

April 15, 2010



Rahul Bapna
Vice President
U.S. Fixed Income

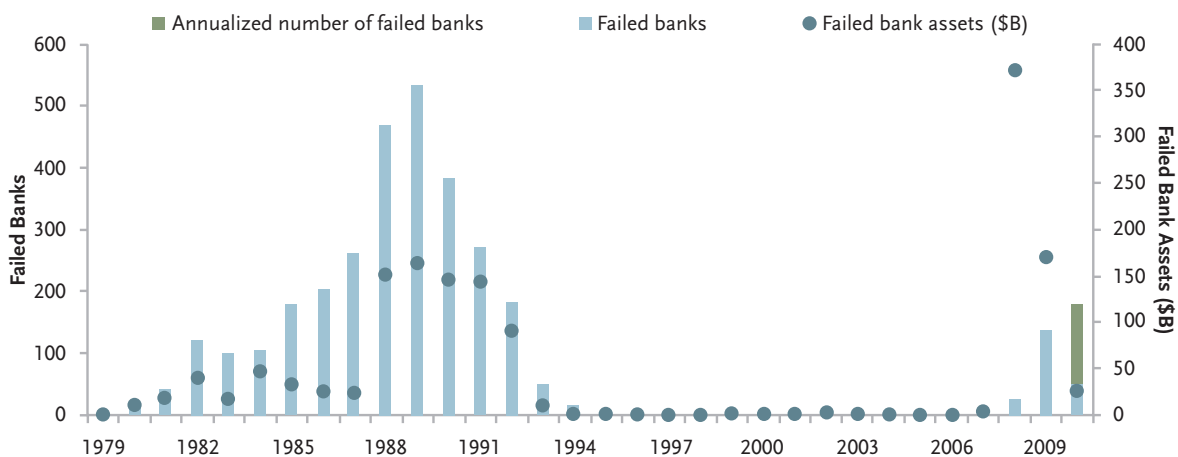
Fixed Income Research Update

Breaking the Banks: An Update on Failed Depository Institutions

Overall, 207 banks and thrifts have failed since year-end 2008. Sixty-six percent of those failures occurred over the last three quarters (from Q309 to Q110). A total of 140 banks failed in 2009 as compared with over 500 failures in 1989 (S&L crisis). However, the total assets of the failed banks in the current cycle is much higher than the peak during the S&L crisis, primarily due to the failure of a few large institutions (Washington Mutual, IndyMac). Some of the common reasons behind the recent failures include:

- Exposure to problematic construction and development loans, commercial real-estate, and small business loans, particularly those in the Southeast, Midwest, and California
- Extremely high “Texas Ratios”, measures of credit stress expressed as the value of non-performing assets (NPA) and loans more than 90 days delinquent divided by tangible equity and loan loss reserves (LLR)
- Very low Tier 1 capital ratios

Failed Banks and Asset Size since 1979



Source: FDIC

As of April 2, 2010.

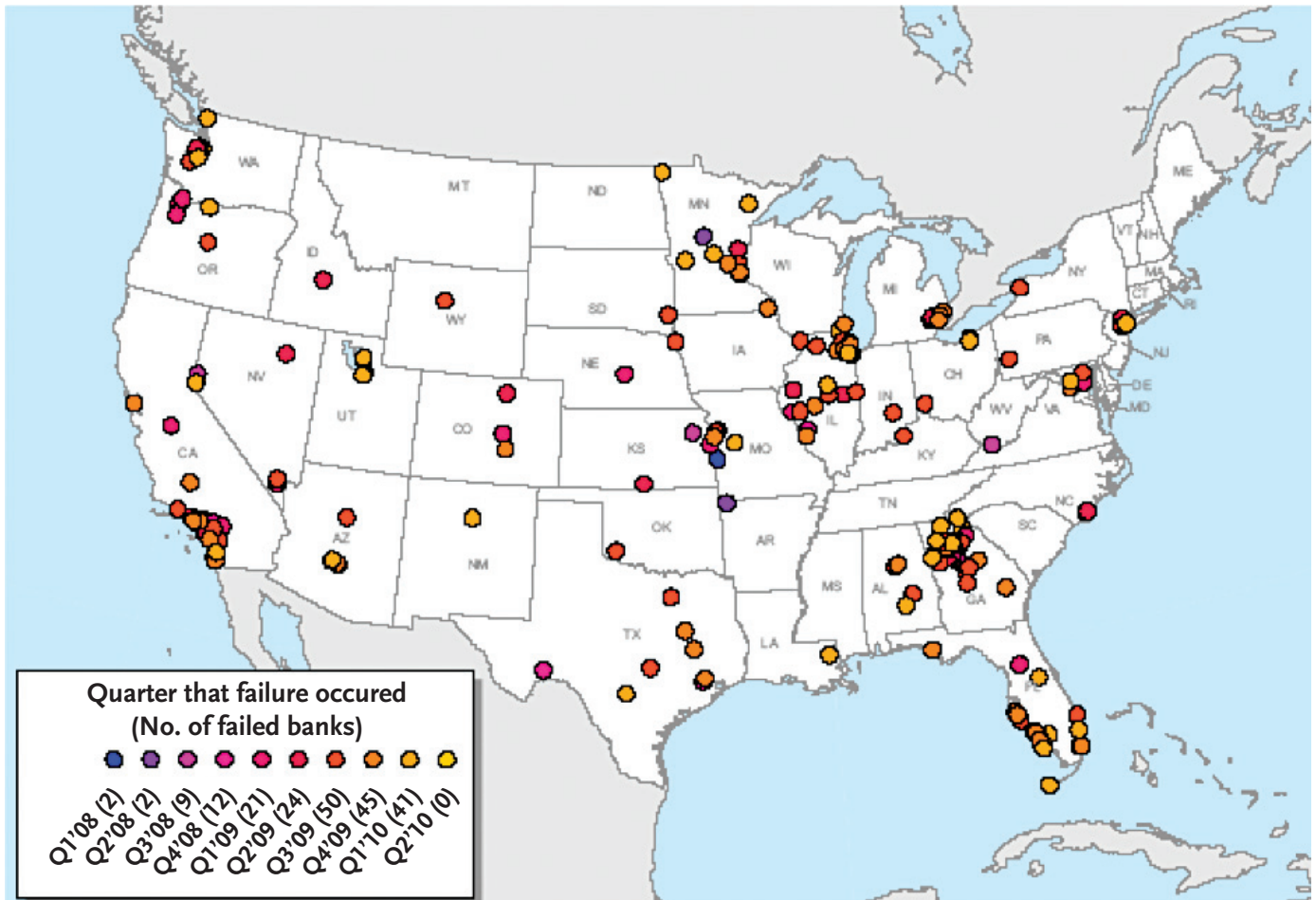
Data for 2010 is annualized based on 41 bank failures as of April 2.

Fixed Income Research Update
 Breaking the Banks:
 An Update on Failed Depository Institutions (cont'd)

Geographical Breakdown

- 57% of the total bank failures since 2008 have occurred in Georgia [18%], California [12%], Illinois [12%], Florida [11%] and Minnesota [5%]

Bank and Thrift Failures since 2008



Source: SNL Financial
 As of April 2, 2010.

Fixed Income Research Update
Breaking the Banks:
 An Update on Failed Depository Institutions (cont'd)

Financial Details for the Last 20 Bank Closures

Institution (state)	Date of failure	Year est.	Total assets (\$M)	Brokered deposits/ total deposits (%)	Texas Ratio¹ (%)	Tier 1 risk-based ratio (%)
Desert Hills Bank (AZ)	03/26/10	2000	496.55	6.09	418.80	5.80
Unity National Bank (GA)	03/26/10	1998	300.59	10.98	252.63	3.98
Key West Bank (FL)	03/26/10	1999	88.03	27.16	1,150.59	0.09
McIntosh Commercial Bank (GA)	03/26/10	2002	362.99	8.99	892.89	3.23
State Bank of Aurora (MN)	03/19/10	1906	28.16	0.00	304.86	1.58
First Lowndes Bank (AL)	03/19/10	1984	137.18	0.08	180.70	2.67
Bank of Hiwassee (GA)	03/19/10	1909	377.78	13.30	419.75	1.75
Appalachian Community Bank (GA)	03/19/10	1995	1,010.08	0.50	620.23	2.26
Advanta Bank Corp (UT)	03/19/10	1991	1,622.93	45.93	71.90	5.99
Century Security Bank (GA)	03/19/10	2006	96.54	11.44	1,030.51	2.64
American National Bank (OH)	03/19/10	1963	70.32	19.79	205.77	0.92
Statewide Bank (LA)	03/12/10	1926	243.22	1.41	118.32	1.95
Old Southern Bank (FL)	03/12/10	2006	336.39	0.00	180.92	0.75
Park Avenue Bank (NY)	03/12/10	1987	520.15	6.62	390.64	0.39
LibertyPointe Bank (NY)	03/11/10	2005	216.50	7.29	432.66	2.99
Centennial Bank (UT)	03/05/10	1997	212.84	28.15	664.97	0.00
Waterfield Bank (MD)	03/05/10	2000	155.57	8.20	NM	-8.51
Bank of Illinois (IL)	03/05/10	1914	211.71	6.19	107.88	1.73
Sun American Bank (FL)	03/05/10	1987	535.72	4.66	316.32	2.33
Rainier Pacific Savings Bank (WA)	02/26/10	1933	717.81	3.16	NM	1.55
			Median:	6.96	404.72	1.85

Source: FDIC, SNL Financial

¹ (NPAs + 90 day delin)/(Tangible Equity + Loan Loss Reserves)

Financial information is as of the most recent quarter for which data was available before failure.

As of April 2, 2010.

Tier 1 risk-based ration = Tier 1 capital / risk-weighted assets

Fixed Income Research Update

Breaking the Banks:

An Update on Failed Depository Institutions (cont'd)

FDIC Impact

- Since the beginning of 2009, 181 banks with approximately \$192 billion in total assets have failed.
- The FDIC has entered into loss-sharing agreements with the buyers of 125 of the closed banks, covering \$116 billion in assets.
- The median cost to the FDIC as a percentage of the failed banks' assets has dropped to 26% in 2010 from 30% in 2009 but is still high compared to 1986-1992 median of 19%.

Transaction details for last 20 failed bank deals

Buyer (ticker)	Announce date	Failed bank	Loss share agreement?	Assets under loss share (\$000)	Estimated cost to FDIC/failed bank's assets (%)
New York Community Bancorp Inc. (NYB)	03/26/10	Desert Hills Bank	Y	325,900	21.5
Bank of the Ozarks Inc. (OZRK)	03/26/10	Unity National Bank	Y	206,100	22.4
Home BancShares Inc. (HOMB)	03/26/10	Key West Bank	Y	75,800	26.2
Charter Financial Corp. (MHC) (CHFNI)	03/26/10	McIntosh Commercial Bank	Y	263,100	34.0
Bay Area Banking Shares Inc.	03/19/10	State Bank of Aurora	Y	21,300	14.9
First Citizens-Crenshaw Bancshares Inc.	03/19/10	First Lowndes Bank	Y	104,100	27.9
Citizens South Banking Corp. (CSBC)	03/19/10	Bank of Hiawassee	Y	232,600	36.4
Community & Southern Holdings Inc.	03/19/10	Appalachian Community Bank	Y	798,600	41.5
None	03/19/10	Advanta Bank Corp.	N	0	39.2
SouthCrest Financial Group Inc. (SCSG)	03/19/10	Century Security Bank	Y	81,500	31.0
NB&T Financial Group Inc. (NBTF)	03/19/10	American National Bank	Y	49,800	24.3
Home Bancorp Inc. (HBCP)	03/12/10	Statewide Bank	Y	163,500	15.7
Home BancShares Inc. (HOMB)	03/12/10	Old Southern Bank	Y	282,700	28.1
Valley National Bancorp (VLY)	03/12/10	Park Avenue Bank	Y	379,800	9.7
Valley National Bancorp (VLY)	03/11/10	LibertyPointe Bank	Y	181,500	11.5
None	03/05/10	Centennial Bank	N	0	44.8
None	03/05/10	Waterfield Bank	N	0	32.8
Heartland Bancorp Inc.	03/05/10	Bank of Illinois	Y	166,600	25.4
First Citizens BancShares Inc. (FCNCA)	03/05/10	Sun American Bank	Y	433,000	19.4
Umpqua Holdings Corp. (UMPQ)	02/26/10	Rainier Pacific Savings Bank	Y	578,100	13.3
			Total:	4,344,000	NM
			Median:	NM	25.8
			Median for bank failures between 1986 and 1992:	NA	19.2

Source: SNL Financial and FDIC
As of April 2, 2010.

Fixed Income Research Update

Breaking the Banks: An Update on Failed Depository Institutions (cont'd)

Recent bank failure snapshots

Phoenix-based Desert Hills Bank (\$496.6 M)

Established in 2000, Desert Hills Bank had three branches in the Phoenix metropolitan area, two branches in Sedona, Ariz., and one in Prescott, Ariz. The bank's asset quality began deteriorating in 2006, with 2.25% of loans entering past-due or nonaccruing status. The number ballooned to almost 15% at the end of 2008, then appeared to recover, with past-due and nonaccruing loans dropping back to 6.92% of loans as of Dec. 31, 2009. The Phoenix Business Journal highlighted the bank's creative methods of marketing and selling its other real estate owned in a Feb. 6 article.

One of Desert Hills Bank's higher profile projects made headlines during the weeks before its closure. The bank was an original lender to Phoenix's "Chateaux on Central," a luxury residential development, constructed in 2005, that featured houses with elevators, wine cellars and turrets. The Business Journal of Milwaukee reported that the announced sale prices ranged from \$2.8M to \$4.5M per unit, but none were sold. Desert Hills Bank foreclosed on the project in 2007 and sold it to Mortgages Ltd. Securities LLC in 2008. The CEO of Mortgage Ltd. Securities, Scott Coles, committed suicide June 2, 2008, contributing to the company's slide into Chapter 11 bankruptcy on June 27, 2008. Chateaux on Central was sold March 12, 2009, for \$7M, with the homes valued at less than \$350,000 each, according to The Arizona Republic.

Cartersville, Ga.-based Unity National Bank (\$300M)

Unity National had five branches in Georgia, northwest of Atlanta, and, as of Dec. 31, 2009, 41% of its nonresidential construction and land development loans were past due or nonaccruing. The company registered to raise capital in August 2009, but the OCC issued a capital directive against it four months later in December 2009.

Key West, Fla.-based Key West Bank (\$88.0M)

One of only two banks headquartered in Key West, Fla., Key West Bank had one branch on the island in a "prime" Old Town location, according to a March 27 report in the Marathon Key, Fla.-based Florida Keys Keynoter. Key West ended 2009 with a Texas ratio of more than 1,000% due to its extremely low levels of tangible equity. Tangible equity made up just 0.06% of its total assets.

Carrollton, Ga.-based McIntosh Commercial Bank (\$363.4M)

Another in a long line of recently established, yet troubled, Georgia banks, McIntosh Commercial Bank was founded in 2002 and had four branches in the sprawling Atlanta-Sandy Springs-Marietta, Ga., MSA, with two branches located west of Atlanta, one branch southwest, and one branch east. At the end of 2009, \$37M, or 50%, of the company's construction and land development loans were past due or nonaccruing.

Aurora, Minn.-based State Bank of Aurora (\$28.2M)

State Bank of Aurora had one branch in Aurora, in northeast Minnesota. ESRI estimated the population at 1,690 in 2009. The problem area of the bank's loan portfolio was nonresidential construction and land development; 38% of such loans were past due or nonaccruing as of Dec. 31, 2009.

Fixed Income Research Update

Breaking the Banks: An Update on Failed Depository Institutions (cont'd)

Fort Deposit, Ala.-based First Lowndes Bank (\$137.2M)

Established in 1984, First Lowndes Bank had four branches in south-central Alabama. The bank's problem loan areas were in non owner-occupied commercial real estate loans and nonresidential construction loans. The FDIC issued a cease & desist order against the bank in 2008, citing unsafe or unsound banking practices. At the time, the Birmingham Business Journal noted that the bank operated in the "Black Belt" region of Alabama, "classified as some of the poorest counties in the state." It quoted newly appointed CEO Jim Dunklin as saying, "Being in the lower socioeconomic areas can be a challenge in making loans; however, there are also great opportunities in lending in these areas."

Ellijay, Ga.-based Appalachian Community Bank (\$1B)

Once a NASDAQ-traded institution with a market cap as high as \$126.3M as of Sept. 30, 2006, Appalachian Bancshares Inc. fell victim to the overheated Georgia real estate market. Appalachian Community Bank lost \$59.3M in 2009 and reported a Texas Ratio of 620% as of Dec. 31.

Draper, Utah-based Advanta Bank Corp. (\$1.6B)

Advanta was an industrial loan bank owned by Spring House, Pa.-based Advanta Corp. (\$2.50 billion), which filed for bankruptcy in November 2009. Advanta Corp. funded and operated its small-business credit card business through the Utah bank subsidiary. It also owns Advanta Bank in Wilmington, Del. Advanta Corp. did not include its bank units in its bankruptcy, and the possible FDIC receivership of the banks was a subject of contention between the bankrupt corporation and the regulator, as chronicled in SNL's Storm Center blog.

Source: SNL

This publication is for information purposes only. While the information and statistical data contained herein are based on sources believed to be reliable, we do not represent that it is accurate and should not be relied on as such or be the basis for an investment decision. Any opinions expressed are current only as of the time made and are subject to change without notice. TCW assumes no duty to update any such statements. Copyright TCW 2010