



Audit Report



OIG-12-007

SAFETY AND SOUNDNESS: Failed Bank Review of
BankMeridian, National Association

November 9, 2011

Office of
Inspector General

DEPARTMENT OF THE TREASURY



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR JOHN G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of BankMeridian, National Association,
Columbia, South Carolina

This memorandum presents the results of our review of the failure of BankMeridian, National Association (BankMeridian), located in Columbia, South Carolina. BankMeridian, a community bank, commenced operations in May 2006 and operated in three locations: a main branch in Columbia and two branches in Hilton Head and Spartanburg, South Carolina. The Office of the Comptroller of the Currency (OCC) closed BankMeridian and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 29, 2011. As of March 31, 2011, BankMeridian had approximately \$239.8 million in total assets. As of August 31, 2011, FDIC estimated that the loss to the Deposit Insurance Fund was \$65.4 million.

Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of BankMeridian that was limited to (1) ascertaining the grounds identified by OCC for appointing the FDIC as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing our review we (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OCC reports of examination for the 5 year period before the bank's failure, and (3) interviewed OCC personnel.

We conducted this performance audit during August and September 2011 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.

Causes of BankMeridian's Failure

OCC appointed FDIC as receiver based on grounds that included the following: (1) the bank had experienced a substantial depletion of assets or earnings due to unsafe or unsound practices, (2) the bank's losses depleted all or substantially all of its capital and there was no reasonable prospect for the bank to become adequately capitalized without federal assistance, and (3) the bank was critically undercapitalized.

The primary causes of BankMeridian's failure were excessive concentrations in commercial real estate loans; inadequate credit risk management practices; and an overly aggressive growth strategy funded principally by non-core funding sources, including uninsured time deposits, Federal Home Loan Bank advances, purchased federal funds, and brokered deposits. Since inception, the bank's board and management focused the bank's growth in construction and development loans and speculative land investments. However, the bank's board and management failed to ensure that the bank had prudent underwriting standards, effective concentration and credit risk management, appropriate board oversight, and reasonable liquidity and interest rate risk management. The bank's board and management took only minimal measures to correct the bank's deficient condition, resulting in poor asset quality, losses, and ultimately, BankMeridian's failure.

Conclusion

Based on our review of the causes of the BankMeridian's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC. Accordingly, we have determined that a more in-depth review of this bank's failure by our office is not warranted.

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

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-5776 or J. Mathai, Audit Manager, at (202) 927-0356.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan Barron, Director, Banking Audits

From: John Walsh, Acting Comptroller of the Currency /s/

Date: November 7, 2011

Subject: Response to Failed Bank Review of BankMeridian, National Association, Columbia, South Carolina

We have received and reviewed your draft report titled "Failed Bank Review of BankMeridian, National Association (BankMeridian), Columbia, South Carolina." Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of BankMeridian that was limited to: (1) ascertaining the grounds identified by the OCC for appointing the FDIC as receiver; and, (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver; (2) reviewed OCC reports of examination; and, (3) interviewed OCC personnel.

You conducted your audit during August and September 2011 in accordance with generally accepted government auditing standards. Those standards require that you plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for your findings and conclusions. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions.

You concluded that the primary causes of BankMeridian's failure were excessive concentrations in commercial real estate loans; inadequate credit risk management practices; and an overly aggressive growth strategy funded principally by non-core funding sources, including uninsured time deposits, Federal Home Loan Bank advances, purchased federal funds, and brokered deposits. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC. As a result, you determined that a more in-depth review of the bank's failure by the OIG is not warranted. We have no concerns with your determination.

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

Department of the Treasury

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

Office of the Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner