Audit Report

OIG-12-037

SAFETY AND SOUNDESS: Material Loss Review of Corus Bank, N.A.

January 24, 2012

Office of Inspector General

DEPARTMENT OF THE TREASURY

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Abbreviations

CEO	chief executive officer
CRE	commercial real estate
FDIC	Federal Deposit Insurance Corporation
FRB Chicago	Federal Reserve Bank of Chicago
JAMES	Joint Audit Management Enterprise System
MRA	matter requiring attention
OCC	Office of the Comptroller of the Currency
PCA	prompt corrective action
ROE	report of examination

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January 24, 2012

John G. Walsh
Acting Comptroller of the Currency

This report presents the results of our material loss review of the failure of Corus Bank, N.A. (Corus), of Chicago, Illinois, and of the Office of the Comptroller of the Currency's (OCC) supervision of the institution. OCC closed Corus and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 11, 2009. This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of Corus's estimated loss to the Deposit Insurance Fund.[1,2] As of December 31, 2011, FDIC estimated that the loss would be $797.9 million. FDIC also estimated that the bank's failure would result in a loss of $16 million to the Transaction Account Guarantee Program.

Our objectives were to determine the causes of Corus's failure; assess OCC's supervision of Corus, 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 OCC and FDIC. We conducted our fieldwork primarily from October 2009 through January 2010. Appendix 1 contains a more detailed description of our review objectives, scope, and methodology. Appendix 2 contains background

[1] At the time of Corus's failure, section 38(k) defined a loss as material if it exceeded the greater of $25 million or 2 percent of the institution's total assets. Effective July 21, 2010, section 38(k) defines a loss as material if it exceeds $200 million for calendar years 2010 and 2011, $150 million for calendar years 2012 and 2013, and $50 million for calendar years 2014 and thereafter (with a provision that the threshold can be raised temporarily to $75 million if certain conditions are met).
[2] Definitions of certain terms, which are underlined where first used in this report, are available in OIG-11-065, *Safety and Soundness: Material Loss Review Glossary* (Apr. 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/Pages/by-date-2011.aspx.

information on Corus's history, OCC assessments paid by Corus, and the number of OCC staff hours spent examining Corus. Appendix 3 provides OCC's response to this report.

In brief, our review found Corus's failure was caused by its business strategy that included high concentrations in commercial real estate (CRE) lending and a substantial presence in volatile geographic markets. In addition, Corus's loan management procedures were not commensurate with its high-risk lending practices. With regard to supervision, OCC examiners generally followed existing guidance with respect to Corus. However, we believe that guidance is not adequate for effectively dealing with high concentrations. We also identified several matters related to Corus's interaction with its holding company, Corus Bankshares. Specifically, (1) Corus Bankshares did not serve as a source of strength for Corus during 2009; (2) Corus's loan participations with its holding company to meet legal lending limit requirements, while allowed, did not diversify lending risk; and (3) Corus may have improperly amended two loan participations with its holding company. We referred certain matters related to Corus's transactions with the holding company to the Treasury Inspector General's Office of Investigations.

We reaffirm a recommendation from our prior material loss reviews that OCC work with its regulatory partners to determine whether a limit on risky concentrations should be established. We are also making one new recommendation that OCC work with its regulatory partners to determine whether regulatory guidance be changed or legislation should be proposed to prohibit or limit the sale of loan participations by a bank to its holding company for purpose of complying with the legal lending limit. In a written response, which is included in appendix 3, OCC agreed to contact its regulatory partners to determine if there is an appetite to change regulatory guidance or propose legislation concerning the sale of loan participations by a bank to its holding company. We consider the planned action to be responsive to our recommendation. However, OCC will need to record its planned completion date for taking corrective action in the Joint Audit Management Enterprise System (JAMES), the Department of the Treasury's audit recommendation tracking system.

Causes of Corus's Failure

Although profitable for years, Corus was ultimately unable to manage the risk inherent in its business strategy. Corus also lacked adequate loan management procedures. As economic conditions deteriorated, Corus did not alter its business strategy and the bank incurred unsustainable losses.

Risky Business Strategy

Aggressive Growth in Assets and CRE Concentrations

Beginning in 2002, Corus's board and management implemented a high-growth strategy. The bank's assets increased from $2.5 billion in 2002 to nearly $10 billion by 2006, in part due to an increase in its CRE loan portfolio.[3] Corus specialized in the condominium construction and conversion segment of CRE lending, and the bank increased total CRE loans from $1.6 billion in 2002 to a peak of $4.4 billion during 2005. In 2008, CRE loans totaled $4.0 billion. The volume of Corus's CRE loan portfolio expressed as a percentage of the bank's total risk-based capital was exceptionally high, ranging from 397 percent at December 31, 2006, to 570 percent at December 31, 2008.[4]

Loan Concentrations in Volatile Geographic Markets

In an attempt to limit exposure to potential losses, Corus diversified its lending activities to include the volatile markets of Miami and other Florida locations, southern California, Las Vegas, Atlanta,

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[3] The other major component of this increase in assets was available for sale securities, which comprised $5.2 billion in total assets. OCC regarded these as conservative investments used as a source of liquidity rather than earnings.

[4] In December 2006, OCC, the Board of Governors of the Federal Reserve System, and FDIC jointly published *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (Guidance). The Guidance reminded institutions that strong risk management practices and appropriate levels of capital are important elements of a sound CRE lending program, particularly when an institution has a concentration in CRE loans. The Guidance did not establish specific CRE lending limits; rather, it promoted sound risk management practices and appropriate levels of capital to enable institutions to continue to pursue CRE lending in a safe and sound manner. The sophistication of an institution's CRE risk management processes should be appropriate to the size of the portfolio, as well as the level and nature of concentrations and the associated risk to the institution.

New York, Chicago, and Washington, D.C. An OCC examiner told us that although previous declines in the real estate market had usually been regional, the market collapse that began in 2007 was nationwide. Moreover, the decline was particularly severe in many of Corus's principal market locations. As a result, Corus's geographic diversification ultimately provided little protection. Furthermore, OCC examiners observed in the 2008 report of examination (ROE) that Corus had failed to perform sufficient analyses to determine market capacity for condominium sales and probable future conditions as the market weakened.

Insufficient Loan Administration Procedures

Corus management did not implement effective controls over CRE loan administration. The bank's almost exclusive focus on one market niche (condominium lending) required heightened risk management processes and sound underwriting. In this regard, OCC considered Corus's procedures to be adequate up to when the nationwide economic decline began to affect the bank's loan portfolio. Prior to the 2008 examination, OCC examiners praised Corus repeatedly for the bank's high-quality management information systems and thorough credit files. However, OCC determined in 2008 that Corus (1) had not consistently performed timely and accurate appraisals to support the value of its loans and (2) had inappropriately re-extended loans without reappraisals in situations where condominium sales were strong, but property prices were falling.

Until the fourth quarter of 2006, Corus had experienced 27 consecutive quarters without a loan portfolio loss. In fact, Corus had never reported a quarter-to-quarter loss until the second quarter of 2008 when Corus, as directed by OCC, obtained reappraisals for a number of its loans. The reappraisals required Corus to adjust many loans' underlying property values down. The cumulative effect of those adjustments, among other things, resulted in a net loss for Corus of $455 million for 2008, a dramatic decline from the previous year's net income of $113 million. Classified assets more than quadrupled during 2008, amounting to over $2.8 billion and representing 262 percent of Tier 1 capital plus the allowance for loan and lease losses (ALLL).

Bank Strategy Did Not Change as Real Estate Markets Deteriorated

Indicators of an economic recession and real estate market downturn emerged as early as 2005, but Corus kept true to its business strategy. According to an OCC examiner, the fact that Corus had not experienced net losses for almost 20 years contributed to management's belief in the superiority of the bank's strategy and its invulnerability to the downturn. The bank had record earnings in 2006, with net income of $189 million—a 38 percent increase over 2005. As mentioned above, Corus had never reported any quarter-to-quarter losses until the second quarter of 2008. Management believed that Corus's strong capital and liquidity positions would enable the bank to withstand any economic downturn.

We noted that the bank accompanied its release of its third-quarter earnings for 2006 with the statement that "while others may be looking for an exit strategy, we [Corus] see opportunity." At a February 2007 Corus board meeting, an OCC official talked to the board and senior management about concentration risk. In May 2007, OCC communicated the results of a quarterly review to Corus noting that loan concentrations in the weakening housing market were conditions the management team had not faced previously. Despite these warnings, in a press release dated April 29, 2008, Corus announced that the bank was continuing to originate new loans and that it planned no major changes to the bank's business model. Corus did not cease lending until June 30, 2008.

OCC officials told us that the quality of management's decisions declined in 2007 and 2008 as evidenced by some projects Corus chose to finance. For example, Corus originated a loan for a development that was 5 to 10 miles off the Las Vegas strip. Similarly, an OCC official stated that the bank's projects in later years were not as high quality, citing Florida developments surrounded by car dealerships instead of water. Another OCC official also said the locations of the bank's projects in Florida did not make sense, such as a project in the Everglades.

Corus's escalating volume of problem loans resulted in significant losses to the bank—$455 million in 2008, and $779 million the

first 6 months of 2009. Corus became critically undercapitalized for PCA purposes on July 30, 2009. OCC subsequently closed Corus on September 11, 2009, and appointed FDIC as receiver.

OCC's Supervision of Corus

OCC's supervision of Corus did not prevent a material loss to the Deposit Insurance Fund. While we found that OCC examiners generally followed existing guidance in supervising Corus, we believe that guidance regarding concentration risks needs to be reexamined and enhanced.

Table 1 summarizes OCC's examinations of Corus and related enforcement actions from 2006 to 2009.[5] Generally, matters requiring attention (MRAs) represent the most significant items reported in ROEs requiring corrective action.

[5] OCC conducted its examinations and performed offsite monitoring of Corus in accordance with the timeframes prescribed in the OCC Comptroller's Handbook.

Table 1. Summary of OCC's Corus Examinations and Enforcement Actions

		Examination Results			
Date started/Type of exam	Assets (billions)	CAMELS rating	Number of MRAs	Number of recommendations or suggestions	Enforcement actions
9/25/2006 Full-scope examination	$9.4	1/121111	None	2	None
5/25/2007 Quarterly Monitoring	$9.6	2/131211	None	None	None
9/25/2007 Full-scope examination	$9.4	2/131211	None	4	None
3/31/2008 Quarterly Monitoring	$9.0	2/232311	None	1	None
7/28/2008 Ongoing Monitoring	$9.0	3/232321	None	None	None
10/14/2008 Full-scope Examination	$8.4	4/454442	9	1	Consent order, issued 2/18/2009.
5/1/2009 Targeted examination[a]	$7.6	5/555555	None	None	Consent order remained in place.
8/4/2009 Targeted examination[a]	$7.0	5/555555	None	None	Consent order remained in place. PCA directive issued 9/8/2009.

[a] This examination was directed by OCC's Special Supervision Division.
Source: OCC ROEs, consent orders, and PCA directives; Corus call reports.

Inadequate Guidance to Address High Concentrations

OCC stated in both the 2006 and 2007 ROEs that Corus's concentration in CRE lending and certain geographic regions posed significant risk to the bank. Corus's CRE loan portfolio as a percentage of the bank's total risk-based capital was high at 397 percent at December 31, 2006, and 424 percent at December 31, 2007. According to the interagency guidance on CRE concentrations a CRE loan portfolio representing more than 100 percent of risk-based capital is considered a CRE concentration requiring heightened risk management practices. Corus's CRE concentration far exceeded this as early as 2006.

For years, OCC examiners considered Corus's risks reasonable given the bank's risk mitigation systems, including experienced management, a large capital base, and high-quality underwriting – all of which are examples of enhanced risk management practices that comply with interagency guidance. The rating discussions of individual CAMELS components in the 2006 and 2007 ROEs were very positive and included repeated comments on the strength and appropriateness of Corus's risk management practices. At the same time, these ROEs noted that Corus's CRE concentration posed significant risk to the bank; risks to capital were high; loan losses and credit risk were increasing; and the bank's lending strategy, rapid portfolio growth, and deposit structure demanded strong liquidity.

When asked why OCC did not address CRE concentration more forcefully, OCC examiners told us that providing specific direction as to the level of CRE concentration considered too risky would be tantamount to OCC telling the bank what to do with its capital or how to manage its specialty business. In their opinion, examiners need to use supervisory judgment to determine a level of concentration at which a bank would need to reduce concentration or increase capital. Because Corus had a history of profits and capital in excess of OCC requirements, the OCC examiners believed that they could not justify or support a recommendation that Corus reduce concentration levels.

