

**JULY 2011
DEFAULT
CASE STUDY**

**Private US Bank Default Report:
Bank of Choice (Greeley, CO)**

**Moody's Analytics Quantitative
Research Group**

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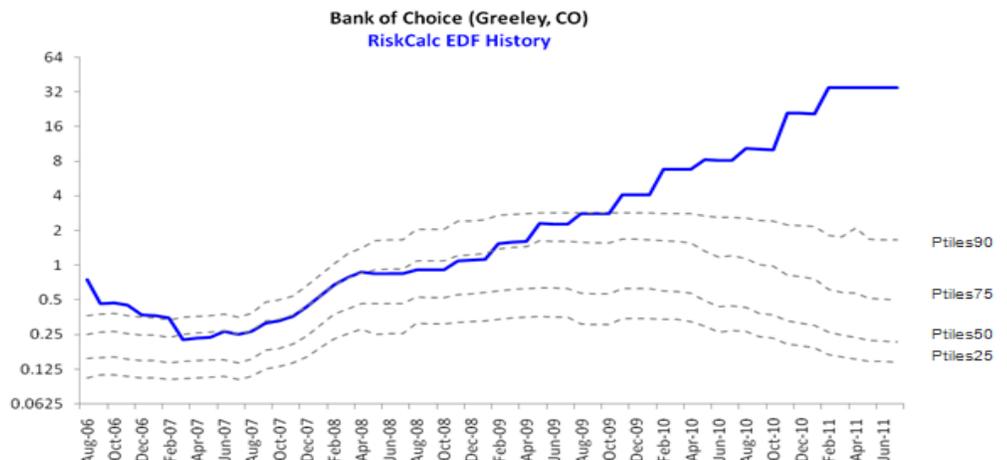
Company Profile

Bank of Choice (Greeley, CO) is a full-service bank. The bank accepts deposits, makes loans, and provides other services for the public. As of March 31, 2011, Bank of Choice had total assets of \$1.07 billion and total deposits of \$924.9 million. To protect the depositors, the FDIC entered into a purchase and assumption agreement with Bank Midwest (Kansas City, MO) to assume all of the deposits of Bank of Choice. In addition to assuming all of the deposits of Bank of Choice, Bank Midwest agreed to purchase approximately \$853 million of Bank of Choice's assets.

1-Year RiskCalc™ EDF credit measure: 34.67%

As Bank of Choice does not have common stock outstanding, we assess its default risk using the RiskCalc v3.1 US Banks Model. The model assesses the risk of banks, savings and loans, and thrifts as well as bank holding companies. We construct the RiskCalc v3.1 US Banks model using data collected from the FDIC's Research Information System and the Federal Reserve Bank's data.

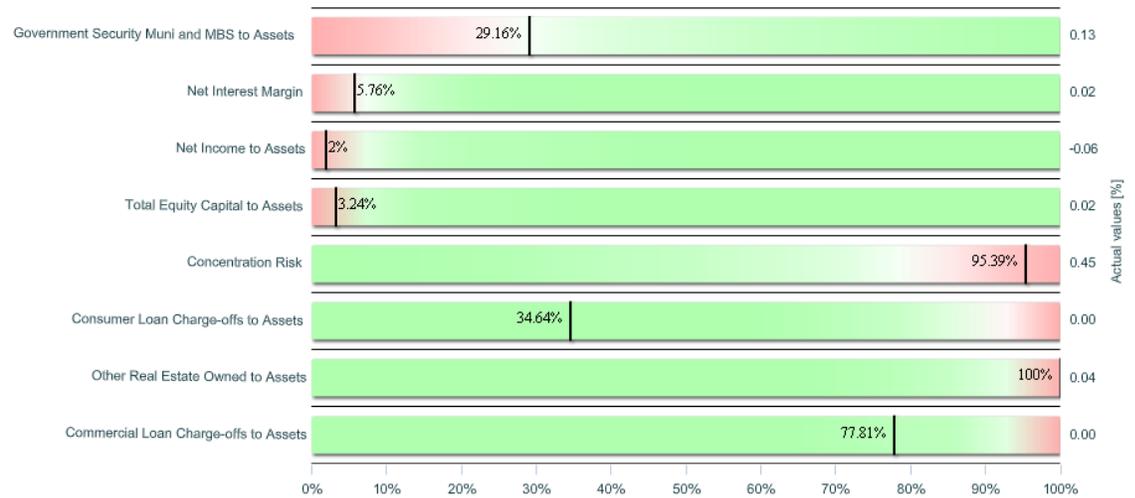
The blue line shows movement in the **RiskCalc EDF values**, and the dotted lines are the time series of the RiskCalc EDF percentiles of the banks run through RiskCalc Plus V3.1 US Banks.



Percentile, Relative Contribution, and Relative Sensitivity Graphs

The Percentile, Relative Contribution, and Relative Sensitivity Graphs in RiskCalc Plus v3.1 US Banks help us understand what drives the bank's EDF credit measure.

The **Percentile Graph** provides a visual representation of how each of the bank's ratios compares with those private US banks used to build the RiskCalc v3.1 US Banks model.

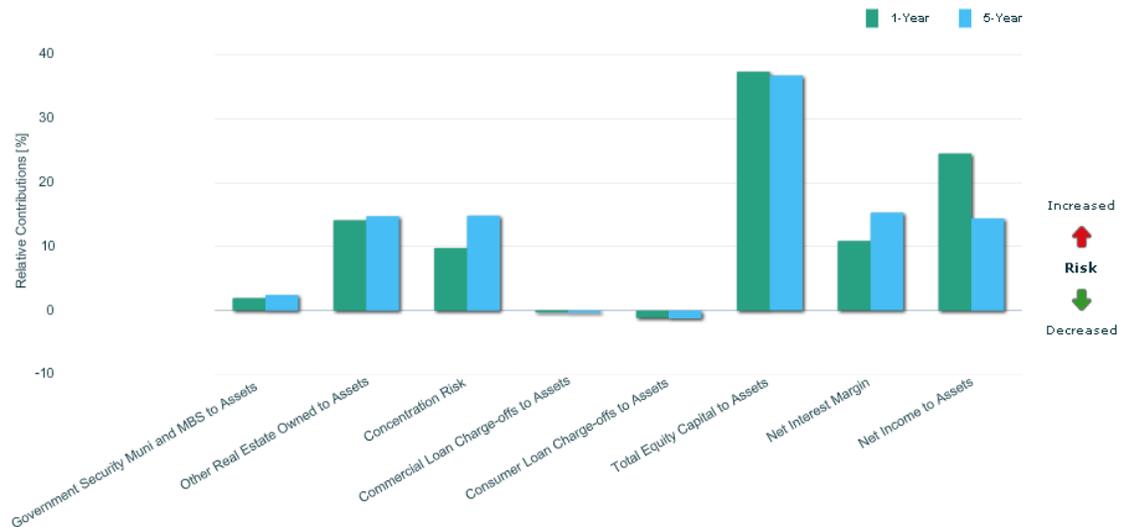


The Percentile Graph plots the percentile of each ratio and provides the actual value in the right-hand column. The colors **RED**, **LIGHT GRAY**, and **GREEN** correspond to the risk level, **HIGH**, **MEDIAN**, and **LOW** associated with the specific value of the ratio.

For example, in the right-hand column, we observe that *Other Real Estate Owned to Assets* falls in the 100th percentile and is solidly in the red in terms of risk. *Total Equity Capital to Assets*, *Net Income to Assets*, *Net Interest Margin*, and *Concentration Risk* are also solidly in the red in terms of risk.

The Percentile Graph does not consider the weight the model places on each ratio in determining the EDF level.

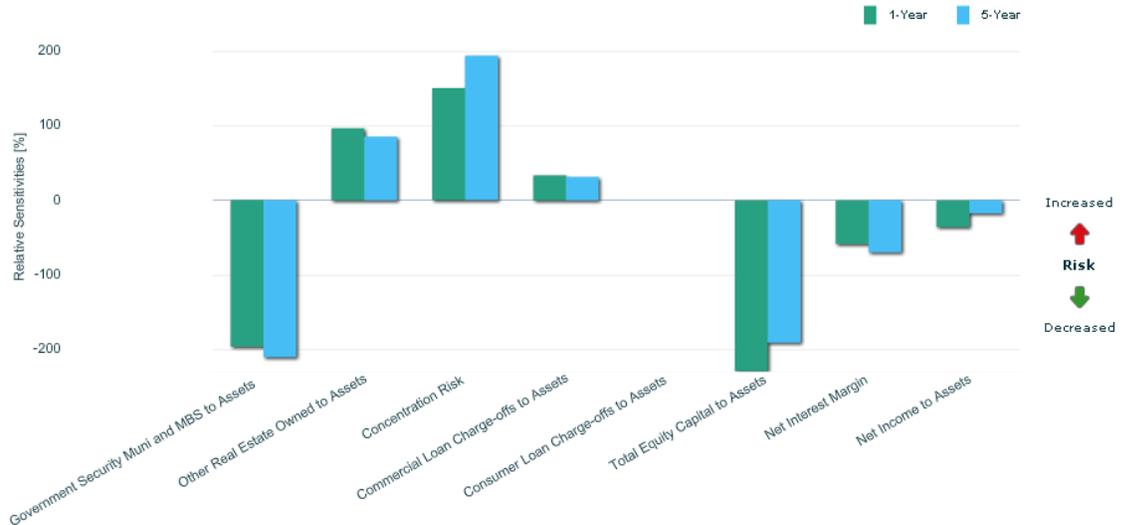
The **Relative Contribution** graph is helpful in identifying the bank's financial strengths and weaknesses with respect to default risk.



The Relative Contribution graph explains how each ratio moves the bank's EDF level away from the average banks used in the model's development. Relative Contributions are expressed relative to one another.

Total Equity Capital to Assets and *Net Income to Assets* are the strongest ratios pulling up Bank of Choice's EDF level relative to the average EDF level, 37.31% and 24.54%, respectively. *Government Security Muni and MBS to Assets*, *Concentration Risk*, *Net Interest Margin*, and *Other Real Estate Owned to Assets* boost the EDF level as well.

The **Relative Sensitivities** graph indicates the relative impact that a small increase in a ratio would have on the EDF level, all else being equal.



In the Relative Sensitivity analysis, we set the reference point to be the average absolute change in the bank's EDF level when each ratio is given a small shock. The magnitude of a ratio's Relative Sensitivity is expressed as a multiple of the average sensitivity across the ratios.

Bank of Choice's EDF level is most sensitive to changes in *Total Equity Capital to Assets*, *Government Security Muni and MBS to Assets*, *Net Income to Assets*, and *Net Interest Margin*. They each have a negative Relative Sensitivity, meaning that a decrease in any of these ratios would lead to an increase in the bank's EDF level. *Concentration Risk* has the most positive Relative Sensitivity. An increase in the *Other Real Estate to Assets* and *Commercial Loan Charge-Offs to Assets* would also increase the EDF level.

The magnitude of the Relative Sensitivity of *Total Equity Capital to Assets* is -229.04%, which means that shocking the bank's *Total Equity Capital to Assets* leads to an EDF level change 2.29 times the size of the average EDF level change from shocking any ratio.

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