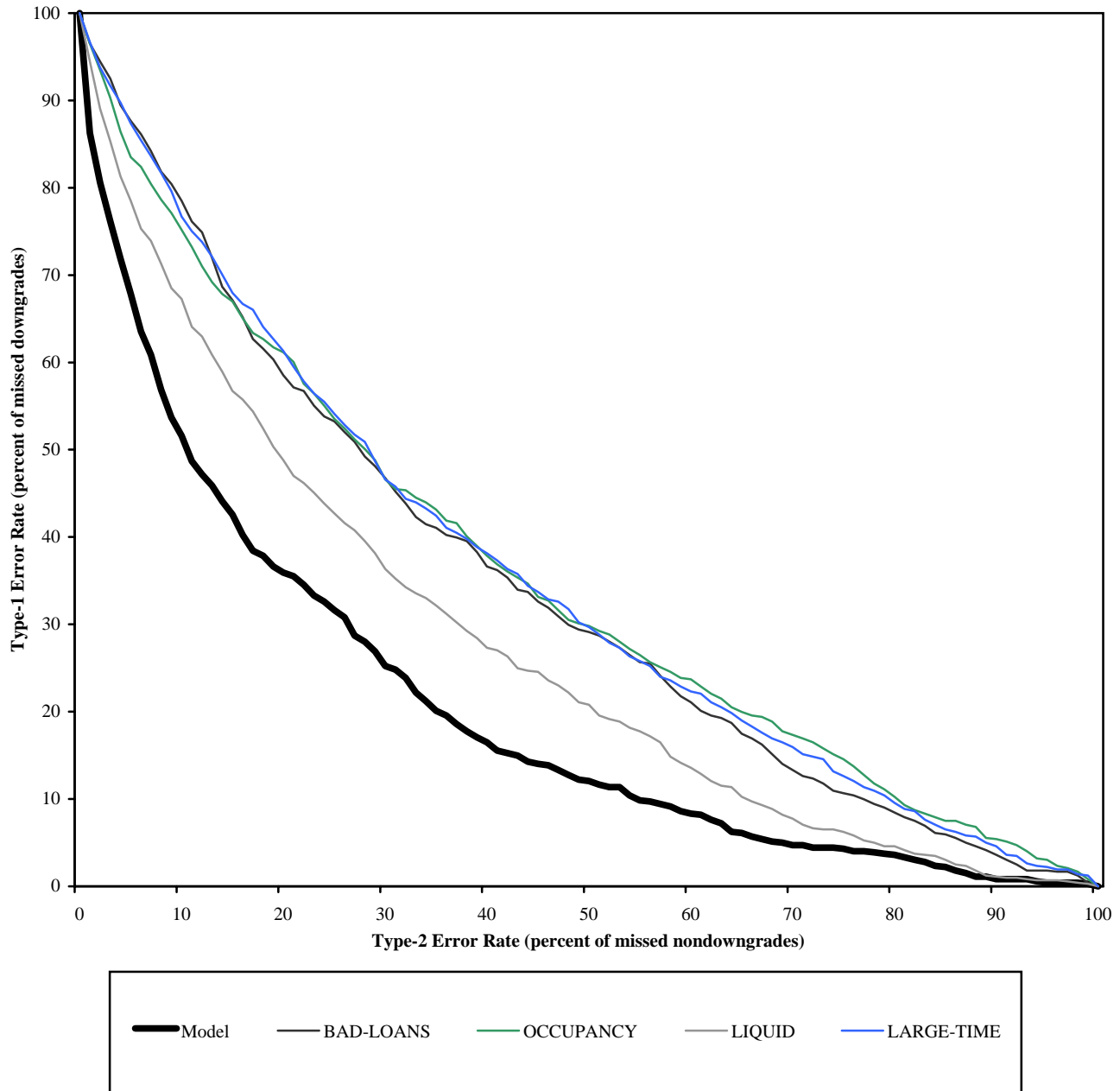


**Figure 5, Continued: What is the Trade-Off Between False Negatives and False Positives in the Downgrade-Prediction Model Compared to the Individual Screens?**

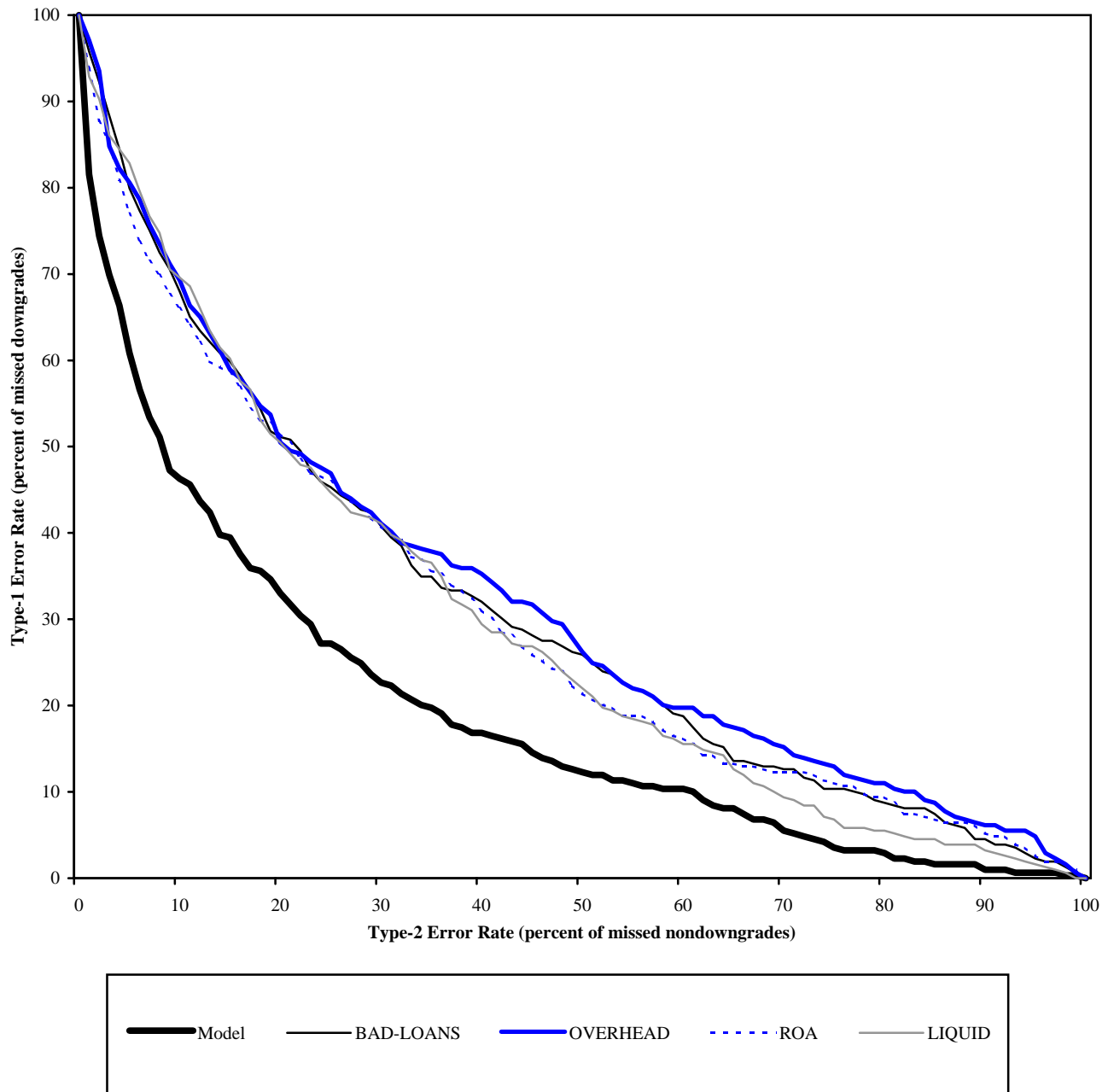
1992 Downgrade Predictions Using Year-End 1990 Data



This figure shows the trade-off between the type-1 error rate (missed downgrades) and the type-2 error rate (missed nondowngrades). The type-1 error rate is the percentage of banks rated CAMEL-1 or -2 that were subsequently downgraded by supervisors but were not identified by the model (or screen). The type-2 error rate is the percentage of banks rated CAMEL-1 or -2 that were not subsequently downgraded but were misidentified by the model (or screen) as a downgrade risk. A desirable early-warning system minimizes the increase in type-2 errors for any given decrease in type-1 errors. This graph shows that for any level of type-1 error rate tolerated by supervisors, the econometric model (in bold) leads to fewer type-2 errors than any individual screen. For clarity, only the four best screens are shown.

