Audit Report

OIG-10-001

SAFETY AND SOUNDNESS: Material Loss Review of TeamBank, National Association

October 7, 2009

Office of Inspector General

Department of the Treasury

Contents

Abbreviations

ADC	assistant deputy comptroller
ALLL	allowance for loan and lease losses
CEO	chief executive officer
CRE	commercial real estate

EIC	examiner in charge
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
IT	information technology
JAMES	Joint Audit Management Enterprise System
MRA	matter requiring attention
OIG	Treasury Office of Inspector General
OCC	Office of the Comptroller of the Currency
PCA	Prompt Corrective Action
ROE	report of examination
TFI	Team Financial, Inc. (bank holding company)

The Department of the Treasury
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October 7, 2009

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Comptroller of the Currency

This report presents the results of our material loss review of the failure of TeamBank, National Association, of Paola, Kansas, and of the Office of the Comptroller of the Currency's (OCC) supervision of the institution. OCC closed TeamBank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on March 20, 2009. Section 38(k) of the Federal Deposit Insurance Act mandated this review because of the magnitude of TeamBank's estimated loss to the Deposit Insurance Fund. As of September 18, 2009, FDIC estimated that the loss would be $98.4 million.

Our objectives were to determine the causes of TeamBank's failure; assess OCC's supervision of the bank, 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 OCC and FDIC officials, conducting fieldwork from May through July 2009. Appendix 1 contains a more detailed description of our material loss review objectives, scope, and methodology.

We also include several other appendices to this report. Appendix 2 contains background information on TeamBank's history and OCC's supervision processes. Appendix 3 provides a glossary of terms used in this report. These terms are underlined and, in the electronic version of the report on our Web site, hyperlinked to the glossary. Appendix 4 contains a chronology of significant events related to TeamBank's history and OCC's supervision of the institution. Appendix 5 shows examinations of TeamBank by OCC from 2005 to 2009 and the enforcement action taken by OCC against TeamBank. Appendix 6 shows Treasury Office of Inspector General (OIG) recommendations from material loss reviews of failed OCC-regulated institutions completed since November 2008.

Results in Brief

TeamBank failed primarily because its board and management did not provide effective oversight or establish adequate controls before embarking on a high-risk growth strategy with a concentration in commercial real estate (CRE) loans, coupled with its deficient underwriting and credit administration and its heavy reliance on non-core funding. In fact, the chief executive officer (CEO)/president dominated the lending function as TeamBank's de facto chief credit officer. In addition, a decline in the real estate market exacerbated these conditions.

OCC's supervision did not adequately address TeamBank's problems to prevent a material loss to the Deposit Insurance Fund. OCC did not raise significant issues to the level of matters requiring attention (MRA) in the 2006 examination. In addition, OCC examiners did not identify until 2008 that TeamBank was being controlled by a CEO/president with too much responsibility to manage the bank's risk profile and growth strategy. Furthermore, OCC did not review TeamBank's incentive compensation or bonus plans nor ensure that TeamBank conducted stress testing. The bank's credit administration and loan supervision practices, the level of classified assets, and a number of risk management issues should have been addressed in 2007 by examiners.

We also concluded that OCC took the appropriate actions required by PCA as TeamBank's capital ratio fell to undercapitalized.

Recommendations

We are recommending that OCC emphasize to examiners the need to properly use MRAs for supervisory concerns, adequately assess the responsibilities of a controlling official within a bank, review incentive compensation and bonus plans, and ensure that banks conduct transactional and portfolio stress testing when appropriate.

Management Response

In a written response, OCC stated that it continues to reinforce the importance of adhering to its MRA policy in numerous ways, most recently during a conference call with bank examiners. During that call, emphasis was placed on examiners following guidance on (a) assessing the adequacy of management resources to ensure they are commensurate with a bank's risk profile and growth strategies and (b) incentive and compensation plans. Also, OCC has developed a transactional level CRE Loan Stress Workbook, which is available to all national banks. An additional model designed for CRE stress testing at the portfolio level is currently under development. The actions taken and planned by OCC meet the intent of our recommendations. OCC's response is provided as appendix 7.

Causes of TeamBank's Failure

TeamBank's board and management did not establish adequate controls before embarking on a high-risk growth strategy with a concentration in CRE. Deficient underwriting and credit administration, and a heavy reliance on non-core funding, also contributed to capital insufficiency and liquidity issues as TeamBank's condition deteriorated to an unsustainable level.

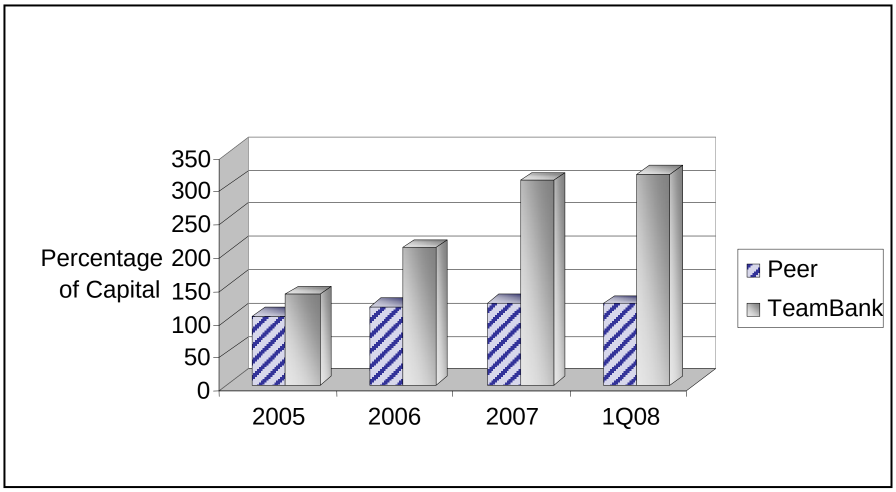
High-Risk Growth in CRE Concentration

TeamBank's serious problems occurred because it significantly increased CRE loans without managing the associated risks. Beginning in 2006, TeamBank's board and management implemented a strategy to increase CRE loans, funding loan growth with significant borrowings from the Federal Home Loan Bank (FHLB) and brokered deposits.

As noted in OCC's 2008 report of examination (ROE), TeamBank management—under the direction of the CEO/president and with the board's approval—continued to grow TeamBank and increase CRE concentration throughout 2007 and 2008, despite a weakened CRE market. OCC found that TeamBank's concentration risk management systems were not commensurate with the increase in CRE concentrations and that bank management had not implemented OCC guidance on this issue.[1]

From January 1, 2006, to March 31, 2008, management increased gross loans by about $131 million, or 36 percent, from $366 million to $497 million. Within that portfolio, construction and development loan concentrations rose from 136 percent of capital to 316 percent of capital. TeamBank's exposure as a percentage of capital significantly exceeded that of its peer group, as illustrated in figure 1.

Figure 1. TeamBank's Construction and Development Exposure Compared to That of Its Peer Group



Source: OCC 2008 ROE.

OCC found that TeamBank's board and management failed to adopt adequate risk management practices to manage the deteriorating asset quality associated with its CRE loans. The board and management did not analyze the CRE loan concentration prior to increasing the limit, provide adequate staffing for the loan area, require complete credit analysis before approving loans, obtain updated appraisals, or adopt an appropriate allowance for loan and lease losses (ALLL) methodology that resulted in a reasonable ALLL provision. All of these actions were necessary to manage

[1] As early as December 2005, OCC's Western District had issued guidance on managing risks associated with CREs (see appendix 4). On the national level, OCC emphasized the need for financial institutions to implement sound concentration risk management practices before seeking significant growth. See OCC Bulletin 2006-46, "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (Dec. 6, 2006).

TeamBank's concentration in CRE loans in a safe and sound manner. When TeamBank's CRE concentrations reached or passed an established concentration limit, the board merely increased the limit, as illustrated in table 1.

