




Taking CAMELS for a “Test Drive”



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Disclaimer

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Today's Agenda



REVIEW CAMELS



BANKING STATS



CASE STUDY

Why are the Examiners here?

Federal Reserve Examines

- State-chartered member banks
- Bank holding companies
- Non-bank subsidiaries
- Savings and loan holding companies

Community & Regional

- 35 in VA, 49 in the District
- 164 holding companies
 - 157 BHCs, 7 SLHCs

Large / Complex

- Bank of America
- Capital One
- Truist

- Capital
- Asset Quality
- Management
- Earnings
- Liquidity
- Sensitivity to Market Risk

Overall Composite

- Risk Management

CAMELS

1

- Strong

2

- Satisfactory

3

- Less than Satisfactory

4

- Deficient

5

- Critically Deficient

Risk Management

CAMELS

- **Capital**
- **Asset Quality**
- **Management**
- **Earnings**
- **Liquidity**
- **Sensitivity to Market Risk**
- **Overall Composite**
- **Risk Management**

The Six Risks



Composite Ratings

1

2

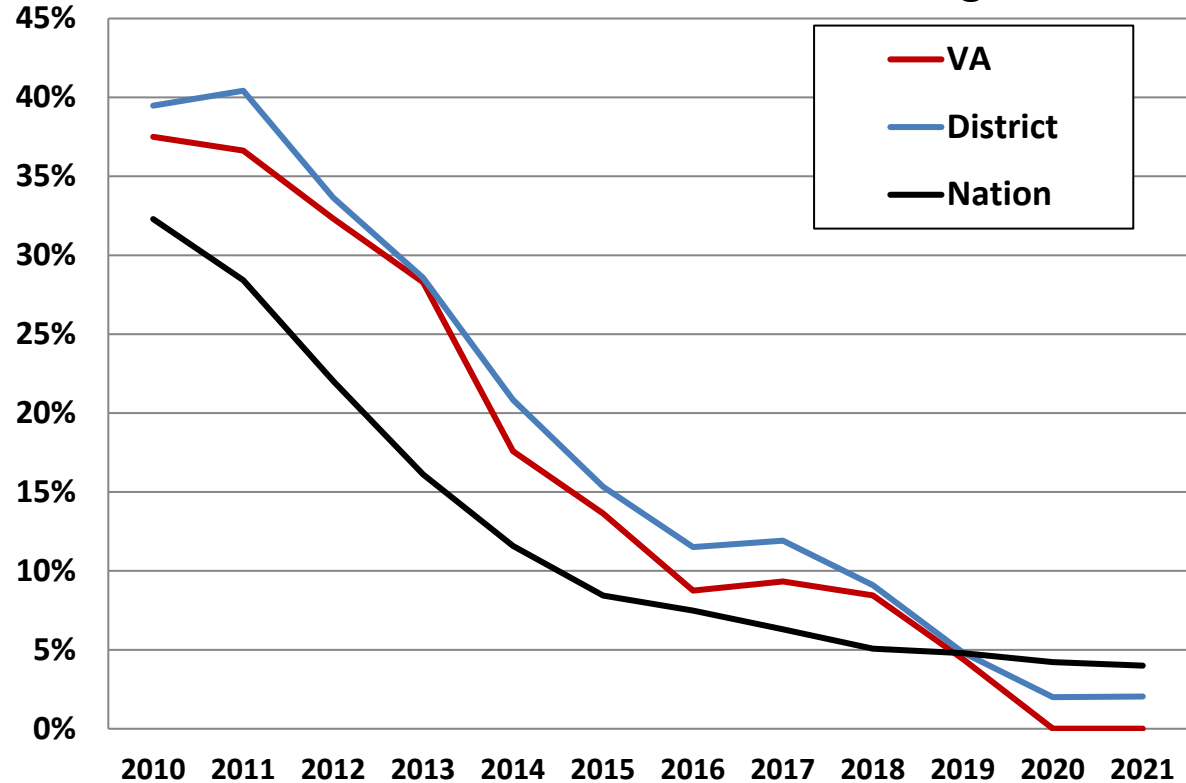
3

4

5

CAMELS Ratings

Percent of Banks with 3 or Worse Ratings



“Our” Case Study Assignment

- **9/30/2029 Safety and Soundness exam**
- **Analyze the results and provide a rating for each CAMELS**
 - **Component**
 - **Risk management**
 - **Composite**

Dogwood Bank

Case Study - Background



Exam Date 9/30/2029
Dogwood, VA (near
Riverville City, VA)

Previous Exam
3/31/2028 – “2”

Beach City, mid-2028
(45 miles away)

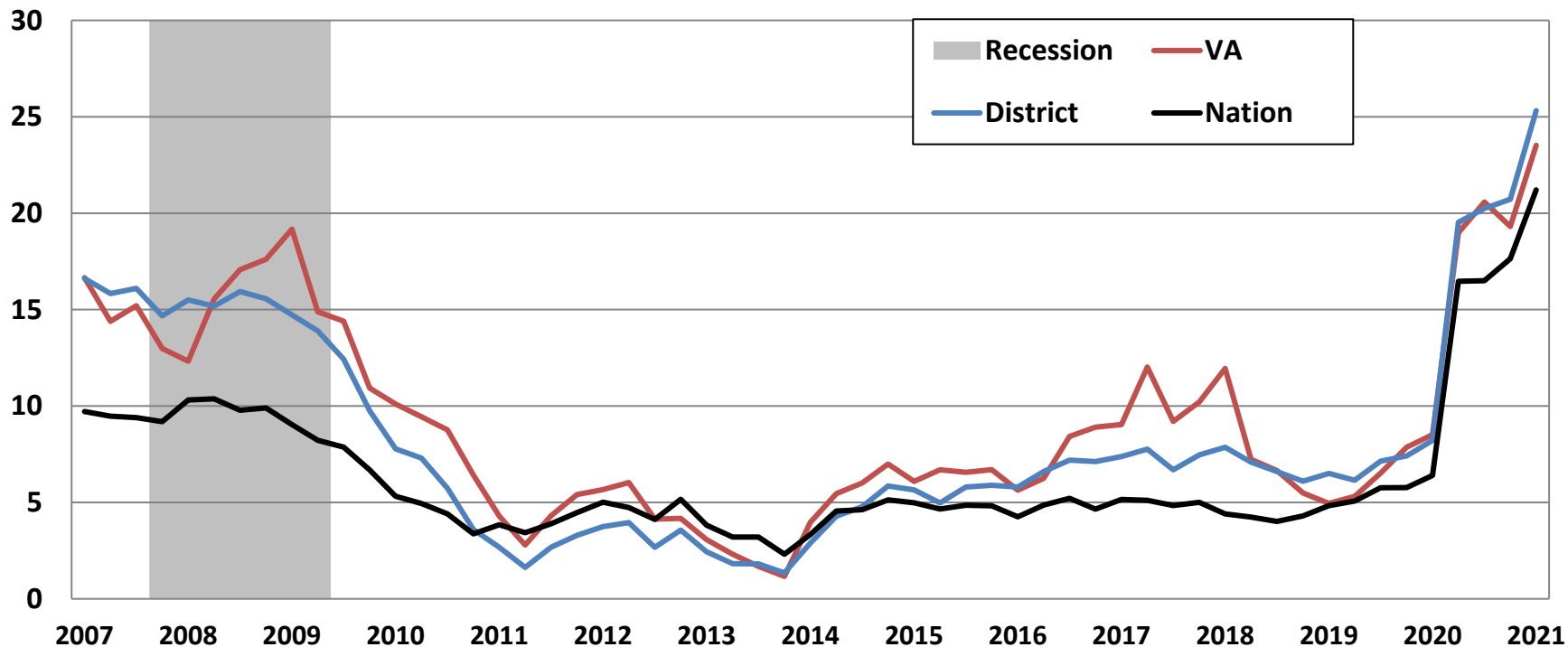
\$725 million in
assets

Asset Quality

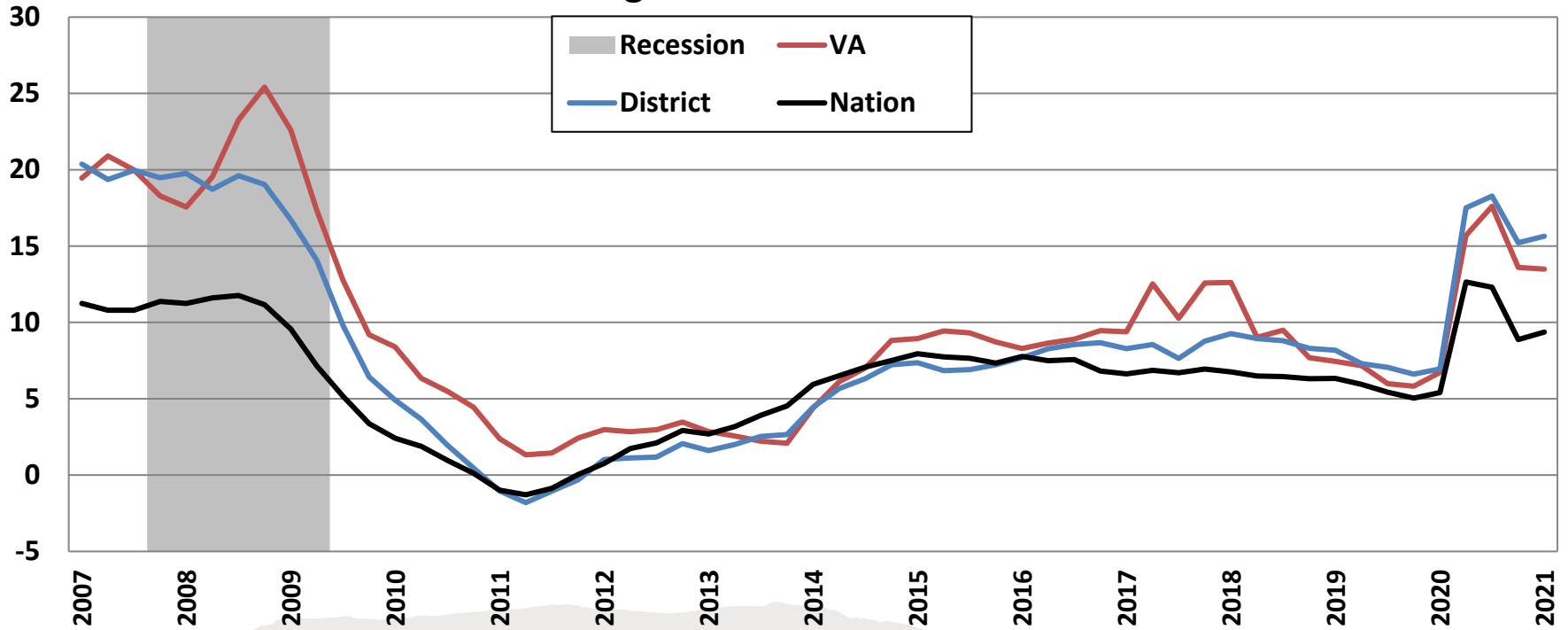
- Underwriting
- Risk Management
- Loan Policy
- Classifications
- ALLL
- Concentrations
- Investments

Balance Sheet: Asset Growth

Annual Change in Total Assets



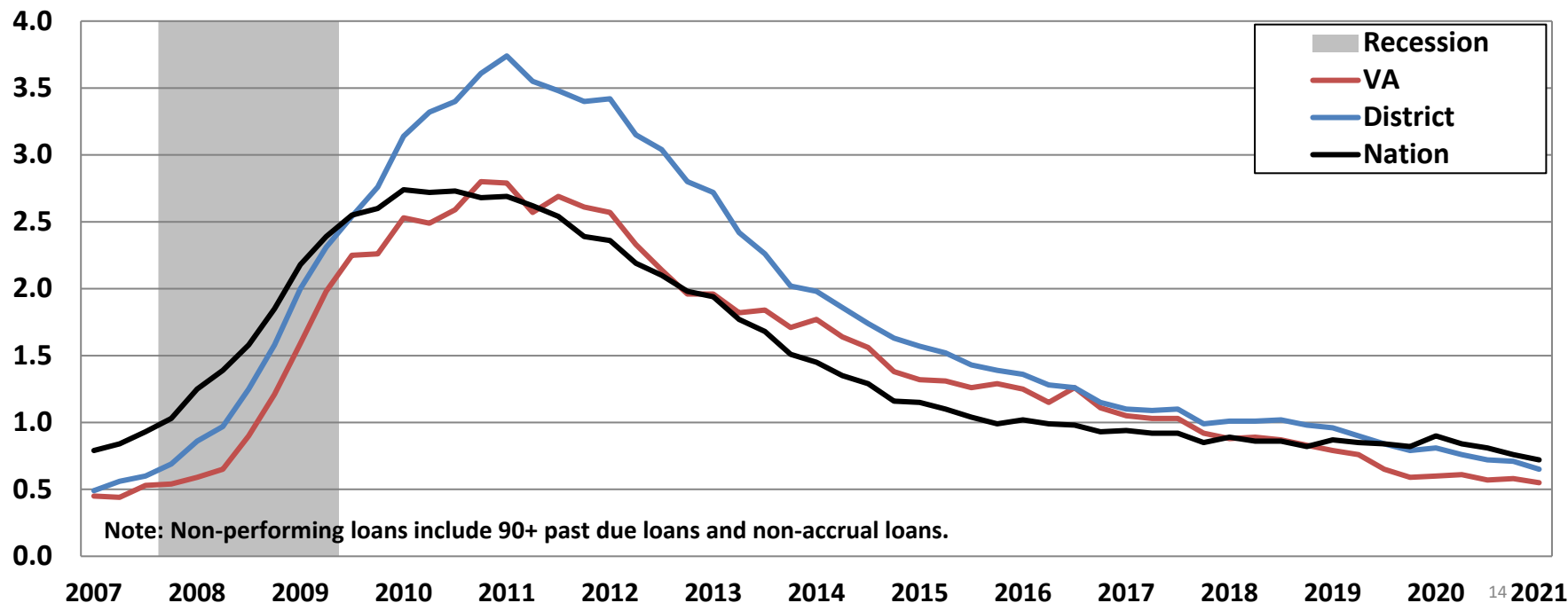
Annual Change in Total Loans and Leases



Balance Sheet: Loan Growth

Credit Quality: Non-Performing Loan Ratio

Non-Performing Loans as a % of Total Loans



Asset Quality 3/2028 exam “2”

- **Conservative lending philosophy.**
 - **Suggested policy be updated to include limits by type of lending, etc.**
- **CRE concentration in Dogwood, VA**
- **Technical exceptions minimal.**
- **Management said they are considering opening loan production office in Riverville or other adjacent area.**
 - **Beach City LPO chosen before report issued.**

Asset Quality – current exam

- **Loan Policy not updated (lacking)**
 - **Numerous Exceptions**
- **Weak Internal Risk Rating**
- **Incomplete Watch List – 9/2029**
- **Additional Provision – 9/2029**
- **Beach City**

AQ Ratios

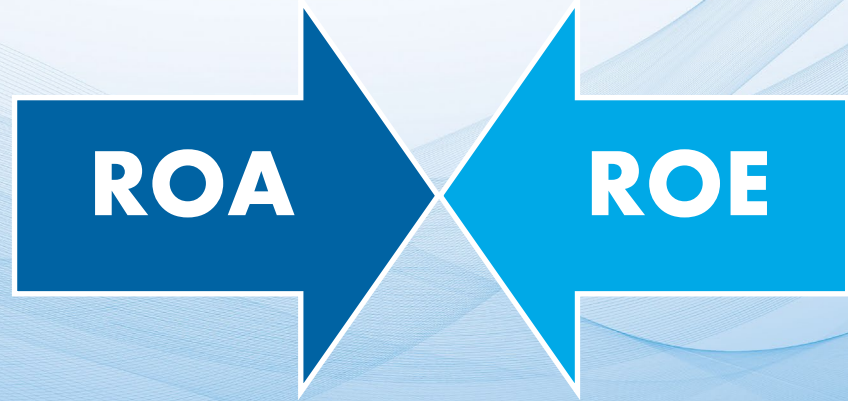
	9/2029	3/2028	Peer
Total Classifications	75.5	35.5	n/a
Weighted Classifications	14.5	7.5	n/a
Past Due Ratio	0.64	0.52	0.50
ALLL / Total Loans	1.00	1.20	1.19

What would you rate Asset Quality?

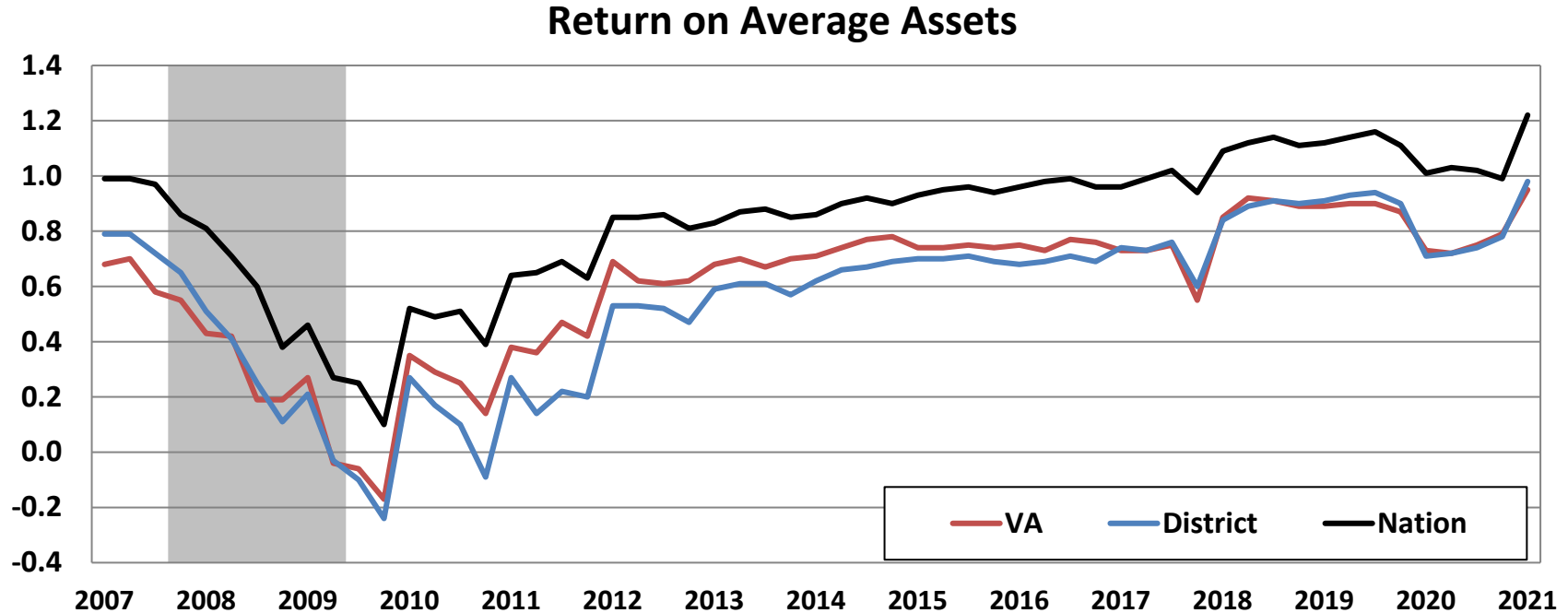
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Earnings

