

## Explanation of the Bank Failure Risk-Index

This index is based on an estimate of the default likelihood of FDIC-insured commercial banks. The model is estimated for all banks with more than \$100 million (in 2003 dollar terms) in assets. We estimate the default-risk model based on the hazard rate model described in the paper “Interest rate derivatives at commercial banks: An empirical investigation”, published in the *Journal of Monetary Economics* (2007, *Journal of Monetary Economics*, 54, 1769-1808.)

The default model is estimated using all bank failures from 1980 till 2003. Using this model, we estimate the probability of default for each surviving bank from the first quarter of 2003 onwards till the fourth quarter of 2007. The index is computed by taking the quarterly average or median of all banks. Averages are calculated after trimming (winsorizing) the extreme observations at 1% from both tails.

**Disclaimer:** Please note that the model is provided for purely non-commercial usage. It is intended for illustrative purposes and not for any commercial or investment advice. It's based on my best-effort basis, but I cannot guarantee 100% accuracy. If you need this data and/or further information on the model, please contact me at [amiyatos@umich.edu](mailto:amiyatos@umich.edu).