OCC officials told us that Corus did everything right, meaning it had implemented systems considered sound to manage its risks but that the bank in the end demonstrated that, in the words of OCC officials, "concentrations kill." An OCC official said that the lesson of Corus's failure is that concentrations are high-risk regardless of what risk management systems are in place. Because there is no policy that prohibits concentrations above a certain level, the OCC official said the only supervisory option OCC failed to exercise was to force Corus to reduce concentrations in 2006 or 2007. The OCC official added that OCC could only have used moral suasion to accomplish this, as Corus's management of concentrations met regulatory requirements.

While we understand the difficulties faced by regulators in controlling high risk concentrations, we believe it is important to

note that supervisory tools were available that could have been used to require Corus to reduce and/or limit its concentrations. Specifically, OCC could have deemed the high CRE concentrations to be an unsafe and unsound practice and invoked its authority to take enforcement action to address the high level of CRE concentration risk identified as far back as 2006. That said, as we have previously recommended in material loss reviews of failed banks, we continue to believe OCC, in coordination with its regulatory partners, should determine whether to propose changes to regulatory guidance and/or legislation to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk. Those changes should also contemplate an appropriate range of examiner response to high risk concentrations.[6]

OCC's Special Supervision Division Used Enforcement Action and PCA

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 below certain levels. PCA also gives regulators flexibility to supervise institutions based on criteria other than capital levels.

As a result of its October 2008 examination, OCC designated Corus to be in troubled condition on December 9, 2008. That same day OCC transferred supervision of Corus to its Special Supervision Division (SSD), which was responsible for overall supervision of the bank, until it was closed on September 11, 2009.

After the supervision transferred to SSD, OCC took enforcement action to address the numerous deficiencies identified in the October 2008 examination. These deficiencies included a quadrupling of Corus's classified assets over the previous year, resulting in problem loan levels that were among the highest in the nation for commercial banks, as well as insufficient capital, liquidity, and earnings. On February 18, 2009, Corus's board

[6] OIG, *Safety and Soundness: Material Loss Review of Union Bank, National Association*, OIG-CA-10-009 (May 11, 2010).

agreed to enter into a consent order with OCC requiring the bank to comply with 12 articles including implementing within 90 days a revised CRE management program designed to manage the risk in the bank's CRE loan portfolio in accordance with OCC guidance, and revising and maintaining an adequate ALLL in accordance with OCC guidance.

As a result of Corus's March 31 and June 30, 2009, call reports, OCC notified Corus that it was deemed undercapitalized and critically undercapitalized, respectively, for PCA purposes and directed Corus to submit an acceptable capital restoration plan. OCC determined the plan submitted by Corus was unacceptable because it did not contain the required information. OCC closed Corus before the bank submitted a second plan. We determined that OCC took the appropriate PCA in a timely manner as the bank's capital levels fell. Those actions, however, did not prevent Corus's failure.

Interactions between Corus and Corus Bankshares

We identified several matters related to Corus's interaction with its holding company, Corus Bankshares. Specifically, (1) Corus Bankshares did not serve as a source of strength for Corus during 2009; (2) Corus's loan participations with its holding company, while allowed, did not diversify lending risk; and (3) Corus may have inappropriately amended two loan participations with its holding company.

Provision of Corus Bankshares Funding to Corus

The Bank Holding Company Act states that a bank's holding company is to serve as a source of financial strength to its subsidiary bank and that the holding company is not to conduct its operations in an unsafe or unsound manner, such as in a manner that would present a risk to the bank's financial safety, soundness, or stability. Consistent with the act, Corus Bankshares' board approved a capital support agreement on April 29, 2008, to downstream funds to Corus to cover its quarterly losses. However, the holding company's board rescinded this resolution of support on January 22, 2009. In an email dated July 29, 2009, FDIC strongly encouraged the Federal Reserve Bank of Chicago (FRB

Chicago), as the holding company's federal regulator, to pursue having Corus Bankshares inject capital into the bank as soon as possible. In an email dated August 1, 2009, FRB Chicago conveyed an expectation to the president of Corus Bankshares that the holding company would inject a minimum of $30 million into Corus, upon approval by the board of directors on August 3, 2009. The minutes for a joint bank and holding company board of directors meeting on August 3, 2009, state the FRB request was discussed but that the holding company had not committed to downstreaming its available capital to the bank. Corus Bankshares did not make the capital infusion.

When Corus became critically undercapitalized in August 2009, OCC issued a PCA directive on September 8, 2009, that required, among other things, Corus demand that Corus Bankshares contribute all of its unencumbered assets to the bank in order to minimize losses to the Deposit Insurance Fund in the event of Corus's failure. In accordance with the PCA directive, Corus's chief executive officer (CEO) issued a written demand to Corus Bankshares for the capital contribution. However, the CEO of Corus Bankshares, the same person who served as Corus's CEO, responded that he had been instructed by the holding company's external legal counsel to reject the demand. He went on to explain that was because if the holding company transferred funds to the bank, the bank would become responsible for repayment of a $400 million trust preferred shareholder obligation.[7] OCC rejected this position and sought assistance from FDIC. FDIC was unaware of any legal precedent to support the holding company's position. Nevertheless, OCC and FDIC were unable to compel Corus Bankshares to comply with the demand for a capital infusion.

OCC and FDIC officials told us that OCC subsequently sought assistance from FRB Chicago and the Board of Governors of the Federal Reserve System. FRB Chicago held discussions on the capital contribution issue with Corus Bankshares and contacted Federal Reserve headquarters to discuss options under the "source

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[7] Trust preferred shareholders hold securities that are subordinated to all of the issuer's other debt. Therefore, it is an expectation that the holding company will retain funds to support its obligation to these shareholders.

of strength doctrine."[8] FRB Chicago ultimately deferred to the legal concerns raised by the holding company's external counsel and, given that Corus was likely not able to continue as a going concern, did not require Corus Bankshares to inject capital into the bank.

Legal Lending Limit and Loan Participations with Corus Bankshares

Federal law requires that, in most cases, a bank may not hold any loan or loans for a single borrower exceeding 15 percent of the bank's capital base.[9] Banks, however, are permitted to issue loan participations for the portion of a loan that exceeds 15 percent in order to be in compliance with the legal lending limit. Corus sold the portion of its loans that exceeded this regulatory threshold to Corus Bankshares, which it was allowed to do under current regulation.[10] In this regard, as of April 30, 2008, Corus Bankshares had 5 participation commitments with Corus totaling $66.9 million. Corus's practice of only issuing loan participations to its own holding company, while permitted, did not diversify the bank's risk beyond its own ownership structure. In this regard, it is also important to note that Corus Bankshares was a single-bank holding company. As a result, when the economic downturn caused deterioration of the participated loans, it directly impacted the holding company's ability to serve as a source of strength and support to Corus thus compounding Corus's problems and the risk to the Deposit Insurance Fund. We believe selling loan participations to holding companies, especially single-bank holding companies, for the purpose of meeting legal lending limits does not adequately diversify credit concentration risk and, therefore, a change to the regulation or law addressing such should be sought.

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[8] A fundamental and longstanding principle underlying supervision and regulation of bank holding companies is that bank holding companies should serve as sources of financial strength to their subsidiary banks.
[9] 12 U.S.C. 84 Lending Limits
[10] 12 C.F.R. 32 Lending Limits

Corus's Amendment of Participation Agreements with Corus Bankshares

Corus amended participation agreements for two loans where Corus Bankshares participated, in accordance with the bank's practice of buying down the holding company's participation in loans when the bank's legal lending limit increased. The boards of the bank and the holding company subsequently determined that these amendments may have violated the Federal Reserve Act.

On September 11, 2008, Corus amended the first loan when it was rated special mention, thereby potentially violating section 23A of the Federal Reserve Act, which restricts a bank's ability to purchase a low-quality asset from an affiliate. Corus amended both the first and second loans to change the repayment method from pari passu[11] to last-in, first-out.[12] This amendment granted Corus Bankshares more favorable loan terms, resulting in a benefit to the holding company of approximately $10 million in participation contributions. It also potentially violated section 23B of the Federal Reserve Act, which prohibits a bank from engaging in affiliate transactions under terms more favorable than would prevail in comparable transactions with nonaffiliated entities.

In August 2009, the boards of the bank and holding company determined that remediation of the section 23A violation was necessary, but Corus was closed before remediation occurred. OCC informed the boards that the method of remediation would need to be tied to the handling of the August 2009 OCC capital demand letter. However, the holding company's board decided to deny the capital demand letter and thereby not return the funds in accordance with the remediation plan. Since OCC did not regulate Corus Bankshares, it could not require compliance to the capital demand letter. As for the potential section 23B violation, the bank and holding company's boards determined that their actions were commercially reasonable and that remediation was unnecessary.

[11] With pari passu, all parties to the loan have equal seniority in repayment.
[12] With last-in, first-out, the last party to provide loan funding (in this case, Corus Bankshares) is the first party repaid.