**Figure 5, Continued: What is the Trade-Off Between False Negatives and False Positives in the Downgrade-Prediction Model Compared to the Individual Screens?**

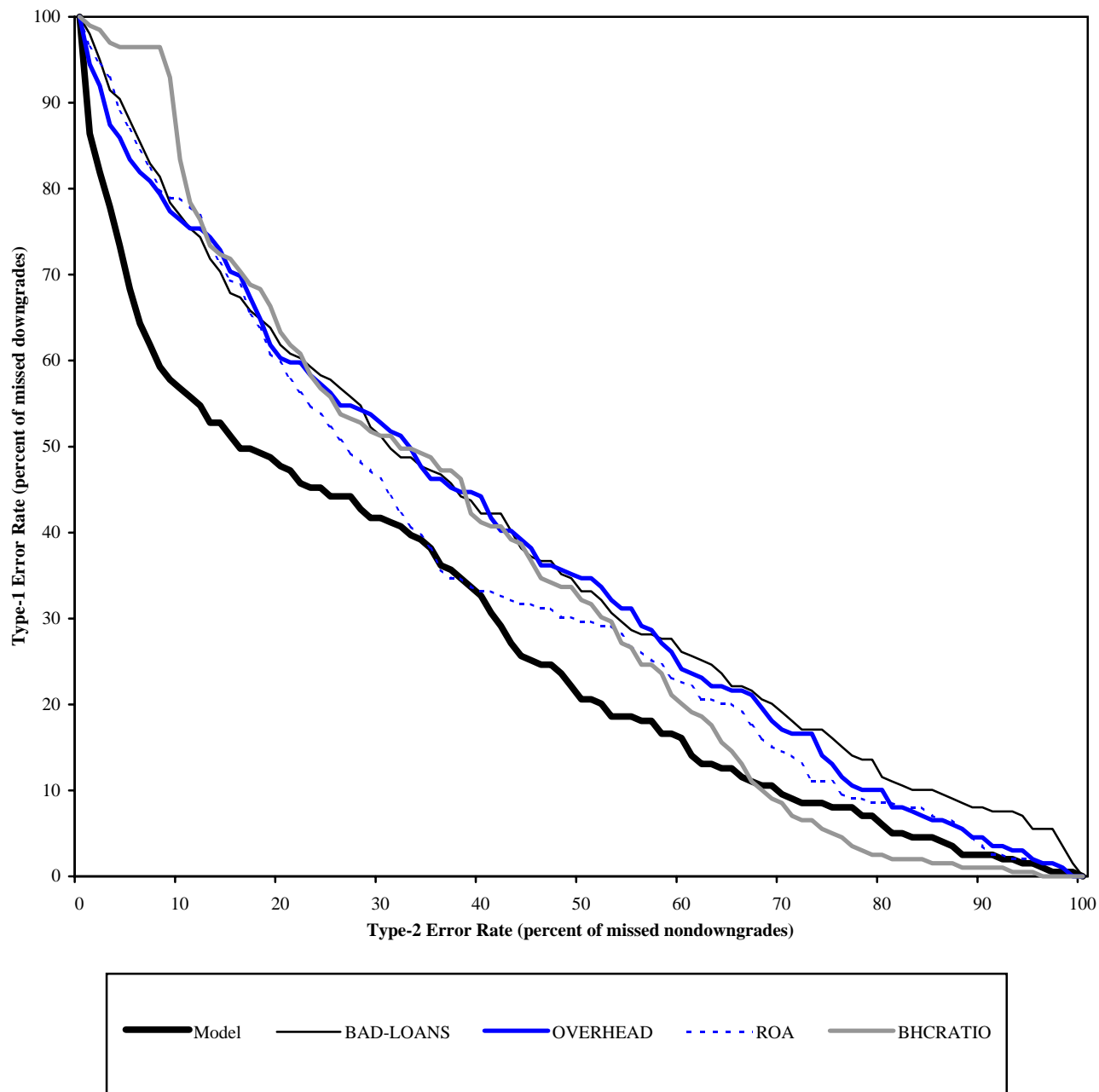
1993 Downgrade Predictions Using Year-End 1991 Data



This figure shows the trade-off between the type-1 error rate (missed downgrades) and the type-2 error rate (missed nondowngrades). The type-1 error rate is the percentage of banks rated CAMEL-1 or -2 that were subsequently downgraded by supervisors but were not identified by the model (or screen). The type-2 error rate is the percentage of banks rated CAMEL-1 or -2 that were not subsequently downgraded but were misidentified by the model (or screen) as a downgrade risk. A desirable early-warning system minimizes the increase in type-2 errors for any given decrease in type-1 errors. This graph shows that for any level of type-1 error rate tolerated by supervisors, the econometric model (in bold) leads to fewer type-2 errors than any individual screen. For clarity, only the four best screens are shown.

**Figure 5, Continued: What is the Trade-Off Between False Negatives and False Positives in the Downgrade-Prediction Model Compared to the Individual Screens?**

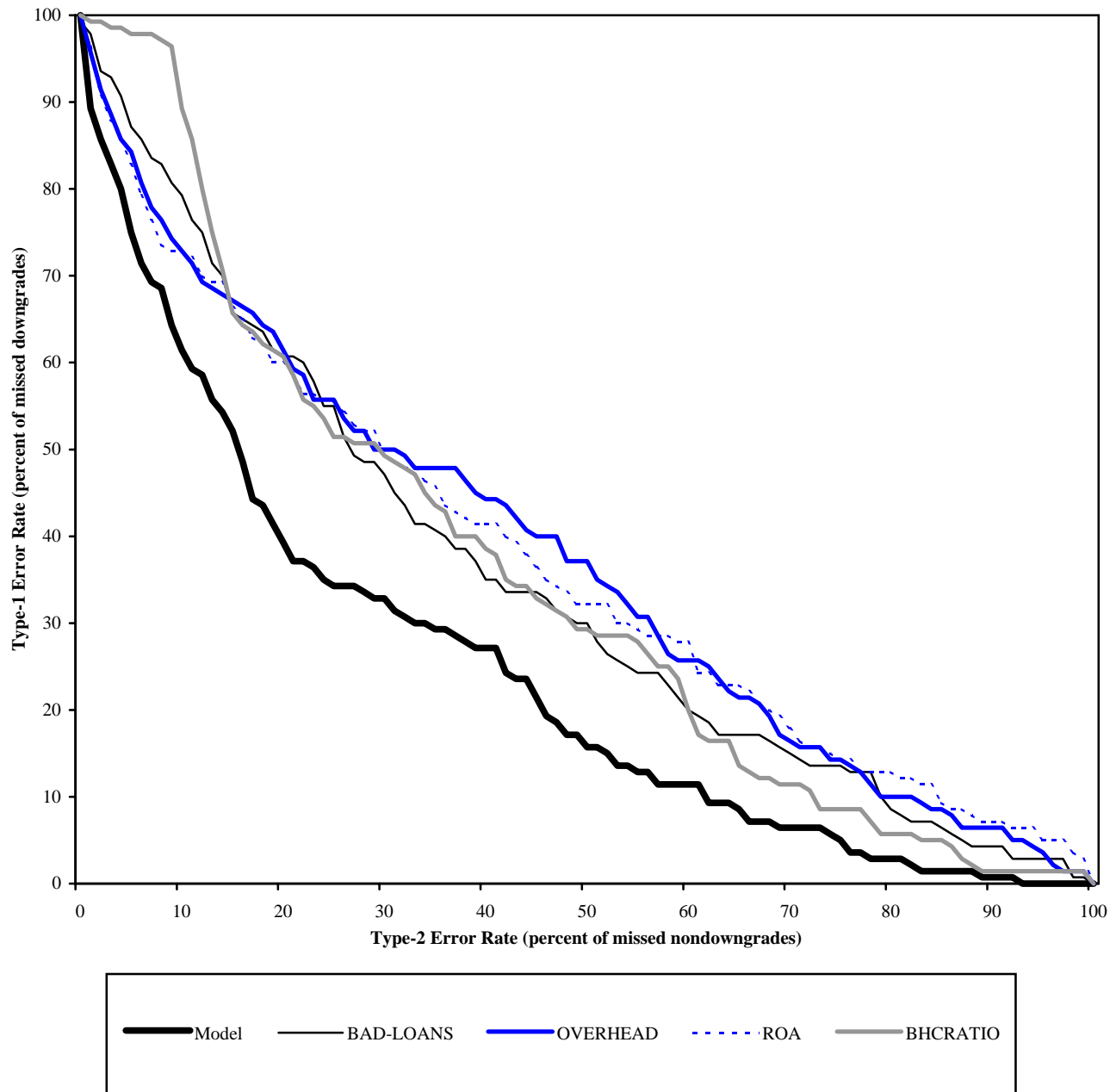
1994 Downgrade Predictions Using Year-End 1992 Data



This figure shows the trade-off between the type-1 error rate (missed downgrades) and the type-2 error rate (missed nondowngrades). The type-1 error rate is the percentage of banks rated CAMEL-1 or -2 that were subsequently downgraded by supervisors but were not identified by the model (or screen). The type-2 error rate is the percentage of banks rated CAMEL-1 or -2 that were not subsequently downgraded but were misidentified by the model (or screen) as a downgrade risk. A desirable early-warning system minimizes the increase in type-2 errors for any given decrease in type-1 errors. This graph shows that for any level of type-1 error rate tolerated by supervisors, the econometric model (in bold) leads to fewer type-2 errors than any individual screen. For clarity, only the four best screens are shown.

**Figure 5, Continued: What is the Trade-Off Between False Negatives and False Positives in the Downgrade-Prediction Model Compared to the Individual Screens?**

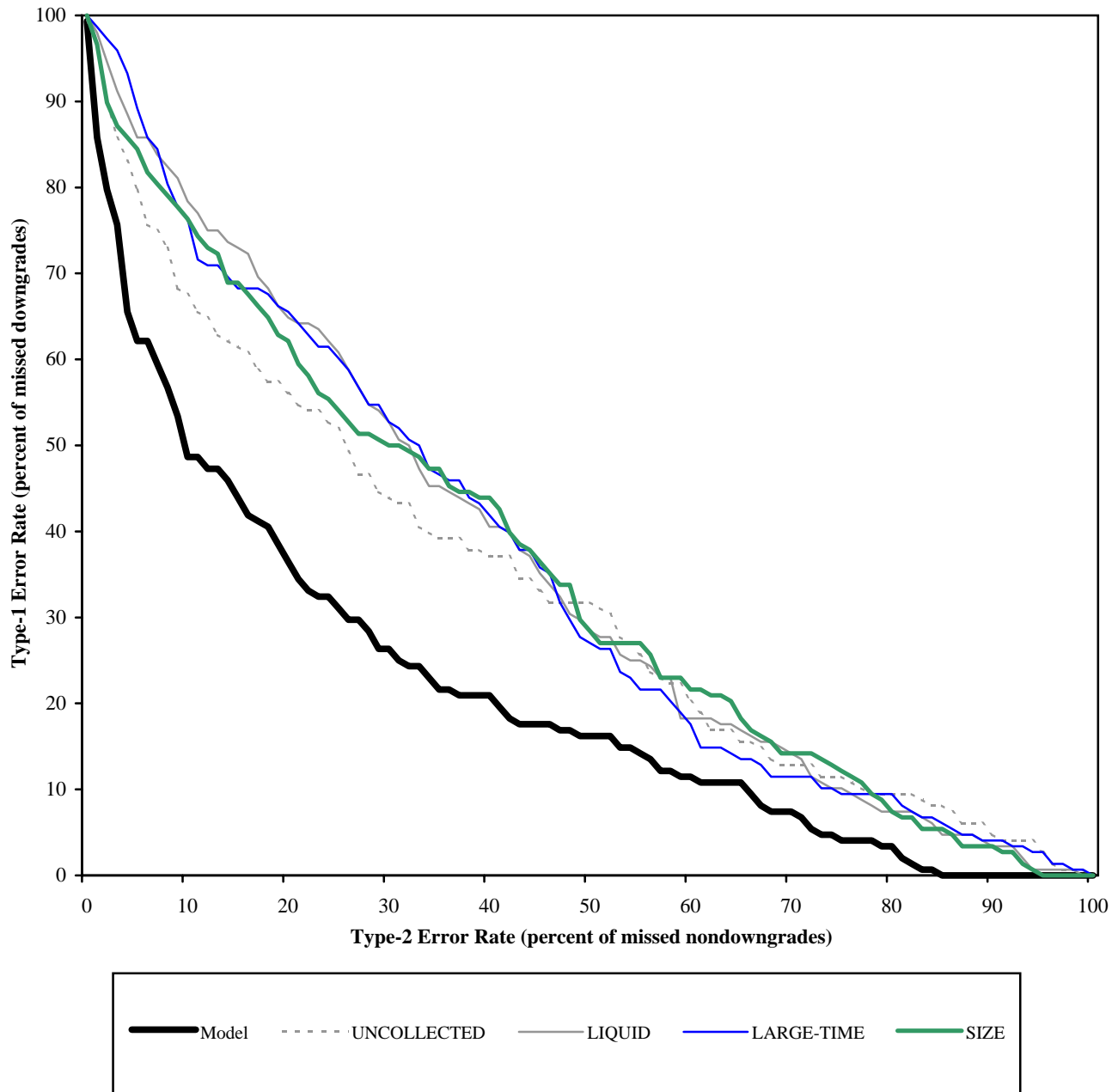
1995 Downgrade Predictions Using Year-End 1993 Data



This figure shows the trade-off between the type-1 error rate (missed downgrades) and the type-2 error rate (missed nondowngrades). The type-1 error rate is the percentage of banks rated CAMEL-1 or -2 that were subsequently downgraded by supervisors but were not identified by the model (or screen). The type-2 error rate is the percentage of banks rated CAMEL-1 or -2 that were not subsequently downgraded but were misidentified by the model (or screen) as a downgrade risk. A desirable early-warning system minimizes the increase in type-2 errors for any given decrease in type-1 errors. This graph shows that for any level of type-1 error rate tolerated by supervisors, the econometric model (in bold) leads to fewer type-2 errors than any individual screen. For clarity, only the four best screens are shown.

**Figure 5, Continued: What is the Trade-Off Between False Negatives and False Positives in the Downgrade-Prediction Model Compared to the Individual Screens?**

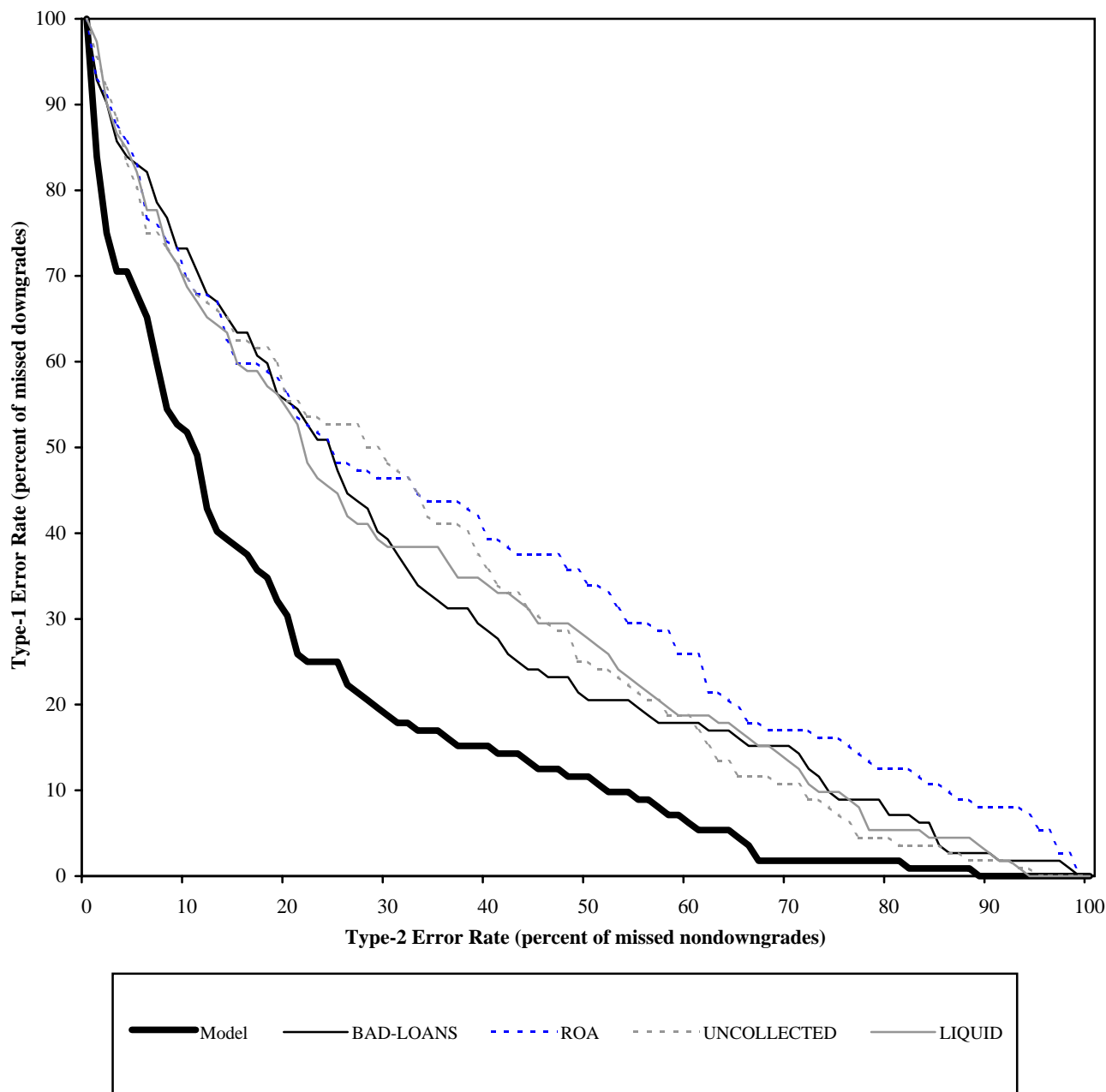
1996 Downgrade Predictions Using Year-End 1994 Data



This figure shows the trade-off between the type-1 error rate (missed downgrades) and the type-2 error rate (missed nondowngrades). The type-1 error rate is the percentage of banks rated CAMEL-1 or -2 that were subsequently downgraded by supervisors but were not identified by the model (or screen). The type-2 error rate is the percentage of banks rated CAMEL-1 or -2 that were not subsequently downgraded but were misidentified by the model (or screen) as a downgrade risk. A desirable early-warning system minimizes the increase in type-2 errors for any given decrease in type-1 errors. This graph shows that for any level of type-1 error rate tolerated by supervisors, the econometric model (in bold) leads to fewer type-2 errors than any individual screen. For clarity, only the four best screens are shown.

**Figure 5, Continued: What is the Trade-Off Between False Negatives and False Positives in the Downgrade-Prediction Model Compared to the Individual Screens?**

1997 Downgrade Predictions Using Year-End 1995 Data



This figure shows the trade-off between the type-1 error rate (missed downgrades) and the type-2 error rate (missed nondowngrades). The type-1 error rate is the percentage of banks rated CAMEL-1 or -2 that were subsequently downgraded by supervisors but were not identified by the model (or screen). The type-2 error rate is the percentage of banks rated CAMEL-1 or -2 that were not subsequently downgraded but were misidentified by the model (or screen) as a downgrade risk. A desirable early-warning system minimizes the increase in type-2 errors for any given decrease in type-1 errors. This graph shows that for any level of type-1 error rate tolerated by supervisors, the econometric model (in bold) leads to fewer type-2 errors than any individual screen. For clarity, only the four best screens are shown.