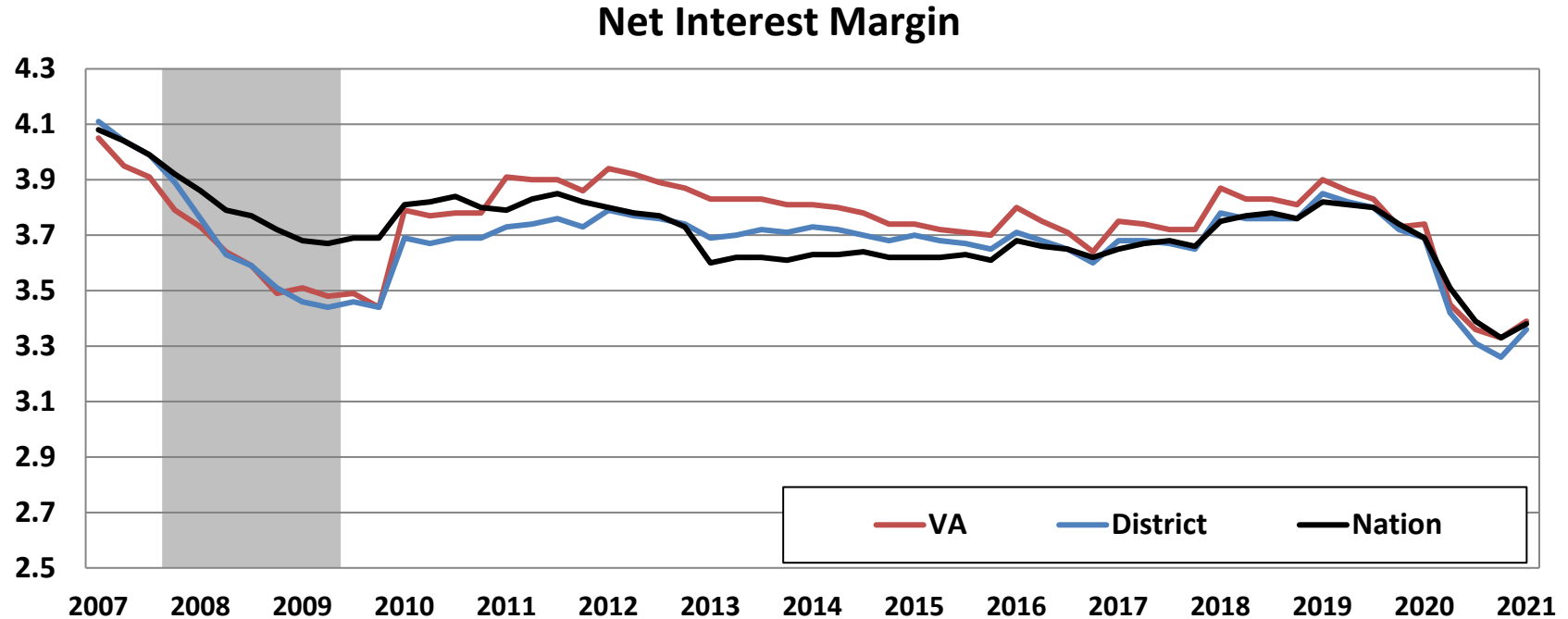
- Provide for Future
- Quality and composition
 - Spread
 - Noninterest
 - Provision for loan losses
 - Gains / (Losses)
- Level and trend



Earnings: Return on Average Assets



Earnings: Net Interest Margin



Earnings

	2029 Budget*	9/30/2029
Net Income	\$6.75 million	\$5.01 million
Provision for Loan Losses	\$1.70 million	\$2.26 million

*Budget for the entire year.

	2029 (annualized)	Peer	2028
ROA	0.57	0.91	.90
Spread	3.11	3.58	3.55

Overhead

Overhead/AA	2029	Peer	2028
Personnel	2.14	1.55	1.50
Occupancy & Other	0.98	1.33	1.30
Total	3.12	2.88	2.80

What would you rate Earnings?

