Audit Report

OIG-09-036

SAFETY AND SOUNDNESS: Material Loss Review of Ameribank, Inc.

April 7, 2009

Office of Inspector General

Department of the Treasury

Contents

Abbreviations

ALLL	allowance for loan and lease losses
C&D	cease and desist (order)
CEO	chief executive officer
CRH	construction rehabilitation account
EIC	examiner in charge
EVP	executive vice president
FDIC	Federal Deposit Insurance Corporation
FICO	Fair Isaac Corporation
OIG	Department of the Treasury Office of Inspector General
OTS	Office of Thrift Supervision
PCA	Prompt Corrective Action
ROE	report of examination
SRO	senior risk officer
SVP	senior vice president
WCO	workout and collections officer

OIG

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The Department of the Treasury
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April 7, 2009

John E. Bowman, Acting Director
Office of Thrift Supervision

This report presents the results of our review of the failure of Ameribank, Inc., of Northfork, West Virginia, and of the Office of Thrift Supervision's (OTS) supervision of the institution. Our review was mandated under section 38(k) of the Federal Deposit Insurance Act, as amended. OTS closed Ameribank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 19, 2008. As of December 31, 2008, FDIC estimated that Ameribank's failure would cost the Deposit Insurance Fund $33.4 million.

Section 38(k) requires that we determine why Ameribank's problems resulted in a material loss to the insurance fund; review OTS's supervision of Ameribank, including implementation of the Prompt Corrective Action (PCA) provisions of section 38(k); and make recommendations for preventing any such loss in the future. We reviewed the supervisory files and interviewed key officials involved in the regulatory enforcement matters. We conducted our fieldwork from October 2008 through February 2009 at OTS's headquarters in Washington, D.C., and at OTS district offices in Jersey City, New Jersey, and Chicago, Illinois, and the OTS field office in Pittsburgh, Pennsylvania. We also performed work at the FDIC Division of Resolutions and Receiverships in Dallas, Texas, and interviewed its officials and those of the FDIC Division of Supervision and Consumer Protection.

Appendix 1 contains a more detailed description of our objectives, scope, and methodology. Appendix 2 contains background information on Ameribank and OTS's enforcement processes. We also provide a glossary as appendix 3. The terms are underlined and hyperlinked to the glossary where first used in the report. A chronology of significant events related to Ameribank and supervision of the thrift is provided in appendix 4. Significant examination results and information on enforcement actions are included in appendix 5.

Results in Brief

The primary causes of Ameribank's failure were the thrift's rapid growth in assets and an unsafe and unsound concentration in construction rehabilitation account (CRH) loans resulting from its failure to appropriately manage its relationship with a third-party mortgage broker, Bristol Home Mortgage Lending, LLC, d.b.a. LendingOne. Ameribank's board and management did not exercise sufficient oversight of the LendingOne relationship. A weak internal loan review process and weak underwriting standards also contributed to the failure. These conditions at Ameribank were exacerbated by the deterioration in the credit market and decline of the real estate market.

OTS conducted timely and regular examinations of Ameribank and provided oversight through offsite monitoring. However, its supervision of the thrift failed to prevent a material loss to the Deposit Insurance Fund. The thrift's high-risk business strategy should have warranted more careful and earlier attention to address Ameribank's rapid growth in high-risk concentrations. OTS did not adequately sample the LendingOne loans prior to the April 2007 examination and did not thoroughly review the thrift's agreement with LendingOne until 2007, even though Ameribank's relationship with LendingOne extended back to 2003. In addition, the LendingOne CRH loans were not properly categorized and OTS's guidance on CRH loans was not specific.

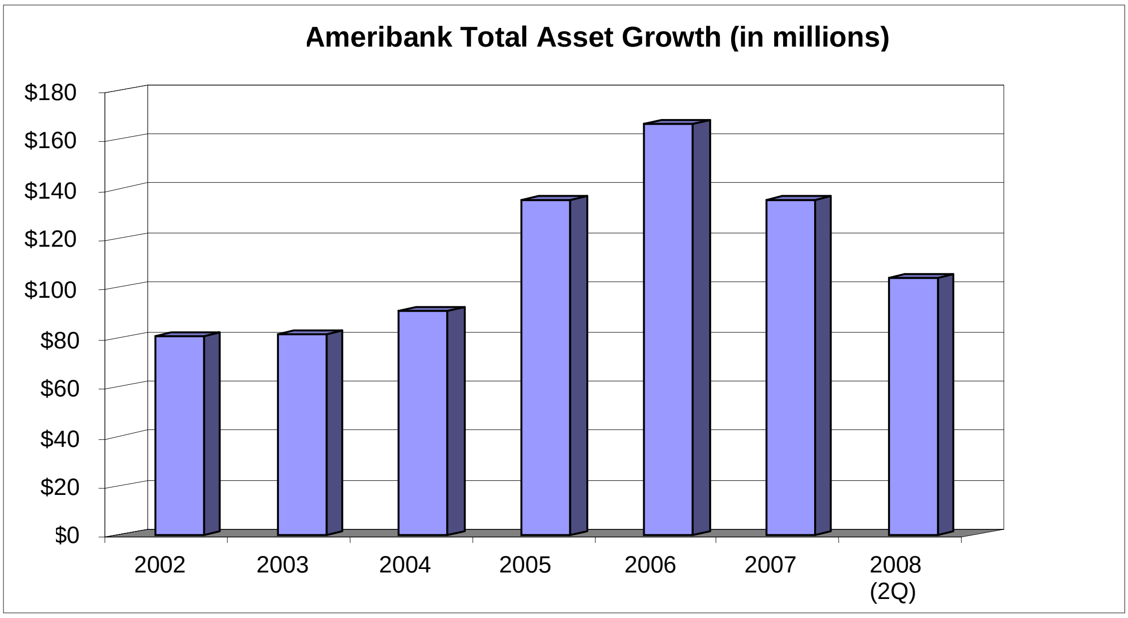
We are recommending that OTS remind its examiners of guidance covering the risks associated with rapid growth in high-risk concentrations, the need to conduct more thorough loan sampling from the portfolio when a rapid increase in concentration is identified, and the need to assess thrift third-party relationships. Additionally, OTS should assess the need for guidance requiring risk assessment of CRH loans as an integral part of assessing a thrift's overall risk and ensure that the recommendations and the lessons learned from its internal review of the Ameribank failure are implemented. In a written response, OTS concurred with the recommendations and stated that it is committed to strengthening its supervisory process and plans to implement the recommendations by August 2009. The response is provided as appendix 7.

Causes of Ameribank's Failure

Ameribank entered into a relationship with LendingOne, a third-party Florida mortgage broker, in 2003 to buy pools of loans made by the mortgage broker to rehabilitate houses. Ameribank failed to appropriately manage the relationship, which led to the thrift's rapid growth in assets and concentration of CRH loans. Ultimately, the failed relationship and the subsequent growth of assets led to Ameribank's closure.

Figure 1 shows Ameribank's asset growth from 2002 to 2008. Table 1 shows the growth in Ameribank's relationship with LendingOne from February 2005 through May 2007.

Figure 1. Ameribank Total Assets Growth From 2002 to 2008



Source: Thrift financial reports as of December 31 for all years except 2008, which is as of June 30.

Table 1. LendingOne Relationship Growth From February 2005 Through May 2007 (amounts in millions)

Type of loan	2/28/2005[a]	6/30/2005	6/30/2006	5/31/2007
CRH[b]	$10.7	$18.5	$40.2	$75.6
End (permanent mortgage)	5.2	5.1	5.4	4.2
Line of credit	1.0	2.0	2.0	2.0
Total	**$16.9**	**$25.6**	**$47.6**	**$81.8**
Percentage of LendingOne–related activities to Ameribank's tier 1 capital plus ALLL[c]	**200%**	**174%**	**273%**	**401%**

Source: OTS reports of examination.
[a] The dates shown are associated with field visits and examination dates.
[b] For the period above, the number of individual CRH loans increased from 81 to 721.
[c] The term "capital plus ALLL" (allowance for loan and lease losses) refers to tier 1 core capital plus ALLL.

Failure to Manage the LendingOne Relationship

The formal relationship with LendingOne was established by Ameribank's chairman and its chief executive officer (CEO).[1] A mortgage loan servicing and sales agreement was signed on May 19, 2004, and amended three times to reflect changes in terms. With each amendment, the terms of the relationship became less favorable to Ameribank. For example, with the first amendment, the thrift's yield rate was cut from prime plus 2.50 percent to prime plus 1.50 percent. By the third amendment, the rate was reduced to prime plus 0.25 percent, and Ameribank was required to purchase a minimum of $13.5 million in CRH loans from LendingOne every 3 months beginning March 1, 2006. The CRH loans were originated at rates of up to 18 percent, with origination fees of at least 5 percent of the loan amount. Except for the yield portion described above, all interest and fees were retained by LendingOne. Virtually all risk of loss resided with Ameribank.

The CRH loans originated by LendingOne financed the rehabilitation of distressed properties, predominantly in lower- to moderate-income housing markets. LendingOne also retained the servicing rights to the CRH loans sold to Ameribank pursuant to the agreement. The loans were made to individual investors for the

[1] The chairman was also the majority shareholder of Ameribank.

purchase and renovation of one- to four-family residential properties, usually for a 12-month period. The borrowers had little or no financial risk because they were required to put little, if any, of their own money in the properties. The average loan amount was $105,000. The borrowers typically received 100 percent financing for acquisition and renovation costs of the property. The CRH loan products were initially on properties in Florida but were later expanded to other states, including Louisiana after Hurricane Katrina.

In 2004, Ameribank management saw a niche lending opportunity with respect to CRH borrowers who sought to rent their properties after rehabilitation. The thrift converted the short-term CRH loans to permanent mortgages, referred to as end loans, that had a 30-year term and interest rates that adjusted after the first 2 years and every 6 months thereafter. These end loans were primarily underwritten based on the anticipated cash flow of the rental property and the borrower's credit score; they did not consider the borrower's own ability to repay the loan. Ameribank stopped originating end loans in May 2006 because of early signs of delinquency and poor loan quality.

To enhance its relationship with LendingOne, Ameribank provided a $1 million line of credit to LendingOne in April 2004. In April 2005, Ameribank increased the line of credit to $1.95 million. LendingOne used the line of credit to purchase matured CRH loans (loans that had reached the term limit for properties on which rehabilitation was not complete) and delinquent CRH loans from the thrift and other financing facilities. In essence, Ameribank provided financing to LendingOne to repurchase these loans that LendingOne had originated. This arrangement worked as planned in the beginning, when the level of problem assets was manageable. However, when problem assets began to escalate in 2007, the line of credit was insufficient to handle the volume of problem CRH loans. Ameribank demanded repayment of the line of credit in February 2008, but LendingOne defaulted. Ameribank classified the line of credit as doubtful as of March 2008.

OTS stated in the April 2007 examination that Ameribank management was struggling to understand the workings of this lending relationship as set forth in the mortgage loan servicing and sales agreement and subsequent amendments. It was evident that the thrift failed to manage the LendingOne relationship appropriately.

Concentration of CRH Loans Resulting From Rapid Growth of Assets

From 2004 to 2006, Ameribank's total assets grew from about $91 million to $166 million. Management achieved the asset growth principally by financing highly speculative CRH loans. Ameribank acquired a significant portion of these loans through its relationship with LendingOne. Acquisition of these loans was part of the business strategy of the new management team of Ameribank.

As of September 30, 2004, Ameribank's CRH loan portfolio consisted of 46 CRH loans totaling $4.3 million. By May 31, 2007, the CRH portfolio consisted of 721 loans totaling $75.6 million. The accelerated concentration in this asset class posed a major concentration risk to the thrift. In the April 2007 examination, OTS stated that the rapid growth and a material increase in overall delinquencies and classifications elevated this concentration to a serious regulatory concern.

Adding to this risk was the expansion of CRH loans into the New Orleans market following Hurricane Katrina. Unforeseen problems in obtaining materials, skilled laborers, and contractors led to cost overruns and renovation delays. Ameribank's exposure to LendingOne–originated CRH loans secured by properties in the New Orleans region totaled $26.4 million as of May 31, 2007, or 35 percent of Ameribank's total CRH loan portfolio. This portfolio suffered significant delinquencies and credit losses.

In 2008, it was becoming apparent that repayment of CRH loans was slowing and would be more difficult than initially thought. Ameribank attempted to pick up repayment levels by offering to waive all interest and fees if a borrower paid off the loan plus $1,000. By March 2008, 297 CRH loans were in the foreclosure process. During its May 2008 board meeting, Ameribank's board indicated a willingness to accept short sales on the CRH loans.

In the April 2007 examination, OTS stated that there had been a significant deterioration in the quality of assets and escalation of risk since the preceding examination due primarily to an unsafe and unsound concentration of loans.

Significant Erosion of Capital and Earnings Due to CRH Loans

The excessive growth and resulting concentration of assets in high-risk and speculative CRH loans resulted in a significant erosion of Ameribank's capital and earnings. The adverse impact of the assets acquired through the LendingOne relationship was recognized primarily from July 1, 2007, through June 30, 2008, when Ameribank reported a loss of $17.7 million. The loss caused total equity capital to decline to $2.7 million as of June 30, 2008. During the same period, the core capital and total risk-based capital ratios fell from well capitalized to significantly undercapitalized. From July 1, 2007, to June 30, 2008, the core capital ratio declined from 11.3 percent to 2.1 percent, and the total risk-based capital ratio declined from 17.5 percent to 4.2 percent. On October 19, 2007, OTS issued a cease and desist (C&D) order to Ameribank requiring it to achieve and maintain core capital and total risk-based capital ratios of 8.5 percent and 11.5 percent, respectively. Ameribank never achieved these capital ratios.

Unsafe and Unsound Concentration of CRH Loans

OTS defines a concentration 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 (ALLL). Concentrations pose additional risk because the same economic, political, or environmental event can negatively affect the entire group of assets or liabilities.

The LendingOne concentration risk was first identified by OTS in its March 2005 field visit due to the loans' direct or indirect (originated by) relation to LendingOne and to LendingOne's direct control of the loan underwriting and servicing of the CRH portfolio.

The total volume of CRH loans purchased from LendingOne grew 77 percent in 9 months (July 2006 through March 2007). As of March 31, 2007, the entire relationship with LendingOne (the purchased CRH loans, end loans, and the line of credit) reached a peak of $84.6 million, representing 423 percent of Ameribank's capital plus ALLL and comprising 50 percent of Ameribank's total assets.

Deficient Board and Management Oversight of the LendingOne Relationship

Deficient Board Oversight

As mentioned before, the thrift's growing involvement with LendingOne was first identified as a concentration risk by OTS in a March 2005 field visit. Because of the elevated risk presented by the LendingOne program, OTS examiners recommended that the board discuss establishing an in-house limit on the concentration—as a percentage of capital or assets. Ameribank's board met in March and April 2005 and decided not to set limits on the LendingOne portfolio. However, Ameribank management informed the board in May 2005 that it had established a limit for CRH loans at 30 percent of total assets and a limit for end loans at 10 percent of total assets. OTS was satisfied with the limits.

The CEO dominated Ameribank's board meetings in 2005 and 2006, as evidenced in the board minutes. In addition, the board minutes indicate passivity by the directors in their discussions and approvals of the LendingOne relationship. For example, when the CEO informed the board in February and March 2006 about the proposed terms of the third amendment to the LendingOne agreement, there was no discussion by the board and no vote on the amendment. This amendment, which reduced the return to Ameribank on LendingOne-originated loans and required Ameribank to purchase at least $13.5 million in loans from LendingOne each quarter, was an important factor in the accelerated growth of the thrift.

According to OTS's April 2007 report of examination (ROE), the Ameribank board minutes also indicated a disconnect between the board's sentiment and actual operations of the thrift during the first quarter of 2007. As early as the December 2006 board meeting, and continuing through the meetings held in January and February 2007, inquiries by certain directors and officers of the thrift led to discussion of the growing LendingOne exposure, the risk involved, and delinquencies that were starting to occur with the LendingOne-originated loans. On more than one occasion, the discussions addressed ways to decrease the exposure gradually without stopping the relationship. However, the thrift continued to purchase loans from LendingOne, and it was during the first quarter of 2007 that the concentration limits established by Ameribank management were breached and substantially exceeded.

Furthermore, Ameribank's internal audit function was inadequate and ineffective with respect to the LendingOne relationship. The board did not ensure that the internal audit function was involved in any independent risk assessment of the CRH portfolio. Accordingly, we believe Ameribank's board did not adequately perform its duties and failed to demonstrate adequate direction in overseeing the thrift's financial condition.

Deficient Management Oversight

Prior to 2003, Ameribank was primarily a small thrift with five branches, headquartered in and serving a rural and economically depressed area of southern West Virginia. In August 2003, Ameribank installed a new management team—based in Florida—which consisted of the CEO, an executive vice president/senior risk officer, and a senior vice president/workout and collections officer, and entered the Florida market. The CEO directed the lending efforts toward niche products with generally higher yields and higher risks. One of those niche products was CRH loans. By the end of 2006 and beginning of 2007, however, the Florida-based management team, which had been primarily responsible for overseeing the LendingOne relationship, left Ameribank, leaving a significant void in management and operational knowledge of the relationship.

By the end of 2006 and continuing into the beginning of 2007, the level of monitoring and oversight necessary to control the risks of CRH loans that LendingOne was originating and underwriting did not exist at the thrift. With the departure of the Florida-based management team, Ameribank's expertise in the management of the LendingOne relationship eroded substantially, and the thrift's remaining officials were not able to manage the relationship or deal with the declining portfolio quality effectively. As a result, the CRH loan portfolio further increased, while the level of monitoring and review decreased significantly. Furthermore, when OTS began the April 2007 examination, the Ameribank board told OTS examiners that no active search for qualified management was underway. To keep expenses low, Ameribank was reluctant to hire adequate staffing.

According to OTS's April 2007 ROE, Ameribank management

- was not appropriately responding to its problems;
- had become complacent and completely dependent upon LendingOne's servicing and management of the portfolio; and
- could be deficient in planning for and responding to risks that might arise from changing business conditions or new strategies.

OTS cited as one example of management's deficiency that it continually engaged in risky lending without ensuring proper loan administration procedures and without conducting due diligence on or monitoring the acquisition of CRH loans from 2006 and 2007.

Deficient Internal Loan Review Process and Underwriting Standards

Since inception of the CRH loan program at Ameribank in May 2004, loans were originated and underwritten according to LendingOne's underwriting standards, which were approved and adopted by Ameribank. In 2007, OTS examiners reported concerns with the thrift's lending policies and procedures related to its other lending programs. OTS also found loan files lacking current information and instances of noncompliance with internal policies by loan officers.

In the April 2007 ROE, OTS determined that Ameribank's underwriting was lacking on end loans because it was based solely on cash flow from rental income and did not consider the borrower's own ability to repay the loan. The layering of risk associated with CRH loans was also associated with end loans. OTS noted other risks with the CRH loans, including the brokered aspect and very high interest rates (in the 15 percent range). In addition, OTS noted that the CRH loans lacked formal verification of employment, debt-to-income calculations, escrowing for taxes and insurance, and equity on the borrower's part. According to OTS, based on its review of the thrift's policies and procedures, management needed to revise its lending policies to control the risk within the portfolio. OTS stated that the lending authority was excessive and that risk management was lacking.

During the October 2007 examination, OTS found that Ameribank management had revised its lending policies to improve the thrift's operation and to control future lending risk. However, OTS found serious deficiencies in the loans originated by LendingOne and commented that Ameribank should review its internal loan review process to improve its process for early identification of loans that should be classified.

Deterioration in the Credit Market and Decline of the Real Estate Market

In 2007, the deteriorating credit market began to affect CRH loan borrowers. Real estate values dropped in markets where many of the CRH properties were located, making additional losses to the thrift highly probable. With this decline in real estate values, delinquencies in Ameribank's CRH loan portfolio soared. The collapse of the real estate market in 2007 resulted in the inability of borrowers to attract interested buyers and of long-term investors in the rehabilitated properties to secure permanent credit, which in turn led to defaults on many CRH loans and substantial write-downs on others.

In 2007 and 2008, Ameribank ordered broker price opinions for every loan affiliated with the CRH portfolio. The thrift used these opinions to write down every CRH loan to 90 percent of the valuation less cost to sell. This re-evaluation process recognized the declining collateral values in the CRH portfolio and, coupled with rapidly rising defaults within the portfolio, led to the thrift's establishing $15.8 million in ALLL plus $2 million in real estate owned write-offs during the year ended June 30, 2008. On July 16, 2008, OTS issued a PCA notice that Ameribank was significantly undercapitalized. Ameribank responded on July 31, 2008, that it was unsuccessful in its attempts to raise capital. Ameribank's core and risk-based capital ratios eventually declined to 1.1 percent and 2.1 percent, respectively, as of August 31, 2008, shortly before its failure in September 2008.

OTS Supervision of Ameribank

OTS Examinations of Ameribank

OTS conducted full- and limited-scope safety and soundness, compliance, information technology, risk-focused, and comprehensive examinations of Ameribank during the scope of our review.[2] After reviewing OTS's work, we concluded that OTS conducted timely and regular examinations and off-site monitoring in accordance with the OTS Examination Handbook. Table 2 summarizes the results of OTS's safety and soundness examinations and provides the dates of enforcement actions. Appendix 5 provides details of matters requiring board attention, corrective actions, and other examination findings.

[2] When the term examination is used by itself in this report, it refers to an OTS examination that includes safety and soundness. Other aspects, such as compliance or information technology, may also have been part of the examination, but were not the focus of our audit.

