

## ABSTRACT

### A CASE STUDY OF COMMERCIAL BANK SOLVENCY DURING A GLOBAL FINANCIAL CRISIS

Probably one of the most salient problems of the recent past is the 2008 global financial crisis and its affect on financial systems. This crisis, which began in mid-September 2008, was thought by some to have been caused by the U.S. sub-prime mortgage industry collapse. Many financial institutions were affected by this event, especially those holding sub-prime mortgages that were used as collateral to make short-term business loans. When it was discovered that many of these mortgages had little or no value, the crisis began. The credit freeze precipitated a chain of events that affected most organizations in the United States. Because of the size and scope of this problem, the U.S. federal government intervened and offered funding to select institutions in an effort to restore business credit and consumer confidence.

Many institutions accepted this federal aid, but others did not. The focus of this study is an individual case of a rural commercial bank that did not accept TARP federal funding. On the surface, it would seem that Green bank is financially sound and will perform well over the next decade. As late as August 2011 Federal Deposit Insurance Corporation (FDIC) was closing banks that were not considered solvent which is an indication that the effects of the financial crisis were still being felt.

This study examined Green Bank to determine if it is currently solvent according to federal standards. The bank which is now known as Green Bank, started as Du Bois Deposit National Bank in 1880 (“Bank History”, 2010). Through a series of mergers and

acquisitions, Du Bois Deposit National Bank became known as Green Bank in 1995.

Green Bank is the fictitious name given to the real bank examined in this study.

Comparison banks used in this study were also real banks and referred to as Bank A through Bank E.

Green Bank is owned by the Green Financial Corporation, which serves as a holding company. Green Bank provides commercial banking and consumer services to individuals and small to mid-sized businesses. Some of the services available through Green Bank are personal checking, interest bearing checking accounts, savings accounts, health savings accounts, insured money market accounts, debit cards, investment certificates, fixed and variable rate certificates of deposit, and IRA accounts. Green Bank also provides a wide range of services to assist small businesses with their financial needs.

In addition to current solvency, other aspects of the operation were studied to see if the solvency condition is likely to persist. This is important because financial ratios used to determine current solvency can only assess solvency at a particular time and not make projections for the future. This study was conducted from a perspective of organizational analysis and two recent dissertations on commercial banking were referenced to form the basis of this study. One dealt with organizational resources and how an organization would respond to external shock. The other dealt with mergers and acquisitions, a very common activity in the banking industry.

The first dissertation referenced was published in 2008 and investigates the relationship between organizational resources and organizational response to external shock. The study was entitled *Organizational Response to Change: A Resource Based*

*View from the Commercial Banking Industry.* In this study, the external shock was the global financial crisis. Green Bank's organizational resources were studied to determine how well it performed during this crisis.

The second dissertation referenced was published in 2006 and deals with merger and acquisition activity of commercial banks. Analyzing this aspect of bank behavior also shed light on the possible future performance of the institution. This study was entitled *The Timely Positioning of Banks for Acquisition and Mergers.*

Results from this study should provide keen insight into how an organization, in this case a commercial bank, deals with external changes of the magnitude caused by the current financial crisis. Final results could also form the basis of a strategic plan for commercial banks should something like this financial crisis ever happen again. On December 31, 2011, the President and CEO of Green Bank retired to pursue other opportunities ("CEO Retires", 2012).