

“CAMELS and the impact on Financial Institutions”

Indiana Department of Financial Institutions
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
www.in.gov/dfi

Regulatory Structure and Ratings

- Uniform Financial Institutions Rating System
 - Adopted by FFIEC in November 1979
 - **C**apital Adequacy
 - **A**sset Quality
 - **M**anagement
 - **E**arnings
 - **L**iquidity

Regulatory Structure and Ratings

- CAMEL Revised in January 1997
 - Added sixth component (S) for Sensitivity to Market Risk.
 - Revised definitions to include Quality of Risk Management and risk elements for individual component and composite ratings.

Regulatory Structure and Ratings

- CAMELS Ratings
 - Components and Composite ratings on numerical scale of 1-5.
 - Composite Rating not arithmetic average of components.
 - Ratings are Confidential!!!!

Regulatory Structure and Ratings

- Capital Adequacy
 - Level of Tier I Capital, Risk-based Capital, and trend considered.
 - Impact of Asset Quality
 - Impact of Earnings
 - Strength of Holding Company

Regulatory Structure and Ratings

- Asset Quality
 - Level and Trend of Asset Quality as noted by ACQR (Adversely Classified Items Coverage Ratio)
 - Levels of Nonperforming Loans, OREO, and other Nonperforming Assets.
 - Severity of Classified Assets (i.e., Substandard, Doubtful, Loss)

Regulatory Structure and Ratings

- Asset Quality (continued)
 - Inherent Portfolio Risk
(i.e., composition, concentrations, etc.)
 - Allowance for Loan and Lease Loss (ALLL)
coverage.
 - *Credit Administration/Risk Management*

Regulatory Structure and Ratings

- Management
 - Depth and Abilities of Management Team
 - Quality and Effectiveness of the Board
 - Compliance with Laws, Regulations, and Statements of Policy

Regulatory Structure and Ratings

- Management (continued)
 - Strategic Planning
 - Operations and Audits
 - Overall Financial Condition

Regulatory Structure and Ratings

- Earnings
 - Level and Trend.
 - Composition of and Sustainability of Earnings.
 - Impact of AQ, Market Risk, and Liquidity.
 - Adequacy of Budgeting and Forecasting.

Regulatory Structure and Ratings

- Liquidity
 - On Balance Sheet Liquidity
 - Off Balance Sheet Liquidity
 - Funding Mix
 - Quality of Liquidity Monitoring tools
 - Contingency Funding Plans

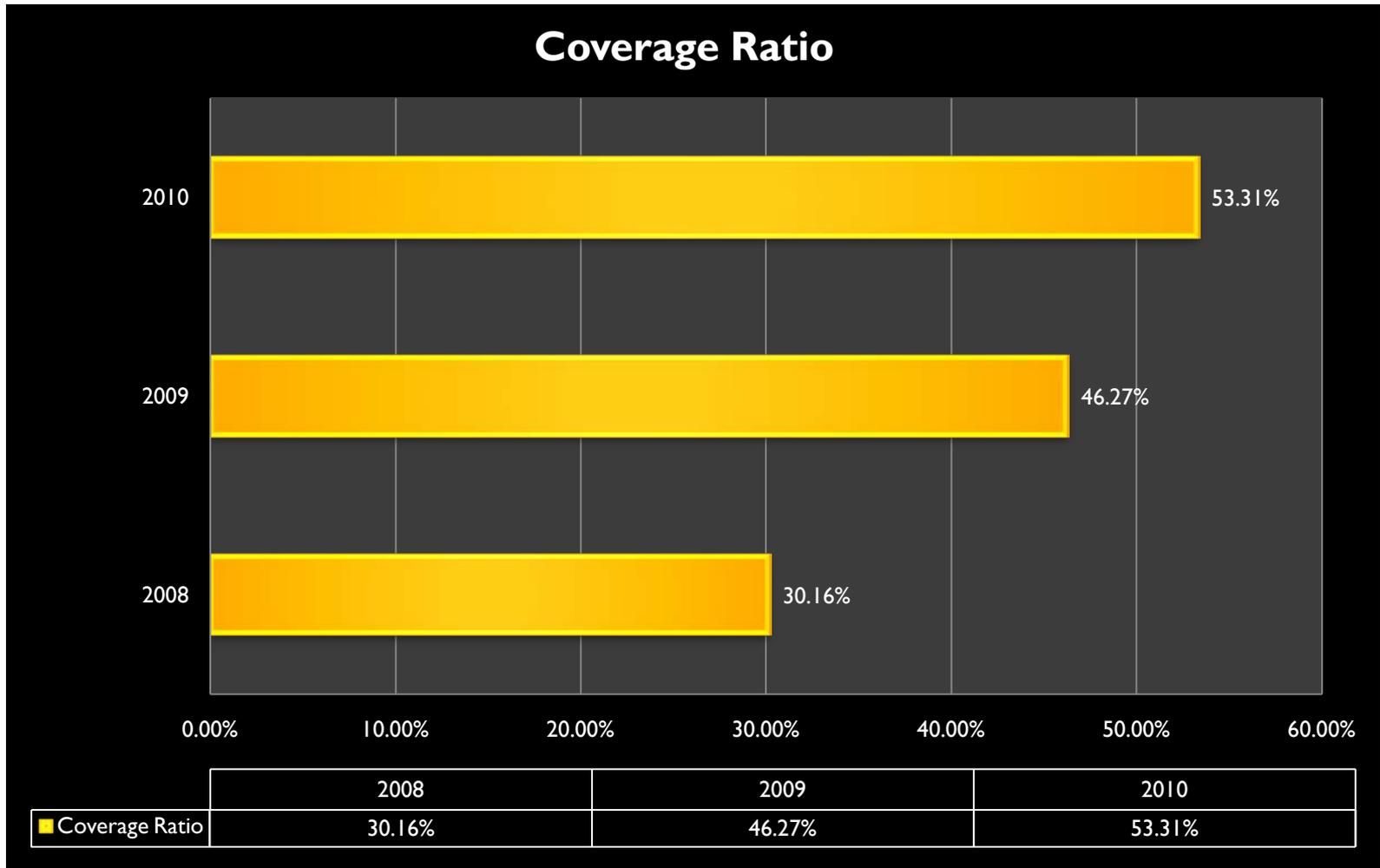
Regulatory Structure and Ratings

- Sensitivity to Market Risk
 - Level of Market Risk Present and Anticipated.
 - Quality of Interest Rate Risk Monitoring Tools
 - Earnings Simulation Models
 - Economic Value of Equity Models
 - Ability of Capital and Earnings to Absorb the Market Risk Exposure.

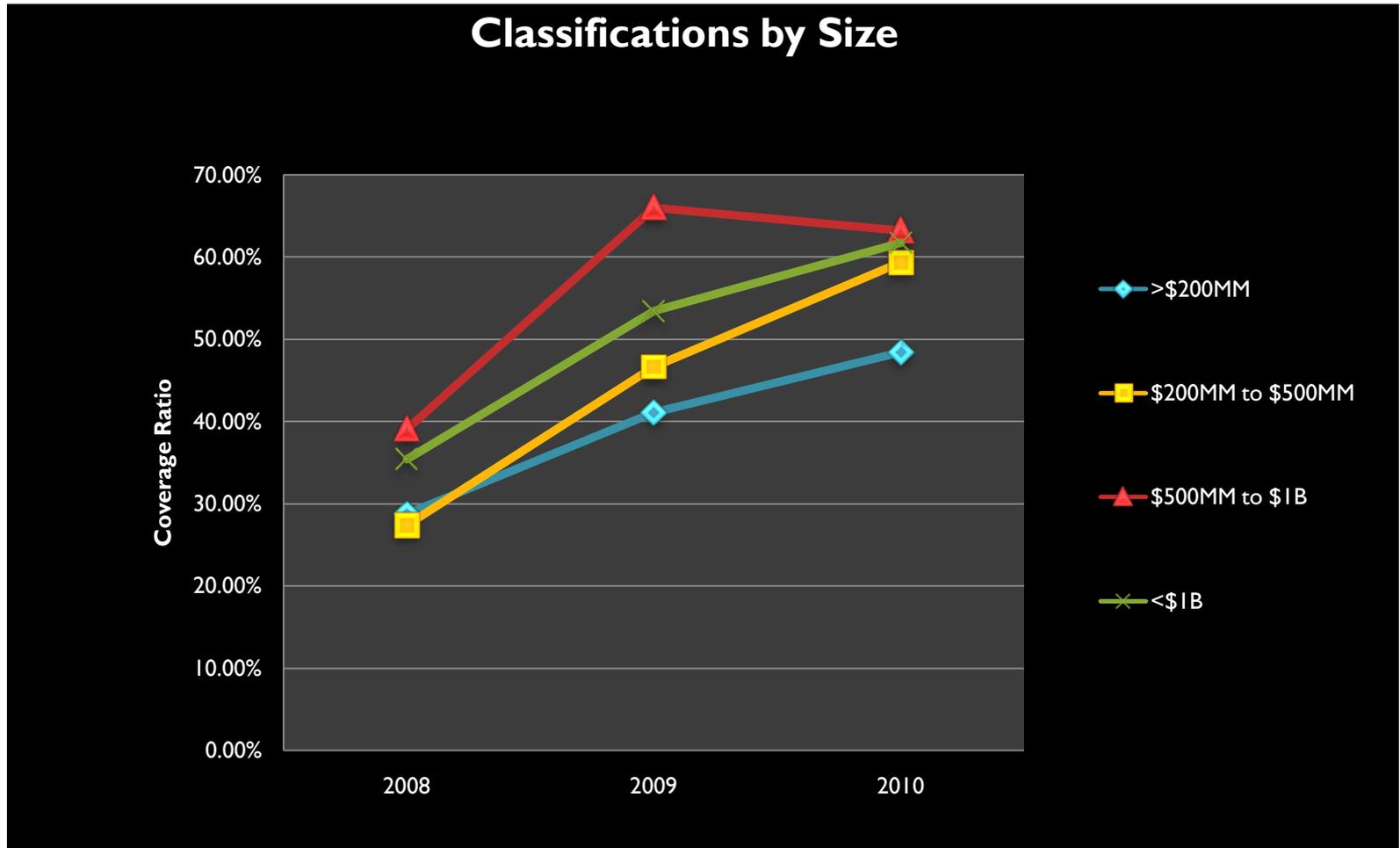
What is happening in Indiana?

- Continued deterioration in 2010.
- Ratings downgrades for institutions of all sizes.
- Concentrations in CRE amplifying the problem.
- Some stabilization evident in 2011.

Classified Assets / Capital and ALLL



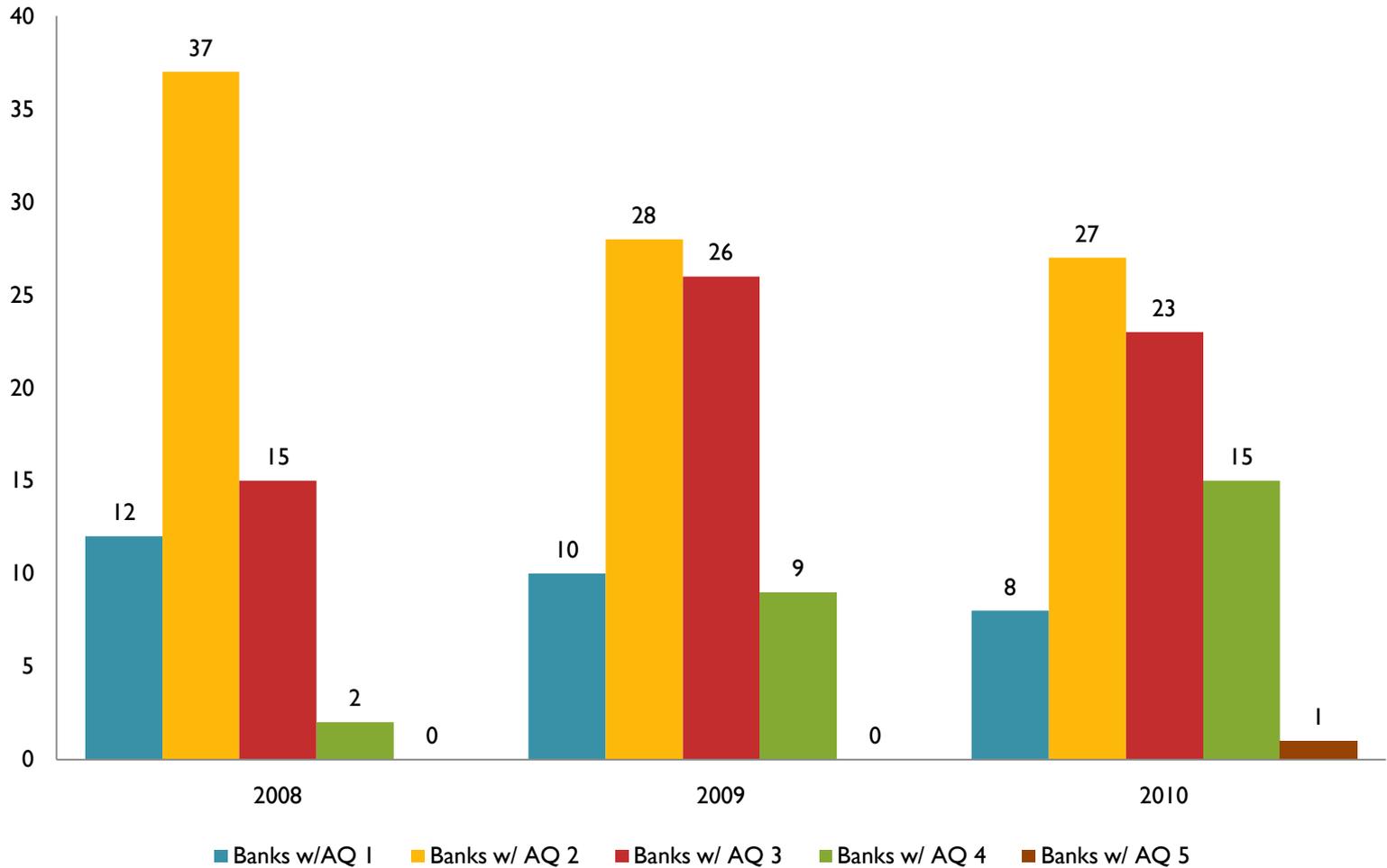
Indiana Banks by Size



Ratings

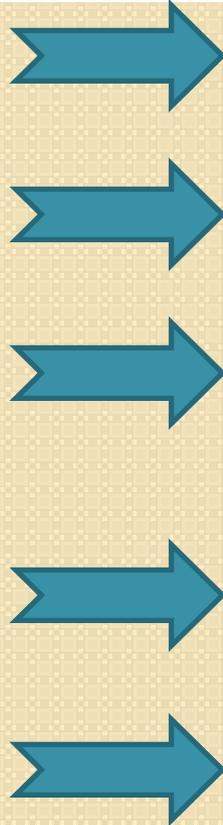
- Increase in “3” and “4” rated Asset Quality.
 - Causes
 - Economic Conditions
 - Increased Classification levels
 - “3” ratings range from 37% to 89%
 - “4” ratings range from 68% to 140%
 - Credit Administration Weaknesses
 - Inadequate Earnings and Capital Support
 - Deterioration in investment portfolios (Trup CDO and Private Issue MBS)

Asset Quality Ratings



CAMELS Composite Rating

- 1
- 2
- 3
- 4
- 5



Typical Enforcement Action

- None
- Board Resolution (Possible)
- Memorandum of Understanding (MOU)
- Infrequently Board Resolution
- Section 39 (FDIC)
- Consent Order (FDIC)
- Written Agreement (FRB)
- Prompt Corrective Action
- Removal Order

Enforcement Actions

Contact Information

- Randall L. Rowe

- Bank Supervisor
 - rrowe@dfi.in.gov
 - 317-232-5852
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- Paul G. Brockman

- Regional Field Supervisor (South)
 - pbrockman@dfi.in.gov
 - 317-453-2181
-

- J. Deron Thompson

- Regional Field Supervisor (North)
 - dthompson@dfi.in.gov
 - 317-453-2175
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