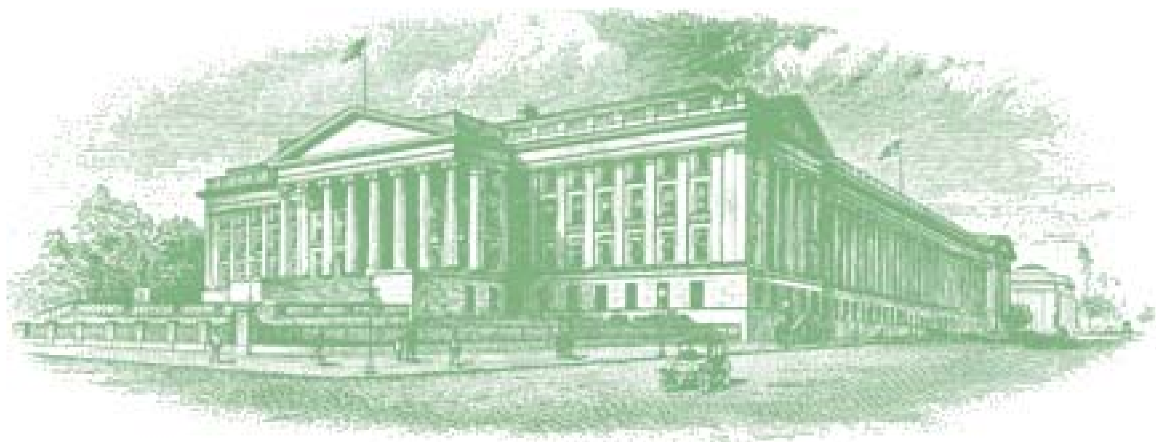
Audit Report



OIG-12-017

SAFETY AND SOUNDESS: Material Loss Review of Superior Bank

November 16, 2011

Office of Inspector General

DEPARTMENT OF THE TREASURY

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Abbreviations

ALLL	allowance for loan and lease losses
CRE	commercial real-estate
CRP	capital restoration plan
FDIC	Federal Deposit Insurance Corporation
MOU	memorandum of understanding
MRBA	matter requiring board attention
OCC	Office of the Comptroller of the Currency
OIG	Treasury Office of Inspector General
OTS	Office of Thrift Supervision
PCA	prompt corrective action
ROE	report of examination
TARP	Troubled Asset Relief Program
TFR	thrift financial report

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OIG

Audit Report

The Department of the Treasury
Office of Inspector General

November 16, 2011

John G. Walsh,
Acting Comptroller of the Currency

This report presents the results of our material loss review of the failure of Superior Bank (Superior) of Birmingham, Alabama, and of the former Office of Thrift Supervision's (OTS) supervision of the institution. We are providing the results of this review for your information since the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibilities for federal savings associations pursuant to P.L. 111-203. OTS closed Superior and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 15, 2011. This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of Superior's estimated loss to the Deposit Insurance Fund.[1, 2] As of September 30, 2011, FDIC estimated a loss of $290 million to the Deposit Insurance Fund and a loss of $40 million to the Debt Guarantee Program (DGP).[3]

Our objectives were to determine the causes of Superior's failure; assess OTS's supervision of Superior, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives, we reviewed the supervisory files and interviewed officials at OTS and FDIC. We conducted our fieldwork

[1] Section 38(k) defines a loss to the Deposit Insurance Fund as material if it exceeds $200 million for calendar years 2010 and 2011.
[2] Certain terms that are underlined when first used in this report, are defined in *Safety and Soundness: Material Loss Review Glossary*, OIG-11-065 (April 11, 2011). That document is available on the Treasury Office of Inspector General's (OIG) website at http://www.treasury.gov/about/organizational-structure/ig/Documents/oig11065%20(508).pdf
[3] A component of FDIC's Temporary Liquidity Guarantee Program, FDIC established DGP as a limited emergency guarantee facility. Under the program, FDIC, upon application by an entity and approval by FDIC, guaranteed newly issued senior unsecured debt of banks, thrifts, and certain holding companies. Entities that participated in DGP were required to notify FDIC of any guaranteed debt issuance(s) and to pay the associated assessment premiums. For most insured depository institutions and other entities participating in DGP, the program concluded on October 31, 2009, with the FDIC's guarantee expiring no later than December 31, 2012.

from May 2011 through June 2011. Appendix 1 contains a more detailed description of our review objectives, scope, and methodology. Appendix 2 contains background information on Superior's history and OTS's assessment fees and examination hours.

In brief, Superior failed because of its high-risk concentration in commercial real estate (CRE), construction, and land loans; ineffective credit-risk management; inadequate capital levels; and the untimely reclassification of deteriorating loans. In addition, the growth in the thrift's high-risk lending occurred in areas that suffered significant economic downturns, particularly the Florida market. With respect to supervision, OTS became the primary federal regulator of Superior in October 2005.[4] OTS did not take timely action to mitigate the risks associated with the thrift's higher-risk lending concentrations, which OTS first identified when conducting an eligibility examination of Superior for a thrift charter. After granting its charter, OTS was not timely in requiring Superior to establish concentration limits, and did not require the thrift to maintain higher levels of capital. However, as Superior's capital levels declined, OTS imposed PCA restrictions on the thrift and took enforcement action. In light of the transfer of OTS functions to other federal banking agencies on July 21, 2011, we are not making any recommendations as a result of our material loss review of Superior.

We referred certain matters involving Superior's financial reporting to the Treasury Inspector General's Office of Investigations. Although this report addresses the section 38(k)-mandated areas of review, we were unable to fully assess certain aspects of Superior's financial reporting. In this regard, we obtained the workpapers through the issuance of an Inspector General subpoena to Superior's independent auditor. Once we have reviewed those documents, we intend to issue a subsequent report should any significant matters arise from our review.

We provided OCC with a draft of this report for its review. In a written response, which is included as appendix 3, OCC did not provide specific comments on the report contents.

[4] The Board of Governors of the Federal Reserve System was the primary federal regulator of Superior before OTS.

Causes of Superior's Failure

High-Risk Concentration in CRE, Construction, and Land Loans

OTS defined a concentration as a group of similar types of assets or liabilities that, when aggregated, exceeded 25 percent of a thrift's risk-based capital (core capital plus allowance for loan and lease losses (ALLL).[5] Concentrations pose risk because negative events affecting overly concentrated groups of assets can have a highly detrimental impact on the institution.

Superior maintained high concentrations in CRE, construction, and land loans as its assets grew from nearly $1.4 billion in December 2005 to approximately $3.2 billion by December 2009. As of June 30, 2005, CRE, construction, and land loans were 189 percent, 211 percent, and 25 percent of total risk-based capital, respectively. Concentrations in CRE and construction loans remained high, and grew in land loans. As of December 31, 2009, CRE, construction, and land loans were 289 percent, 122 percent, and 113 percent of total risk-based capital, respectively.

When the real estate market began to deteriorate in 2007, Superior's loan portfolio, especially the loans originated at or near the peak of the market, suffered significant credit deterioration, resulting in a substantial volume of problem loans, and significant loan losses. In turn, these loan losses diminished earnings and capital, ultimately leading to Superior's failure.

Ineffective Credit Risk Management

Superior's board and management were not timely in establishing concentration limits as required by OTS regulation and guidance. In December 2006, OTS issued CEO Letter No. 252 which included OTS guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," to clarify that thrifts actively engaged in CRE lending should (1) assess their concentration risk and (2) implement appropriate risk management policies to identify, monitor, manage, and control their concentration risks. The guidance, also reinforced OTS's regulation that requires thrifts to adopt and

[5] OTS New Directions Bulletin 06-14, "Concentrations of Risks," November 28, 2006.

maintain written policies that establish appropriate limits and standards for extensions of credit that are secured by liens on or interests in real estate, including CRE loans.[6]

OTS stated in its 2009 report of examination (ROE) that Superior's board and management did not establish concentration limits as required by OTS guidance and the failure to establish prudent risk limits was an unsafe and unsound condition. To address an OTS corrective action included in the 2009 ROE, Superior management subsequently established percentages; however, OTS stated in its 2010 ROE that management should have considered lower, more prudent limitations.

Inadequate Capital Levels

Superior's capital levels were inadequate to support its significant exposure to loans with higher levels of credit risk. According to the OTS Examination Handbook, thrifts that engage in higher-risk activities require more capital, especially if the activities are conducted at significant concentration levels.[7]

From 2006 to the fourth quarter of 2008, Superior's capital levels were just above well-capitalized under PCA requirements, ranging from 10.95 percent to 10.10 percent of total risk-based capital. In the fourth quarter of 2008, Superior received $65.5 million from the Department of the Treasury's Troubled Asset Relief Program (TARP),[8] which increased its capital ratios from 10.10 percent of total risk-based capital as of September 30, 2008, to 12.15 percent as of December 31, 2008. However, these levels proved to be inadequate as OTS examiners noted in their 2009 ROE that the capital levels were not sufficient to support the inherent credit and concentration risks in its loan and investment portfolios.

Due to Superior's continuing loan losses from its deteriorating loan portfolio, its capital level began to rapidly decrease, falling to10.69 percent of total risk-based capital as of December 31, 2009; to 8.85 percent as of June 30, 2010; and to 5.04 percent as of

[6] 12 CFR 560.101, Real Estate Lending Standards.
[7] OTS Examination Handbook, Section 120, *Capital*, November 2003.
[8] As part of the scope of our audit, we did not review OTS's process in reviewing Superior's application for the receipt of TARP funding.

September 30, 2010. Based on these percentages as reported in its thrift financial reports (TFR), Superior was adequately capitalized under PCA requirements as of June 30, 2010; and significantly undercapitalized as of September 30, 2010. Three months later, Superior was critically undercapitalized, based on its December 31, 2010, TFR, which reported its capital as 1.03 percent of total risk-based capital. According to OTS documentation, Superior's management and board were unsuccessful in their efforts to raise capital during 2010 and 2011.

Untimely Reclassifications of Deteriorating Loans

Superior's management did not reclassify loans as adversely classified in a timely manner as the thrift's loan portfolio deteriorated in 2008. According to OTS's 2009 ROE, testing of 95 loans revealed that 11 loans, totaling $91.1 million, were not adversely classified when they should have been. For these 11 loans, thrift management asserted to OTS that the loans in question were not troubled as third-party guarantors were making payments on the loans. However, OTS examiners noted in the ROE that various characteristics of these loans, including delay or impairment in the original source of repayment and extension of loan maturity dates, warranted adverse classifications. Although OTS noted that payments were being received by the third-parties, OTS stated in the ROE that the "alternate sources were not sufficient to repay the principal balance of the loan in a reasonable time period."

Superior's management disagreed with OTS's assessment and was supported by its independent auditor. Superior's management continued to disagree with OTS until the latter part of 2010 when, based on independent third party loan reviews required by OTS and outside investor groups, the thrift's management began taking action to recognize the credit risk in the portfolio. In response to these reviews, adversely classified loans reported by the thrift increased from $362 million as of December 31, 2009, to $629 million as of September 30, 2010, an increase of almost 74 percent.

Furthermore, although Superior received the results of the third party loan review in March 2010, management did not use the report findings and information in preparing its TFRs for the quarters ended March 31 and June 30, 2010.[9] Management also did not inform OTS until September 28, 2010, that it had received the third party review. OTS examiners stated in the 2010 ROE that by failing to classify assets correctly in the TFR and also in its filings with the Securities and Exchange Commission, Superior's management materially misstated the financial condition of the thrift, resulting in a violation of OTS regulations, which requires accurate reporting of financial conditions.[10] OTS examiners also noted in their 2010 ROE that management's efforts to work with its borrowers in hopes of a more immediate market rebound had instead resulted in delayed loss recognition and reporting of the true credit exposure in Superior's loan portfolio.

This matter involving Superior management's failure to use the third party loan review findings in its TFR filings for March 31 and June 30, 2010, has been referred to the OIG Office of Investigations.

Decline in Real Estate Markets

Superior concentrated its lending activities throughout the rapidly growing Alabama and Florida real estate markets. These areas included Tampa, Sarasota, and the panhandle area of Florida and the Huntsville and Birmingham areas of Alabama. However, due to economic declines, Superior's borrowers were unable to repay many of these high-risk loans, which contributed to Superior's deteriorating financial condition. According to OTS's 2009 ROE, the significant increases in Superior's non-performing and classified assets were primarily due to the deterioration of its CRE loans along the Gulf Coast area of Florida.