Table 2. Summary of OTS Ameribank Examinations and Enforcement Actions

		Examination Results			
Date started[a]	Assets (millions)[b]	CAMELS rating	No. of matters requiring board attention[c]	No. of corrective actions	Formal enforcement actions
7/22/2002	$84	2/222211	0	1	None
4/12/2004	$97	2/222311	0	6	None
7/5/2005	$136	2/221211	0	1	None
4/16/2007	$161	4/344322	7	8	Supervisory directive 5/25/2007 C&D order 10/19/2007
10/1/2007	$115	5/554543	9	1	PCA directive 8/25/2008
1/7/2008[d]	-	4/454432	0	0	

Source: OTS ROEs.
[a] From 2002 to 2007, Ameribank was on an 18-month examination cycle. An examination cycle begins with the transmittal of the ROE. See appendix 2, Types of Examinations Conducted by OTS, for additional information about when OTS conducts examinations.
[b] In some instances, the assets amount included in the ROEs differs from that reported in the thrift financial reports due to adjustments made by examiners to reflect the establishment of reserves and the charge-off of assets once the examination has started. This table and appendix 5 reflect the figures in the ROEs. Of particular significance is the October 1, 2007, figure, which was adjusted to $115 million from $158 million.
[c] Matters requiring board attention identified in OTS ROEs are not enforcement actions. However, failure by a thrift's board and management to address the matters could lead to an enforcement action.
[d] The January 7, 2008, examination was a limited examination conducted prior to an FDIC insurance premium assessment.

Enforcement Actions Taken by OTS

OTS's preliminary findings from the April 2007 examination of Ameribank disclosed significant regulatory concerns with the thrift's relationship with LendingOne. OTS issued a supervisory directive on May 25, 2007, that identified Ameribank as a troubled institution and downgraded its CAMELS composite rating and its CAMELS capital, asset quality, management, and liquidity component ratings.[3] The supervisory directive also restricted the relationship between Ameribank and LendingOne, required Ameribank to obtain more control over LendingOne assets, required

[3] OTS took action to downgrade the thrift's composite CAMELS rating to 4, with downgrades of the capital, asset quality, management, and liquidity components to 3, 4, 4, and 2, respectively.

Ameribank to develop a timetable to reduce asset concentration, and required a $5 million capital infusion.[4]

Ameribank failed to reduce the asset concentration as required by the supervisory directive. OTS issued a C&D order on October 19, 2007, that further restricted Ameribank operations, prohibited increases in LendingOne-related assets, required an aggressive and consistent reduction in asset concentration, and imposed a tier 1 (core) capital requirement of 8.5 percent and a total risk-based capital requirement of 11.5 percent.[5] Ameribank did not achieve the capital ratios imposed by the C&D order.

At the time that Ameribank entered receivership, it had not complied with the capital requirement primarily because of losses attributed to the continuing write-downs to the LendingOne assets.

Prompt Corrective Action

As of March 31, 2008, Ameribank's capital level had fallen to adequately capitalized.[6] On July 16, 2008, OTS formally notified the thrift that it was significantly undercapitalized. The PCA notice required Ameribank to file a capital restoration plan no later than July 31, 2008. The PCA notice also required that Ameribank abide by various PCA restrictions and the C&D order. On July 31, 2008, thrift management responded that it was unsuccessful in its attempts to raise capital and could not provide a capital restoration plan.

On August 11, 2008, OTS notified Ameribank that it was deemed to be critically undercapitalized. OTS informed the thrift of its intent to issue a PCA directive and requested consent to appoint a receiver. On August 18, 2008, the thrift consented to the PCA directive and the appointment of a receiver. On August 25, 2008, OTS issued the PCA directive requiring Ameribank to restore capital

[4] Capital infusions totaling $4 million were made during June and July 2007. Although the total infusion was $1 million less than required by the supervisory directive, OTS accepted the amount infused as meeting the intent of the directive.
[5] These capital levels imposed by OTS were above the minimum levels for well-capitalized under PCA provisions (6 percent for tier 1 capital and 10 percent for total risk-based capital).
[6] Tier-1 and risk-based capital ratios were 8.25 percent and 9.55 percent, respectively. For detail on PCA capitalization requirements, see the entry for Prompt Corrective Action in appendix 3.

to adequately capitalized levels by September 8, 2008. Ameribank responded on September 10, 2008, that it was not going to reach the capital levels prescribed by the PCA directive.

On September 16, 2008, a potential investor group made an offer to acquire Ameribank, subject to due diligence. However, the group required 6 weeks to conduct due diligence and did not provide funding. OTS concluded that the offer did not present Ameribank with any legitimate prospect of becoming adequately capitalized without federal assistance.

We concluded that after OTS identified significant problems during the April 2007 examination, it took appropriate enforcement action in a timely manner. We believe, however, that more timely action was needed when OTS first identified rapid growth in Ameribank's LendingOne portfolio.

Forceful Action Should Have Been Taken Sooner to Address Ameribank's Rapid Growth in a High-Risk Concentration

One of the causes of Ameribank's failure was the rapid asset growth in highly speculative LendingOne CRH loans. OTS first identified rapid growth in the LendingOne concentration during a March 2005 field visit to the Ameribank-Florida branch office. OTS categorized the LendingOne loans as a high-risk concentration because the loans were originated, underwritten and serviced by the third party. A month before the July 2005 examination, OTS also identified regulatory concern with rapid asset growth and, more specifically, growth in untraditional types of loan products. In the July 2005 ROE, OTS noted that the thrift's risk profile continued to increase due to a growing commercial loan portfolio and credit concentrations. Four months later, in a field visit report, OTS noted that Ameribank's earnings in the first three quarters of 2005 were at levels well above its peer group medians and met or outpaced 2004 net income levels. OTS attributed the increase primarily to high-risk lending in LendingOne products.

When examiners initiated the April 2007 examination, they found significant deterioration in asset quality due to the thrift's excessive and uncontrolled growth in the LendingOne concentration. This finding prompted OTS to issue the supervisory directive and later the C&D order.

According to the OTS examiners-in-charge (EICs) for 2004-2006, there was concern with rapid growth in the high-risk concentration in LendingOne loans. However, the EICs did not believe that they could require Ameribank to take corrective action because the thrift had no major problems such as significant loan classifications or delinquencies. Also, the thrift had a CAMELS composite rating of 2. The EICs also stated that, given the lack of severity of the conditions found, OTS could only make suggestions to the board at this point. Another EIC stated, however, that examiners should have done more when they first identified high-risk lending policies. In retrospect, two OTS examination personnel we interviewed acknowledged that they may have relied too much on Ameribank's management.

We believe that OTS should have taken more timely action based on the March 2005 field visit. The rapid growth in a high-risk concentration was highlighted as a concern in the field visit report and transmittal letter. Presenting this to the board as either a corrective action or a matter requiring board attention would have shown urgent regulatory concern. In addition, an informal enforcement action should have been considered after the completion of the July 2005 examination.[7] The ROE for the July 2005 examination reiterated examiners' concerns with rapid growth in a high-risk concentration first identified during the March 2005 field visit. According to the OTS Examination Handbook, an enforcement action can be taken when an unsafe or unsound practice is repeated.

We recognize that it is somewhat speculative to conclude that earlier and more forceful enforcement action would have prevented Ameribank's failure or lessened losses to the Deposit Insurance Fund. Nevertheless, by using more forceful actions with Ameribank in 2005, OTS would have made the thrift more aware of the dangers of rapid growth in high-risk concentrations.

[7] Appendix 2 provides additional information on enforcement actions.

Limited Sample of LendingOne Loans Reviewed Prior to the April 2007 Examination

We believe that the OTS examiners should have sampled more LendingOne loans during their March 2005 field visit, July 2005 examination, and June 2006 field visit.

According to the OTS Examination Handbook, examiners should sample assets to ascertain whether the thrift is applying prudent underwriting standards and is complying with applicable regulations and policy. The objective of sampling is to limit the number of assets reviewed while still providing enough information to enable the examiner to draw and support a reliable conclusion about the portfolio.

The workpapers for the March 2005 field visit indicated that the examiners reviewed less than 10 percent of the total value of the LendingOne loan portfolio. While the report on the visit did indicate that some loans were reviewed, it did not state whether any LendingOne loans were reviewed. The workpapers for the July 2005 examination indicated that the examiners reviewed less than 5 percent of the total value of the LendingOne loan portfolio. The examiners found that the quality of the loan portfolio was strong but they continued to have concerns with LendingOne's involvement with the loan portfolio. For the June 2006 field visit, there was no indication in the workpapers or the report that examiners had conducted a review of LendingOne loans.

The EIC explained that during the field visits examiners may have looked at some LendingOne loan files and disapproved loan applications but not documented the results if they had no concerns with the underwriting, appraised values, or delinquencies.

It was not until the April 2007 examination that examiners conducted an in-depth review of loan files and various portfolio reports. During this review, examiners discovered that Ameribank's exposure to LendingOne had caused extreme risks to capital, earnings, and the overall safety and soundness of the thrift.

LendingOne CRH Loans Not Properly Categorized

To calculate total risk-based capital on thrift financial reports, thrifts classify assets in one of four risk-weighted asset categories: 0 percent, 20 percent, 50 percent, or 100 percent. An asset with a risk weight of 0 percent is counted in its entirety in determining capital. In contrast, an asset with a risk weight of 100 percent is not counted in determining capital. Residential construction loans are either included in the 50 percent risk-weight category or the 100 percent risk-weight category. To be included in the 50 percent risk-weight category, the borrower must intend to occupy the home and make a substantial earnest money deposit. If these conditions are at any time not met, the loan must be put in the 100 percent risk-weight category.

During the April 2007 examination, OTS examiners found that Ameribank had improperly placed the LendingOne CRH loans in the 50 percent risk-weighted category instead of the 100 percent category. We believe that OTS should have identified this misclassification by Ameribank sooner because OTS had previously described these loans as having characteristics consistent with 100 percent risk-weighted assets. Specifically, examiners wrote in the report on their March 2005 field visit that LendingOne made loans to individual investors for the purchase and renovation of one- to four-family residential, non-owner occupied properties. These CRH loans were made with no cash down payment, for 100 percent of the purchase price, including most closing costs, and the costs to rehabilitate the property.

Requiring Ameribank to place CRH loans purchased from LendingOne in the 100 percent risk category as early as the March 2005 field visit would have required Ameribank to maintain more capital.

LendingOne Agreement Not Thoroughly Reviewed Until 2007

OTS did not thoroughly review the Ameribank and LendingOne agreement until the April 2007 examination. This relationship was a leading cause of the thrift's failure.

According to OTS Thrift Bulletin 82a, OTS reviews notices of third-party arrangements for informational purposes and would not generally do an in-depth review until the next comprehensive examination after it has received notification of the third-party arrangement. The bulletin also states that using third parties to provide loan services related to mortgage servicing or other arrangements may create difficulties for thrifts to manage, or for OTS to oversee, if the thrift becomes troubled or fails. For this reason, management should include a provision in the contract that allows it or OTS to terminate the contract upon reasonable notice and without penalty if the thrift becomes troubled. According to Thrift Bulletin 82a, the OTS supervisory approach to any third-party provider arrangement will emphasize management's responsibilities to manage risk appropriately, conduct adequate due diligence, comply with applicable laws, and ensure access to critical information with respect to third-party activities.

OTS conducted a site visit to LendingOne during the July 2005 examination. However, the EIC told us that he did not thoroughly read the agreement between Ameribank and LendingOne until the April 2007 examination.

Other Observations on OTS Guidance for CRH-Type Loans

OTS had not yet developed guidance to evaluate CRH loans because these types of loans were relatively new. Instead, OTS examiners applied commercial real estate lending guidance to evaluate Ameribank's CRH loan activities.[8] OTS developed this guidance to clarify that thrifts actively engaged in commercial real estate lending should assess their concentration risk and implement appropriate risk management policies and procedures to identify, monitor, manage, and control their concentration risks. The guidance does not establish specific commercial real estate lending limits; rather, it seeks to promote sound risk management practices that will enable thrifts to continue to pursue commercial real estate lending in a safe and sound manner.

[8] Office of Thrift Supervision Guidance on Commercial Real Estate Concentrations Risks (Dec. 14, 2006).

OTS's Internal Assessment of the Ameribank Failure

OTS policy requires it to conduct an internal assessment when a thrift fails. That assessment, referred to as an internal failed thrift review, is performed by staff independent of the region responsible for supervisory oversight of the failed thrift. The report is reviewed and signed by the OTS Deputy Director of Examinations, Supervision, and Consumer Protection.

On December 22, 2008, OTS completed its internal failed thrift review on Ameribank. OTS determined that the main causes of Ameribank's failure were credit losses, the lack of sound risk management practices that arose primarily out of the LendingOne relationship, and the beginning of the deterioration and turmoil in the credit markets in 2007.

Based on our review of the examination records and reports and our interviews with OTS staff, we affirm OTS's internal findings and need for corrective actions.

OTS identified five areas in which it could have strengthened its supervision of Ameribank. Specifically, it could have

- ensured that Ameribank based concentration limits on capital instead of assets and established concentration limits closer to 100 percent (or less) of capital plus ALLL;
- insisted that Ameribank hire an outside firm to periodically monitor and review controls over LendingOne;
- required Ameribank to risk-weight CRH loans purchased from LendingOne at 100 percent rather than at 50 percent prior to its April 2007 examination;
- detailed in the ROE its concerns when instances of questionable loan-to-value ratios were noted for purchased residential loans; and
- reviewed a representative sample of loans purchased from LendingOne during its field visits between July 2005 and April 2007.

OTS cited the following lessons learned in its report:

- Even when concentrations have been identified, it is necessary to require institutions to focus on limiting these concentrations as a percentage of capital plus ALLL. These limits as a percentage of capital should be much closer to 100 percent of capital or less, depending on the risk underlying the concentration.
- An institution's risk management practices must be considered when there is significant exposure to purchased loans from third parties who control the servicing, disbursement, and collection processes.
- The use of the 50 percent risk-weight for loans secured by residential properties should be carefully evaluated, even when the loans are performing and the loan-to-value ratios are 90 percent or less.
- The field visits conducted between the 2005 and 2007 regular examinations did not include a review of the loans purchased from LendingOne. A review of loans made since the prior examination should have been included within the scope of the field visits.
- When the final appraised values of residential loans are significantly in excess of the purchase price/as is appraised value plus cost to repair, concerns must be detailed in the examination report.
- Thrift management should be required to inform OTS in writing of any disagreements, withdrawals, material unrecorded audit adjustments, or auditor refusal to issue a report whether or not the thrift is required to have an annual audit.[9] If management refuses to do so within 10 days of such an event, the independent auditor should be required to inform OTS in writing.

[9] Ameribank's independent auditor had not issued audit reports on the thrift's 2006 and 2007 financial statements.

The OTS team that performed the review made the following recommendations to the Deputy Director, Examinations, Supervision, and Consumer Protection, and the Managing Director, Supervision:

- Communicate to the thrift industry the guidance on concentrations of risk provided in New Directions Bulletin 06-14.
- When evaluating an institution's limits for concentrations that pose significant risk, ensure that limits are set at lower levels as a percentage of capital. Also, for institutions that do not establish limits as a percentage of capital or establish limits that are well in excess of 100 percent of capital, take immediate action to address these issues.
- Provide guidance to the examination staff requiring careful deliberation before they use the 50 percent risk weight for residential loans for non-owner occupied property.
- Provide guidance to both the industry and examination staff conveying OTS's expectation that thrifts maintain strong controls and monitoring procedures for loan programs administered by third parties.

Officials of the OTS regional office responsible for supervision of Ameribank stated that action has been taken to ensure that staff are aware of the findings of the internal failed thrift review. In addition, they told us that the region has developed a monitoring report that identifies potentially higher-risk loan activity in relation to core capital and risk-based capital and is using this report in monitoring meetings with case managers.

Recommendations

Our material loss review of Ameribank is the third such review we have performed of a failed OTS-regulated financial institution during the current financial crisis. Appendix 6 lists the other two material loss reviews and our associated recommendations. OTS management agreed with the prior recommendations and has taken or is taking corrective actions to address them.

As a result of our material loss review of Ameribank, we recommend that the Director of OTS do the following:

1. Remind examiners of the risks associated with rapid growth in high-risk concentrations.

2. Remind examiners to conduct more thorough loan sampling from the portfolio if they identify a rapid increase in concentration.

3. Remind examiners of the examination guidance for thrift third-party relationships, with particular attention to the assessment of the risk the relationship may pose to the thrift's safety and soundness.

4. Assess the need for guidance requiring risk assessment of CRH loans as an integral part of assessing a thrift's overall risk.

5. Ensure that the recommendations and the lessons learned from OTS's internal assessment of the Ameribank failure are implemented.

<u>Management Response</u>

OTS concurs with the recommendations and plans to implement them by August 2009.

* * * * *

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) 927-6512 or Maria V. Carmona, Audit Manager, at (202) 927-6345. Major contributors to this report are listed in appendix 8.

/s/

Michael J. Maloney
Audit Director

We conducted this material loss review of Ameribank, Inc., of Northfork, West Virginia, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act, as amended.[10] This section provides that if a deposit insurance fund incurs a material loss with respect to an insured depository institution, the inspector general for the appropriate federal banking agency is to prepare a report to the agency, which shall

- ascertain why the institution's problems resulted in a material loss to the insurance fund;
- review the agency's supervision of the institution, including its implementation of the Prompt Corrective Action provisions of section 38; and
- make recommendations for preventing any such loss in the future.

Section 38(k) defines a loss as material if it exceeds the greater of $25 million or 2 percent of the institution's total assets. The law also requires the inspector general to complete the report within 6 months after it becomes apparent that a material loss has been incurred.

We initiated a material loss review of Ameribank based on the loss estimate by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2008, FDIC estimated that Ameribank's failure would cost the Deposit Insurance Fund $33.4 million.

To accomplish our review, we conducted fieldwork at the Office of Thrift Supervision's (OTS) headquarters in Washington, D.C.; its district offices in Jersey City, New Jersey, and Chicago, Illinois; and its field office in Pittsburgh, Pennsylvania. We also performed work at the FDIC Division of Resolutions and Receiverships in Dallas, Texas, and interviewed its officials and those of the FDIC Division of Supervision and Consumer Protection.

To assess the adequacy of OTS's supervision of Ameribank, we conducted audit work to determine (1) when OTS first identified Ameribank's safety and soundness problems, (2) the gravity of the problems, and (3) the supervisory response OTS took to get the

[10] 12 U.S.C. § 1831o(k).

thrift to correct the problems. We also performed audit work to determine whether OTS (1) might have discovered problems earlier; (2) identified and reported all the problems; and (3) issued comprehensive, timely, and effective enforcement actions that dealt with any unsafe or unsound activities. Specifically, we performed the following work:

- We determined that the time period covered by our audit would be July 2002 through Ameribank's failure on September 19, 2008. This period included three safety and soundness examinations prior to OTS's identifying Ameribank as a troubled institution and assigning it a composite CAMELS rating of 4. We reviewed OTS supervisory files and records for Ameribank from 2002 through 2008. We analyzed examination reports, supporting workpapers, and related supervisory and enforcement correspondence. We performed these analyses to gain an understanding of the problems identified, the approach and methodology OTS used to assess the thrift's condition, and the regulatory action OTS used to compel thrift management to address deficient conditions. We did not conduct an independent or separate detailed review of the external auditor's work or associated workpapers other than those incidentally available through the supervisory files.

- We interviewed and discussed various aspects of the supervision of Ameribank with OTS officials, examiners, and attorneys to obtain their perspective on the thrift's condition and the scope of the examinations. We also interviewed FDIC officials who were responsible for monitoring Ameribank for federal deposit insurance purposes.

- We interviewed FDIC Division of Resolutions and Receiverships personnel who were involved in the receivership process, which was conducted before and after Ameribank's closure and the appointment of a receiver.

- We assessed OTS's actions based on its internal guidance and the requirements of the Federal Deposit Insurance Act, at 12 U.S.C. §1811 et seq.

We conducted our fieldwork from October 2008 through February 2009. 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.

Ameribank History

Corporate Structure and Other Background Information

Ameribank was a stock-form, federally chartered savings association, the deposits of which were insured by the Federal Deposit Insurance Corporation (FDIC). Ameribank was a wholly owned subsidiary of American Bankshares, Inc. (ABI), which is a wholly-owned subsidiary of OAX Partners, LLLP (OAX). Both ABI and OAX are registered savings and loan holding companies with no material businesses or activities other than holding stock. The chairman of OAX, his family, and related entities own 100 percent of the equity interests, which are not publicly traded.[11]

Ameribank opened for business in West Virginia and became subject to Office of Thrift Supervision (OTS) regulation on May 2, 1997. Its predecessor had incorporated in 1906 as a state-chartered commercial bank. Ameribank had its main office in Northfork, West Virginia, and seven branch offices located in West Virginia and Ohio. In addition, Ameribank owned an 80 percent interest in Ameribank Mortgage Company, LLC, an operating subsidiary headquartered in Williston, Vermont.

Until 2003, growth had been limited to and by the West Virginia market. In August 2003, Ameribank engaged a new Florida-based management team and entered the Florida market. Ameribank entered into a loan sales and servicing agreement in May 2004 with Bristol Home Mortgage Lending, LLC d/b/a LendingOne. LendingOne was a Florida-based third-party originator for the financing of highly speculative construction rehabilitation of real property, secured by mortgages on those properties, located throughout an 11-state territory. These loans were known as construction rehabilitation account (CRH) loans.

Initially, Ameribank was only a minor pool investor in the CRH loans from LendingOne. In 2004, the thrift greatly expanded the relationship to include a $1 million line of credit, a formal commitment to purchase monthly CRH loan production, and the

[11] Approximately 45 minority shareholders, who in aggregate held less than 15 percent of the outstanding shares of common stock, were cashed out by means of a reverse stock split in 2006.

development of a program to originate permanent long-term mortgages to end purchasers (also known as end loans) of the renovated properties. In January 2005, Ameribank entered the Ohio market through its acquisition of Steel Valley Bank. By June 30, 2005, Ameribank's assets based in West Virginia ($36.5 million) were less than its assets based in Florida ($52.3 million) or Ohio ($46.9 million).

At the end of 2006 and beginning of 2007, the Florida-based management team, which had been primarily responsible for overseeing the LendingOne relationship, left Ameribank.

Appendix 4 contains a chronology of significant events regarding Ameribank.

Types of Examinations Conducted by OTS

OTS conducts various types of examinations including safety and soundness, compliance, and information technology.

OTS must schedule full-scope, onsite examinations of insured thrifts once during either a 12-month cycle or an 18-month cycle. All *de novo* thrifts are subject to the 12-month examination cycle. The 12-month cycle should continue until the thrift's management has demonstrated its ability to operate the institution in a safe and sound manner and satisfied all conditions imposed at the time of approval.

An 18-month examination interval applies to insured thrifts with total assets of $250 million or less that:

- for the most recent examination received a composite CAMELS rating of 1 or 2 and a Compliance rating of 1 or 2;
- for the most recent examination received a Management component rating of 1 or 2;
- is well capitalized;
- is not currently subject to a formal enforcement proceeding or order by the OTS or the FDIC; and
- has not undergone a change in control during the 12-month period since completion of the last full-scope, onsite examination.

During a full-scope examination, examiners conduct an onsite examination and rate all CAMELS components. The six components are **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to Market Risk (CAMELS). OTS then assigns each thrift a composite rating based on its assessment of the overall condition and level of supervisory concern. The rating scale ranges from 1 to 5, with a rating of 1 indicating the strongest performance and risk management practices relative to the thrift's size, complexity, and risk profile; and the level of least supervisory concern. A 5 rating indicates the most critically deficient level of performance; inadequate risk management practices relative to the thrift's size, complexity, and risk profile; and the greatest supervisory concern. Generally, component ratings reflect examination findings and an examiner's assessment of thrift's performance in the six key performance groups that are common to all thrifts.

Enforcement Actions Available to OTS

OTS performs various examinations of thrifts resulting in the issuance of reports of examinations (ROE) identifying areas of concern. OTS uses informal and formal enforcement actions to address violations of laws and regulations and to address unsafe and unsound practices.

<u>Informal Enforcement Actions</u>

When a thrift's overall condition is sound, but it is necessary to obtain written commitments from a thrift's board of directors or management to ensure that it will correct the identified problems and weaknesses, OTS may use informal enforcement actions. OTS commonly uses informal actions for problems in

- well- or adequately-capitalized thrifts and
- thrifts with a composite rating of 1, 2, or 3.

Informal actions notify the board and management that OTS has identified problems that warrant attention. A record of informal action is beneficial in case formal action is necessary later.

If a thrift violates or refuses to comply with an informal action, OTS cannot enforce compliance in federal court or assess civil money penalties for noncompliance. However, OTS may initiate more severe enforcement action against a noncompliant thrift. The effectiveness of informal action depends in part on the willingness and ability of a thrift to correct deficiencies that OTS notes.

Informal enforcement actions include supervisory directives, memoranda of understanding, and board resolutions.

Formal Enforcement Actions

If informal tools do not resolve the problem, OTS is to use formal enforcement tools.

Formal enforcement actions are enforceable under the Federal Deposit Insurance Act. They are appropriate when a thrift has significant problems, especially when there is a threat of harm to the thrift, depositors, or the public. OTS is to use formal enforcement actions when informal actions are considered inadequate, ineffective, or otherwise unlikely to secure correction of safety and soundness or compliance problems.

Because formal actions are enforceable, OTS can assess civil money penalties against thrifts and individuals for noncompliance with a formal agreement or final orders. OTS can also request a federal court to require the thrift to comply with an order. Unlike informal actions, formal enforcement actions are public.

Formal enforcement actions include cease and desist orders, civil money penalties, and Prompt Corrective Action directives.

OTS Enforcement Guidelines

Considerations for determining whether to use informal action or formal action include the following:

- the extent of actual or potential damage, harm, or loss to the thrift because of the action or inaction;

- whether the thrift has repeated the illegal action or unsafe or unsound practice;
- the likelihood the conduct may occur again;
- the thrift's record for taking corrective action in the past;
- the capability, cooperation, integrity, and commitment of the thrift's management, board of directors, and ownership to correct identified problems;
- the extent to which the identified problems were preventable and not solely the result of external factors;
- the effect of the illegal, unsafe, or unsound conduct on other financial institutions, depositors, or the public;
- the examination rating of the thrift;
- whether the thrift's condition is improving or deteriorating; and
- the presence of unique circumstances.

Allowance for loan and lease losses (ALLL)	A valuation reserve established and maintained by charges against the financial institution's operating income. As a valuation reserve, it is an estimate of uncollectible amounts that is used to reduce the book value of loans and leases to the amount that is expected to be collected. These valuation allowances are established to absorb unidentified losses inherent in the institution's overall loan and lease portfolio.
Board Resolution	A document designed to address one or more specific concerns identified by the Office of Thrift Supervision (OTS) and adopted by a thrift's board of directors.
Broker price opinion	An estimate of probable selling price of a residential property based on selling prices of comparable properties in the area or a drive-by inspection, often used by a mortgage servicer as an alternative to a full property appraisal when a loan is placed in default or loan terms are modified. A broker price opinion may also be called a comparative market analysis.
CAMELS	An acronym for performance rating components for financial institutions: Capital adequacy, Asset quality, Management administration, Earnings, Liquidity, and Sensitivity to market risk. Numerical values range from 1 to 5, with 1 being the best rating and 5 being the worst. OTS uses the CAMELS rating system to evaluate a thrift's overall condition and performance by assessing each of the six rating components and assigning numerical values. OTS then assigns each thrift a composite rating based on its assessment of the overall condition and level of supervisory concern.
Capital restoration plan	A plan submitted to the appropriate federal banking agency by any undercapitalized insured depository institution. A capital restoration plan specifies the steps the insured depository institution is to take to become adequately capitalized, the levels of capital to be attained during each year in which the plan is in effect, how the institution is to comply with the

	restrictions or requirements then in effect, the types and levels of activities in which the institution is to engage, and any other information that the federal banking agency may require.
Cease and desist (C&D) order	A type of OTS formal enforcement action. A C&D order normally requires the thrift to correct a violation of law or regulation, or an unsafe or unsound practice. OTS may issue a C&D order in response to violations of federal banking, securities, or other laws by thrifts or individuals, or if it believes that an unsafe and unsound practice or violation is about to occur.
Classified asset	A loan or other asset that in the opinion of examiners is at risk to some degree. Such assets fail to meet acceptable credit standards. The totals for classified loans are reported separately in the thrift financial report. Examiners have adopted uniform guidelines listing poorly performing loans as follows: (1) loss, or complete write-off; (2) doubtful, where repayment in full is questionable; (3) substandard, where some loss is probable unless corrective actions are taken; and (4) special mention, indicating potential problems such as missing documentation or insufficient collateral. Supervisory agencies require that lenders write down loans classified as doubtful to 50 percent of the original book value and loans classified as loss by 100 percent in calculating the net capital available for making new loans.
Compliance	The portion of a financial institution examination that includes an assessment of how well the institution manages compliance with consumer protection and public interest laws and regulations.
Concentration	As defined by OTS, a group of similar types of assets or liabilities that, when aggregated, exceed 25 percent of a thrift's core capital plus ALLL. Concentrations may include direct, indirect, and contingent obligations or large purchases of loans from a single counterparty. Some higher-risk asset or liability types (e.g., residual

	assets) may warrant monitoring as concentrations even if they do not exceed 25 percent of core capital plus ALLL.
Concentration risk	Risk in a loan portfolio that arises when a disproportionate number of an institution's loans are concentrated in one or a small number of financial sectors, geographical areas, or borrowers. If loans are more broadly distributed, weaknesses confined to one or a small number of sectors, areas, or borrowers would pose a smaller risk to the institution's financial health.
Comprehensive examination	A combined examination of an institution's safety and soundness and its compliance with applicable rules and regulations.
Equity capital	Invested money that, in contrast to debt capital, is not repaid to the investors in the normal course of business. It represents the risk capital staked by the owners through purchase of a thrift's common stock (ordinary shares). Its value is computed by estimating the current market value of everything owned by a thrift, from which the total liabilities are subtracted. On the balance sheet of a thrift, equity capital is listed as stockholders' equity or owners' equity. It is also called equity financing or share capital. Equity capital is the initial funding (called contributed capital or paid-in capital) needed to charter a thrift; a cushion against operating losses, such as bad debt; and a source of protection for depositors' money.
FICO score	A credit score provided to lenders by a credit reporting bureau to reflect information that the bureau keeps on file about the borrower. A score is produced using software developed by the Fair Isaac Corporation (FICO). The software takes into consideration borrower information such as (1) timeliness of payments; (2) the length of time credit has been established; (3) the amount of credit used versus the amount of credit available; (4) the length of time at

	present residence; and (5) negative credit information such as bankruptcies, charge-offs, and collections. The higher the credit score is, the lower the risk to the lender.
Field visit	A visit conducted to review specific areas of concern that OTS has about an institution.
Incentive reserve	A sum equal to 1.00 percent (on 9/1/05 changed to 0.75 percent) of the loans included in each group sold to Ameribank by LendingOne as an incentive for LendingOne's diligent servicing of the loans. For example, if LendingOne sold Ameribank $1,000,000 of loans in May 2004, the incentive reserve for that month's group of loans would be $10,000.
Information technology (IT) examination	An examination that includes review and evaluation of the overall management of information systems used by a thrift, as well as the effectiveness of the internal audit and security functions for those systems.
Loan-to-value ratio	A ratio for a single loan and property calculated by dividing the total loan amount at origination by the market value of the property securing the credit plus any readily marketable collateral or other acceptable collateral. In accordance with Interagency Guidelines for Real Estate Lending Policies (app. to 12 C.F.R. 560.101), institutions' internal loan-to-value limits should not exceed (1) 65 percent for raw land; (2) 75 percent for land development; and (3) 80 percent for commercial, multifamily, and other nonresidential loans. The guidelines do not specify a limit for owner-occupied one- to four-family properties and home equity loans. However, when the loan-to-value ratio on such a loan equals or exceeds 90 percent at the time of origination, the guidelines state that the thrift should require mortgage insurance or readily marketable collateral.