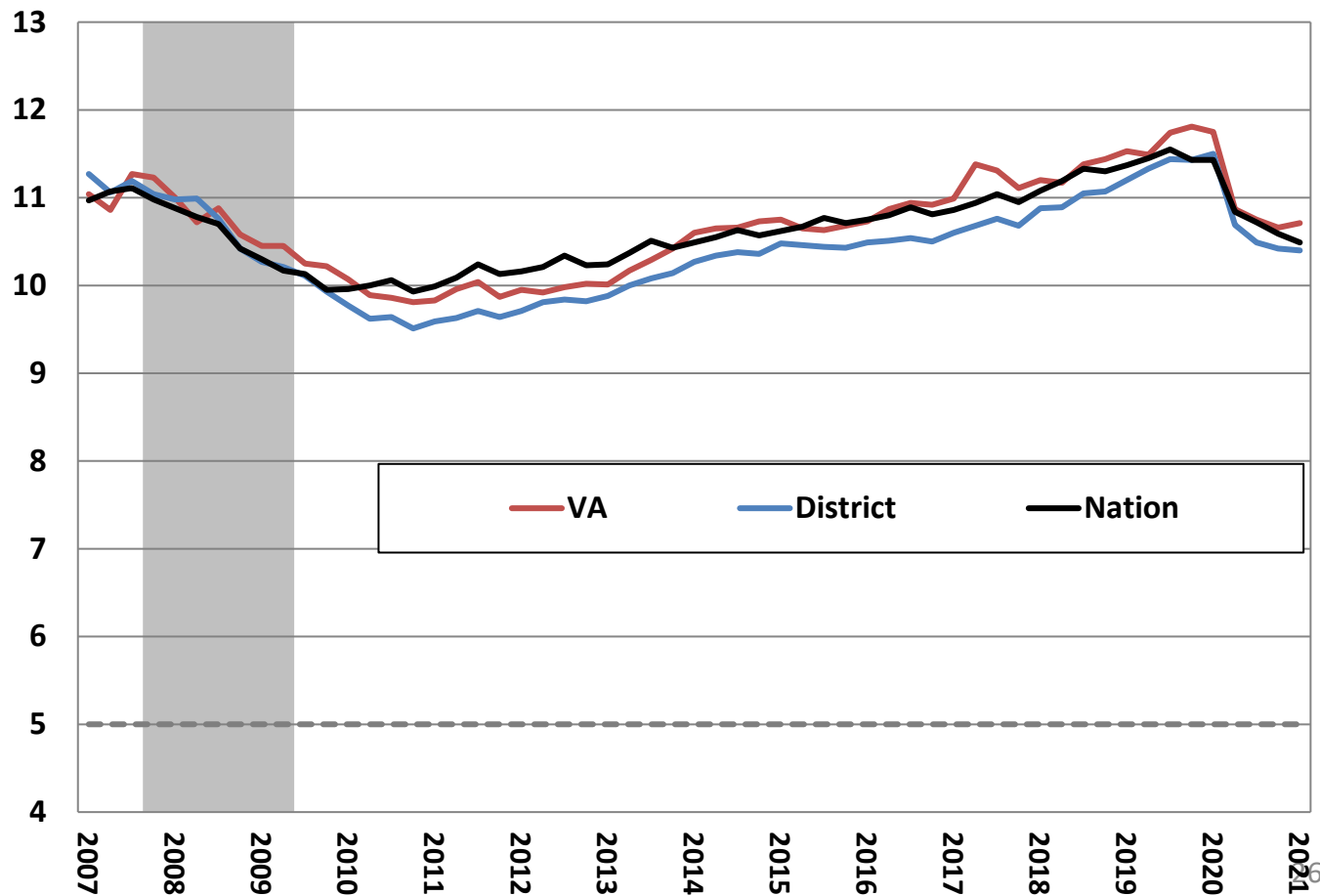
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Capital

- **Level**
- **Growth**
- **Quantity & Quality**
- **Dividends**
- **Access**
- **Risk Management**
- **Asset Quality**

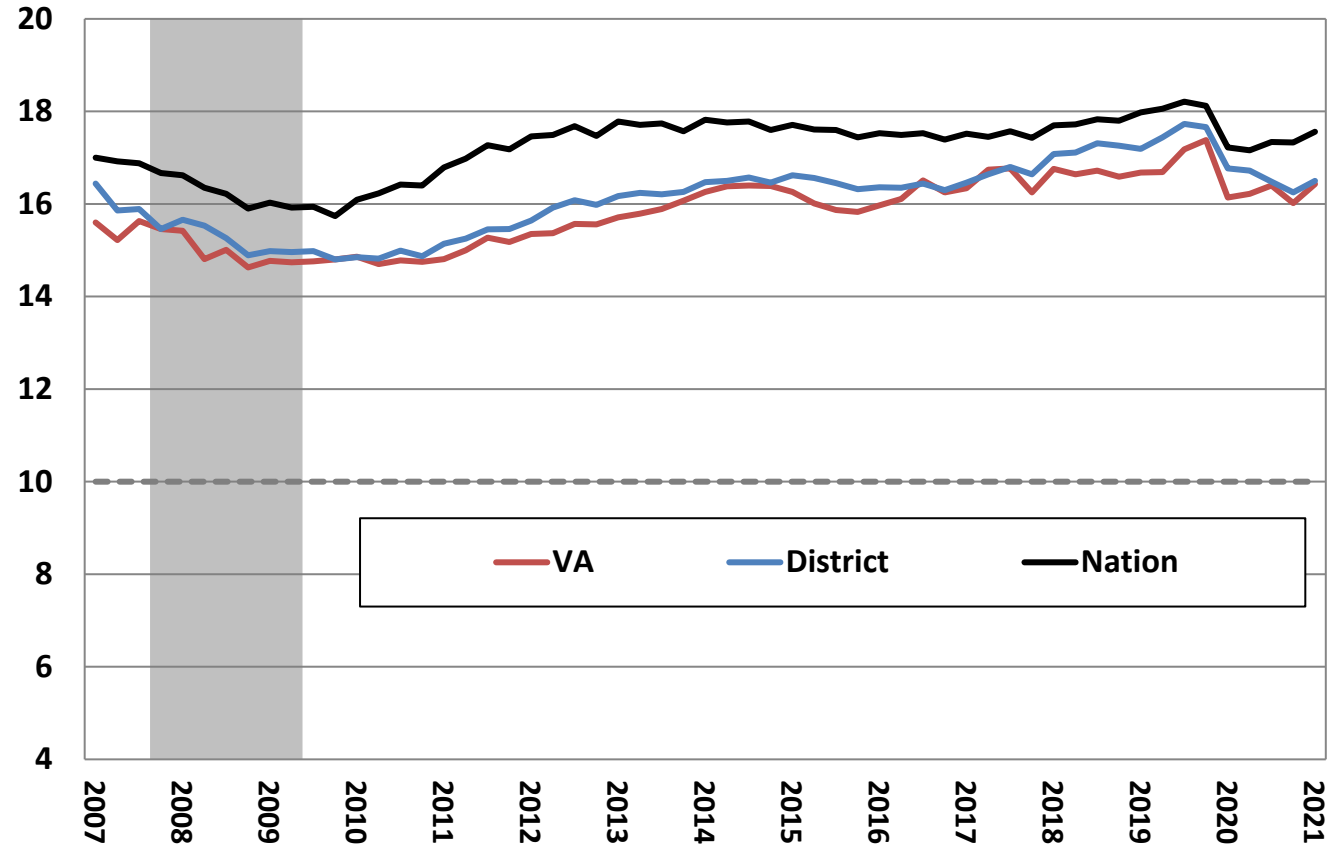
Capital: Tier
1 Leverage
Ratio

Tier 1 Leverage Ratio
(Total Assets less than \$10B, 5% Trimmed Mean Values)



