Audit Report

OIG-16-052

SAFETY AND SOUNDNESS: Analysis of Bank Failures Reviewed by the Department of the Treasury Office of Inspector General

August 15, 2016

Office of Inspector General

Department of the Treasury

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Abbreviations

CDO	collateralized debt obligation
CMO	collateralized mortgage obligation
CRE	commercial real estate
DIF	Deposit Insurance Fund
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
EIC	Examiner-in-Charge
Fannie Mae	Federal National Mortgage Association
FBR	failed bank review
FDIA	Federal Deposit Insurance Act

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FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
Freddie Mac	Federal Home Loan Mortgage Corporation
FSOC	Financial Stability Oversight Council
GSE	Government-Sponsored Enterprise
MLR	material loss review
MRA	matter requiring attention
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
PCA	prompt corrective action
Platinum	Platinum Community Bank
ROE	report of examination
SAR	Suspicious Activity Report
TeamBank	TeamBank, National Association
Treasury	Department of the Treasury

August 15, 2016

Thomas J. Curry
Comptroller of the Currency

This report presents the results of our analysis of the material loss review (MLR), failed bank review (FBR), and in-depth review reports we issued during 2008–2012, as well as Office of the Comptroller of the Currency's (OCC) actions to strengthen its bank supervision process.

Our audit objectives were to (1) identify common themes related to the supervision of banks and thrifts[1] and the causes of their failures and (2) assess OCC's actions to strengthen its supervisory process in response to our audit recommendations and through other initiatives. To accomplish our objectives, we reviewed the 120 MLR, FBR, and in-depth review reports we issued to OCC and the legacy Office of Thrift Supervision (OTS) from January 1, 2008, through December 31, 2012, on banks that failed from September 2007 through July 2012.[2] We also reviewed relevant OCC documentation and guidance, interviewed OCC officials, and conducted other applicable fieldwork from December 2011 through March 2015. Appendix 1 contains a detailed description of our objectives, scope, and methodology.

Results in Brief

The bank failures stemmed mainly from the banks' ineffective management, inadequate board oversight, aggressive growth strategies, inability to adjust quickly or effectively to changing economic conditions and the declining real estate market, and failure to maintain sufficient capital.

[1] Both national banks and thrifts are collectively referred to as banks throughout this report.
[2] Legacy OTS regulated all thrifts until July 21, 2011, when OCC assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203. Therefore, we did not assess the corrective actions taken by legacy OTS.

We determined the most common themes associated with the failed banks were: (1) asset concentrations, (2) inadequate credit administration and risk management, and (3) reliance on wholesale funding. We also identified several other attributes that, though not as common, contributed to bank failures. In addition, we identified certain matters in 29 failed banks relating to potential fraud that we referred or provided information to the Department of the Treasury's (Treasury) Office of Inspector General's (OIG) Office of Investigation. Further review of these matters by Treasury OIG's Office of Investigation led to the prosecution of several individuals. Appendix 4 contains a listing of the common themes of the failures, by bank, as reported in our MLR, FBR, and in-depth review reports.

We also identified common supervisory themes of the banks prior to their failures. We determined that OCC's supervision was appropriate in some of the banks and OCC's and the legacy OTS's uses of authority under prompt corrective action (PCA) were generally in accordance with PCA requirements. However, for many banks, OCC and the legacy OTS: (1) did not take timely and/or strong enough supervisory actions and/or (2) did not timely identify or failed to identify key issues. In some instances, we noted that OCC and the legacy OTS lacked appropriate guidance or did not follow their guidance. Appendix 5 contains a listing of the common supervisory themes and other supervisory issues, by bank, reported in our MLR and in-depth reports.

OCC generally concurred with the recommendations we made in our MLR and in-depth review reports. And, OCC implemented policies and procedures, updated examination guidance, and took other corrective actions consistent with the intent of our recommendations. Appendix 6 contains further details of OCC's corrective actions, planned or taken, to address our recommendations.

Finally, OCC has undertaken independent initiatives to strengthen its supervisory process, including implementing processes to identify emerging risks to bank safety and soundness. Additionally, the Comptroller of the Currency requested that a small group of current and former senior supervisory personnel from other countries independently review OCC's supervision. In a December

2013 report to OCC, the group commended OCC's improved ability to focus on specific risk areas and its creation of an independent quality assurance process to review its own supervision.

OCC is addressing several key recommendations made by the group, covering six broad areas:

- mission, vision, and strategic goals;
- risk identification;
- ratings systems;
- staffing;
- scope and consistency of supervisory strategies; and
- enterprise governance.

Banking crises such as the one that occurred from 2008-2012 have happened before; most recent prior to the Great Recession was the savings and loans crisis of the late 1980s/early 1990s when thousands of institutions failed. A major challenge facing OCC going forward is to institutionalize and maintain the "lessons-learned" and initiatives from this crisis to hopefully minimize the impact of future stresses to the economy on banking. Accordingly, we recommend that the Comptroller of the Currency ensures OCC identifies common trends and emerging issues to take corrective action in a timely manner by continuing to: (1) address recommendations from our MLRs and in-depth reviews, as well as the international review; (2) participate in various committees and groups to identify emerging risks and communicate them to examiners and banks; and (3) use its newly implemented lessons-learned review program and other analyses, as appropriate.

In a written response, OCC management showed concurrence with our audit results. To address previous MLR and in-depth review recommendations, management stated that OCC will continue its practice of identifying and taking appropriate actions in a timely manner in response to recommendations from MLRs and in-depth reviews as well as continue with its initiatives that addressed and implemented the December 2013 International Peer Review recommendations. With respect to participating on committees and the like, management responded that OCC is a member of the Financial Stability Oversight Council (FSOC) and the Federal Financial Institutions Examination Council (FFIEC), and OCC staff participate on FSOC and FFEIC support committees. In addition, OCC participates on international committees, supervisory colleges, and crisis management groups; interagency and cross-governmental working groups; and ad hoc groups where risks are raised and discussed. As for OCC's new lessons-learned program, management stated that OCC will continue to use the program going forward. Overall, we found management's response to meet the intent of our recommendations. We have summarized and evaluated management's response in the recommendation section of this report and included the response in its entirety as appendix 7.

Background

Section 38(k) of the Federal Deposit Insurance Act (FDIA) requires that the inspectors general for federal banking agencies review bank failures resulting in Deposit Insurance Fund (DIF) losses. OCC is the Federal banking agency responsible for supervising national banks and federal savings associations. On July 21, 2011, OCC assumed regulatory responsibility for the federal savings associations from the legacy OTS pursuant to P.L. 111-203.

Prior to enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), on July 21, 2010, section 38(k) of the FDIA defined a DIF loss as material if it exceeded the greater of $25 million or 2 percent of the failed institution's total assets. Among other things, Dodd-Frank amended how the FDIA defined the materiality of a DIF loss. A DIF loss is material if it exceeds $200 million for a failure occurring in calendar years 2010 and 2011, $150 million in 2012 and 2013, and $50 million in 2014, with a provision that the threshold can be raised temporarily to $75 million thereafter if certain conditions are met.

Such material losses trigger formal review by the cognizant OIG, and for each MLR, section 38(k) of FDIA requires that the OIG (1) determine the causes of the institution's failure; (2) assess the appropriate agency's supervision of the institution, including implementation of the PCA provision of section 38(k); and (3) make recommendations for preventing such a loss in the future.

Dodd-Frank also created new reporting requirements for failures that result in losses below the appropriate materiality threshold. We refer to these reports as FBRs. In these situations, we must determine the grounds identified by OCC for appointing the Federal Deposit Insurance Corporation (FDIC) as receiver and determine whether any unusual circumstances warrant a more in-depth review of the loss.[3]

In our 2004 compendium report, *Summary of Treasury OIG's Material Loss Reviews of Failed National Banks and Thrift Institutions Between 1993 and 2002*[4], our office performed 7 MLRs between 1993 and 2002 pursuant the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Of the 7 MLRs performed, 5 were required under FDICIA and two were considered pilots since the losses occurred before such reviews were required by law. Also of note, between 2003 and 2007, there were no failures that required an MLR.

From September 2007 through July 2012, 126 of the approximately 2,200 banks (or approximately 6 percent) supervised by OCC or the legacy OTS failed.[5] We issued 120 reports on 119 of those failed banks during the period January 1, 2008 through December 31, 2012.[6] The reports included results from:

- 54 MLRs (26 supervised by OCC and 28 by legacy OTS),
- 63 FBRs (45 supervised by OCC and 18 by legacy OTS), and
- 3 in-depth reviews (2 supervised by OCC and 1 by legacy OTS).

The banks we reviewed had approximately $185.4 billion in aggregate total assets, and their failures resulted in an aggregate estimated DIF loss of $35.3 billion, or 19 percent, of the aggregate total assets of the failed banks.

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[3] In the event that a loss warrants an in-depth review, we must report in our FBR the reasons for such review and state when it will be submitted to OCC and the Congress. Our objectives for in-depth reviews, similar to MLRs, are to (1) assess OCC's supervision of the institution, including implementation of the PCA provision of section 38(k), and (2) make recommendations for preventing such a loss in the future.

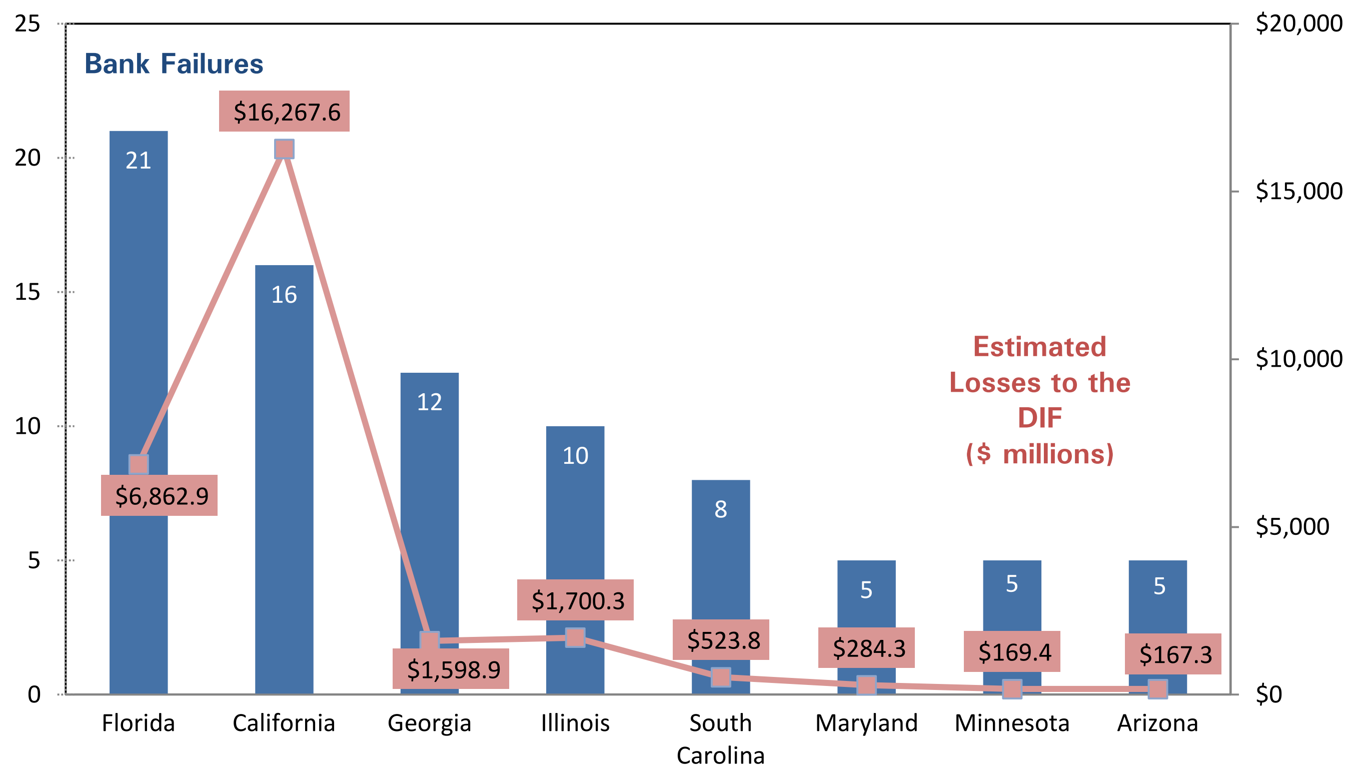
[4] Treasury OIG, *Safety, Soundness, and Accessibility of Financial Services: Summary of Treasury OIG's Material Loss Reviews of Failed National Banks and Thrift Institutions Between 1993 and 2002*, OIG-CA-04-004 (May 28, 2004).

[5] Among the 126 failed banks, 7 did not meet the $25 million materiality threshold requiring an MLR, and they failed prior to the Dodd-Frank Act requirement for an FBR.

[6] We issued an FBR report and an in-depth review report on First National Bank of Davis.

Of the failed banks we reviewed, 65 percent were located in the southern and the western regions of the United States. They constituted 83 percent, or $29.4 billion, of the aggregate estimated losses in our review. As Figure 1 shows, banks in eight states accounted for 69 percent of bank failures and 78 percent of estimated DIF losses, or approximately $27.6 billion. Florida and California were the top two states in both number of failures and DIF losses, accounting for 37 failures and $23.1 billion in estimated losses among the banks in our review. Appendices 2 and 3 provide additional details of the failed banks we reviewed, including their assets and estimated losses.

Figure 1: Bank Failures and Estimated Losses to the DIF, by State, 9/2007–7/2012



Source: Analysis of Treasury OIG reports issued from January 1, 2008, through December 31, 2012.

Audit Results

Common Causes of Bank Failures

We found that many of the recent bank failures displayed some of the same risks we identified in our 2004 compendium report. These involved board of director and/or management weaknesses and aggressive growth strategies that resulted in excessive concentrations of high-risk assets and overreliance on continued growth in the economy.

Most bank failures were the result of ineffective management, inadequate board oversight, aggressive growth strategies, the inability to adjust quickly or effectively to changing economic conditions and the declining real estate market, and the failure to maintain sufficient capital:

Ineffective Management and Inadequate Board Oversight

The boards of directors and management for the banks did not appropriately address problem areas or adequately identify, measure, monitor, or control significant risks that threatened viability. For example, the banks' boards and management (1) engaged in business strategies that encouraged high growth without adequately monitoring higher-risk loans, (2) did not establish or enforce concentration limits on their portfolios, and (3) did not maintain adequate capital to compensate for their high-risk lending. In some instances, the boards and management were non-responsive to regulator efforts to correct unsafe and unsound practices. As a result, the banks' asset quality deteriorated, classified asset levels and losses increased, and capital and earnings declined, ultimately leading to their failures.

Aggressive Growth Strategy

Prior to 2007, the banking industry experienced success due to strong financial performances, particularly in real estate. This led many banks to pursue aggressive growth strategies, especially in real estate, which was profitable and in demand. These strategies led to lax credit administration and risk management, asset concentrations, and overreliance on wholesale funding, all of which are discussed below.

Economic Downturn

By 2007, the U.S. economy as a whole had begun to decline. The economic downturn hit real estate markets in southern and western states hardest. Those regions led in both number of bank failures and DIF loss in our review. Appendix 3 provides further details of the failures by region.

As the economy declined, property prices fell, and collateral values dropped. The drop in collateral values left many borrowers unable to refinance, leading to defaults on many loans, substantial write-downs on others, and, eventually, foreclosures. This left the banks with many rapidly depreciating real estate assets that they could not sell. Furthermore, management relied on the previously robust real estate market to generate high-risk, high-yield loans without implementing adequate safeguards. The downturn in the economy magnified other deficiencies and helped to accelerate many bank failures.

Insufficient Capital

Federal banking law requires banking organizations to achieve and maintain adequate capital to serve as a buffer against unexpected losses. Sufficiency of capital is relative to the risk level of a bank's loan portfolio. Whether failed banks maintained capital just above the well-capitalized standard (affording little cushion for unanticipated, adverse events) or maintained higher capital levels, they could not sustain the large loan losses and economic downturn associated with the housing collapse. Over time, the losses eroded capital until the banks eventually became critically undercapitalized and then ultimately failed.

We determined the most common themes of bank failures to be: (1) asset concentrations, (2) inadequate credit administration and risk management, and (3) reliance on wholesale funding. We also identified several less common causes contributing to bank failure. Appendix 4 contains a listing of the common causes of the failures, by bank, as reported in our MLR, FBR, and in-depth review reports.

Asset Concentration

OCC broadly defines a concentration as a group of classes of credit exposures that share common risk characteristics or sensitivities to economic, financial, or business developments that, in aggregate, exceed 25 percent of the bank's capital structure.[7] If a bank's assets are highly concentrated in a particular category, negative events affecting that category can be highly detrimental to the bank as a whole.

Of the 119 banks we reviewed:

- 89 (or 75 percent) had concentrations in commercial real estate (CRE) loans[8]
- 20 (or 17 percent) had concentrations of non-traditional mortgages[9]
- 18 (or 15 percent) had concentrations of other assets, such as auto loans with subprime characteristics, non-agency collateralized mortgage obligations (CMOs),[10] collateralized

7 The legacy OTS defined concentrations as a group of similar types of assets or liabilities that, when aggregated, exceed 25 percent of a thrift's core capital plus allowance for loan and lease losses.

8 CRE loans are loans for real property for which the primary or significant source of repayment is from rental income associated with the property or the proceeds of the sale, refinancing, or permanent financing of the property. CRE loans include construction and real estate development loans, land development loans, and commercial property loans (such as for office buildings and shopping centers).

9 Non-traditional mortgages describe mortgages that do not take the traditional form. Traditional mortgage loans, both fixed and adjustable rate, typically require that the borrower's monthly payment cover both interest and a reduction in principal, allowing for a reasonably predictable amortization over the life of the mortgage. Nontraditional mortgages include, but are not limited to, interest-only mortgages, payment-option adjustable-rate mortgages, and subprime mortgages.

10 A non-agency CMO is a type of financial debt vehicle that is not issued by a Government Sponsored Enterprise (GSE). A CMO is a special-purpose entity that is wholly separate from the institution that creates it. The entity is the legal owner of a set of mortgages, called a pool. Investors in a CMO buy bonds issued by the CMO, and they receive payments according to a defined set of rules.

debt obligations (CDOs),[11] home equity lines of credit,[12] and nonhomogeneous loans.[13]

Inadequate Credit Administration and Risk Management

Credit administration and risk management include underwriting, loan review and appraisal processes, risk weighting, analyses of allowances for loan and lease losses, and multivariable stress testing of loan portfolios.[14]

Eighty-six (86), or 72 percent, of the 119 failed banks had inadequate credit administration and risk management practices.

We reported instances in which bank management provided flexibility in underwriting standards to compete with other lenders. Some of the banks failed to obtain appraisals or had improper appraisal practices, such as untimely, incomplete, or inadequate support for appraisal values. In some cases, this leniency resulted in approved loans for borrowers with financial weaknesses, including poor credit history, deficient collateral, low credit scores, numerous late payments, and previous foreclosures. In some instances, banks identified some of these weaknesses prior to approving the loans. Appraisal deficiencies often resulted in properties being overvalued, violating standard appraisal requirements.

Additionally, OCC or legacy OTS examiners documented various weaknesses in banks' credit risk management practices,

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[11] A CDO is a structured investment security that consists of a securitized pool of debt instruments, such as trust-preferred securities. The cash flows of the underlying collateral are divided into separate portions, or tranches, each having its own yield, term, and other characteristics designed to appeal to different investors. Each CDO tranche represents a different type of credit risk. To compensate for their higher risk, tranches with higher-risk debt (junior or mezzanine tranches) offer higher interest rates to investors than more senior tranches. Typically, senior notes are rated at a higher investment grade than mezzanine notes.

[12] A home equity line of credit is a form of revolving credit backed by the home as collateral.

[13] Nonhomogeneous assets have underwriting criteria that are less likely to be uniform, and classification decisions are based on broader considerations than just the loan's delinquency status. Nonhomogeneous loans may include, for example, construction, land, and land development loans, commercial mortgage loans, multifamily mortgage loans, and commercial loans.

[14] Multivariable testing is designed to determine whether an insured depository institution has enough capital to weather the impact of adverse developments.

including inability to properly risk weight loans, incomplete analyses of allowance for loan and lease losses, inadequate multivariable stress testing of loan portfolios, and excessive loan exceptions. Furthermore, banks did not diversify lending into other geographic areas during the peak of the real estate market to alleviate the concentration and economic risks within local markets. All of these factors left banks with poor-quality, delinquent loans which led to diminished assets, eventual losses, and, ultimately, bank failures.

Reliance on Wholesale Funding

Twenty-four (24), or 20 percent, of the 119 banks failed, in part, because of an overreliance on wholesale funding, often used to finance growth. Brokered deposits, the most common type of wholesale funding that banks in our review used, are highly interest-rate-sensitive; and therefore, an unstable deposit source. FDICIA requires that acceptance of brokered deposits can only be made by well-capitalized institutions that exceed the minimum PCA requirements. As banks fell below the well-capitalized threshold, additional brokered deposits were no longer available as a funding source. Once cut off, banks were unable to identify alternative, sufficient funding solutions.

Other Causes

Several other causes, though not as common, contributed to bank failures. For example, one of the 119 banks failed because of significant losses from preferred stock holdings in Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Such losses were also a contributing factor to the failure of another five banks affiliated with one holding company. After the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship on September 7, 2008, the market value of the GSE preferred stock owned by the banks declined significantly, and banks were required to write down their GSE investments.

Other causes included failed mergers, sales, or acquisitions; high management/staff turnover; improper accounting transactions; inadequate internal controls; and a lack of core deposits or funding. In addition, we identified certain matters in 29 failed banks relating to potential fraud that we referred or provided information to Treasury's OIG Office of Investigation. Further review of these matters by Treasury OIG's Office of Investigation led to the prosecution of several individuals.

Common Supervisory Themes

We assessed supervision of OCC and/or the legacy OTS in 54 MLRs and 3 in-depth reviews,[15] identifying common supervisory themes of the banks prior to their failures. We determined that OCC supervision were appropriate in some of the banks, and uses of OCC and legacy OTS authority under PCA were generally in accordance with PCA requirements. However, for many banks, OCC or legacy OTS: (1) did not take timely and/or strong enough supervisory actions, and/or (2) did not identify or timely identify key issues.

We also noted that several of the actions taken or not taken were the result of OCC and the legacy OTS not following their guidance and/or the lack of appropriate guidance. Furthermore, we noted several other supervisory issues that were not as common among the banks. Appendix 5 contains a listing of the common supervisory themes reported in our MLR and in-depth reports.

Appropriate Supervision

We considered OCC's overall supervision appropriate in in 7 banks (6 of the 54 MLRs and 1 of the 3 in-depth reviews).[16] For example, we concluded that OCC's supervision of the First National Bank of Anthony was appropriate even though it did not prevent a material loss to the DIF. OCC identified credit administration issues in a

[15] The other 63 reports are FBRs. The objectives of FBRs do not require a supervision assessment of those failed banks whose assets fall below the MLR materiality threshold.

[16] We considered the overall supervision of the seven OCC-regulated banks to be appropriate because reports on them did not include any supervisory concerns. We did not identify any banks in which the legacy OTS' overall supervision was considered fully adequate, either in terms of timely identifying problems at the banks, and/or taking appropriate supervisory action.

timely manner, issued enforcement actions, and used its authority under PCA.[17]

PCA Was Generally Used Appropriately

The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term loss to the DIF. According to PCA requirements, Federal banking agencies are to take certain actions when an institution's capital drops below the adequately capitalized level. Under PCA, regulators have flexibility to take other supervisory actions against institutions based on criteria other than capital levels to help reduce deposit insurance losses caused by unsafe and unsound practices.

We found that OCC and the legacy OTS generally followed existing examination guidelines and implemented PCAs as required. OCC and legacy OTS routinely monitored capital levels, imposed increasingly restrictive mandatory provisions as capital levels decreased, and acted quickly to close critically undercapitalized banks.

Two instances out of the 54 MLRs and 3 in-depth reviews showed that PCAs were not used in accordance with PCA requirements: IndyMac Bank FSB and Platinum Community Bank (Platinum), both regulated by the legacy OTS:

- Legacy OTS took PCA against IndyMac Bank on July 1, 2008, following reclassification of IndyMac from well-capitalized to adequately capitalized on June 30, 2008. Although this conformed to PCA requirements, our office found that legacy OTS allowed IndyMac to record an $18 million capital infusion received from the holding company in May 2008 as though it had been available on March 31, 2008. We determined that legacy OTS should have taken PCA in May 2008 based on information in IndyMac's 10-Q filing for the quarter ending March 31, 2008.

- Legacy OTS did not implement PCA during its supervision of Platinum given a rapid chain of events relating to the unsafe and

[17] Treasury OIG, *Safety and Soundness: Material Loss Review of First National Bank of Anthony*, OIG-11-105 (September 20, 2011)

unsound use of escrow deposits to purchase certain mortgage loans, which led to the bank's failure. As a result of effects relating to the loan purchases, OTS notified Platinum in a letter dated August 3, 2009, that the bank was in troubled condition. The letter imposed restrictions on growth, severance pay, and dividends. On August 24, 2009, legacy OTS issued a cease and desist order to Platinum, requiring the bank to maintain capital ratios higher than PCA well-capitalized ratios. Because of this requirement, the cease and desist order stated that Platinum could not be deemed well-capitalized for PCA purposes and included other provisions normally associated with PCA requirements for undercapitalized banks.

Untimely Actions Taken and/or Stronger Actions Warranted

Federal banking agencies can take a number of corrective actions to address safety and soundness practices at banks. In 41 of the 54 MLRs and 1 of the 3 in-depth reviews (or 74 percent), we determined that OCC or the legacy OTS should have taken stronger actions and/or taken action earlier. Out of the 42 banks, 14 were regulated by OCC and 28 were regulated by the legacy OTS.

- We found instances where Federal banking agencies could have taken more forceful actions to compel banks to restrain and reduce higher-risk lending and secure higher capital levels.
- In some cases, Federal banking agencies took no supervisory action or should have taken stronger action to address unsafe and unsound concentrations in CRE, construction and land loans, and non-homogeneous loans identified in earlier exams.
- Federal banking agencies sometimes failed to require banks to increase capital levels to compensate for increasing risk in their loan portfolio in a timely manner.

Furthermore, we reported instances where Federal banking agencies did not take formal or informal enforcement actions in a timely manner, nor were they timely using matters requiring attention (MRAs)[18] and corrective actions to compel boards of directors and management to mitigate risks. In many instances, examiners eventually concluded that regulatory action was

[18] The legacy OTS referred to MRAs as "matters requiring board attention."

necessary, but that conclusion came too late to reverse the bank's worsening condition.

Guidance Not Followed or Lack of Appropriate Guidance

In 38 of the MLRs and in-depth reviews (or 67 percent), Federal banking agencies did not follow or lacked appropriate guidance. OCC regulated 16 of the banks, and the legacy OTS regulated 22. In certain cases, the Federal banking agencies took informal action rather than formal action, or assigned inaccurate CAMELS ratings.[19] Federal banking agencies also failed to follow guidance on completion of working papers and examination documentation, had guidance that was too general, or lacked guidance requiring Examiner-in-Charge (EIC) rotation and a formal review of the supervision process.

In another example, OCC did not follow its guidance during the process of converting Silverton Bank to a national bank. OCC approved the conversion despite noting significant weaknesses in the pre-conversion examination, and it did not assign an EIC timely. Additionally, OCC did not have guidance for performing second-level reviews during the conversion approval process.[20] These issues were crucial to the bank's supervision during the deterioration of the housing market.

Key Issues Not Identified or Not Identified Timely

In 13 of the MLR or in-depth reviews (or 23 percent), OCC or the legacy OTS did not identify key issues, or did not identify the issues until subsequent examinations. OCC regulated 2 of the banks, and legacy OTS regulated 11. In our MLR report on TeamBank, National Association (TeamBank), for example, OCC did not timely identify that the bank was being controlled by a Chief Executive Officer/President with too many other responsibilities to

[19] Federal banking agencies use the Uniform Financial Institutions Rating System, or "CAMELS," to assign composite and component ratings to banks. A bank's composite CAMELS rating integrates ratings from six components: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. The ratings range from 1 to 5, with 1 being the highest rating and least supervisory concern.

[20] Treasury OIG, *Safety and Soundness: Material Loss Review of Silverton Bank, N.A.*, OIG-10-033 (January 22, 2010)

properly manage the bank's risk profile and growth strategy. Furthermore, OCC did not review TeamBank's incentive compensation or bonus plans, or ensure that the bank conducted stress testing. We determined that the incentive compensation plan and bonus plan for TeamBank's loan officer encouraged uncontrolled growth of the bank's loan portfolio, which contributed to the bank's failure.[21]

Other Supervision Issues

Several other supervisory issues, though not as common among the banks, posed concerns. Specifically, both OCC and the legacy OTS assigned CAMELS ratings that were too high, legacy OTS allowed three banks to inappropriately backdate capital transactions, and OCC allowed a lapse in supervisory coverage after a bank's charter conversion.

OCC Strengthened Its Supervisory Process

We made a number of audit recommendations to OCC to address the causes of the bank failures and supervision weaknesses we noted in our MLRs and in-depth reviews. The recommendations addressed issues such as CRE concentrations, a lessons-learned process, charter conversions, management oversight, volatile funding sources, and investment securities. OCC generally concurred with the recommendations and instituted policies and procedures, updated examination guidance, and took other corrective actions that met the intent of our recommendations, including:

- To address funding and liquidity risk management, OCC modified its Community Bank Supervision Handbook.[22] In addition, OCC, the legacy OTS, and FDIC issued an interagency policy statement in May 2010. The policy statement summarized the principles of sound liquidity risk management that the agencies have issued in the past and reiterates the

[21] Treasury OIG, *Safety and Soundness: Material Loss Review of TeamBank, National Association*, OIG-10-001 (October 7, 2009).
[22] Comptroller's Handbook: *Community Bank Supervision* (January 2010).

process that banks should follow to appropriately identify, measure, monitor, and control their funding and liquidity risk.[23]

- To address the charter approval process and ensure an EIC is promptly assigned after a charter conversion of a bank, OCC formalized a process to perform second-level reviews of charter conversion proposals prior to recommending approval of the application. OCC also revised the Comptroller's Licensing Manual by expanding the Conversion Handoff Package prepared by the licensing staff upon transfer of supervisory responsibility. The package calls for specific attention to the timely appointments of an EIC when a charter conversion becomes effective.[24]

- To emphasize to examiners that MRAs are to be issued in reports of examination in accordance with the criteria regarding deviations from sound management and noncompliance with laws or policies listed in the Comptroller's Handbook, OCC issued an MRA Reference Guide in June 2010. The guide set forth expectations of examiners for proactive supervision, clear and assertive communication of concerns to boards of directors, and prompt follow-up on commitments for corrective action.[25]

- OCC revised guidance in October 2011 to establish a formal rotation policy for EICs of banks.[26]

- To address the possibility of establishing limits or other controls for concentrations that pose an unacceptable safety and soundness risk, OCC approached other Federal banking agencies for collaboration. To date, no interagency agreement has been made, so in its absence, OCC revised its Concentrations of Credit Handbook to help bankers and examiners identify, analyze, and establish sound risk management processes for concentrations of credit.[27]

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[23] *Interagency Policy Statement on Funding and Liquidity Risk Management* (March 22, 2010).
[24] OCC Comptroller's Licensing Manual: *Conversions* (April 2010).
[25] *Midsize and Community Bank Supervision MRA Reference Guide* (June 10, 2010).
[26] PPM 5000-38(REV): *Examiner-in-Charge Rotations*, (October 31, 2011).
[27] Comptroller's Handbook: *Concentrations of Credit* (December 2011).

- To emphasize to examiners the importance of following OCC's guidance on (1) performing reconciliations of all reports submitted by management to ensure that the reports are accurate and agree with the bank's general books and (2) analyzing a bank's new products to determine their effects on credit risk, OCC sent an all-employee message on February 11, 2013. The message reminded employees to follow established OCC guidance for performing reconciliations of reports received from bank management during examinations and to evaluate the effect of new products on key risks, including credit risk.

- To emphasize to examiners the importance of following OCC's guidance to verify that the bank's corrective actions have been successful and timely, OCC sent an all-employee message on February 11, 2013, to reinforce the expectation for examiners to comply with all aspects of the July 1, 2010, MRA Reference Guide.

- To address the need to reassess guidance for examination of investment securities, including GSE securities, OCC issued a supervisory memo to all examining personnel on risk management practices on August 10, 2009. OCC also issued the "New Capital Rule Community Bank Guide" in July 2013[28], which raised the risk weight from 20 percent to 100 percent on GSE preferred stock for national banks.

- To address the need for formal guidance to address OCC's response to investigations and requests for information from law enforcement agencies, OCC issued guidance on February 7, 2014, covering interaction with law enforcement agencies and communication protocols for notifications to OCC headquarters and OIG.[29] The guidance provides notification procedures for when OCC should notify OIG regarding (1) efforts to obstruct or hinder OCC's statutory authority, (2) suspicious activity report (SAR) filing, (3) initial contact with law enforcement personnel, and (4) certain investigations.

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[28] *New Capital Rule Community Bank Guide* (July 2013).

[29] PPM 5000-40: *OCC Filings of SAR* (February 7, 2014); PPM 5000-41: *Notification Requirements to the Treasury OIG for Examination Obstruction, Administrative Actions, SARs, and Contacts with Law Enforcement* (February 7, 2014)

- To address our recommendation that OCC establish, in policy, a process to assess the causes of bank failures and the supervision exercised over banks, and to take appropriate action to address any significant supervisory weaknesses or concerns identified, OCC established a lessons-learned review program in February 2012. OCC's lessons-learned review program provides an independent assessment of the adequacy of bank supervision for each OCC failed bank. It requires that a written summary report—detailing issues of concern, causes of failure, supervision best practices, and any recommended supervision process enhancements—be submitted to the OCC ombudsman[30] for approval within 4 weeks of completion of examination procedures. As of March 17, 2015, OCC completed all lessons-learned reviews for every failed bank from 2008 forward. In total, OCC completed 90 lessons-learned reviews, which included reviews of 72 bank failures within the scope of this review, as well as 18 failures that were not.

For a summary of OCC's corrective actions planned or taken to address our recommendations, by report, see appendix 6.

Other Initiatives

OCC has taken other initiatives to strengthen its supervisory process during this wave of bank failures. For example, OCC has processes in place to identify emerging risks to bank safety and soundness. As we discussed in an April 2013 audit report, OCC participates in various committees and groups that meet regularly to identify emerging risks and communicate them to examiners and banks.[31] The groups address potential risks by estimating potential consequences, making recommendations for appropriate supervisory responses, and issuing supervisory strategy guidance to strengthen and improve the supervision process. In addition, the

[30] The Ombudsman serves as an independent arbiter for the OCC's regulated banks and their customers by operating apart from the OCC bank supervision function and by reporting directly to the Comptroller of the Currency. This separation enables the Ombudsman to respond independently and fairly to the questions and complaints that consumers have about their banks, and to provide bankers with a way to challenge agency decisions without fear of retribution or reprisal.

[31] Treasury OIG, *Safety and Soundness: OCC Identification of Emerging Risks,* OIG-13-037 (April 9, 2013).

committees and groups collaborate with other regulatory agencies, such as the Board of Governors of the Federal Reserve System and FDIC to identify emerging risks to national banks.

OCC also released guidance on MRAs in October 2014 establishing procedures for examiners to identify and aggregate supervisory concerns into MRAs.[32] The guidance focuses on the criteria, communication, and follow-up of concerns in MRAs. According to OCC, the guidance was a substantive change in MRA philosophy with the intention of improving early identification of concerns due to a bank's deficient practices. Concurrent with the issuance of the MRA guidance, OCC held required training sessions to ensure employees understood the new standards and set up a SharePoint site where examiners can refer to the guidance, submit questions, and review frequently asked questions.

Furthermore, the Comptroller of the Currency and his executive team requested that a small group of current and former senior supervisory personnel from Australia, Canada, and Singapore, along with a former staff member of the International Monetary Fund, participate in an independent review of OCC's supervision of large and midsize banks. In a report issued to OCC in December 2013,[33] the team noted that OCC has better defined the roles of its lead experts, improving its ability to focus on specific risk areas and to identify emerging risks in these areas early. According to the report, OCC exceled at taking information from examiners and experts, further researching these topics, and implementing applicable policy. Furthermore, OCC initiated a Lean Six Sigma project to enhance the efficiency of its internal processes and created an independent quality assurance process to review the processes and practices of its supervision divisions.

The report made key recommendations covering six broad areas:

- mission, vision, and strategic goals;
- risk identification;
- ratings systems;
- staffing;

[32] PPM 5400-11: *Matters Requiring Attention*, (October 9, 2014).

[33] *An International Review of OCC's Supervision of Large and Midsize Institutions: Recommendations to Improve Supervisory Effectiveness* (December 4, 2013).

- scope and consistency of supervisory strategies; and
- enterprise governance.

In response to the recommendations, OCC is:

- developing a vision statement and strategic objectives that clearly align to OCC's mission statement and ensure bank safety and soundness is the primary objective;

- expanding the organization, functions, and responsibilities of its large-bank lead-expert program to improve horizontal perspective and analysis, systemic risk identification, quality control and assurance, and resource prioritization;

- establishing a formal rotation program for all examiners to provide them with broader, fresh perspectives on a regular basis;

- formalizing an enterprise risk management framework that will involve developing a risk appetite statement, creating a decision-tree process, and enhancing the OCC's existing National Risk Committee framework and processes;

- analyzing the effectiveness of the MRA process and developing controls to better manage the large bank supervision MRA follow-up to promote more timely and consistent resolution of identified deficiencies;

- improving policy development and decision-making response times through better structured processes and strengthening collaboration to allow more efficient and effective senior management input for strategic issues;

- developing standards for the varying supervisory responses to emerging issues;

- enhancing the application of CAMELS and integration with the Risk Assessment System; and

- enhancing identification of deteriorating banks and clarifying supervisory expectations.

Recommendations

We recommend that the Comptroller of the Currency continue to:

1. Address recommendations from our MLRs and in-depth reviews, as well as the international review.

Management Response

Management responded that OCC will continue its practice of identifying and taking appropriate actions in a timely manner in response to recommendations from MLRs and in-depth reviews. Further, OCC will continue with its initiatives that addressed and implemented the December 2013 International Peer Review recommendations.

OIG Comment

Management's response meets the intent of our recommendation.

2. Participate in various committees and groups to identify emerging risks and communicate them to examiners and banks.

Management Response

Management responded that the Comptroller of the Currency is a member of the FSOC and the FFIEC, and OCC staff participates on FSOC and FFEIC support committees. In addition, OCC participates on international committees, supervisory colleges, and crisis management groups; interagency and cross-governmental working groups; and ad hoc groups where risks are raised and discussed. OCC conveys these risks to examiners through the Comptroller's Handbook, numerous internal communications, and training, and to examiners and banks through publications (e.g., the Semiannual Risk Perspective), OCC Bulletins, other guidance documents, and outreach efforts.

OIG Comment

Management's response meets the intent of our recommendation.

3. Use its newly implemented lessons-learned review program and other analyses, as appropriate.

Management Response

Management responded that OCC will continue to use the lessons-learned review program going forward.

OIG Comment

Management's response meets the intent of our recommendation.

* * * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-5776 or Alicia Weber, Audit Manager, at (202) 927-5811. Major contributors to this report are listed in appendix 8.

Susan Barron /s/
Audit Director

Our objectives were to (1) identify common themes related to the supervision of banks and thrifts and the causes of their failures and (2) assess the Office of the Comptroller of the Currency's (OCC) actions to strengthen its supervisory process in response to our audit recommendations and through other initiatives. We conducted our fieldwork in Washington, DC from December 2011 through March 2015. The scope of our audit included banks that failed from September 2007 through July 2012, and on which we issued reports from January 1, 2008, through December 31, 2012.

To accomplish our objectives, we

- reviewed a 2004 Department of the Treasury Office of Inspector General (OIG) compendium report, *Summary of Treasury OIG's Material Loss Reviews of Failed National Banks and Thrift Institutions Between 1993 and 2002*, to gain an understanding of the common causes, supervisory issues, and risks relating to the bank failures in the prior financial economic crisis;
- analyzed material loss review (MLR), failed bank review (FBR), and in-depth review reports we issued from January 2008 through December 2012;
- analyzed the number of failed banks by region and state.
- identified the most common causes of failure and supervisory issues associated with these failures;
- reviewed a 2013 OIG report, *OCC Identification of Emerging Risks,* to gain an understanding of the processes OCC has in place to identify emerging risks to bank safety and soundness;
- reviewed a December 2013 report on an international review of OCC's supervision of large and midsize banks
- interviewed the Senior Advisor to the Senior Deputy Comptroller for Midsize and Community Bank Supervision, the Deputy Comptroller for Credit and Market Risk, and Bank Supervision Specialist;
- reviewed relevant guidance and documentation relating to the OCC corrective actions taken to address the recommendations.

- compiled a list of our prior recommendations included in our MLR and in-depth reports, and the related corrective actions taken or planned by OCC;[34] and
- reviewed relevant documentation supporting other initiatives OCC is taking to improve its supervision of banks.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[34] Under section 38(k) of the Federal Deposit Insurance Act, in performing FBRs, the Offices of Inspector Generals of Federal banking agencies are not required to review the supervision of the banks or make recommendations.

Table 1 provides demographic and financial information, including the locations, closure dates, total assets, and the estimated losses to the Deposit Insurance Fund (DIF), as well as the percentages of estimated losses to assets, for the 119 banks that failed from September 2007 and July 2012, and on which we issued reports from January 1, 2008, through December 31, 2012. The banks had $185.4 billion in aggregate total assets and an aggregate estimated $35.3 billion in losses to the DIF.

Table 1: Summary of OCC-regulated and Legacy OTS-regulated Failed Banks, January 1, 2008–December 31, 2012

Bank		Location	Closure Date	Total Asset Size (in $ Millions)	Estimated DIF Loss (in $ Millions)	Estimated DIF Loss as Percentage of Total Assets
OCC-regulated						
1	ANB Financial, National Association	AR	May 9, 2008	2,100.0	214.0	10%
2	First Heritage Bank, National Association	CA	July 25, 2008	254.0	33.0	13%
3	First National Bank of Nevada	NV	July 25, 2008	3,400.0	706.0	21%
4	National Bank of Commerce	IL	January 16, 2009	430.9	92.5	21%
5	Ocala National Bank	FL	January 30, 2009	223.5	99.6	45%
6	TeamBank, National Association	KS	March 20, 2009	669.8	98.4	15%
7	Omni National Bank	GA	March 27, 2009	956.0	288.2	30%
8	Silverton Bank, N.A.	GA	May 1, 2009	4,100.0	608.3	15%
9	Citizens National Bank	IL	May 22, 2009	437.0	26.0	6%
10	First National Bank of Anthony	KS	June 19, 2009	156.9	38.3	24%
11	Vineyard Bank, National Association	CA	July 17, 2009	1,900.0	597.0	31%
12	Union Bank, National Association	AZ	August 14, 2009	124.0	54.5	44%
13	Corus Bank, N.A.	IL	September 11, 2009	7,000.0	797.9	11%
14	Southern Colorado National Bank	CO	October 2, 2009	39.5	6.6	17%
15	Flagship National Bank	FL	October 23, 2009	190.0	66.8	35%
16	Bank USA, National Association [1]	AZ	October 30, 2009	194.0	30.2	16%
17	California National Bank [1]	CA	October 30, 2009	6,989.0	900.1	13%
18	Citizens National Bank [1]	TX	October 30, 2009	120.7	16.7	14%
19	Park National Bank [1]	IL	October 30, 2009	4,701.0	417.7	9%
20	Pacific National Bank [1]	CA	October 30, 2009	2,086.0	310.9	15%
21	San Diego National Bank [1]	CA	October 30, 2009	3,560.0	366.7	10%
22	Riverside National Bank of Florida	FL	April 16, 2010	3,420.0	240.9	7%
23	Pacific Coast National Bank	CA	November 13, 2009	134.4	29.8	22%

Bank		Location	Closure Date	Total Asset Size (in $ Millions)	Estimated DIF Loss (in $ Millions)	Estimated DIF Loss as Percentage of Total Assets
24	First Security National Bank	GA	December 4, 2009	128.0	35.4	28%
25	Republic Federal Bank, N.A.	FL	December 11, 2009	4,428.0	120.6	3%
26	Valley Capital Bank, N.A.	AZ	December 11, 2009	40.3	7.4	18%
27	First National Bank of Georgia	GA	January 29, 2010	832.6	197.5	24%
28	Marshall Bank, National Association	MN	January 29, 2010	59.9	4.1	7%
29	The La Coste National Bank	TX	February 19, 2010	53.9	3.7	7%
30	American National Bank	OH	March 19, 2010	70.3	17.1	24%
31	Beach First National Bank	SC	April 9, 2010	585.1	130.3	22%
32	Amcore Bank, N.A.	IL	April 23, 2010	3,800.0	154.5	4%
33	BC National Banks	MO	April 30, 2010	67.2	11.4	17%
34	Granite Community Bank, N.A.	CA	May 28, 2010	102.9	17.3	17%
35	First National Bank, Rosedale, Mississippi	MS	June 4, 2010	60.4	12.6	21%
36	First National Bank, Savannah, Georgia	GA	June 25, 2010	252.5	68.9	27%
37	Bay National Bank	MD	July 9, 2010	282.2	17.4	6%
38	Home National Bank	OK	July 9, 2010	644.5	78.7	12%
39	First National Bank of the South	SC	July 16, 2010	682.0	74.9	11%
40	Williamsburg First National Bank	SC	July 23, 2010	139.3	8.8	6%
41	Community National Bank at Bartow	FL	August 20, 2010	67.9	10.3	15%
42	Independent National Bank	FL	August 20, 2010	156.2	23.2	15%
43	First Suburban National Bank	IL	October 22, 2010	148.7	30.9	21%
44	The First National Bank of Barnesville	GA	October 22, 2010	131.4	33.9	26%
45	Community National Bank	MN	December 17, 2010	31.6	3.7	12%
46	The Bank of Miami, N.A.	FL	December 17, 2010	448.2	64.0	14%
47	United Americas Bank, National Association	GA	December 17, 2010	242.3	75.8	31%
48	Canyon National Bank	CA	February 11, 2011	210.9	10.0	5%
49	First National Bank of Davis (In-Depth Review)	OK	March 11, 2011	90.2	26.5	29%
50	Western Springs National Bank and Trust	IL	April 8, 2011	186.8	34.0	18%
51	Rosemount National Bank	MN	April 15, 2011	37.6	3.6	10%
52	First National Bank of Central Florida	FL	April 29, 2011	352.0	42.9	12%
53	BankMeridan, National Association	SC	July 29, 2011	239.8	65.4	27%
54	Integra Bank, National Association	IN	July 29, 2011	2,200.0	205.9	9%
55	First National Bank of Olathe	KS	August 12, 2011	538.1	118.6	22%
56	First Southern National Bank	GA	August 19, 2011	164.6	39.6	24%

Bank		Location	Closure Date	Total Asset Size (in $ Millions)	Estimated DIF Loss (in $ Millions)	Estimated DIF Loss as Percentage of Total Assets
57	The First National Bank of Florida	FL	September 9, 2011	296.8	48.4	16%
58	Western National Bank	AZ	December 16, 2011	162.9	42.9	26%
59	American Eagle Savings Bank	PA	January 20, 2012	19.6	6.2	32%
60	Charter National Bank and Trust	IL	February 10, 2012	93.9	20.4	22%
61	SCB Bank	IN	February 10, 2012	182.6	33.9	19%
62	Home Savings of America	MN	February 24, 2012	434.1	38.8	9%
63	Unity National Bank (In-Depth Review)	GA	March 26, 2012	292.2	71.0	24%
64	Fort Lee, Federal Savings Bank	NJ	April 20, 2012	51.9	14.0	27%
65	Inter Savings Bank, FSB	MN	April 27, 2012	481.6	119.2	25%
66	Palm Desert National Bank	CA	April 27, 2012	125.8	23.4	19%
67	Plantation Federal Bank	SC	April 27, 2012	486.4	75.9	16%
68	Security Bank, National Association	FL	May 4, 2012	101.0	13.7	14%
69	Alabama Trust Bank, National Association	AL	May 18, 2012	51.6	11.4	22%
70	Carolina Federal Savings Bank	SC	June 8, 2012	54.4	17.1	31%
71	Second Federal Savings and Loan Association of Chicago	IL	July 20, 2012	199.1	76.9	39%
OCC Total				**$63,696.0**	**$8,402.2**	**13%**
Legacy OTS-regulated						
72	NetBank, FSB	GA	September 28, 2007	2,500.0	108.0	4%
73	IndyMac Bank, FSB	CA	July 11, 2008	32,010.0	10,700.0	33%
74	Ameribank, Inc.	WV	September 19, 2008	115.0	33.4	29%
75	Downey Savings and Loan Association, F.A.	CA	November 21, 2008	12,800.0	1,400.0	11%
76	PFF Bank and Trust	CA	November 21, 2008	3,700.0	729.6	20%
77	Suburban Federal Savings Bank	MD	January 30, 2009	360.0	126.0	35%
78	Waterfield Bank (In-Depth Review)	MD	March 5, 2009	155.6	42.5	27%
79	American Sterling Bank	MO	April 17, 2009	181.0	41.9	23%
80	First Bank of Idaho	ID	April 24, 2009	488.9	174.6	36%
81	BankUnited, FSB	FL	May 21, 2009	12,800.0	4,900.0	38%
82	Peoples Community Bank	OH	July 31, 2009	705.8	136.0	19%
83	Ebank	GA	August 21, 2009	143.0	46.3	32%
84	Guaranty Bank	TX	August 21, 2009	13,000.0	1,300.0	10%
85	Bradford Bank	MD	August 28, 2009	452.0	96.3	21%

Bank		Location	Closure Date	Total Asset Size (in $ Millions)	Estimated DIF Loss (in $ Millions)	Estimated DIF Loss as Percentage of Total Assets
86	Platinum Community Bank	IL	September 4, 2009	345.6	49.5	14%
87	Vantus Bank	IA	September 4, 2009	458.0	182.2	40%
88	Irwin Union Bank, FSB	KY	September 18, 2009	493.0	138.7	28%
89	Partners Bank	FL	October 23, 2009	65.5	34.6	53%
90	Home Federal Savings Bank	MI	November 6, 2009	14.9	5.4	36%
91	Century Bank, FSB	FL	November 13, 2009	728.0	266.5	37%
92	AmTrust Bank	OH	December 4, 2009	12,000.0	2,500.0	21%
93	Greater Atlantic Bank	VA	December 4, 2009	203.0	38.0	19%
94	First Federal Bank of California, FSB	CA	December 18, 2009	6,100.0	10.0	0.2%
95	New South Federal Savings Bank	AL	December 18, 2009	1,500.0	227.0	15%
96	Peoples First Community Bank	FL	December 18, 2009	1,800.0	514.7	29%
97	Charter Bank	NM	January 22, 2010	1,200.0	246.1	21%
98	La Jolla Bank, FSB	CA	February 19, 2010	3,600.0	1,035.0	29%
99	Key West Bank	FL	March 26, 2010	88.0	23.1	26%
100	First Federal Bank of North Florida	FL	April 16, 2010	393.3	6.0	2%
101	TierOne Bank	NE	June 4, 2010	2,800.0	313.8	11%
102	Ideal Federal Savings Bank	MD	July 9, 2010	6.3	2.1	33%
103	MainStreet Savings Bank, FSB	MI	July 16, 2010	97.4	11.4	12%
104	Olde Cypress Community Bank	FL	July 16, 2010	168.7	31.5	19%
105	Turnberry Bank	FL	July 16, 2010	263.9	34.4	13%
106	Woodlands Bank	SC	July 16, 2010	376.2	115.0	31%
107	Bayside Savings Bank, FSB	FL	July 30, 2010	66.1	16.2	25%
108	Imperial Savings and Loan Association	VA	August 20, 2010	9.4	3.5	37%
109	Los Padres Bank	CA	August 20, 2010	870.4	8.7	1%
110	Maritime Savings Bank	WI	September 17, 2010	350.5	83.6	24%
111	Security Savings Bank, FSB	KS	October 15, 2010	508.4	82.2	16%
112	First Arizona Savings	AZ	October 22, 2010	272.2	32.3	12%
113	Appalachian Community Bank, F.S.B.	GA	December 17, 2010	68.2	26.0	38%
114	United Western Bank	CO	January 21, 2011	2,050.0	292.3	14%
115	San Luis Trust Bank, FSB	CA	February 18, 2011	332.6	96.1	29%
116	Superior Bank [2]	AL	April 15, 2011	3,000.0	290.0	10%
117	Coastal Bank [2]	FL	May 6, 2011	129.4	13.4	10%
118	Atlantic Bank and Trust [2]	SC	June 3, 2011	208.2	36.4	17%

Bank		Location	Closure Date	Total Asset Size (in $ Millions)	Estimated DIF Loss (in $ Millions)	Estimated DIF Loss as Percentage of Total Assets
119	Lydian Private Bank [3]	FL	August 19, 2011	1,700.0	292.1	17%
Legacy OTS Total				**$121,678.5**	**$26,892.4**	**22%**
Total OCC and Legacy OTS				**$185,374.5**	**$35,294.6**	**19%**

Source: Department of the Treasury Office of Inspector General reports issued from January 1, 2008, through December 31, 2012.

1 Nine failed banks were owned by First Bank of Oak Park Corporation. OCC regulated the 6 national banks, and FDIC regulated the 3 state-chartered banks.

2 We issued our reports to OCC for these banks after OCC assumed regulatory responsibility for federal savings associations under Public Law 111-203. However, we listed these banks as legacy OTS-regulated because they were closed by legacy OTS prior to the transfer of legacy OTS functions to OCC and other Federal banking agencies pursuant to that law.

3 Pursuant to Public Law 111-203, OCC assumed regulatory responsibility for Lydian Private Bank shortly before its closure. Although OCC closed Lydian, we assessed legacy OTS' supervision and, therefore, included it as a legacy OTS-regulated bank.

Figures 2 and 3 break out the number of failed banks and their aggregate estimated losses by region.

Figure 2: Failed Banks, by Region

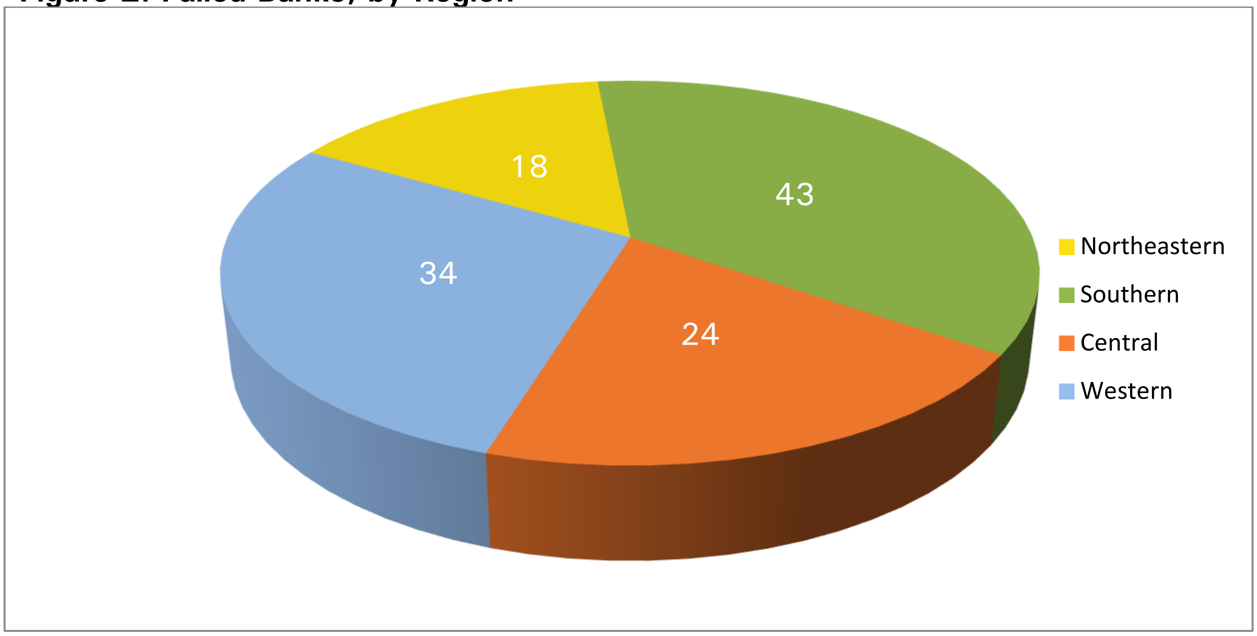
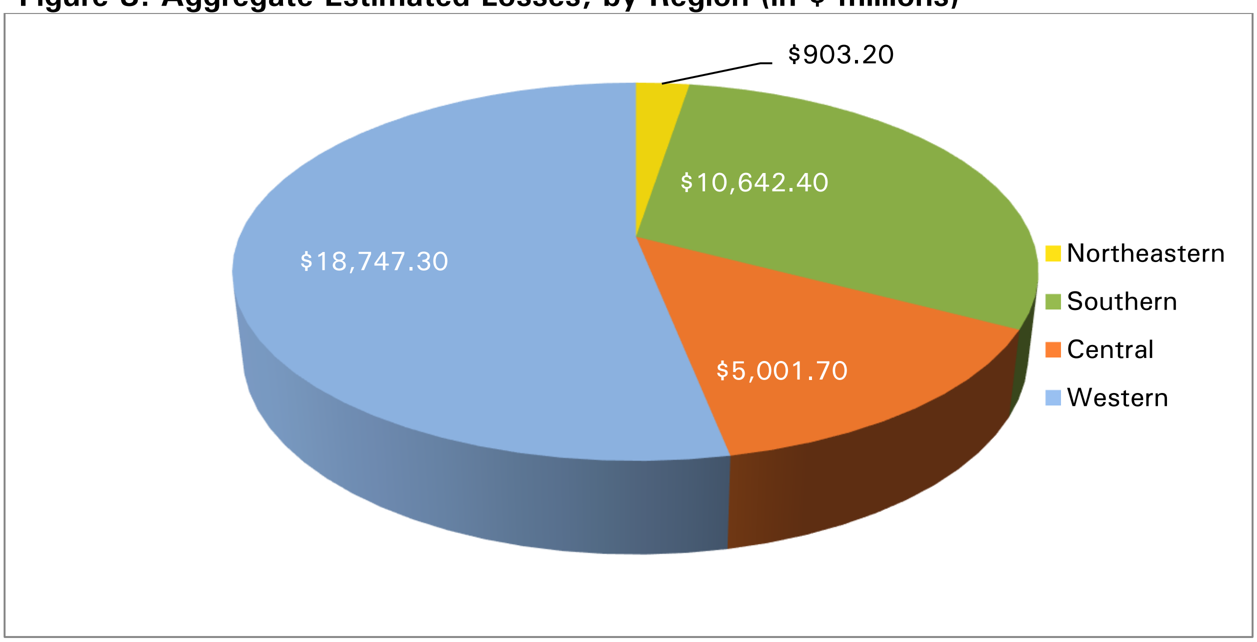


Figure 3: Aggregate Estimated Losses, by Region (in $ millions)



Sources: Analysis of the Department of the Treasury Office of Inspector General reports issued from January 1, 2008, through December 31, 2012.

Table 2 summarizes the common causes of the 119 failed banks that we reviewed. The “Various” column includes additional causes that occurred less frequently.

Table 2: Common Causes of Bank Failures

Institution	High Loan Concentration in CRE	Inadequate Credit Administration and Risk Management	Reliance on Wholesale Funding	Concentration in Nontraditional Mortgage Loans	Other Concentration	GSE	Various
OCC-regulated							
ANB Financial, National Association	x	x	x				x
First Heritage Bank, National Association	x						x
First National Bank of Nevada	x	x					x
National Bank of Commerce						x	
Ocala National Bank	x	x	x				
TeamBank, National Association	x	x	x				x
Omni National Bank[4]	x	x					x
Silverton Bank, N.A.[4]	x	x	x				x
Citizens National Bank[4]	x	x	x	x	x		
First National Bank of Anthony	x	x					
Vineyard Bank, National Association	x	x	x				
Union Bank, National Association	x	x					x
Corus Bank, N.A.[4]	x	x					x
Southern Colorado National Bank	x		x				
Flagship National Bank[4]	x	x					
Bank USA, National Association [1]	x					x	x
California National Bank [1]	x					x	x
Citizens National Bank [14]							x
Park National Bank [14]	x					x	x
Pacific National Bank [1]	x					x	x
San Diego National Bank [1]	x					x	x
Riverside National Bank of Florida[4]	x	x			x		x
Pacific Coast National Bank	x	x					x
First Security National Bank	x	x	x				
Republic Federal Bank, N.A.		x					x
Valley Capital Bank, N.A.[4]	x	x					x
First National Bank of Georgia	x	x					x
Marshall Bank, National Association		x					

Institution	High Loan Concentration in CRE	Inadequate Credit Administration and Risk Management	Reliance on Wholesale Funding	Concentration in Nontraditional Mortgage Loans	Other Concentration	GSE	Various
The La Coste National Bank							x
American National Bank		x	x		x		
Beach First National Bank	x	x	x				
Amcore Bank, N.A.	x	x					
BC National Banks	x	x					x
Granite Community Bank, NA	x	x					
First National Bank, Rosedale, Mississippi		x					
First National Bank, Savannah, Georgia	x	x					
Bay National Bank	x	x					
Home National Bank[4]	x	x					
First National Bank of the South	x	x					
Williamsburg First National Bank	x	x					
Community National Bank at Bartow		x			x		
Independent National Bank		x					
First Suburban National Bank	x	x					
The First National Bank of Barnesville[4]	x	x					
Community National Bank	x	x					
The Bank of Miami, N.A.	x	x					
United Americas Bank, National Association	x	x	x		x		x
Canyon National Bank	x	x					
First National Bank of Davis (In-Depth Review)		x					
Western Springs National Bank and Trust[4]	x	x					
Rosemount National Bank	x	x					
First National Bank of Central Florida	x	x	x				
BankMeridian, National Association	x	x	x				
Integra Bank, National Association[4]	x		x				x
First National Bank of Olathe	x	x					
First Southern National Bank	x	x	x				
The First National Bank of Florida	x	x					
Western National Bank[4]	x	x					
American Eagle Savings Bank		x					x
Charter National Bank and Trust[4]	x	x					
SCB Bank	x	x			x		
Home Savings of America		x		x			

Institution	High Loan Concentration in CRE	Inadequate Credit Administration and Risk Management	Reliance on Wholesale Funding	Concentration in Nontraditional Mortgage Loans	Other Concentration	GSE	Various
Unity National Bank (In-Depth Review)	x	x	x				x
Fort Lee, Federal Savings Bank		x		x			
Inter Savings Bank, FSB		x		x			
Palm Desert National Bank	x	x					
Plantation Federal Bank	x	x					
Security Bank, National Association	x				x		
Alabama Trust Bank, National Association[4]	x	x					
Carolina Federal Savings Bank	x	x		x			
Second Federal Savings and Loan Association of Chicago	x	x			x		
OCC-regulated Total	**57**	**59**	**16**	**5**	**8**	**6**	*****
Legacy OTS-regulated							
NetBank, FSB				x			x
IndyMac Bank, FSB	x	x	x	x			x
Ameribank, Inc.		x			x		
Downey Savings and Loan, F.A.		x		x			x
PFF Bank and Trust	x						
Suburban Federal Savings Bank	x			x			x
Waterfield Bank (In-Depth Review)			x	x	x		x
American Sterling Bank[4]	x			x			x
First Bank of Idaho[4]	x		x				
BankUnited, FSB[4]		x		x			x
Peoples Community Bank[4]	x	x					
ebank	x	x			x		x
Guaranty Bank				x			
Bradford Bank	x						x
Platinum Community Bank[4]							x
Vantus Bank	x	x			x		x
Irwin Union Bank, FSB	x						x
Partners Bank	x	x					x
Home Federal Savings Bank							x
Century Bank, FSB[4]	x	x		x	x		x
AmTrust Bank	x	x		x			
Greater Atlantic Bank	x		x				x

Appendix 4
Common Causes of Bank Failures

Institution	High Loan Concentration in CRE	Inadequate Credit Administration and Risk Management	Reliance on Wholesale Funding	Concentration in Nontraditional Mortgage Loans	Other Concentration	GSE	Various
First Federal Bank of California, FSB		x	x	x			x
New South Federal Savings Bank	x				x		
Peoples First Community Bank		x			x		
Charter Bank	x	x	x				x
La Jolla Bank, FSB[4]	x	x					x
Key West Bank			x	x			
First Federal Bank of North Florida	x	x					
TierOne Bank[4]	x	x					x
Ideal Federal Savings Bank[4]	x						x
MainStreet Savings Bank, FSB							x
Olde Cypress Community Bank							
Turnberry Bank	x	x					
Woodlands Bank	x	x					
Bayside Savings Bank, FSB	x	x					
Imperial Savings and Loan Association							x
Los Padres Bank	x	x			x		
Maritime Savings Bank	x	x					
Security Savings Bank, FSB	x	x					
First Arizona Savings	x			x	x		x
Appalachian Community Bank, FSB	x						
United Western Bank[4]			x		x		
San Luis Trust Bank, FSB	x	x					
Superior Bank [24]	x	x					x
Coastal Bank [24]	x	x					
Atlantic Bank & Trust [3]	x	x		x			
Lydian Private Bank[34]		x		x			x
Legacy OTS-regulatedTotal	**32**	**27**	**8**	**15**	**10**	**0**	*****
Total OCC and Legacy OTS	**89**	**86**	**24**	**20**	**18**	**6**	*****

Source: Department of the Treasury Office of Inspector General reports issued from January 1, 2008, through December 31, 2012.

[1] Nine failed banks were owned by First Bank of Oak Park Corporation. OCC regulated the 6 national banks, and FDIC regulated the 3 state-chartered banks.
[2] We issued our reports to OCC for these banks after OCC assumed regulatory responsibility for federal savings associations pursuant to P.L.111-203. However, we listed these banks as legacy OTS-regulated because they were closed by legacy OTS prior to legacy OTS's transfer to OCC.
[3] Pursuant to P.L. 111-203, OCC assumed regulatory responsibility for Lydian Private Bank shortly before its closure. Although OCC closed Lydian, we

assessed legacy OTS's supervision and, therefore, included it as a legacy OTS-regulated bank.

[4] We identified certain matters in 29 failed banks relating to potential fraud that we referred or provided information to the Department of the Treasury's Office of Inspector General's Office of Investigation.

Table 3 summarizes the supervision trends identified in our material loss reviews (MLR) and in-depth reviews. Offices of Inspector Generals (OIG) of federal regulators are not required to assess supervision as part of failed bank reviews; therefore, we did report on supervision issues in those reports. The "Various" column includes additional supervision issues that occurred less frequently.

Table 3: Supervisory Trends Reported in the MLRs and In-depth Reviews

Institution	Stronger Actions Warranted and/or Actions Untimely	Guidance Not Followed and/or Lack of Appropriate Guidance	Key Issues Not Identified or Not Identified Timely	Appropriate Supervision	Various
OCC-regulated					
ANB Financial, National Association	X	X			
First Heritage Bank, National Association	X	X			
First National Bank of Nevada	X	X			
National Bank of Commerce				X	
Ocala National Bank	X	X			
TeamBank, National Association	X	X	X		
Omni National Bank	X	X			
Silverton Bank, N.A.	X	X			X
Citizens National Bank				X	
First National Bank of Anthony				X	
Vineyard Bank, National Association	X				X
Union Bank, National Association	X				
Corus Bank, N.A.		X			X
Flagship National Bank	X				
California National Bank [1]		X			
Park National Bank [1]		X			
Pacific National Bank [1]		X			
San Diego National Bank [1]		X			

Institution	Stronger Actions Warranted and/or Actions Untimely	Guidance Not Followed and/or Lack of Appropriate Guidance	Key Issues Not Identified or Not Identified Timely	Appropriate Supervision	Various
Riverside National Bank of Florida	X	X			
Pacific Coast National Bank	X	X			X
First Security National Bank				X	
Republic Federal Bank, N.A.	X				
First National Bank of Georgia				X	
Amcore Bank, N.A.	X	X			X
First National Bank of Davis (In-depth)		X	X		X
Integra Bank, National Association				X	
Unity National Bank (In-depth)				X	
OCC-regulated Total	**14**	**16**	**2**	**7**	*****
Legacy OTS-regulated					
NetBank, FSB	X	X	X		
IndyMac Bank, FSB	X	X	X		X
Ameribank, Inc.	X	X	X		X
Downey Savings and Loan Association, F.A.	X	X			
PFF Bank and Trust	X				
Suburban Federal Savings Bank	X	X			
Waterfield Bank (In-depth)	X		X		
American Sterling Bank	X	X	X		X
First Bank of Idaho	X	X	X		X
BankUnited, FSB	X	X	X		X
Peoples Community Bank		X			
Ebank	X	X			
Guaranty Bank			X		

Appendix 5
Common Supervisory Themes of Bank Failures

Institution	Stronger Actions Warranted and/or Actions Untimely	Guidance Not Followed and/or Lack of Appropriate Guidance	Key Issues Not Identified or Not Identified Timely	Appropriate Supervision	Various
Bradford Bank	X	X			
Platinum Community Bank	X	X			
Vantus Bank	X		X		
Irwin Union Bank, FSB	X		X		
Partners Bank	X	X			X
Century Bank, FSB	X	X			X
AmTrust Bank	X				
Greater Atlantic Bank	X	X			
First Federal Bank of California, FSB	X	X			
New South Federal Savings Bank	X	X	X		
Peoples First Community Bank	X	X			X
Charter Bank	X	X			
La Jolla Bank, FSB	X				
TierOne Bank	X				
United Western Bank	X	X			X
Superior Bank[2]	X	X			
Lydian Private Bank[3]	X	X			
Legacy OTS-regulated Total	**28**	**22**	**11**	**0**	*****
Total OCC and Legacy OTS	**42**	**38**	**13**	**7**	*****

Sources: Department of the Treasury OIG reports issued from January 1, 2008, through December 31, 2012.

1 Nine failed banks were owned by First Bank of Oak Park Corporation. OCC regulated the 6 national banks, and FDIC regulated the 3 state-chartered banks. Of the 6 national banks OCC regulated, 4 required MLRs and are included in the above chart.
2 We issued our report to OCC for Superior Bank after OCC assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203. However, we listed Superior Bank as legacy OTS-regulated because they were closed by legacy OTS prior to legacy OTS's transfer to OCC.
3 Pursuant to P.L. 111-203, OCC assumed regulatory responsibility for Lydian Private Bank shortly before its closure. Although OCC closed Lydian, we assessed legacy OTS's supervision and, therefore, included it as a legacy OTS-regulated bank.

This appendix provides recommendations we made to the Office of the Comptroller of the Currency (OCC) as a result of our material loss reviews and in-depth reviews of OCC-regulated failed banks, as well as corrective actions taken or planned by OCC. With one exception related to Omni National Bank noted later in this appendix, OCC management concurred with the recommendations and has taken or planned corrective actions that are responsive to the recommendations. In certain instances, the recommendations address matters that require ongoing OCC management and examiner attention.

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
Safety and Soundness: Material Loss Review of ANB Financial, National Association OIG-09-013 (November 25, 2008)	Re-emphasize to examiners that examiners must closely investigate a bank's circumstances and alter its supervisory plan if certain conditions exist as specified in OCC's Examiner's Guide to Problem Bank Identification, Rehabilitation, and Resolution.	OCC communicated the findings of our report and its lessons-learned review to field staff during a national conference call in March 2009 to reinforce its expectations of examiners in the execution of its supervisory process. In addition to numerous policies and processes currently in place to ensure timely recognition and response to increasing risks in banks, including formal enforcement action if warranted, OCC provided guidance to examiners on assessing commercial real estate (CRE) portfolios and discussed this guidance in April 2008 and October 2008 conference calls with examiners.
	Re-emphasize to examiners that formal action is presumed warranted when certain circumstances specified in OCC's Enforcement Action Policy (PPM 5310-3) exist. Examiners should also be directed to document in the examination files the reasons for not taking formal enforcement action if those circumstances do exist.	OCC refreshed examiner awareness of PPM 5310-3 and promoted consistency in the application of the policy in three ways: in a written document, through discussions at district management meetings, and during an all-examiner conference call in October 2008. The central message was that enforcement actions should be taken at an early stage, while problems are still manageable and the prospects for rehabilitation or, alternatively, sale or merger of the bank, are still good.

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
	Reassess guidance and examination procedures in the Comptroller's Handbook related to bank use of wholesale funding with focus on heavy reliance on brokered deposits and other nonretail deposit funding sources for growth.	The liquidity section of the Comptroller's Handbook for community bank supervision was revised to address liquidity issues in light of the financial crisis.[1] In addition, an interagency policy statement on funding and liquidity risk management was issued on March 22, 2010.[2]
	Establish in policy a "lessons-learned" process to assess the causes of bank failures and the supervision exercised over the institution and to take appropriate action to address any significant weaknesses or concerns identified.	OCC established a lessons-learned review program requiring an independent assessment of the adequacy of bank supervision for each failed institution under OCC jurisdiction to be completed and submitted to the Ombudsman within four weeks of completion of examination procedures.[3]
Safety and Soundness: Material Loss Review of First National Bank of Nevada and First Heritage Bank, National Association OIG-09-033 (February 27, 2009)	Re-emphasize to examiners the need to ensure that banks take swift corrective actions in response to examination findings.	OCC re-emphasized the requirements of its enforcement action policies to examiners and the need to ensure banks take swift corrective actions in response to examination findings during a national conference call. OCC tracks the follow-up on outstanding concerns in the supervisory strategies for individual banks. Subsequent to the failure of First National Bank of Nevada and First Heritage bank, OCC's Enterprise Governance unit conducted a special

1 The liquidity section of the Comptroller's Handbook*, Community Bank Supervision* (January 2010) discusses, among other things, evaluating risk in wholesale and other non-deposit funding activities and determining stability by reviewing deposit structure and stability of specific types of accounts, including brokered deposits.

2 Federal Register/Vol. 75, No. 54, *Interagency Policy Statement on Funding and Liquidity Risk Management* (March 22, 2010) issued by OCC, the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, the legacy Office of Thrift Supervision, and the National Credit Union Administration summarizes the principles of sound liquidity risk management that the agencies issued in the past and, when appropriate, supplements them with the "Principles for Sound Liquidity Risk Management and Supervision" issued by the Basel Committee on Banking Supervision issued in September 2008.

3 Comptroller of the Currency, Office of the Ombudsman, Failed Institutions Lessons Learned Review Program Statement (February 2012).

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
		review to confirm that all community bank quality assurance programs contain specific quality management elements pertaining to corrective action, follow-up, and enforcement.
	Re-emphasize to examiners OCC's policy on the preparation of supervision workpapers (i.e., workpapers are to be clear, concise, and readily understood by other examiners and reviewers).	An OCC official stated that they ensure that observations about the quality of workpapers identified as part of its quality assurance processes involving regular views of samples of supervision work papers, and recommendations for improving documentation, are included in the communication of quality assurance results to examiners. OCC re-emphasized OCC's policy on the preparation of supervision workpapers and the importance of workpaper quality and completeness during a national conference call with examiners.
Safety and Soundness: Material Loss Review of the National Bank of Commerce OIG-09-042 (August 6, 2009)	Conduct a review of investments by national banks for any potential high-risk concentrations and take appropriate supervisory action.	During the months leading up to the government intervention at Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, OCC proactively used call report financial data to identify banks with concentrations in government-sponsored enterprise (GSE) securities. Banks with high exposure relative to their capital were identified and supervisory offices were provided with the information to investigate further and take appropriate supervisory action. This process is embedded in ongoing supervisory activities and will be used on an ongoing basis to identify and address other concentrations in high-risk securities.
	Reassess examination guidance regarding investment securities, including GSE securities.	OCC issued a supervisory memo to all examining personnel on investment securities

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
		risk management practices on August 10, 2009.[4] OCC also issued the "New Capital Rule Community Bank Guide" in October 2013.
Safety and Soundness: Material Loss Review of Ocala National Bank OIG-09-043 (August 26, 2009)	Caution examiners and their supervisors that when a bank's condition has deteriorated, it is incumbent on examiners to properly support and document in examination workpapers the CAMELS component and composite ratings assigned, including those that may not have changed from prior examinations, as well as support a decision not to take an enforcement action.	OCC senior management used the "lessons learned" in earlier bank failures to illustrate the importance of being assertive in identifying and following through on identified weaknesses in a timely manner. OCC management also reiterated that compliance with OCC's policy on workpaper documentation is particularly important in problem bank situations. OCC also discussed this topic during an October 2009 national conference call.
	Remind examiners that it is prudent to expand examination procedures for troubled or high-risk banks to review the appropriateness of (a) dividends and (b) payments to related organizations, particularly when the dividends or payments may benefit bank management and board members. In this regard, OCC should reassess, and revise as appropriate, its examination guidance for when expanded reviews of dividends and related organizations should be performed.	OCC responded that heightened scrutiny of certain dividends and payments to related organization is appropriate. OCC believes its existing guidance is sufficient to compel examiners to perform expanded reviews of dividends and payments to related organizations when appropriate. During an October 2009 national conference call, OCC reinforced to examining staff the prudence of expanding examination procedures for dividends and related organizations when warranted, particularly when payments may benefit bank management or board members.
	Emphasize to examiners that matters requiring attention (MRAs) are to be issued in reports of	OCC reinforced the importance of adhering to its MRA policy during an October 2009

[4] Comptroller of the Currency, Supervisory Memo (SM 2009-5), *Examiner Guidance on Investment Securities Risk Management Practices* (August 10, 2009) provides guidance to examiners in evaluating investment portfolio activities and the changing risk profile of bank investment portfolios. Specifically, it provides additional guidance on potential red flags and appropriate risk management of complex, structured investments, evaluating re-securitizations, and determining asset quality ratings and risk-based capital calculations.

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
Safety and Soundness: Material Loss Review of TeamBank, National Association OIG-10-01 (October 7, 2009)	examination (ROEs) in accordance with the criteria regarding deviations from sound management and noncompliance with laws or policies listed in the Comptroller's Handbook.	national conference call and again in a September 2013 call. OCC plans to continue to reinforce this message in numerous ways, including quality assurance activities and management discussions.
	Emphasize to examiners the need to a. adequately assess the responsibilities of a controlling official (chief executive officer/president, for example) managing the bank to ensure that the official's duties are commensurate with the risk profile and growth strategy of the institution b. review incentive compensation and bonus plans for executives and loan officers; and c. ensure that banks conduct transactional and portfolio stress testing when appropriate	OCC stated that examiners are provided with guidance on (a) assessing the adequacy of management resources to ensure they are commensurate with a bank's risk profile and growth strategies and (b) incentive and compensation plans. Additionally, the Senior Deputy Comptroller for Midsize and Community Bank Supervision and the Director for Special Supervision emphasized these points during an October 2009 conference call with examiners. Having found that the use of portfolio stress testing and sensitivity analysis required by OCC policy continues to be challenging for many banks, particularly community banks, OCC developed a transactional-level CRE Loan Stress Workbook, which is available to all national banks on OCC's National Bank Net Web site. An additional model designed for CRE stress testing at the portfolio level was implemented on September 30, 2012. OCC continues to use outreach and other activities to encourage national banks to use these tools in measuring and managing the level of risk in their portfolios. The model was deployed to BankNet on September 27, 2012.
Safety and Soundness: Material Loss Review of Omni National Bank	Review OCC processes to ensure that more timely enforcement action is taken once the need for such action is identified.	OCC did not agree with this recommendation. In its response to our report, OCC asserted that current policies are sufficient to ensure that

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
OIG-10-017 (December 9, 2009)		timely enforcement action is taken. We accepted its position with respect to its current processes and consider the recommendation closed.
	Impress upon examiner staff the importance of completing all activities in annual supervisory cycles, including quarterly monitoring. In this regard, supervisors should ensure that quarterly monitoring activities are scheduled and carried out.	Examiners were reminded that periodic monitoring is integral to effective supervision during a March 2010 national conference call.
	Implement a policy for examiner-in-charge (EIC) rotation for midsize and community banks.	Issued revised guidance establishing a formal rotation policy for EIC of banks supervised in the large bank supervision and midsize and community bank supervision lines of business.[5]
Safety and Soundness: Material Loss Review of Silverton Bank, N.A. OIG-10-033 (January 22, 2010)	Ensure that after a charter conversion an EIC is promptly assigned and supervisory coverage of the bank is continuous, to include the timely initiation (within no more than 12 months of the full-scope examination by the prior regulator) of the first full-scope examination after conversion.	Revised the Conversions booklet of the Comptroller's Licensing Manual by expanding the Conversion Handoff Package prepared by licensing staff upon transfer of supervisory responsibility to include specific language calling attention to the requirements to appoint an EIC, who will follow-up with the bank within 120 days of the effective date of the conversion, and to schedule a target date for initiating the first full-scope examination based on the last full-scope examination conducted by the previous regulator.
	Ensure that appropriate actions are taken to amend or reinforce OCC guidance in response to the lessons-learned review of the Silverton failure.	OCC established a lessons-learned review program requiring an independent assessment of the adequacy of bank supervision for each failed institution under OCC jurisdiction to be completed and submitted to the Ombudsman

[5] Comptroller of the Currency, Policies & Procedures Manual (PPM 5000-38(REV), *Bank Supervision Operations, Examiner-in-Charge Rotations* (October 31, 2011)

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
		within four weeks of completion of examination procedures. OCC also transferred the responsibility for performing lessons-learned reviews of bank failures to its Ombudsman.
	Ensure that banks seeking conversion to a national charter address all significant deficiencies identified by OCC or prior regulators before approval.	OCC updated the Conversion booklet of the Comptroller's Licensing Manual to include a more thorough description of the procedures that should be followed to determine that banks seeking conversion satisfactorily address significant deficiencies before approval.[6]
	Formalize the process for second-level reviews of charter conversions.	The Supervisory Review Committee charter for each district and midsize was amended to formalize the process and require second level reviews of charter conversions.
Safety and Soundness: Material Loss Review of Citizens National Bank OIG-10-038 (March 22, 2010)	Due to the complexity of the risk-based capital treatment of structured investment securities, assess the adequacy of OCC Bulletin 2009-15, Investment Securities after it has been in use for a reasonable time.	OCC determined that no changes are necessary to OCC Bulletin 2009-15.
	Work with OCC's regulatory partners to determine whether to propose legislation and/or change regulatory guidance to establish limits or other controls for bank investments.	OCC works with other regulators to develop guidance on a variety of subjects where common issues exist. The Federal Financial Institutions Examination Council and other interagency forums are evaluating a number of factors that contributed to the current problems in the banking industry and will consider what regulatory changes are needed. As of June 10, 2010, OCC determined additional guidance is not needed and planned to continue to evaluate this issue.

[6] Comptroller's Licensing Manual*, Conversions* (April 2010)

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
		In a Task Force on Supervision Meeting on August 7, 2012, our recommendation was discussed and there was general agreement that the agencies have sufficient supervisory authority to address compliance with applicable standards and that a legislative change would not be necessary.
Safety and Soundness: Material Loss Review of Union Bank, National Association OIG-CA-10-009 (May 11, 2010) (Review performed by Mayer Hoffman McCann P.C., an independent certified public accounting firm, under the supervision of the Department of the Treasury (Treasury) Office of Inspector General (OIG))	Work with OCC's regulatory partners to determine whether to propose legislation and/or change regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner response to high-risk concentrations.	OCC responded that it works with other regulators to develop guidance on a variety of subjects where common issues or concerns exist. Federal banking agencies are in the process of evaluating a number of factors that contributed to current problems in the banking industry and will consider what regulatory changes are needed. OCC responded that, although it was too early to determine whether the final outcome of the agencies' deliberations will include changes in concentration limits or risk management expectations, it would continue to study the situation and interface with other regulatory partners.
Safety and Soundness: Material Loss Review of Vineyard Bank, National Association OIG-10-044 (July 13, 2010)	No new recommendations. Reiterated prior recommendations made in our Silverton report.	No additional actions necessary.
Safety and Soundness: Material Loss Review of Flagship National Bank OIG-10-044 (May 3, 2011)	Same recommendation as stated above for Union Bank, National Association.	OCC stated in its response that it proposed a group to study the issue of CRE concentrations in interagency forums. The proposal was not acted on, so OCC convened an internal group to study it and develop solutions. OCC revised its Concentrations of Credit Handbook to

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
		address concerns raised in the audit. OCC will continue to seek an interagency agreement.[7]
	Emphasize to examiners that MRAs are to be issued in ROEs in accordance with the criteria regarding deviations from sound management and noncompliance with laws or policies listed in the Comptroller's Handbook.	OCC stated that its policy for utilizing MRAs is clearly stated within the Comptroller's Handbook. In addition, it distributed a MRA Reference Guide in July 2010 to further emphasize expectations for proactive supervision, clear and assertive communication of concerns to the Board of Directors, and prompt follow-up on commitments for corrective action. Training was also conducted on the guide in all field offices in 2010.[8]
Safety and Soundness: Material Loss Review of First Security National Bank OIG-11-075 (June 10, 2011) (Review performed by Crowe Horwath LLP, an independent certified public accounting firm, under the supervision of the Treasury OIG)	No new recommendations	No additional actions necessary.
Safety and Soundness: Material Loss Review of First National Bank of Anthony OIG-11-105 (September 20, 2011)	No new recommendations.	No additional actions necessary.
Safety and Soundness: Material Loss Review of Amcore Bank, N.A. OIG-12-035 (December 28, 2011)	Ensure:	According to OCC, lead experts now report to the Midsize Bank Supervision Risk Officer and do not have direct supervisory responsibility for specific banks. Midsize Bank Supervision has incorporated mandatory lead expert reviews in

7 Comptroller of the Currency, Concentrations of Credit Handbook (December 2011).
8 Midsize and Community Bank Supervision MRA Reference Guide (July 2010).

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
	a) lead expert's input is considered in supervisory decisions, b) Midsize Bank supervisory office personnel follow established OCC guidance to resolve issues raised by the lead expert, and c) resolution of recommendations is documented. OCC should determine whether there are other concerns by lead experts that are currently unresolved and ensure appropriate agreement is reached on those matters.	its supervisory product workflow. EIC must address the lead expert's comments, and any differences must be resolved to the satisfaction of both parties prior to finalizing and issuing the product to the bank. Any supervisory matters that have not been resolved at the EIC/lead expert level are elevated to the Risk Officer for resolution. In addition, a system (WALTER) was developed in Midsize Bank Supervision to track the flow of a supervisory product, including reviews by lead experts. Their reports capture issues they raise, and documents are adjusted accordingly.
	Ensure relevant emails are maintained in the supervisory record (Examiner View) as appropriate.	In a September 30, 2013, national conference call, OCC emphasized maintaining support for emails in Examiner View.
	Implement policies and controls to monitor and ensure that ROEs are issued timely.	OCC implemented an automated system for tracking and monitoring all written supervisory communications, including ROEs, from submission by examiners through the time they are issued to the bank. This allows Midsize Bank Supervision to promptly identify any ROE or other communication that is not being reviewed and processed in a timely manner, and to address other issues. OCC will also reinforce to all staff the importance of issuing ROEs and other supervisory products in a timely manner.
Safety and Soundness: In-depth Review of Unity National Bank OIG-12-036 (January 11, 2012)	No new recommendations.	No additional actions necessary.
Safety and Soundness: Material Loss Review of Corus Bank, N.A. OIG-12-037 (January 24, 2012)	Work with OCC's regulatory partners to determine whether regulatory guidance be changed, or legislation should be proposed to	In a Task Force on Supervision meeting on August 7, 2012, this topic was discussed. Members generally agreed that the agencies

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
	amend 12 U.S.C. 84, Lending Limits, to prohibit or limit the sale of loan participations by a bank to its holding company for purpose of complying with the legal lending limit.	have sufficient supervisory authority to address compliance with applicable standards and that a legislative change would not be necessary.
Safety and Soundness: Material Loss Review of Riverside National Bank of Florida OIG-12-039 (January 31, 2012)	Determine whether a limit, such as a specific percentage of capital, should be placed on the amount national banks can invest in complex mortgage-related securities before supervisory approval must be obtained.	In a Task Force on Supervision meeting on August 7, 2012, our recommendation was discussed. Members generally agreed that the agencies have sufficient supervisory authority to address compliance with applicable standards and that a legislative change would not be necessary.
	Work with regulatory partners to reevaluate the regulatory capital treatment of unrealized losses on available-for-sale debt securities in determining Tier 1 capital.	On October 11, 2013, OCC and the Federal Reserve System adopted a final rule that revises their risk-based and leverage capital requirements for banking organizations.[9] This rule also addresses the inclusion of accumulated other comprehensive income in Tier 1 capital.
***Safety and Soundness: Material Loss Review of Republic Federal Bank*, N.A.** OIG-12-040 (February 7, 2012)	No new recommendations.	No additional actions necessary.
Safety and Soundness: Material Loss Review of First National Bank of Georgia OIG-12-041 (February 14, 2012)	No new recommendations.	No additional actions necessary.
Safety and Soundness: Material Loss Review of Pacific Coast National Bank, San Clemente, California OIG-12-042 (February 27, 2012)	No new recommendations.	No additional actions necessary.

[9] 12 CFR Parts 208, 217, and 225 Regulatory Capital Rules.

Report Title	Recommendations to the Comptroller	OCC Corrective Action Taken or Planned
Safety and Soundness Reviews of Failed National Banks Owned by First Bank of Oak Park Corporation OIG-12-043 (March 1, 2012)	Re-evaluate whether OCC guidance for risk weighting of GSE equity securities should be consistent with the other federal banking agencies and changed from 20 percent to 100 percent.	On October 11, 2013, OCC and the Federal Reserve System adopted a final rule that revises their risk-based and leverage capital requirements for banking organizations.
Safety and Soundness: Material Loss Review of Integra Bank, National Association OIG-12-050 (April 12, 2012)	No new recommendations.	No additional actions necessary.
Safety and Soundness: In-Depth Review of the First National Bank of Davis OIG-12-055 (June 7, 2012)	Remind examiners of the importance of following OCC's guidance regarding (1) performing reconciliations of all reports submitted by management to ensure that the reports are accurate and agree to the bank's general books, an (2) analyzing a bank's new products to determine the effect on credit risk.	OCC sent an all employee message on February 11, 2013, reminding employees to follow established OCC guidance regarding performing reconciliations of reports received from bank management during examinations and to evaluate the effect of new products on key risks, including credit risk.
	Establish formal guidance to address OCC's response to investigations and requests for information from law enforcement agencies. The guidance should address, for example, when examination procedures should be expanded based on information provided by law enforcement agencies as well as notification to OCC Headquarters and OIG.	On February 7, 2014, OCC issued Policies and Procedures Manual documents 5000-40, "OCC Filings of Suspicious Activity Reports (SAR" and 5000-41, "Notification Requirements to the Treasury OIG for Examination Obstruction, Administrative Actions, SARs, and Contacts with Law Enforcement" providing guidance on interaction with law enforcement agencies and communication protocols for notifications to OCC Headquarters and OIG.

Office of the Comptroller of the Currency

Washington, DC 20219

August 5, 2016

Susan Barron
Director, Banking Audits
Office of Inspector General
Department of the Treasury
Washington, DC 20220

Subject: Response to Draft Report

Dear Ms. Barron:

We have reviewed your draft report titled "Analysis of Bank Failures Reviewed by Treasury Office of the Inspector General (OIG)." Your audit objective was to: (1) identify common themes related to the supervision of banks and thrifts and the causes of their failures and (2) assess the Office of the Comptroller of the Currency's (OCC) actions to strengthen its supervisory process in response to OIG audit recommendations and through other initiatives. To accomplish your objectives, you reviewed the 120 material loss reviews (MLR), failed bank reviews, and in-depth review reports issued to the OCC and the legacy Office of Thrift Supervision (OTS) from January 1, 2008, through December 31, 2012, on banks that failed from September 2007 through July 2012. You also reviewed relevant OCC documentation and guidance, interviewed OCC officials, and conducted other applicable fieldwork from December 2011 through March 2015.

You determined that the most common themes associated with the failed banks were: (1) asset concentrations, (2) inadequate credit administration and risk management, and (3) reliance on wholesale funding. You also identified several other attributes that, though not as common, contributed to bank failures. In addition, you identified certain matters with respect to 29 failed banks relating to potential fraud that you referred or about which you provided information to the OIG's Office of Investigation. You determined that OCC's supervision was appropriate in some of the banks and OCC's and the legacy OTS's uses of authority under prompt corrective action (PCA) were generally in accordance with PCA requirements. However, you concluded that for many banks, OCC and the legacy OTS: (1) did not take timely and/or strong enough supervisory actions and/or (2) did not timely identify or failed to identify key supervisory issues. In some instances, you noted that OCC and the legacy OTS lacked appropriate guidance or did not follow applicable guidance.

You concluded that the OCC generally concurred with your recommendations made in MLR and in-depth review reports. In addition, you reported that the OCC implemented policies and procedures, updated examination guidance, and took other corrective actions consistent with the intent of your recommendations. You indicated that OCC has undertaken independent initiatives to strengthen its supervisory process, including implementing processes to identify emerging risks to bank safety and soundness. You also acknowledged that the Comptroller of the Currency initiated a small group of current and former senior supervisory personnel from other countries to provide an independent review of OCC's supervision. In December 2013, the group's report commended OCC's improved ability to focus on specific risk areas and its creation of an independent quality assurance process to review its own supervision. You indicated that OCC is addressing several key recommendations made by the group, covering six broad areas:

- mission, vision, and strategic goals;
- risk identification;
- ratings systems;
- staffing;
- scope and consistency of supervisory strategies; and
- enterprise governance.

The results of the International Peer Review, as operationalized by working groups within the agency, have strengthened the agency; led to significant improvements in systemic risk identification, quality control processes, and resource utilization; and transformed some of the ways the OCC supervises large institutions.

Your report makes three recommendations to ensure the OCC identifies common trends and emerging issues to enable it to take corrective action in a timely manner. First, you recommend that the OCC continue to address recommendations from our MLRs and in-depth reviews, as well as the International Peer Review. The OCC will continue its practice of identifying and taking appropriate actions in a timely manner in response to recommendations from MLRs and in-depth reviews. The OCC will also continue with its initiatives that addressed and implemented the December 2013 International Peer Review recommendations.

Second, you recommend that the OCC participate in various committees and groups to identify emerging risks and communicate them to examiners and banks. The Comptroller is a member of the Financial Stability Oversight Council (FSOC) and the Federal Financial Institutions Examination Council (FFIEC), and OCC staff participates on FSOC and FFEIC support committees. The OCC also participates on international committees, supervisory colleges, and crisis management groups; interagency and cross-governmental working groups; and ad hoc groups where risks are raised and discussed. The OCC conveys these risks to examiners through the *Comptroller's Handbook*, numerous internal communications, and training, and to examiners and banks through publications (e.g., the Semiannual Risk Perspective), OCC Bulletins, other guidance documents, and outreach efforts.

Finally, you recommend that the OCC use its newly implemented lessons-learned review program and other analyses, as appropriate. The OCC will continue to use the lessons-learned program going forward.

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I appreciate the opportunity to review and respond to the report. If you need additional information, please contact Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-649-5420.

Sincerely,

/s/

Thomas J. Curry
Comptroller of the Currency

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Alicia Weber, Audit Manager
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The Department of the Treasury

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Office of Strategic Planning and Performance Management
Office of the Deputy Chief Financial Officer, Risk and Control Group

Office of the Comptroller of the Currency

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