Loans to one borrower regulation	A regulation that imposes lending limitations on thrifts to avoid the risk of concentrating too great a portion of their assets in any single borrower or in borrowers related in a common enterprise (12 C.F.R. 560.93). It limits the aggregate dollar amount of a thrift's loans to each borrower but does not limit the number of loans within that aggregate dollar amount.
Matter requiring board attention	A practice noted during an OTS examination of a thrift that deviates from sound governance, internal control, and risk management principles. The matter, if not addressed, may adversely affect the thrift's earnings or capital, risk profile, or reputation or may result in substantive noncompliance with laws and regulations, internal policies or processes, OTS supervisory guidance, or conditions imposed in writing in connection with the approval of any application or other request by the institution. Although matters requiring board attention are not formal enforcement actions, OTS requires that thrifts address them. A thrift's failure to do so may result in a formal enforcement action.
Mortgage broker	An intermediary that brings mortgage borrowers and mortgage lenders together but does not use its own funds to originate mortgages. A mortgage broker gathers paperwork from a borrower and passes it along to a mortgage lender for underwriting and approval. The mortgage funds are then lent in the name of the mortgage lender. A mortgage broker collects an origination fee and/or a yield spread premium from the lender as compensation for its services. A mortgage broker differs from a mortgage banker, which closes and funds a mortgage with its own funds. Mortgage brokers frequently facilitate transactions for mortgage bankers.
Net debit cap	The maximum dollar amount of uncollateralized daylight overdrafts that an institution may incur in its Federal Reserve account. A daylight overdraft results when an institution has insufficient funds in its Federal

Reserve account to cover its settlement obligations. An institution with a net debit cap of zero may not incur daylight overdrafts.

Prompt Corrective Action

A framework of supervisory actions, set forth in 12 U.S.C. §1831o, for insured depository institutions that are not adequately capitalized. It was intended to ensure that action is taken when an institution becomes financially troubled in order to prevent a failure or minimize resulting losses. These actions become increasingly severe as a thrift falls into lower capital categories. The capital categories are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The Prompt Corrective Action minimum requirements are as follows:

	Total Risk-Based		Tier 1/ Risk-Based		Tier 1/ Leverage
Well capitalized[a]	10% or greater	and	6% or greater	and	5% or greater
Adequately Capitalized	8% or greater	and	4% or greater	and	4% or greater (3% for 1-rated)
Undercapitalized	Less than 8%	or	Less than 4%	or	Less than 4% (except for 1-rated)
Significantly Undercapitalized	Less than 6%	or	Less than 3%	or	Less than 3%
Critically Undercapitalized	Has a ratio of tangible equity to total assets that is equal to or less than 2 percent. Tangible equity is defined in 12 C.F.R. § 565.2(f).				

[a] To be well capitalized, a thrift also cannot be subject to a higher capital requirement imposed by OTS.

Real estate owned

Real property that a thrift holds as a consequence of defaults on loans. It is typically a poor or non-earning asset and a thrift's acquisition of a limited amount is an unavoidable result of normal business operations.

Risk-weighted asset	An asset rated by risk to establish the minimum amount of capital that is required within institutions. To weight assets by risk, an institution must assess the risk associated with the loans in its portfolio; institutions whose portfolios hold more risk require more capital.
Safety and soundness	The part of an examination that includes a review and evaluation of each of the component CAMELS ratings (see explanation of CAMELS, above).
Supervisory Directive	A directive to a thrift to cease an activity or take an affirmative action to remedy or prevent an unsafe or unsound practice.
Third party	Any entity that has entered into a business relationship with an insured depository institution. A third party may be a bank or a nonbank entity, affiliated or not affiliated, regulated or nonregulated, domestic or foreign.
Thrift financial report	A financial report that thrifts are required to file quarterly with the OTS. The report includes detailed information about the institution's operations and financial condition and must be prepared in accordance with generally accepted accounting principles. The thrift financial report is similar to the call report required of commercial banks.
Tier 1 (core) capital	Represents common shareholder's equity (common stock, surplus, and retained earnings), noncumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries. In accordance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, OTS requires that Tier 1 capital represent 4 percent of total assets, or 3 percent for thrifts with a CAMELS composite rating of 1, adjusted for investment in subsidiaries, gains and losses on available-for-sale securities, and certain hedges.

Troubled

A condition in which a thrift meets any of the criteria below:

- OTS notifies it in writing that it has been assigned a composite CAMELS rating of 4 or 5.
- It is subject to a capital directive, a C&D order, a consent order, a formal written agreement, or a prompt corrective action directive relating to its safety and soundness or financial viability.
- OTS informs it, in writing, of its troubled condition based on information available to OTS. Such information may include current financial statements and reports of examination.

The following chronology describes significant events in the history of Ameribank, including examinations conducted and enforcement actions taken by the Office of Thrift Supervision (OTS). For additional information on the results of examinations, including any significant safety and soundness matters requiring board attention and recommended actions, see appendix 5, which also states the purpose for each field visit.

4/30/1997	OTS approves Ameribank’s conversion to a federally chartered savings bank from a state-chartered commercial bank. Ameribank opens for business in Northfork, WV, 2 days later.
8/30/1999	OTS begins an examination that is completed on 10/8/1999 with ratings of 2/222111.
9/9/1999	Ameribank executes an agreement with the Federal Deposit Insurance Corporation (FDIC) to acquire local deposits from failed First National Bank of Keystone, WV, assuming $135 million in local deposits.
4/18/2001	OTS begins an examination that is completed on 6/22/2001 with ratings of 2/223212.
6/1/2001	Ameribank discontinues its Charlotte, NC, loan operation.
7/22/2002	OTS begins an examination that is completed on 9/18/2002 with ratings of 2/222211.
8/1/2002	Ameribank discontinues its Winston-Salem, NC, loan operation.
6/1/2003	Ameribank elects the President of the FL branch (Ameribank-FL) to Ameribank's board of directors.
8/4/2003	Ameribank opens a Palm Beach Gardens, FL, branch following OTS's 6/16/2003 approval of its application for this purpose.
11/12/2003	OTS begins a field visit to analyze the FL branch.

4/12/2004	OTS begins an examination that is completed on 7/11/2004 with ratings of 2/222311.
4/23/2004	Ameribank's Vice Chairman approves a loan proposal for $1 million line of credit with LendingOne, a Florida State licensed mortgage lender originating loans throughout the state. A promissory note is signed 6 days later for that amount.
5/19/2004	Ameribank's mortgage loan sale and servicing agreement with LendingOne becomes contractually effective. Ameribank commits to purchase between $750,000 and $2 million of construction rehabilitation account (CRH) loans per month, with a reserve of 1.00 percent and a yield to Ameribank of prime (P) + 2.50 percent.
6/30/2004	Ameribank approves LendingOne CRH loans through a mortgage lender. The maximum loan-to-value is 80 percent, with a competitive adjustable interest rate, for one- to four-family homes fully leased at the time the loan is guaranteed.
7/30/2004	Ameribank's board asks the President of Ameribank-FL how easily the thrift could manage new business with LendingOne and requests a liquidity-needs schedule.
9/30/2004	Ameribank focuses on developing new business opportunities, including its program with LendingOne. Ameribank's management states that it believes the growth in the mortgage portfolio allows Ameribank to put safe and sound loans on the books at an attractive rate.
10/25/2004	OTS begins a field visit to analyze the FL branch.
11/30/2004	Ameribank's FL branch is 14 months ahead of schedule in reaching profitability. The loan portfolio outstanding is $3 million ahead of regulator projections without an additional office or two additional loan officers as originally projected.

1/7/2005	Ameribank enters the Ohio market by acquiring Steel Valley Bank of Dillonvale.
1/27/2005	Ameribank appoints the President of the FL branch to the position of President/Chief Executive Officer (CEO).
2/11/2005	Ameribank increases the LendingOne line of credit to $1.95 million.
3/1/2005	The first amendment to Ameribank's loan agreement with LendingOne becomes effective. Ameribank's yield decreases to P+1.50 percent.
3/7/2005	OTS begins a field visit.
3/17/2005	During a board meeting, Ameribank's CEO and the Executive Vice President (EVP)/Senior Risk Officer (SRO) discuss the LendingOne concentrations. The board is informed of LendingOne balances outstanding, performance, and underwriting standards in accordance with approved loan policy. The CEO states that OTS wants the board to discuss possibly limiting growth in the LendingOne portfolio and, if a decision is made not to limit the growth, to state in the minutes that a decision was made to continue the growth. After discussion, the board decides not to set limitations on the LendingOne portfolio. The board requests that management prepare a quarterly analysis of the LendingOne portfolio performance and growth. The results of the analysis are to be presented in the allowance for loan and lease losses (ALLL) narrative that the EVP/SRO prepares and is to be discussed in detail at board meetings.
4/21/2005	During a board meeting, Ameribank's CEO discusses an OTS request that the board set concentration limits on the LendingOne portfolio based on a percentage of assets or capital. The board will continue to evaluate the necessity of setting a percentage of assets limitation on a quarterly basis or earlier if needed.

5/2/2005	OTS approves Ameribank Mortgage Company, LLC (AMC), as a new operating subsidiary. AMC has as its primary objective the establishment of loan production offices to originate and sell residential mortgage loans, as a new operating subsidiary.
5/24/2005	During a board meeting, Ameribank's CEO states that he and the EVP/SRO visited OTS on 5/16/05 and lets the board know that management has decided to set limitations on LendingOne loans at 30 percent of assets for CRH loans and 10 percent of assets for end loans and that OTS is satisfied with this.
7/5/2005	OTS begins an examination that is completed on 8/24/2005 with ratings of 2/221211.
9/1/2005	The second amendment to Ameribank's loan agreement with LendingOne becomes effective. It adjusts Ameribank's yield to P+1.50 percent when a borrower's FICO score is below 700 and to P+1.25 percent when a borrower's FICO score is above 700. The incentive reserve is reduced to 0.75 percent from 1.00 percent of monthly loans closed.
11/14/2005	OTS begins a field visit for the FL and OH branches.
11/15/2005	OTS begins a field visit for AMC.
1/19/2006	During a board meeting, the EVP/SRO discusses the quarterly ALLL analysis and narrative, including LendingOne concentrations.
2/1/2006	Ameribank's external auditor issues consolidated financial statements as of 12/31/2005. The opinion is unqualified.
2/16/2006	During a board meeting, Ameribank's CEO talks about the third amendment to Ameribank's loan agreement with LendingOne. The CEO will be countering with a higher rate and contingencies concerning volume.

3/1/2006	The third amendment to Ameribank's loan agreement with LendingOne becomes effective. It adds a new construction program, reduces Ameribank's yield to P+0.25 percent, and requires LendingOne to maintain at least $3 million in escrow deposits at Ameribank.
3/16/2006	During a board meeting, Ameribank's CEO discusses in detail the third amendment to Ameribank's loan agreement with LendingOne. LendingOne is to provide Ameribank with $4.5 million in CRH loans per month. If this volume is not met, LendingOne is to pay a penalty fee equal to 0.25 percent of the amount by which the volume is short of $4.5 million.
4/20/2006	During a board meeting, Ameribank's CEO states that he is having a business valuation done on LendingOne in contemplation of the Ameribank holding company making a 10 percent investment in LendingOne.
5/18/2006	During a board meeting, Ameribank's Senior Vice President/ Workout and Collections Officer (SVP/WCO) discusses LendingOne's performance and the end loan product. The board concurs in management's decision to eliminate the end loan product because it is not performing as envisioned. At the end of the quarter, this portfolio totaled $5.3 million with 70 loans. Also, the CEO and the Vice Chairman discuss a meeting they had with LendingOne management regarding the future. All parties are happy with the relationship.
6/26/2006	OTS begins a field visit.
7/20/2006	During a board meeting, Ameribank's CEO requests modification of LendingOne concentration limits, to decrease end loans to 5 percent of assets (from 10 percent) and increase CRH loans to 35 percent of assets (from 30 percent). The motion passes unanimously.

