

## First State Bank

Our program will focus on the examination of one specific bank, First State Bank. **First State Bank does not exist!** It is a hypothetical ten-year-old institution with total assets of roughly \$200 million. It has previously been a moderate growth bank with conservative management and a “2” composite rating. However, immediately after the prior examination, the management team started receiving pressure to improve earnings. Earnings were not necessarily bad, but as is oftentimes the case, a single dominant person began to push for higher growth and higher returns. During this time of drastic change, the board remained passive, allowing the officers to direct activities with little supervision. As a result, the loan portfolio grew substantially and developed high levels of commercial real estate and construction loan concentrations, as well as underwriting and credit administration weaknesses. The Report of Examination you will be reviewing reflects the first examination following the rapid growth.

This course will focus on the weaknesses in management and asset quality that developed or were made evident by the activities detailed above. Additionally, we will briefly introduce other topics related to the remaining CAMELS components. At the end of the instruction, you will be asked to rate each of the CAMELS components for the bank. It is best to review these schedules in the order presented since the complexity increases with each new component; however, if you have a particular area of concern, you can go to the San Francisco Director’s College homepage and link directly to that module.

You are now ready to proceed to the discussion on the first component rating, liquidity.