Capital:
Total RBC
Ratio

Total Risk-Based Capital Ratio



Capital

	9/2029	Peer	3/2028	Well Capitalized
T1 Lev	6.67%	10.19%	8.05%	5.0%
CET1	NA	9.31%	NA	6.5%
T1 RBC	8.27%	12.75%	9.15%	8.0%
Total RBC	9.25%	14.65%	10.30%	10.0%

Capital – after \$10 million in new capital

	12/2029	9/2029	Peer	Well Capitalized
T1 Lev	7.60%	6.67%	9.35%	5.0%
CET1	NA	NA	9.31%	6.5%
T1 RBC	9.39%	8.27%	12.75%	8.0%
Total RBC	10.38%	9.25%	14.65%	10.0%

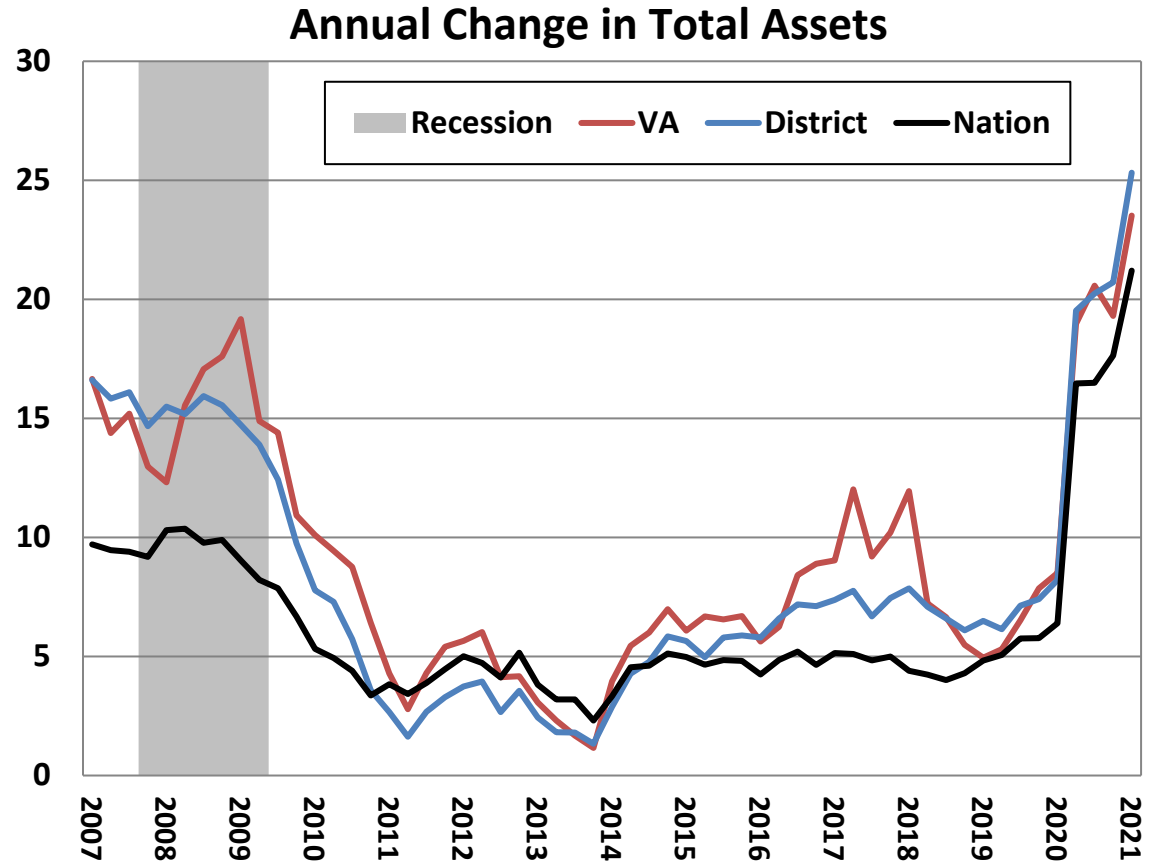
What would you rate Capital?

Click [here](#) to vote.