These potential violations were among the matters we referred to the Treasury Inspector General's Office of Investigations.

Recommendation

As mentioned above, as part of a previous material loss review we included a recommendation that OCC work with its regulatory partners to determine whether to propose changes to regulatory guidance and/or legislation to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner response to high risk concentrations. Our material loss review of Corus reaffirms the need for such limits or other controls on concentrations.

Additionally, as a new recommendation, we recommend that the Comptroller of the Currency work with OCC's regulatory partners to determine whether regulatory guidance be changed, or legislation should be proposed to amend 12 U.S.C. 84, Lending Limits, to prohibit or limit the sale of loan participations by a bank to its holding company for purpose of complying with the legal lending limit.

Management Response

OCC agreed to contact its regulatory partners to determine if there is an appetite to make a change. OCC also commented that it is common practice for banks to sell loan participations to their holding companies and affiliates.

OIG Comment

Management's proposed action is responsive to the OIG's recommendation. OCC will need to record its planned completion date for taking corrective action in JAMES.

* * * * *

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) 927-0384. Major contributors to this report are listed in appendix 4.

Jeffrey Dye /s/
Audit Director

We conducted this material loss review of Corus Bank, N.A. (Corus), of Chicago, Illinois, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[13] 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 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.

At the time of Corus' failure, section 38(k) defined 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 Corus based on the loss estimate by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2011, FDIC estimated that the loss to the Deposit Insurance Fund from Corus's failure would be $797.9 million.[14]

Our objectives were to determine the causes of Corus's failure; assess the Office of the Comptroller of the Currency's (OCC) supervision of Corus, including implementation of the prompt corrective action provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish our objectives, we conducted fieldwork at OCC's headquarters in Washington, DC; OCC's field office in Schaumburg, Illinois; FDIC's Division of Supervision and Consumer Protection in Chicago, Illinois; and Corus in Chicago, Illinois. We conducted our fieldwork primarily from October 2009 through January 2010.

[13] 12 U.S.C. § 1831(k).
[14] The FDIC's loss estimate at the time of failure was $1.7 billion.

To assess the adequacy of OCC's supervision of Corus, we determined (1) when OCC first identified Corus's safety and soundness problems, (2) the gravity of the problems, and (3) the supervisory response OCC took to get the bank to correct the problems. We also assessed whether OCC (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 relating to OCC's supervision of Corus covered by our audit would be from January 2006 through Corus's failure on September 11, 2009. This period included quarterly monitoring as well as three safety and soundness examinations.
- We reviewed OCC's supervisory files and records for Corus from 2006 through 2009. We analyzed examination reports, supporting workpapers, and related supervisory correspondence. We performed these analyses to gain an understanding of the problems identified, the approach and methodology OCC used to assess the bank's condition, and the regulatory action OCC used to compel bank 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 Corus's supervision with OCC officials, examiners, and an economist to obtain their perspectives on the bank's condition and the scope of the examinations.
- We interviewed officials from FDIC's Division of Supervision and Consumer Protection and Division of Resolutions and Receiverships who were responsible for monitoring Corus for federal deposit insurance purposes and closing Corus.
- We selectively reviewed Corus documents that FDIC had inventoried when it closed the bank. We identified documents for our review that were most likely to shed light on why the bank failed and on OCC's supervision of the bank.
- We assessed OCC's actions based on its internal guidance and requirements of the Federal Deposit Insurance Act.

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 Corus Bank

Corus Bank, N.A. (Corus), of Chicago, Illinois, was chartered as Aetna State Bank in Illinois in 1913. It specialized in commercial lending. In 1977, the bank changed its name to Aetna Bank. In November 1995, the bank converted from a state-chartered institution to a nationally chartered bank and changed its name to Aetna Bank, N.A. The Office of the Comptroller of the Currency (OCC) became its primary regulator. In June 1996, the bank changed its name to Corus Bank, N.A. (Corus). Corus was wholly owned by its holding company, Corus Bankshares, Inc. Corus's assets were approximately $8.3 billion as of December 31, 2008, and $7 billion as of June 30, 2009.

Corus's main office was located in Chicago, Illinois. Through its 11 branches in the Chicago metropolitan area, Corus offered general banking services such as checking, savings, money market, and time deposit accounts, as well as safe deposit boxes and other services. Corus marketed deposit products nationwide, offering above-market interest rates to attract depositors. These depositors were serviced through a combination of Corus call center personnel and an Internet-based account application and renewal system. Beginning in 2003, Corus narrowed its focus from its historical concentration in commercial real estate to a subcategory of commercial real estate—residential condominium construction, rehabilitation, and conversion loans. Corus originated loans secured by the unsold units of completed condominium construction, rehabilitation or conversion projects. Construction loans, however, represented the largest portion of Corus's condominium loans.

OCC Assessments Paid by Corus

OCC funds its operations in part through semiannual assessments on national banks. OCC publishes annual fee schedules, which include general assessments to be paid by each institution based on the institution's total assets. If the institution is a problem bank (i.e., it has a CAMELS composite rating of 3, 4, or 5), OCC also applies a surcharge to the institution's assessment to cover additional supervisory costs. These surcharges are calculated by multiplying the sum of the general assessment by 50 percent for 3-rated institutions or by 100 percent for 4- and 5-rated

institutions. Table 2 shows the assessments that Corus paid to OCC from 2006 through 2009.

Table 2: Assessments Paid by Corus to OCC, 2006–2009

Billing Period	Exam Rating	Amount Paid	% of Total Collection
1/1/2006–6/30/2006	1/121111	$609,513	.002%
7/1/2006–12/31/2006	1/121111	676,125	.002%
1/1/2007–6/30/2007	1/121111	726,547	.002%
7/1/2007–12/31/2007	2/131211	700,992	.002%
1/1/2008–6/30/2008	2/131211	627,612	.002%
7/1/2008–12/31/2008	2/232311	640,435	.002%
1/1/2009–6/30/2009	5/454442	925,278	.002%
7/1/2009–12/31/2009	5/555555	1,067,682	.003%

Source: OCC

Number of OCC Staff Hours Spent Examining Corus

Table 3 shows the number of OCC staff hours spent examining Corus from 2006 to 2009.

Table 3: Number of OCC Hours Spent Examining Corus, 2006-2009

Examination Start Date	Number of Examination Hours
3/22/2006	268
9/25/2006	2,013*
2/28/2007	480
9/25/2007	1,740*
1/31/2008	243
4/28/2008	80
7/15/2008	36
10/14/2008	2, 408*
3/30/2009	1,112
7/06/2009	416

*Hours are totaled for safety and soundness examinations, information technology examinations, and compliance examinations.
Source: OCC

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MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

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

Date: January 6, 2012

Subject: Response to Material Loss Review of Corus Bank, N.A.

We have received and reviewed your draft report titled "Material Loss Review of Corus Bank, N.A. (Corus), of Chicago, Illinois." This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of the bank's estimated loss to the Deposit Insurance Fund at the time of its failure. Your objectives were to determine the causes of Corus's failure; assess OCC's supervision of Corus, 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 OCC and FDIC.

You concluded that Corus failed primarily because its business strategy included high concentration in commercial real estate (CRE) lending, a substantial presence in volatile geographic markets, and insufficient loan administration procedures for its high-risk lending practices. Further, you identified several matters related to Corus's interaction with its holding company related to loan participations as a concern. You concluded that the OCC generally followed existing guidance in supervising Corus. You also determined that the OCC appropriately used its authority under PCA. We agree with these conclusions.

In addition to reaffirming a previous recommendation that the OCC establish limits or other controls for concentrations, you make a new recommendation regarding the sale of loan participations by a bank to its holding company.

Specifically, you are recommending that the OCC work with its regulatory partners to determine whether regulatory guidance be changed, or legislation should be proposed to amend 12 U.S.C. 84, Lending Limits, to prohibit or limit the sale of loan participations by a bank to its holding company for the purpose of complying with the legal lending limit.

We agree to contact our regulatory partners to determine if there is an appetite to make a change. Currently, it is common practice for banks to sell loan participations to their holding companies and affiliates.

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 Midsize and Community Bank Supervision, at 202-874-5020.

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Rashmi Bartlett, Audit Manager
Bobbi A. Paulson, Auditor-in-Charge
April Ellison, Auditor
Jeanne Degagne, Referencer

Department of the Treasury

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

Office of the Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner

Federal Deposit Insurance Corporation

Acting Chairman
Inspector General

United States Senate

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

Chairman and Ranking Member
Committee on Finance

United States House of Representatives

Chairman and Ranking Member
Committee on Financial Services

Government Accountability Office

Comptroller General of the United States