9/22/2006	During a board meeting, an Ameribank director asks about the impact of the LendingOne relationship on financial performance and expresses concern over the lack of production in other areas of the thrift. The CEO responds that management has the same concerns and is actively seeking other niche lending areas. The EVP/Marketing informs the board that LendingOne has signed the systems servicing agreement and that conversion of the LendingOne loan portfolio to Ameribank's core system will occur in April 2007.
11/1/2006	During a board meeting, an Ameribank director questions the LendingOne concentration levels. The EVP/SRO recommends that the overall level of LendingOne loans remain at 40 percent with a revised split between CRH loans and end loans. The board approves modification of the limits to 38 percent of assets for CRH loans and 2 percent of assets for end loans.
12/1/2006	Ameribank's CEO resigns.
12/21/2006	During a board executive committee meeting, Ameribank's Chairman discusses the results of a meeting with LendingOne representatives. Business risk due to concentrations of credit is then discussed. The Chairman states that there are several ways of diversifying risk. One would be sale of some loans and another would be acquisitions. Up to this point, LendingOne has been taking all the losses, but Ameribank will begin to share in the losses on a pro-rata basis. LendingOne wants to raise a substantial sum of money and is prepared to release a memo of offering. LendingOne is prepared to sell up to half of the company. The Chairman informs the executive committee that an Ameribank director is considering buying LendingOne.
1/17/2007	Ameribank's EVP/SRO and SVP/WCO resign.
1/18/2007	Chairman takes direct management control of Ameribank due to the departure of the CEO.

4/16/2007	OTS begins an examination. In a report dated 5/25/2007, OTS downgrades Ameribank's ratings to 4/344-2-.[12] Upon completion of the examination on 8/10/2007 the ratings are 4/344322.
5/1/2007	Ameribank directors meet with OTS officials to discuss examination findings. Ameribank reaches an operating parameters agreement that incorporates many of the items that will be included in the Supervisory Directive.
6/2007 and 7/2007	Ameribank receives capital infusions totaling $4 million in response to the Supervisory Directive.
8/31/2007	Ameribank stops accepting new loans under the LendingOne agreement.
9/15/2007	OTS authorizes an inquiry into Ameribank's relationship with LendingOne.
10/1/2007	OTS begins an examination. In a report dated 1/7/2008, OTS downgrades Ameribank's ratings to 4/454432. Upon completion of the examination on 5/7/2008 the ratings are 5/554543. OTS begins a continuing onsite presence.
10/1/2007	Ameribank appoints a new CEO and Chairman of the Board.
10/19/2007	OTS restricts Ameribank's operations and prohibits further increases in LendingOne assets in a cease and desist (C&D) order.
10/22/2007	FDIC joins OTS in the examination that began on 10/1/2007 and remains onsite until the thrift is placed into receivership.

[12] The report does not reflect revised ratings for two elements. Inserting the ratings from the prior examination for these elements results in a rating of 4/344221.

10/26/2007	The Federal Reserve Bank-Richmond issues a letter placing Ameribank's Federal Reserve account on real-time monitoring. The net debit cap is reduced to a zero cap.
11/1/2007	Ameribank assumes complete control over loan servicing for all of its LendingOne loans and orders broker price opinions for every loan affiliated with LendingOne.
1/7/2008	OTS begins an examination in advance of an FDIC insurance premium assessment. Ratings of 4/454432 are assigned.
5/7/2008	Financial statements for 2006 and 2007 are unaudited as of the end of the OTS examination.
5/13/2008	OTS begins pursuit of civil money penalties based on the thrift's failure to comply with the C&D order capital requirements.
5/22/2008	In a Supervisory Directive, OTS deems Ameribank's holding companies to be in Troubled condition.
5/27/2008	OTS begins a field visit.
6/10/2008	Ameribank submits to OTS and FDIC an action plan designed to protect the insurance fund and preserve the thrift.
6/30/2008	Ameribank submits a capital plan centered on provision of an additional $4 million from its holding company Chairman.
3rd Qtr 2008	After a second round of CRH broker price opinion valuations, the Ameribank CEO advises OTS that it expects $1 million in loan losses through 6/30/2008 and that additional portfolio and real estate owned losses and operating losses through year-end will likely again result in a lack of C&D order capital compliance.
7/16/2008	OTS deems Ameribank significantly undercapitalized. OTS requires the filing of a capital restoration plan no later than 7/31/2008 and places a Prompt Corrective Action (PCA) directive and other restrictions on Ameribank.

7/31/2008	Ameribank is unable to come up with a capital restoration plan suitable to raise capital levels to Adequately Capitalized.
8/8/2008	Ameribank advises OTS that it is at the Critically Undercapitalized level.
8/11/2008	OTS deems Ameribank Critically Undercapitalized. OTS sends a Notice of Intent To Issue a PCA Directive and Consent for Appointment of a Receiver.
8/18/2008	Ameribank consents to the PCA Directive.
8/25/2008	The PCA Directive becomes effective, requiring restoration of capital to Adequately Capitalized by 9/8/2008.
8/25/2008	Ameribank closes its FL branch.
9/10/2008	Ameribank informs OTS that, as of 8/31/2008, it was unsuccessful in attempts to raise capital and is not expecting to raise additional capital from the holding company owner. Ameribank also advises OTS that it did not comply with the PCA requirement to raise capital levels to Adequately Capitalized by 9/8/2008.
9/11/2008	In a Supervisory Memorandum, the OTS Northeast Regional Director recommends to Senior Deputy Director and Chief Operating Officer the appointment of FDIC as receiver.
9/12/2008	OTS receives notification that Standart Capital S.A., Inc., would place $17 million into escrow no later than 9/16/2008 as part of its plan to purchase Ameribank.
9/15/2008	OTS requests by 9/17/2008 specific details about Ameribank's position that certain of its assets were not accounted for according to generally accepted accounting practices.
9/15/2008	OTS receives notification that Standart Capital will use Lion Capital Holdings, Inc., as the buyer.

9/16/2008	OTS receives additional information from Standart Capital and Lion Capital Holdings and copies of the sale and purchase agreements that were drafted by Ameribank.
9/17/2008	Ameribank gives OTS a purchase and sale agreement executed by Lion Capital Holdings providing for purchase of the common stock of Ameribank's holding company for $1 million and the investment of an additional $15 million into Ameribank.
9/18/2008	OTS advises Ameribank that it needs to receive $3 million of additional capital and that the existence of the signed purchase and sale agreement would not affect the short-term outcome. Later, Ameribank's owner informs OTS that no additional capital was received or available.
9/19/2008	OTS places Ameribank into receivership with FDIC. Two acquiring banks take over deposits, one in OH and the other in WV.

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits[13]	Formal enforcement action
7/22/2002	2/222211	$84	**Matters requiring board attention** • None identified. **Corrective action** • Update the Bank Secrecy Act policy to address anti-money-laundering activities and current procedures for exempting customers from filing Currency Transaction Reports.	None
11/12/2003	Field visit[14]		**Purpose** To analyze the operations of the Ameribank-Florida branch under the revised business plan projections and to review the commercial lending activities. No recommendations were directed to Ameribank. The examiners identified the following matters to be further analyzed and developed during the 2004 full-scope examination: • Reporting on loans to one borrower regulation on a thriftwide system • Internal asset review process, for which no decision had yet been made as to whether to handle this responsibility in-house or through outsourcing • Allowance for loan and lease losses (ALLL) methodology, supporting analysis, appropriate segmentation, and the overall ALLL level given the planned increase in commercial product	None

[13] This table includes all OTS safety and soundness examinations that began during or after July 2002 and selected field visits. For examinations, we list the following items contained in the report: matters requiring board attention, corrective actions, and other matters. These three items are shown in decreasing order of significance, with matters requiring board attention being the most serious.

[14] Field visits do not result in the assignment of CAMELS ratings.

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
4/12/2004	2/222311	$97	**Matters requiring board attention** • None identified. **Corrective actions** • Revise the methodology for the calculation of ALLL. • Address proper designation of loans to limited liability companies and/or single asset companies, which were being (incorrectly) categorized as consumer credits on the thrift's financial reports. • Continue efforts to improve earnings and reduce problem assets. • Improve earnings performance. • Develop a revised budget and corresponding business plan. • Ensure that reporting of the Consolidated Maturity Rate Schedule is accurate. **Other matters** • Regarding the specialty underwriting aspect associated with new and used recreational vehicle lending,[15] and in light of the high committed amount as a percentage of capital, continue close monitoring of these newly booked assets and, going forward, apprise the board of the extent of concentration in this lending on at least a quarterly basis.	None

[15] Ameribank's specialty lending also included yachts and luxury tour buses.

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
10/25/2004	Field visit	$86	**Purpose** To analyze the operations of the Ameribank-Florida branch under the revised business plan projections, which allowed for asset growth from $80.3 million in January 2003 to $146.5 million by December 2005; to review thrift asset quality and the loan quality of Ameribank-Florida's higher-risk lending activity; and to review the proposed acquisition of Steel Valley Bank. **Recommendations** • (directed to the board) Regularly review goals and strategies relating to the profitability and size of the specialty-lending portfolio as contained in Ameribank's business plan. • (directed to the board) Consider establishing an internal limit for recreational vehicle lending commensurate with the thrift's capital level and/or asset size. • (directed to management and the board) Stay on target with the strategies and projections outlined in the acquisition business plan. Discuss with the Office of Thrift Supervision (OTS) any significant adjustments or changes prior to implementation of the plan.	None
3/7/2005	Field visit	$91	**Purpose** To assess the credit quality and growth of the Ameribank-Florida branch, analyze the operations of the thrift under the revised business plan projections, and review the thrift's concentration in recreational vehicle lending. **Note:** The field visit identified an additional concentration in investor properties associated with LendingOne, which included a commercial line secured by investor property end loans, construction/rehabilitation of investor properties, and permanent mortgages on end loans. **Recommendations** • (directed to the board) Discuss the overall tolerance for the inherent risks associated with the LendingOne program and consider in-house limitations (as a percentage of capital or assets) on the assets invested.	None

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
3/7/2005 (continued)			• Provide OTS with the limits chosen for the specialty lending portfolio and the LendingOne concentration. The limits should be tied to either the asset base or capital.	
7/5/2005	2/221211	$136	**Matters requiring board attention** • None identified. **Corrective actions** • Use the newly hired administrative employee to support and monitor the loan portfolio so that quality is maintained. **Other matters** • The review of the various loan types revealed weaknesses and deficiencies in loan administration practices that would be rectified by the additional staffing that OTS had suggested in its prior two field visits was needed to support and monitor the commercial loan portfolio. • Maintain a board-approved vessel appraiser list as part of the specialty lending policy.	None

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
11/14/2005	Field visit	$135	**Purpose** To follow up on the corrective actions identified by the 7/5/2005 examination and to analyze the thrift's earnings performance for its three operating divisions (West Virginia, Florida, and Ohio). OTS concluded that the thrift initiated timely and appropriate corrective actions, some of which were in process. • The thrift was developing relationship summary sheets for each commercial borrower with outstanding credits exceeding $100,000. • The thrift was updating its approved appraiser and engineer list.	None
11/15/2005	Field visit	$135	**Purpose** To review negative amortization loan products offered by Ameribank and its operating subsidiary, Ameribank Mortgage Company, LLC, and ensure that the thrift's risk management systems are in effect to deal with the potential added risks these loan products may contain. OTS requested that the thrift advise OTS if it plans to retain any of these loans.	None

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
6/26/2006	Field visit	$152	**Purpose** To review asset quality, given the significant and growing level of higher-risk loan portfolios, and to analyze earnings performance for core stabilization and adherence to approved business plan parameters, as well as the rationale for any major deviations or material changes from the plan. This field visit included all three Ameribank operating divisions and Ameribank Mortgage Company, Inc. **Recommendations** • Apprise OTS if any issues of concern develop (such as signs of possible deterioration) regarding the $10.9 million in construction rehabilitation account loans secured by properties located in Louisiana. • Ensure that third-party reviews are reported to the thrift's compliance officer and the audit committee.	None
4/16/2007	4/344322	$161	**Matters requiring board attention** • Ensure ongoing compliance with the Supervisory Directive dated 5/25/2007. • Ensure that the thrift is led by competent senior officers with sufficient staff. • Take any and all actions necessary to reduce the thrift's extreme concentration in assets related to LendingOne, which created an unsafe and unsound situation. • Recognize all asset classifications and special mention designations as determined by OTS and discussed at the lending meeting on 7/11/2007. • Supplement the ALLL by at least the identified shortfall of $2.6 million and monitor the level of reserve to ensure proper protection against the inordinate level of problem assets. • Address each of the corrective actions identified throughout the report of examination and as discussed at the examination exit meeting on 7/13/2007. • Direct counsel to review a loans-to-one-borrower violation to determine whether a Suspicious Activity Report should be filed pursuant to 12 C.F.R. 563.180(d).	Supervisory Directive 5/25/2007 Cease and Desist Order 10/19/2007

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
4/16/2007 (continued)			**Corrective actions** • Beginning 9/30/2007, reflect on the thrift financial report a risk weight of 100 percent for the construction rehabilitation account and West Virginia construction loan portfolios to calculate risk-based capital. • Immediately enhance the ALLL methodology as it pertains to the LendingOne relationship. • Ensure compliance with accounting, monitoring procedures, and internal controls as required by Troubled Debt Restructuring guidelines set forth in section 240 of the OTS Examination Handbook. • Restore earnings performance to levels necessary for capital accretion. • By 9/30/2007, ensure that mortgage loans (including LendingOne products) included in the calculation for the Quarterly Collateral Certification Forms filed with the Federal Home Loan Bank meet the required terms for inclusion. • Develop and manage an asset/liability and liquidity strategy conducive to the thrift's current situation and problems. By 9/30/2007, the board and management should determine and review the actual and possible ramifications that pending changes in Ameribank's relationship with LendingOne would have on liquidity planning and projections, inclusive of the Klear Title escrow deposits. • By 9/30/2007, develop and institute new procedures designed to ensure that the Consolidated Maturity Rate Schedule is filed within the required deadline (45 days after the quarter end). • By 9/30/2007, revise the current interest rate risk policy or incorporate additional guidance for it in the Funds Management Policy, adopting a single set of board-approved, prudent net portfolio value limits as required by Thrift Bulletin 13a.	

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
10/1/2007	5/554543	$115	**Matters requiring board attention** • Ensure that management complies with the 10/19/2007 cease and desist order. • Review all loans originated in the Florida market to ensure that the files are properly documented and risk-rated.* • Take any and all actions necessary to promptly reduce the thrift's concentration in assets related to the LendingOne relationship. • Keep OTS informed of the thrift's recapitalization efforts. • Maintain minimum Tier 1 and risk-based capital levels in compliance with section 10 of the cease and desist order, which set them at 8.5 percent and 11.5 percent, respectively. • Review the internal loan review process to improve early identification of loans that should be criticized. * • Strengthen internal controls for monitoring outstanding credit facilities. * • Revise the interest rate risk policy to include acceptable net portfolio value limits in each of the relevant interest rate scenarios.* • Provide monthly monitoring reports to the board documenting that deposit terms remain within the pricing limits. **Corrective actions** Note: Four matters requiring board attention, identified with an asterisk (*) above, were also listed as corrective actions under the component CAMELS sections of the report. We do not repeat them in this section. • (directed to both the board and management) Monitor the thrift's new policies, procedures, and practices to ensure that they have their desired effect.	Prompt Corrective Action Directive 8/25/2008

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
10/1/2007 (continued)			**Other matters** • Representatives from the Federal Deposit Insurance Fund (FDIC) joined OTS and participated in the reappraisal review process. • The 2006 and 2007 financial audits had not been completed. The thrift had not issued financial statements, in violation of OTS reporting requirements. • Management had completed the sale of loans totaling $7.3 million to Enterprise National Bank. An agreement to sell the Ameribank-Florida branch to that institution was pending with its regulatory authorities. • Ameribank demanded repayment of the $1.9 million LendingOne line of credit because it was classified doubtful. LendingOne indicated that it was in financial difficulty and might seek bankruptcy protection.	
1/7/2008	4/454432	$144	**Matters requiring board attention** • None identified. **Corrective actions** • None identified. **Other matters** • The lack of adequate controls and oversight over Ameribank's high-risk lending activities emanating from LendingOne culminated in a seriously distressed loan portfolio, warranting reappraisal of the value of more than 600 loans. • Charge-offs related to the LendingOne loans exceeded $6.4 million as of year-end 2007, with additions to the ALLL related to those loans of nearly $6.6 million. • The level of problem assets represented critically deficient asset quality, which presented an imminent threat to the institution's viability.	None

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring board attention, corrective actions, recommendations, and other issues cited in reports of examination and field visits	Formal enforcement action
5/27/2008	Field visit	$104	**Purpose** To review Ameribank's compliance with the asset concentration reduction plan and reductions in the level of nonperforming assets. **Other issues** • Asset write-downs/losses caused Ameribank to become a critically undercapitalized institution, requiring an immediate capital injection. • Thrift management could not raise sufficient capital to improve the thrift's "troubled" condition. • FDIC was appointed as receiver on 9/19/2008.	None

Source: OTS reports of examination and field visits of Ameribank. When not included in these reports, the amount in the assets column is as reported by Ameribank in the corresponding thrift financial report.

We have completed two mandated material loss reviews of failed thrifts since the current economic crisis began in 2007. This appendix provides our recommendations to the Office of Thrift Supervision (OTS) resulting from these reviews. OTS 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 OTS management and examiner attention.

Report Title	**Recommendations to OTS Director**
Safety and Soundness: Material Loss Review of NetBank, FSB, OIG-08-032 (Apr. 23, 2008) OTS closed NetBank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 28, 2007. At that time, FDIC estimated that NetBank's failure would cost the Deposit Insurance Fund $108 million.	Ensure that the recommendations/lessons learned from OTS's internal assessments of the NetBank failure, as described on pages 21 and 28 of that report, are implemented. Re-emphasize to examiners that for 3-rated thrifts, formal enforcement action is presumed warranted when certain circumstances identified in the OTS Examination Handbook are met. Examiners are also directed to document in the examination files the reason for not taking formal enforcement action in those circumstances. Establish in policy a process to assess the causes of thrift failures and the supervision exercised over the institution and to take appropriate action to address any significant supervisory weaknesses or concerns identified.
Safety and Soundness: Material Loss Review of IndyMac Bank, FSB, OIG-09-032 (Feb. 26, 2009) OTS closed IndyMac on July 11, 2008, and named FDIC as conservator. As of December 31, 2008, FDIC estimated that IndyMac's failure would cost the Deposit Insurance Fund $10.7 billion.	Ensure that action is taken on the lessons learned and recommendations from the OTS internal review of the IndyMac failure. Caution examiners that assigning composite CAMELS ratings of 1 or 2 to thrifts with high-risk, aggressive growth business strategies need to be supported with compelling, verified mitigating factors. Such mitigating factors should consider things such as the institution's corporate governance, risk management controls, allowance for loan and lease losses methodologies, concentration limits, funding sources, underwriting standards, and capital levels and whether the mitigating factors are likely to be sustainable in the long-term. Another important factor that should be considered is the extent the thrift offers nontraditional loan products (regardless of whether loans are sold or

	retained) that have not been stress tested in difficult financial environments, and whether the thrift can adequately manage the risks with such products. OTS should re-examine and refine as appropriate its guidance in this area.

Office of Thrift Supervision
Department of the Treasury

Timothy T. Ward
Deputy Director, Examinations, Supervision, and Consumer Protection

1700 G Street, N.W., Washington, DC 20552 • (202) 906-5666

April 3, 2009

MEMORANDUM FOR: Office of Inspector General
U.S. Department of the Treasury

FROM: Timothy T. Ward /s/
Deputy Director, Examinations, Supervision, and Consumer Protection

SUBJECT: Draft Audit Report on the Material Loss Review of Ameribank Inc.

Thank you for the opportunity to comment on your draft audit report entitled "Material Loss Review of Ameribank, Inc." The report focuses on causes of the failure of Ameribank Inc. (Ameribank) and oversight responsibility of the Office of Thrift Supervision (OTS) for Ameribank.

OTS is committed to strengthening its supervisory process and has been responsive to recommendations and lessons learned from prior internal failed bank reviews and Material Loss Reviews. The Inspector General report on Ameribank contains five recommended actions.

- Remind examiners to conduct more thorough loan sampling from the portfolio where a rapid increase in concentration is identified.
- Remind examiners of the risks associated with rapid growth in high-risk concentrations.
- Remind examiners of the examination guidance for thrift third party relationships, with particular attention given to the assessment of the risk the relationship may pose to the thrift's safety and soundness.
- Assess the need for guidance requiring risk assessment of construction rehabilitation loans as an integral part of assessing a thrift's overall risk.
- Ensure that the recommendations and the lessons learned from OTS's internal assessment of the Ameribank failure are implemented.

OTS concurs with the recommendations and will implement the OIG recommendations from this Material Loss Review by August 2009.

Thank you again for the opportunity to review and respond to your draft report. We appreciated the professionalism and courtesies provided by the staff of the Office of Inspector General.

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Department of the Treasury

Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Office of Thrift Supervision

Liaison Officer

Office of Management and Budget

OIG Budget Examiner

Federal Deposit Insurance Corporation

Chairman

United States Senate

Chairman and Ranking Member
Committee on Banking, Housing, and Urban Affairs

Chairman and Ranking Member
Committee on Finance

U.S. House of Representatives

Chairman and Ranking Member
Committee on Financial Services

U.S. Government Accountability Office

Acting Comptroller General of the United States