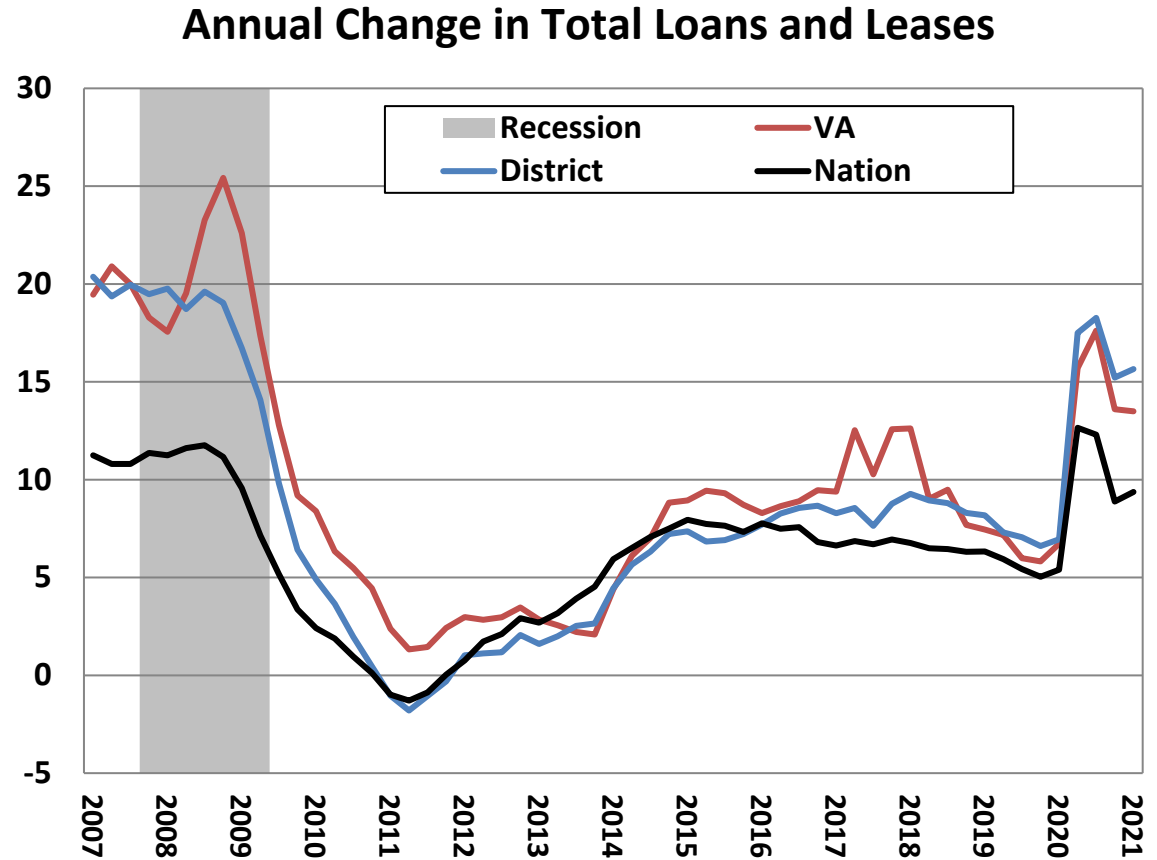
Liquidity

- Stability of deposits
- Reliance on non-core funding
- Loan levels
 - Off balance sheet commitments
- Liquid assets
- Access to other sources
- Risk management

Balance Sheet: Asset Growth

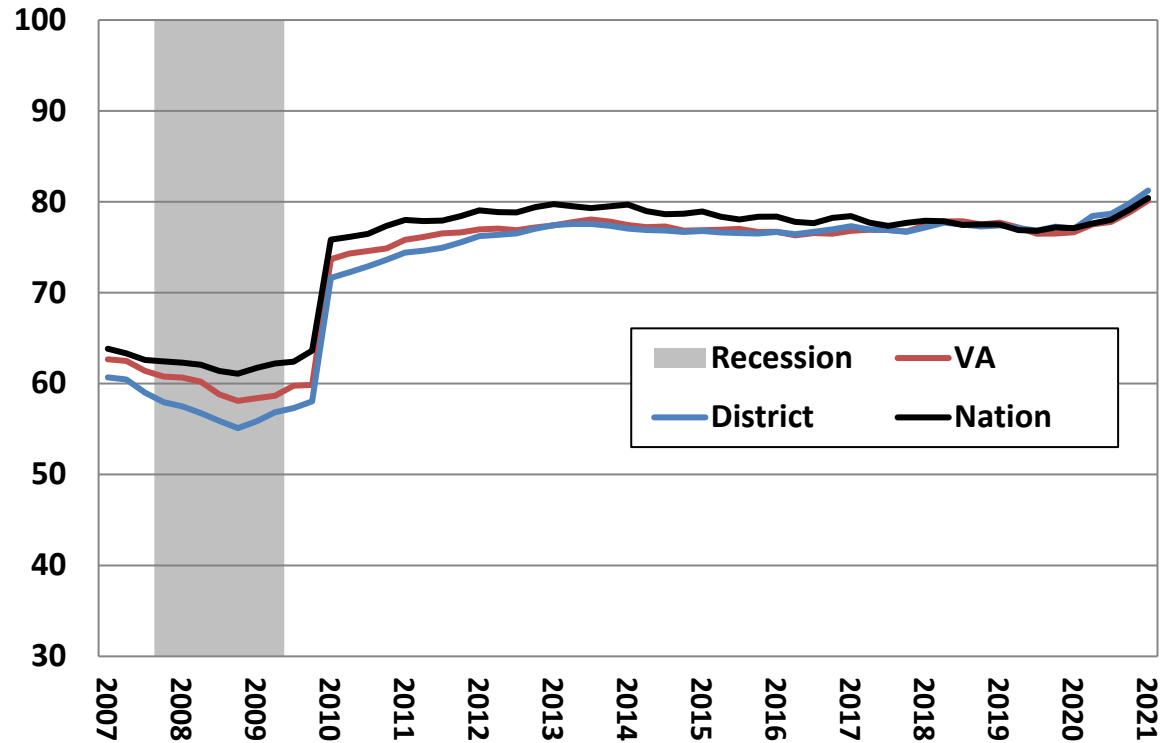


Balance Sheet: Loan Growth



Liquidity: Core Deposits

Core Deposits as a % of Total Assets





DANNY MOLOSHOK / REUTERS

Modern Day Bank Run?



250

Liquidity

	9/2029	Peer	3/2028
Noncore Funding to Assets	6.5	7.6	2.3
Loans-to-deposits	88.5	82.5	82.6
Net Loans to Assets	78.0	70.2	72.5
Brokered Deposits to Assets	5.08	2.69	0.0

