



Audit Report



OIG-11-033

SAFETY AND SOUNDNESS: Failed Bank Review of The La Coste National Bank

November 16, 2010

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR JOHN WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of The La Coste National Bank

This memorandum presents the results of our review of the failure of The La Coste National Bank (La Coste). La Coste opened in May 1912 and had one office in La Coste, Texas. The Office of the Comptroller of the Currency (OCC) closed La Coste and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on February 19, 2010. As of December 31, 2009, the bank had \$53.9 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$3.7 million.

Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act (FDIA), we conducted a review of the failure of La Coste that was limited to (1) ascertaining the grounds identified by OCC for appointing the FDIC as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing our review we (1) examined documentation related to the appointment of FDIC as receiver and (2) interviewed OCC personnel.

We conducted this performance audit during August and September 2010 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.

Cause of La Coste's Failure

The primary cause of La Coste's failure was the elimination of the bank's capital by the write-off of \$7.3 million in fictitious investment securities allegedly created by the

bank's former President and Chief Executive Officer (CEO) to conceal his approval of payments made from bank funds on loans and significant overdrafts for a bank customer. The fictitious nature of the securities was detected by the bank's external auditors during the course of their audit work and was subsequently communicated to OCC. According to OCC personnel we interviewed, La Coste was a very small, one office bank and possessed unsophisticated operational processes and internal controls.

La Coste's former CEO was indicted on April 21, 2010, in United States District Court for the Western District of Texas. He was charged with bank fraud, misapplication of bank funds by bank employee, false entry in books and records, and aggravated identity theft. On October 27, 2010, the U.S. Attorney for the Western District of Texas announced that the former CEO pled guilty to one count of making false entries in bank books and records, and faces between 3 and 5 years in federal prison and restitution totaling more than \$8 million.

Conclusion

Based on our review of the causes of La Coste's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC that would necessitate an in-depth review. Specifically, while there were fictitious securities involved in the bank's failure, we determined that a more in-depth review of the bank's failure by our office is not warranted because we do not anticipate discovering any significant new information about the cause of failure or the supervision exercised over the bank.

We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated that it agreed with our conclusion as to the causes of La Coste's failure and that it had no concerns with our determination that an in-depth review of the bank's failure was not warranted. The response is provided as Attachment 1. A list of the recipients of this memorandum is provided as Attachment 2.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-0384 or James Lisle, Audit Manager, at (202) 927-6345.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: John Walsh, Acting Comptroller /s/

Date: October 25, 2010

Subject: Response to Failed Bank Review of The La Coste National Bank

We have received and reviewed your draft report titled "Failed Bank Review of The La Coste National Bank (La Coste)." Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of La Coste that was limited to: (1) ascertaining the grounds identified by the OCC for appointing the FDIC as receiver; and, (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver; and, (2) interviewed OCC personnel.

You conducted this performance audit during August and September 2010 in accordance with generally accepted government auditing standards. Those standards require that you plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for your findings and conclusions based on your audit objectives. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions based on your audit objectives.

You concluded that the primary cause of La Coste's failure was the elimination of the bank's capital by the write-off of \$7.3 million in fictitious investment securities allegedly created by the bank's former President and Chief Executive Officer to conceal his payments on loans and significant overdrafts for a bank customer. We agree.

You determined that a more in-depth review of the bank's failure by the OIG is not warranted, as you do not anticipate that it would discover any significant new information about the cause of failure or the supervision exercised over the bank. We have no concerns with your determination.

Thank you for the opportunity to review and comment on your draft report. If you need additional information, please contact Jennifer Kelly, Senior Deputy Comptroller for Mid-size and Community Bank Supervision, at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of the Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner