time to react to any of the controlling document's covenants, triggers, or recourse provisions.

Without knowing when the pools were established, some or all of these institutions may have been eliminated from consideration.