Abstract

Focusing on the rec … proxies for the Federal Deposit Insu … ffectively predict the likelihood of fail … s (in and out of sample testing). Thi … planatory and predicted variable. The CAMELS ratings from bank examinations are not released to the public because of regulatory concerns over potential bank runs. To the extent that such ratings provide timely information to banks, our lagged proxies are less likely to be effective predictors of bank failure. However, we find that proxies for each of the six categories of CAMELS—capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to interest rates—are significantly associated with the probability of bank failure when examined individually. Nearly all measures maintain their significance when examined collectively. These results should aid investors, customers of commercial banks, and also regulators to better assess the risk of bank distress in the future.

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