



Audit Report



OIG-12-066

SAFETY AND SOUNDNESS: Failed Bank Review of Security Bank, National Association, North Lauderdale, Florida

August 7, 2012

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 THOMAS J. CURRY
COMPTROLLER OF THE CURRENCY

FROM: Susan L. Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Security Bank National Association,
North Lauderdale, Florida

This memorandum presents the results of our review of the failure of Security Bank National Association (Security), located in North Lauderdale, Florida. Chartered in July 1980, Security was a full-service community bank that operated one main office and two branches in Miami-Dade County. The Office of the Comptroller of the Currency (OCC) closed Security and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on May 4, 2012. As of March 31, 2012, Security had approximately \$101.0 million in total assets. As of June 30, 2012, FDIC estimated the loss to the Deposit Insurance Fund to be \$13.7 million.

Because the loss to the Deposit Insurance Fund is less than \$150 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of Security 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 performed our field work in May and June 2012.

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.

Causes of Security Bank's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had experienced a substantial dissipation of assets or earnings due to unsafe or unsound practices; (2) the bank was in an unsafe and unsound condition to transact business; and (3) the bank incurred or was likely to incur losses that would deplete all or substantially all of its capital, and there was no reasonable prospect for it to become adequately capitalized without federal assistance.

The bank's board of directors and management pursued an aggressive growth strategy which resulted in significant concentrations in residential real estate and commercial real estate loans without adequate risk management practices. In this regard, the board failed to establish new risk limits or policies before engaging in residential land acquisition, development, and construction lending, despite OCC's recommendation that the board establish limits on real estate concentrations and establish a risk tolerance for Security's exposure to the highly cyclical real estate market. The board's ineffective oversight and minimal effort to correct the bank's deficient condition led to deterioration in the bank's asset quality. As asset quality declined the bank's earnings and capital declined, which ultimately led to Security's failure.

Conclusion

Based on our review of the causes of Security'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 that would necessitate an in-depth review. 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 Security 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 Amni Samson, Audit Manager, at (202) 927-0264.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan L. Barron
Director, Banking Audits
From: Thomas J. Curry, Comptroller of the Currency /s/
Date: July 25, 2012

Subject: Response to Failed Bank Review of Security Bank National Association
North Lauderdale, Florida

We have received and reviewed your draft report titled "Failed Bank Review of Security Bank National Association (Security)," located in North Lauderdale, Florida. The loss to the Deposit Insurance Fund is less than \$150 million, therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of Security 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 for the five year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit during May and June 2012 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 bank's board of directors and management pursued an aggressive growth strategy which resulted in significant concentrations in residential real estate and commercial real estate loans without adequate risk management practices. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure. 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 Midsize and Community Bank Supervision, at 202-874-5020.

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

Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner