

Supplemental Table 1: How Well Do the Individual Supervisory Screens Predict CAMEL Downgrades?

This table presents evidence about the downgrade prediction record of individual supervisory screens. The far left and right columns for each year contain the mean values of the screens; standard deviations appear in parentheses below the means. An asterisk indicates a significant difference (at the 5 percent level) between the means for downgraded and non-downgraded banks. Shading highlights screens with significant predictive power in all seven years. The center column for each year (‡) shows the number of non-downgraded banks with screen values worse than those of the average downgraded bank; the larger this number, the worse the performance of the screen. Taken together, the evidence in this table shows that screens warn of potential downgrades but can also lead to many unnecessary exams.

	Data as of 1989:4 for:			Data as of 1990:4 for:		
	1,066 banks downgraded in 1991	‡	6,027 banks not downgraded in 1991	721 banks downgraded in 1992	‡	6,220 banks not downgraded in 1992
EQUITY	8.03* (2.37)	2,208	9.43 (3.38)	8.20* (2.40)	2,717	9.28 (3.10)
BAD-LOANS	2.20* (1.90)	1,210	1.40 (1.93)	2.19* (1.87)	1,270	1.38 (1.49)
OREO	0.97* (1.59)	1,206	0.65 (1.25)	1.04* (2.03)	1,241	0.66 (1.19)
CONSUMER	10.79 (7.57)	2,244	10.49 (7.69)	10.61 (7.27)	2,232	10.14 (7.71)
INSIDER	0.65* (1.13)	1,315	0.46 (0.84)	0.62* (0.93)	1,434	0.47 (0.85)
OVERHEAD	32.08* (8.54)	1,961	29.95 (7.69)	34.08* (9.09)	1,566	30.31 (7.60)
OCCUPANCY	0.53* (0.28)	1,441	0.43 (0.28)	0.55* (0.29)	1,340	0.42 (0.27)
ROA	0.92* (0.62)	1,801	1.14 (0.52)	0.81* (0.59)	1,557	1.07 (0.52)
UNCOLLECTED	0.82* (0.44)	1,864	0.74 (0.42)	0.86* (0.46)	1,663	0.71 (0.41)
LIQUID	36.11* (13.36)	1,591	46.71 (14.80)	34.46* (12.67)	1,486	46.06 (14.93)
LARGE-TIME	12.84* (8.08)	1,366	9.09 (6.69)	12.52* (7.72)	1,452	9.00 (6.53)
CORE	75.00* (10.92)	1,429	78.79 (8.80)	76.35* (9.90)	1,756	78.95 (8.74)
SIZE	11.37* (1.57)	4,415	10.85 (1.18)	11.05* (1.28)	3,754	10.91 (1.18)
BHCRATIO	0.78 (0.36)	4,279	0.77 (0.37)	0.82* (0.34)	4,343	0.77 (0.37)

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	Data as of 1991:4 for:			Data as of 1992:4 for:		
	309 banks downgraded in 1993 ‡	6,875 banks not downgraded in 1993		199 banks downgraded in 1994 ‡	6,872 banks not downgraded in 1994	
EQUITY	8.59* (2.30)	3,491	9.34 (3.27)	8.89* (2.71)	3,659	9.47 (3.16)
BAD-LOANS	2.53* (2.11)	1,048	1.37 (1.84)	1.81* (1.73)	1,491	1.20 (1.57)
OREO	1.12* (1.74)	1,290	0.67 (1.23)	1.02* (1.83)	1,375	0.63 (1.10)
CONSUMER	9.17 (5.93)	2,759	9.49 (7.18)	8.92 (6.81)	2,621	9.04 (7.22)
INSIDER	0.69* (1.09)	1,405	0.46 (0.79)	0.60* (0.76)	1,435	0.41 (0.77)
OVERHEAD	38.34* (10.14)	1,340	32.79 (8.60)	42.53* (11.70)	1,644	37.56 (9.58)
OCCUPANCY	0.57* (0.31)	1,245	0.42 (0.31)	0.52* (0.27)	1,679	0.42 (0.25)
ROA	0.71* (0.74)	1,098	1.08 (0.65)	0.97* (0.64)	1,631	1.25 (0.55)
UNCOLLECTED	0.79* (0.52)	1,957	0.67 (0.43)	0.71* (0.54)	1,729	0.57 (0.38)
LIQUID	36.18* (13.36)	1,806	46.65 (14.91)	41.68* (16.56)	2,810	46.76 (15.01)
LARGE-TIME	11.20* (7.81)	1,575	8.02 (5.91)	9.22* (7.35)	1,765	7.02 (5.34)
CORE	77.93* (8.91)	2,034	79.94 (8.28)	79.94 (8.43)	2,484	80.66 (8.42)
SIZE	10.90 (1.17)	3,568	10.96 (1.17)	10.67* (1.08)	2,799	11.06 (1.23)
BHCRATIO	0.91* (0.24)	4,734	0.77 (0.37)	0.95* (0.17)	4,614	0.77 (0.37)

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	Data as of 1993:4 for:			Data as of 1994:4 for:			Data as of 1995:4 for:		
	140 banks down- graded in 1995	‡ 3,820	6,665 banks not down- graded in 1995	148 banks down- graded in 1996	‡ 3,609	6,375 banks not down- graded in 1996	112 banks down- graded in 1997	‡ 2,149	4,239 banks not down- graded in 1997
EQUITY	9.41 (3.73)		9.74 (3.05)	9.40 (3.46)		9.72 (3.23)	9.48* (4.04)		10.31 (3.83)
BAD-LOANS	1.79* (2.12)	1,199	1.05 (1.27)	1.65* (2.11)	1,026	0.91 (1.12)	1.86* (1.84)	575	0.91 (1.12)
OREO	0.86* (1.89)	1,060	0.45 (0.91)	0.66* (1.80)	964	0.34 (0.89)	0.44 (1.51)	716	0.27 (0.64)
CONSUMER	9.65 (6.68)	2,186	9.03 (7.49)	11.63* (10.13)	1622	9.33 (7.81)	12.97* (9.86)	865	9.09 (6.91)
INSIDER	1.42 (1.79)	2,027	1.22 (1.50)	1.30 (1.30)	2,254	1.27 (1.59)	1.34 (1.30)	1,431	1.27 (1.43)
OVERHEAD	47.17* (13.41)	1,584	41.75 (10.15)	46.09* (11.27)	1,850	42.04 (9.33)	41.29* (14.46)	1,234	38.17 (27.49)
OCCUPANCY	0.52* (0.25)	1,755	0.43 (0.24)	0.54* (0.30)	1,584	0.44 (0.24)	0.52* (0.28)	1,183	0.45 (0.27)
ROA	1.06* (0.74)	2,116	1.29 (0.84)	0.98* (0.56)	1,850	1.21 (1.18)	0.99* (0.57)	1,110	1.25 (0.87)
UNCOLLECTED	0.74* (0.55)	1,434	0.54 (0.36)	0.94* (0.71)	998	0.61 (0.39)	1.04* (0.64)	732	0.69 (0.46)
LIQUID	39.03* (14.16)	2,667	44.65 (15.06)	34.45* (12.55)	2,293	41.50 (14.65)	32.85* (11.74)	1,232	41.63 (13.98)
LARGE-TIME	9.83* (7.46)	1,494	6.90 (5.15)	10.07* (5.62)	1,617	7.60 (5.56)	11.69* (6.29)	1,049	8.86 (5.66)
CORE	78.09* (8.85)	1,986	79.96 (8.78)	77.73 (7.41)	2,224	78.63 (9.08)	76.21 (8.34)	1,509	77.31 (8.65)
SIZE	10.70* (1.05)	2,678	11.12 (1.28)	10.52* (1.02)	2,014	11.16 (1.27)	10.67* (0.90)	1,557	11.15 (1.23)
BHCRATIO	0.92* (0.23)	4,588	0.78 (0.36)	0.92* (0.22)	4,439	0.78 (0.36)	0.90* (0.25)	3,049	0.80 (0.34)

Supplemental Table 2: How Well Does the Logit Model Fit the CAMEL Downgrade Data?

This table presents the estimated regression coefficients for the downgrade prediction logit. The model predicts in-sample downgrades ("1" represents downgrade from safe-and-sound to problem status) for calendar year t with year $t-2$ call report data. Standard errors appear in parentheses below each coefficient. Three asterisks denote significance at the 1 percent level; two asterisks denote significance at the 5 percent level. Shading highlights coefficients that were significant with the correct sign in all seven years. Overall, the logit model does a good job predicting in-sample downgrades.

Independent Variables	Banks that were examined in:	
	1989	1990
Intercept	0.037 (1.444)	-1.192 (1.161)
EQUITY	-0.135*** (0.030)	-0.123*** (0.024)
BAD-LOANS	0.198*** (0.024)	0.268*** (0.023)
OREO	0.171*** (0.029)	0.144*** (0.025)
CONSUMER	-0.006 (0.006)	-0.018*** (0.005)
INSIDER	0.181*** (0.044)	0.012 (0.032)
OVERHEAD	-0.005 (0.009)	-0.003 (0.007)
OCCUPANCY	0.616** (0.251)	0.245 (0.223)
ROA	-0.472*** (0.087)	-0.532*** (0.081)
UNCOLLECTED	0.678*** (0.134)	0.297*** (0.112)
LIQUID	-0.044*** (0.004)	-0.052*** (0.004)
LARGE-TIME	0.058*** (0.010)	0.049*** (0.009)
CORE	0.001 (0.009)	0.001 (0.007)
SIZE	-0.077 (0.052)	0.138*** (0.041)
BHCRATIO	0.293** (0.132)	0.435*** (0.111)
Number of Observations	5,495	6,672
Pseudo-R ²	0.199	0.185
-2 log likelihood testing whether all coefficients (except the intercept) = 0	786.646***	1004.216***

EQUITY	Equity as a percentage of total assets.	UNCOLLECTED	Interest accrued as revenue but not collected as a percentage of total loans.
BAD-LOANS	Nonperforming loans as a percentage of total loans.	LIQUID	Liquid assets (sum of cash, securities, federal funds sold, and reverse repurchase agreements) as a percentage of total assets.
OREO	Other real estate owned (real estate other than bank premises) as a percentage of total loans.	LARGE-TIME	Large denomination time deposit liabilities as a percentage of total assets.
CONSUMER	Consumer loans as a percentage of total assets.	CORE	Core deposits (transactions, savings and small time deposits) as a percentage of total assets.
INSIDER	The value of loans to insiders (officers and directors of the bank) as a percentage of total assets.	SIZE	Natural logarithm of total assets, in thousands of dollars.
OVERHEAD	Noninterest expense as a percentage of total revenue.	BHCRATIO	The ratio of each bank's total assets to the total assets of its holding company. Banks without holding companies have BHCRATIO = 1.
OCCUPANCY	Occupancy expense as a percentage of average assets.		
ROA	Net income as a percentage of total assets.		

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Independent Variables	Banks that were examined in:	
	1991	1992
Intercept	-0.309 (1.095)	-0.728 (1.340)
EQUITY	-0.117*** (0.022)	-0.086*** (0.024)
BAD-LOANS	0.244*** (0.023)	0.254*** (0.025)
OREO	0.130*** (0.026)	0.089*** (0.031)
CONSUMER	-0.023*** (0.005)	-0.015*** (0.006)
INSIDER	0.081** (0.035)	0.038 (0.043)
OVERHEAD	-0.004 (0.008)	0.026*** (0.008)
OCCUPANCY	0.357* (0.213)	0.053 (0.241)
ROA	-0.599*** (0.080)	-0.569*** (0.089)
UNCOLLECTED	0.225** (0.096)	0.447*** (0.108)
LIQUID	-0.058*** (0.004)	-0.067*** (0.004)
LARGE-TIME	0.045*** (0.008)	0.057*** (0.010)
CORE	0.000 (0.007)	0.007 (0.009)
SIZE	0.109*** (0.039)	-0.072 (0.048)
BHCRATIO	0.461*** (0.108)	0.694*** (0.134)
Number of Observations	7,093	6,941
Pseudo-R ²	0.187	0.203
-2 log likelihood testing whether all coefficients (except the intercept) = 0	1121.201***	938.837***

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Independent Variables	Banks that were examined in:		
	1993	1994	1995
Intercept	-2.249 (2.152)	-2.709 (2.807)	-1.768 (2.380)
EQUITY	-0.067** (0.033)	-0.081** (0.039)	-0.050 (0.038)
BAD-LOANS	0.235*** (0.032)	0.100*** (0.029)	0.216*** (0.047)
OREO	0.084** (0.037)	0.106** (0.050)	0.168*** (0.057)
CONSUMER	-0.025*** (0.010)	-0.002 (0.012)	0.011 (0.011)
INSIDER	0.067 (0.059)	-0.006 (0.078)	-0.007 (0.052)
OVERHEAD	0.041*** (0.009)	0.013 (0.011)	0.026*** (0.010)
OCCUPANCY	-0.922*** (0.281)	0.434 (0.366)	0.050 (0.438)
ROA	-0.367*** (0.102)	-0.446*** (0.152)	-0.207 (0.171)
UNCOLLECTED	0.067 (0.142)	0.372** (0.186)	0.519** (0.219)
LIQUID	-0.070*** (0.006)	-0.027*** (0.006)	-0.031*** (0.008)
LARGE-TIME	0.057*** (0.018)	0.059** (0.025)	0.058*** (0.019)
CORE	0.012 (0.017)	0.011 (0.022)	-0.012 (0.015)
SIZE	-0.136* (0.071)	-0.276*** (0.090)	-0.272*** (0.101)
BHCRATIO	1.905*** (0.275)	2.412*** (0.427)	1.572*** (0.406)
Number of Observations	7,184	7,071	6,805
Pseudo-R ²	0.190	0.120	0.126
-2 log likelihood testing whether all coefficients (except the intercept) = 0	483.741***	217.959***	172.287***

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