OTS's Supervision of Superior

OTS did not take timely action to mitigate the risks associated with the thrift's higher-risk lending concentrations. However, as Superior's

[9] The third party loan review provided an estimate of probable cumulative loss from 2010 through 2012, based on prevailing market factors as of March 1, 2010, and using loan balances as of December 31, 2009. Based on the agreed upon procedures and methodology utilized, the probable cumulative loss calculated was $210 million.
[10] 12 CFR 563.170, Examinations and Audits; Appraisals; Establishment and Maintenance of Records.

capital levels declined, OTS imposed PCA restrictions on the thrift and took enforcement action.

Table 1 summarizes the results of OTS's safety and soundness and limited examinations of Superior from 2005 until its closure in April 2011. Generally, matters requiring board attention (MRBAs) represent the most significant items reported in ROE requiring corrective action.

Table 1. Summary of OTS's Examinations of and Enforcement Actions Against Superior Bank

		Examination Results			
Date started/date completed	**Total assets (in $ billions)**	**CAMELS rating**	**No. of MRBAs**	**No. of recommendations/ corrective actions**	**Informal/formal enforcement actions**
7/11/2005 8/26/2005 Limited examination –thrift eligibility examination	$1.4	None	None	2	None
11/3/2005 11/3/2005 Limited examination	$1.4	2/222333	None	None	None
5/1/2006 5/5/2006 Limited examination	$1.4	None	None	None	None
9/18/2006 12/15/2006 Full-scope examination	$1.8	2/222312	None	3	None
1/31/2008 4/24/2008 Full-scope examination	$2.9	2/232222	None	2	None
6/22/2009 11/18/2009 Full-scope examination	$3.1	3/343322	8	13	Memorandum of understanding (MOU), an informal enforcement action, issued 1/29/2010

Table 1. Summary of OTS's Examinations of and Enforcement Actions Against Superior Bank					
		Examination Results			
Date started/date completed	Total assets (in $ billions)	CAMELS rating	No. of MRBAs	No. of recommendations/ corrective actions	Informal/formal enforcement actions
4/26/2010 7/19/2010 Limited examination	$3.3	4/444422	2	None	Notice of ratings downgrade and notice of troubled condition issued 6/15/2010. At that date, CAMELS ratings assigned were 4/443422.
10/12/2010 2/7/2011 Full-scope examination	$3.2	5/555554	13	15	Cease and Desist Order, a formal enforcement action, issued 11/2/2010 PCA notices issued 12/8/2010 and 2/25/2011

Source: Office of Inspector General (OIG) Analysis of OTS data.

OTS Was Not Timely in Requiring Superior to Establish Concentration Limits

As discussed above, while OTS's regulation and guidance requires thrifts to adopt and maintain written policies that establish appropriate concentration limits for loans that are secured by real estate, Superior's board and management did not establish such limits in a timely manner. OTS noted that Superior held a higher level of nonhomogeneous loans[11] compared to thrifts of similar size in August 2005 when it completed an eligibility examination prior to approving Superior's conversion to an OTS-regulated thrift. For example, as of June 30, 2005, CRE loans were 189 percent and construction loans were 211 percent of total risk-based capital, respectively. However, OTS did not require Superior to establish concentration limits until its 2009 ROE, 4 years later. (As discussed earlier, OTS found in its 2010 examination that the limits established by management were too

[11] Superior's nonhomogeneous loans consisted of multifamily, nonresidential real estate loans, construction loans, land loans, and nonmortgage commercial loans.

high.). We believe OTS erred by not requiring limits be established as a condition for approving Superior's thrift charter.

OTS Did Not Require Superior to Maintain Higher Levels of Capital

As discussed above, from 2006 through the third quarter of 2008 Superior's capital levels were just above well-capitalized. Despite receiving TARP funds in the fourth quarter of 2008, OTS examiners noted in their 2009 ROE that the thrift's capital levels were not sufficient to support the inherent credit and concentration risks in its loan and investment portfolios. Superior's capital level began to rapidly decrease in 2010, falling from 10.69 percent of total risk-based capital as of December 31, 2009, to 5.04 percent and becoming significantly undercapitalized as of September 30, 2010. Only 3 months later, Superior became critically undercapitalized as of December 31, 2010, with a capital level of 1.03 percent of total risk-based capital.

According to section 120 of the OTS Examination Handbook, thrifts that engage in higher-risk activities require more capital, especially if the activities are conducted at significant concentration levels. Additionally, as discussed in section 080, Appendix A, Enforcement Actions, even when savings associations are well capitalized or adequately capitalized under PCA statute and regulation, OTS may exercise other authority to restrict an association's operations when capital levels are not commensurate with balance sheet risk, such as imposing an individual minimum capital requirement. OTS examiners noted in their 2008 ROE that Superior's capital margins, although exceeding the well capitalized threshold, were nevertheless thin in light of the thrifts higher-risk concentrations. OTS did not require the thrift to hold additional capital.

We did not interview the examiners responsible for the 2005 through 2008 full-scope examinations about whether they considered imposing an individual minimum capital requirement as they were no longer OTS employees. However, the OTS examiner responsible for the 2006 limited examination, along with the examiners responsible for the 2009 and 2010 full-scope examinations, told us that higher levels of capital may have minimized the loss to the Deposit Insurance Fund. The examiner for the 2006 limited examination further noted that higher levels of capital may also have restrained Superior's higher-risk lending concentrations as it grew its loan portfolio, starting in 2006.

OTS's Use of PCA and Enforcement Actions

The purpose of PCA is to resolve problems of insured depository institutions with the least possible long-term loss to the Deposit Insurance Fund. PCA requires federal banking agencies to take certain actions when an institution's capital drops to certain levels. Regulators also have flexibility to supervise institutions based on criteria other than capital levels to help reduce deposit insurance losses caused by unsafe and unsound practices.

As Superior's capital levels declined, OTS imposed PCA restrictions on the thrift and took enforcement action. Specifically, OTS took the following key actions:

- On January 29, 2010, OTS issued an MOU, which, among other things, required that the board (a) submit a written capital plan; (b) revise the written policies and procedures for managing the risks associated with concentrations of credit to address deficiencies noted in its 2009 ROE and to ensure compliance with OTS's regulations and guidance; and (c) within 30 days after the close of each calendar quarter, beginning with the quarter ending June 30, 2010, review the appropriateness of established concentration limits and the thrift's compliance with the credit concentration program.

- On June 15, 2010, OTS notified the board that the thrift was in troubled condition.

- On November 2, 2010, OTS issued a Cease and Desist Order, which, among other things, required that Superior: (a) maintain a Tier 1 capital ratio equal to or greater than 10 percent and total risk-based capital equal to or greater than 14 percent; (b) not originate or purchase any new CRE, construction, or land loans; and (c) revise its written program for identifying, monitoring, and controlling risks associated with concentrations of credit to address weaknesses noted in OTS's 2010 ROE, and to ensure compliance with OTS's regulations and guidance.

- On December 8, 2010, OTS notified the board that Superior was deemed significantly undercapitalized based on its TFR for the quarter ended September 30, 2010. This was the first quarter that Superior fell below the adequately capitalized level. OTS further required Superior to file a Capital Restoration Plan (CRP) by December 14, 2010.

- On December 21, 2010, OTS notified the board of its receipt of the board's CRP on December 16, 2010. However, OTS did not approve the CRP and requested additional information by January 21, 2011.

- On January 18, 2011, OTS granted an extension of the due date for the additional information relating to the CRP to February 7, 2011.

- On February 25, 2011, OTS notified the board that Superior was deemed critically undercapitalized based on its TFR for the quarter ended December 31, 2010, which reported its capital level as 1.03 percent of total risk-based capital.

- On April 15, 2011, OTS exercised its authority to close the thrift and appointed FDIC as receiver. The action was 49 days after Superior was deemed critically undercapitalized and within 90-day PCA requirement.

OTS's Internal Failed Bank Review

In accordance with its policy, OTS conducted an internal failed bank review of Superior and similarly concluded that the thrift's failure resulted primarily from loan losses in higher-risk concentrations in CRE, construction, and land loans. OTS further concluded that the decline in Alabama and Florida real estate values and economies contributed significantly to the loan losses at the thrift; and recommended that supervisory staff consider higher capital requirements as well as limitations on higher-risk lending concentrations.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-5776 or J. Mathai, Audit Manager, at (202) 927-0356. Major contributors to this report are listed in appendix 4.

/s/
Susan Barron
Audit Director

We conducted this material loss review of Superior Bank (Superior), of Birmingham, Alabama, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[12] This section provides that if the 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 that

- ascertains why the institution's problems resulted in a material loss to the insurance fund;
- reviews the agency's supervision of the institution, including its implementation of the prompt corrective action (PCA) provisions of section 38; and
- makes recommendations for preventing any such loss in the future.

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 Superior based on the loss estimate by the Federal Deposit Insurance Corporation (FDIC), which was $259.6 million at the date of its failure on April 15, 2011. As of September 30, 2011, FDIC's estimated losses were $290 million to the Deposit Insurance Fund and $40 million to the Debt Guarantee Program.

Our objectives were to determine the causes of Superior's failure; assess the Office of Thrift Supervision's (OTS) supervision of the thrift, including implementation of the PCA provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish our review, we conducted fieldwork at OTS's headquarters in Washington, D.C. and interviewed OTS's southeast region officials in Atlanta, Georgia. We conducted our fieldwork from May 2011 through June 2011.

To assess the adequacy of OTS's supervision of Superior, we performed the following work:

[12] 12 U.S.C. § 1831o(k).

- We determined that the period covered by our audit would be from July 2005, through the thrift's failure on April 15, 2011. This period included an OTS limited-scope eligibility examination for a thrift charter, 4 full-scope safety and soundness examinations, and 3 limited-scope examinations of Superior.
- We reviewed OTS's supervisory files and records for Superior from 2005 through 2011. We analyzed examination reports, supporting workpapers, and related supervisory correspondence 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 interviewed and discussed various aspects of the supervision of Superior with OTS officials and examiners to obtain their perspectives on the thrift's condition and the scope of the examinations.
- We interviewed FDIC officials from FDIC's Division of Risk Management Supervision who were responsible for monitoring Superior for federal deposit insurance purposes.
- We assessed OTS's actions based on its internal guidance and requirements of the Federal Deposit Insurance Act. (12 U.S.C. § 1811 et seq.).

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.

History of Superior

Superior Bank (Superior) began operations in 1957 as Warrior Savings Bank. In February 1998, Warrior Savings Bank changed its name to The Bank. The Bank acquired four additional banks in Alabama later that year, and in 1999, acquired Bankers Trust of Madison. In 2000, the bank became an insured commercial bank and expanded their holdings in the state of Florida by acquiring C&I Bank and Emerald Coast Bank. The Bank's primary regulator changed from the Federal Deposit Insurance Corporation to the Federal Reserve Board. In 2002, the bank acquired Citizens Federal Savings Bank of Port St. Joe.

In January 2005, the founding management team sold their ownership interest in the bank. The new management team's business strategy included rapid growth through acquisition of institutions, branch purchases and opening new branches. It also focused on commercial real estate lending as well as origination of acquisition, development and construction lending. The Bank became a federally chartered savings bank (thrift) in October 2005, and subsequently, changed its name to Superior in January 2006. As a thrift, Superior's primary regulator was the Office of Thrift Supervision (OTS).

In November 2006, Superior acquired Community Bank of Blountsville, Alabama, with approximately $576 million in total assets. In July 2007, Superior acquired People's Community Bank of the West Coast, Florida, with approximately $323 million in total assets. In the fourth quarter of 2008, Superior's parent company, Superior Bancorp, received $69 million under the Department of the Treasury's Troubled Asset Relief Program.

Beginning in 2008, Superior's financial condition rapidly deteriorated. In 2008, 2009, and 2010, Superior reported net losses of $161.7 million, $15.2 million, and $262.9 million, respectively. These losses were attributable to the recognition of a $160.3 million goodwill impairment charge in 2008 and, in 2009 and 2010, to provisions for loan losses due to the thrift's deteriorating loan portfolio.

On April 15, 2011, OTS closed Superior Bank and appointed the Federal Deposit Insurance Corporation as receiver. At the time of closure, Superior had assets of $3 billion and retail deposits of $2.6 billion. It had 73 branches in Alabama and Florida, 24 consumer finance offices in Alabama, and a loan production office in Florida.

OTS Assessments Paid by Superior

OTS funded its operations in part through semiannual assessments on savings associations. OTS determined each institution's assessment by adding together three components reflecting the size, condition, and complexity of an institution. OTS computed the size component by multiplying an institution's total assets, as reported on its thrift financial report, by the applicable assessment rate. The condition component was a percentage of the size component and is imposed on institutions that have a 3, 4, or 5 CAMELS composite rating. OTS imposed a complexity component if (1) a thrift administered more than $1 billion in trust assets; (2) the outstanding balance of assets fully or partially covered by recourse obligations or direct credit substitutes exceeded $1 billion, or (3) the thrift serviced over $1 billion of loans for others. OTS calculated the complexity component by multiplying set rates by the amounts by which an association exceeds each threshold. Table 2 shows the assessments that Superior paid to OTS from 2006 through 2011.

Table 2: Assessments Paid by Superior to OTS, 2006–2011

Billing Period	CAMELS Composite Rating	Amount Paid
1/1/2006–6/30/2006	N/A	$132,032
7/1/2006–12/31/2006	2	135,530
1/1/2007–6/30/2007	2	171,108
7/1/2007–12/31/2007	2	217,709
1/1/2008–6/30/2008	2	259,417
7/1/2008–12/31/2008	2	264,716
1/1/2009–6/30/2009	2	281,372
7/1/2009–12/31/2009	2	283,925
1/1/2010–6/30/2010	3	443,439
7/1/2010–12/31/2010	4	613,260
1/1/2011–6/30/2011	4	588,736

Source: OTS Electronic Continuing Education Folder System

Number of OTS Staff Hours Spent Examining Superior

Table 3 shows the number of OTS staff hours spent examining Superior from 2006 to 2011.

Table 3: Number of OTS Hours Spent on Examining Superior, 2006-2011

Examination Start Date and Scope		Number of Examination Hours
5/1/2006	- Limited	51
9/18/2006	- Full	1,527
1/31/2008	- Full	2,524
6/22/2009	- Full	1,484
4/26/2010	- Limited	968
10/12/2010	- Full	2,293

Source: OTS Electronic Continuing Examination Folder System

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan Barron, Audit Director

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

Date: November 7, 2011

Subject: Response to Material Loss Review of Superior Bank of Birmingham, Alabama

We have received and reviewed your draft report titled "Material Loss Review of Superior Bank of Birmingham, Alabama (Superior)." This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of the thrift's estimated loss to the Deposit Insurance Fund at the time of its failure. Your objectives were to determine the causes of Superior's failure; assess OTS's supervision of the thrift, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives, you reviewed the supervisory files and interviewed officials at OTS and FDIC.

You concluded that the primary causes of Superior's failure were high concentration in CRE, construction, and land loans; ineffective credit risk management; inadequate capital levels; untimely reclassification of deteriorating loans; and, decline in Superior's real estate markets.

You also concluded that the OTS was not timely in requiring Superior to establish concentration limits, and did not require Superior to maintain higher levels of capital. OTS imposed PCA restrictions on the thrift and took enforcement actions as Superior's capital levels declined.

Your report did not contain any recommendations.

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

J. Mathai, Audit Manager
Angelo Arpaia, Auditor-in-Charge
Daniel Gerges, Auditor
Ken Harness, Referencer

<u>Department of the Treasury</u>

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

<u>Office of the Comptroller of the Currency</u>

Acting Comptroller of the Currency
Liaison Officer

<u>Office of Management and Budget</u>

OIG Budget Examiner

<u>Federal Deposit Insurance Corporation</u>

Acting Chairman
Inspector General

<u>U.S. Senate</u>

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

Chairman and Ranking Member
Committee on Finance

<u>U.S. House of Representatives</u>

Chairman and Ranking Member
Committee on Financial Services

<u>U.S. Government Accountability Office</u>

Comptroller General of the United States