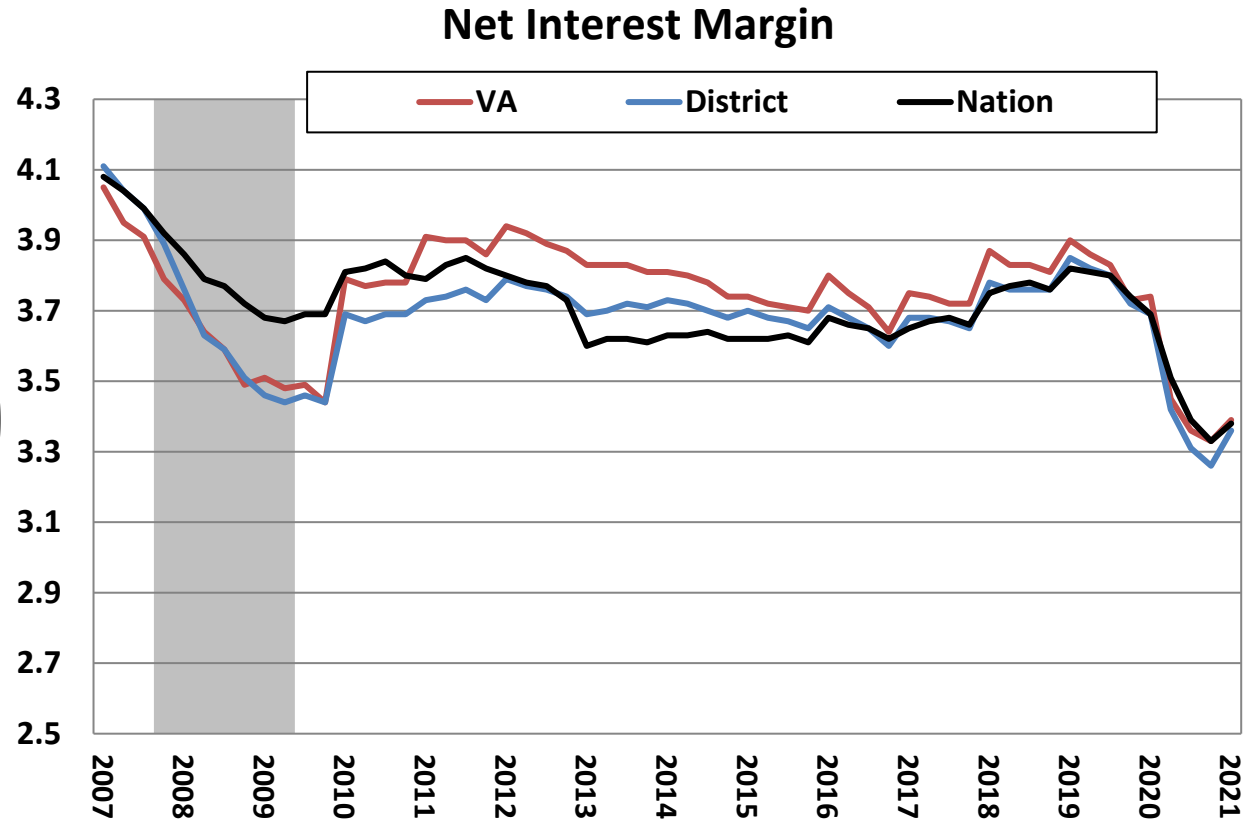
What would you rate Liquidity?

Click [here](#) to vote.

Sensitivity to Market Risk

- Degree of sensitivity
 - Quantity of Risk
 - Rising or Falling Rates
- Management's ability to identify, measure, monitor, and control

Earnings:
Net Interest
Margin



Sensitivity to Market Risk

- “What if” Consulting Company
 - Earnings-at-Risk
 - Economic Value of Equity
 - Not functioning as intended
 - Expensive
- Simplistic Gap model being used
 - Quantity of Interest Rate Risk “appears” manageable

What would you rate Sensitivity to Market Risk?

Click [here](#) to vote.

Management

- **Quality – Corporate Governance**
- **Strategic Planning**
- **Depth and Succession**
- **Compliance**
- **Overall Performance**

Risk Management Reminder

- *Identify*
- *Measure*
- *Monitor*
- *Control*

The Six Risks



Management / Risk Management: 2028 – 2029

- **Dominant individual**
 - Medically forced retirement
- **Out-of-date Strategic plan**
 - Beach City not initially on the radar
- **Numerous loan policy exceptions without overt approval**
- **Renewals and extensions in loan portfolio**
- **Internal Audit previously reported to president**
- **Board stepped up & provided most of the \$10 million capital infusion**

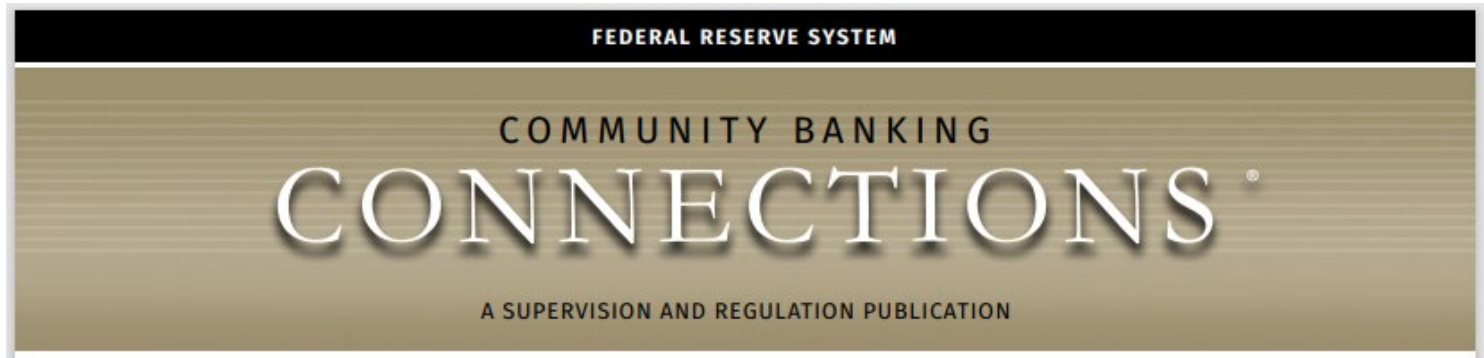
What would you rate Management?

Click [here](#) to vote.

Component Ratings		9/30/2029	3/31/2028
Capital			3
Asset Quality			2
Management			2
Earnings			2
Liquidity			2
Sensitivity to Market Risk			2
Composite			2
Risk Management			2

What is the Composite Rating?

Click [here](#) to vote.



- Welcome to the Second Issue of 2021 of ***Community Banking Connections***, a Federal Reserve System publication that focuses on safety and soundness issues affecting community banks.
 - This issue contains the following articles and features:
 - [A Message from Governor Bowman](#)
 - [View from the District: Embracing Agility and Innovation During the Pandemic and the New Normal](#)
 - [Community Banks and the Fed: Working Together](#)
 - [Putting the Success in Succession Planning and Management](#)
- To view the complete PDF of this issue, click [here](#).

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