Table 1. Board-Approved Construction and Development Concentrations

Date of board meeting	Concentration limit approved
7/20/2006	150%[a]
10/19/2006	200%
4/19/2007	250%
7/19/2007	270%
10/18/2007	300%
1/24/2008	325%

Source: TeamBank board minutes.
[a] Even at this level, the board was already allowing a concentration about half again higher than that of its peer group (see figure 1).

OCC concluded that this growth in 2007 and 2008 was excessive, given the risks involved and considering the way TeamBank was funding the growth. In addition, a decline in the real estate market exacerbated these conditions.

Inadequate Controls Over CRE Lending

Ineffective Oversight and Control by TeamBank's Board and Management

In the 2005 ROE, OCC encouraged TeamBank to refine its risk management practices to address changing risks. The need for effective risk management systems and satisfactory financial performance was again emphasized in the 2006 ROE, in which OCC also raised concerns about the adequacy of credit administration practices.[2] Those concerns increased over time, as the board and management failed to address the problems and deteriorating asset quality and liquidity negatively affected capital, assets, and earnings.

[2] OCC did not specifically require the bank to address these issues in the ROEs for 2005 and 2006—that is, they were not presented as MRAs.

In the 2008 ROE, OCC concluded that TeamBank's board, CEO/president, and senior loan officer did not provide effective oversight and control of the lending area for the level and complexity of lending activities.[3] The bank lacked an experienced, qualified senior loan officer exclusively dedicated to the lending area with overall authority and responsibility to (1) ensure that credit risk systems were improved, (2) supervise and hold loan officers accountable, and (3) properly administer the high level of problem assets. The CEO/president dominated the lending function as TeamBank's de facto chief credit officer, in addition to his other duties.[4] The magnitude of his duties, particularly in a troubled institution of the size of TeamBank,[5] was excessive and compromised effectiveness. In addition, TeamBank's management of the lending area was fragmented, with loan officers reporting to different senior officers, depending on the branch in which the loan officers worked.

OCC also found in 2008 that TeamBank's board and management failed to

- enforce risk limits,
- provide adequate staffing for the loan area,
- require complete credit analysis before approving loans,
- ensure that loan officers periodically monitored the financial condition of projects that provided the primary source of repayment for CRE loans,
- ensure that risk ratings were accurate,
- obtain updated appraisals, and
- adopt an appropriate ALLL methodology that would have resulted in an adequate ALLL provision.

The board and management did not develop, implement, and ensure adherence to a written program to improve the loan risk rating function. In addition, the board did not ensure that a

[3] The CEO/president and senior loan officer resigned after the 2008 examination was completed.
[4] The CEO/president's duties included serving as chairman and CEO of Team Financial, Inc., the holding company that owned TeamBank; chairman, president, CEO, and member of numerous committees of TeamBank; and director of Colorado National Bank, a national bank also owned by Team Financial, Inc., and that OCC closed on the same date it closed TeamBank. Appendix 2 contains additional information on Team Financial, Inc., and Colorado National Bank.
[5] TeamBank's assets exceeded $500 million during the periods we reviewed (see table 2).

satisfactory independent loan review program was in place to detect declining credit quality issues in a timely manner, and management's monitoring of individual credit relationships was weak.

Based on these deficiencies, OCC determined in 2008 that inadequate oversight and supervision by TeamBank's board and management constituted an unsafe or unsound practice.

Deficient Underwriting and Credit Administration

TeamBank's lax underwriting and credit administration practices not only led to an excessive concentration in CRE loans, but also to an increase in classified assets.[6] As discussed in the 2008 and 2009 ROEs, OCC identified loans for which management advanced 100 percent of the purchase price of land and failed to appropriately monitor the progress of the projects. In addition, the 2008 ROE noted that the appraisal review lacked an in-depth assessment of assumptions used in the appraisal process. Instead, appraisal review consisted primarily of a checklist to assess compliance with appraisal standards.

TeamBank's system to identify problem loans was deficient and unreliable. There were problems with the identification and tracking of loan exceptions (deviations from the bank's loan policy on items such as the terms of a loan or the loan-to-value ratio). Loan officers failed to perform global analysis on borrowers and guarantors, which would have required taking into consideration key financial ratios.

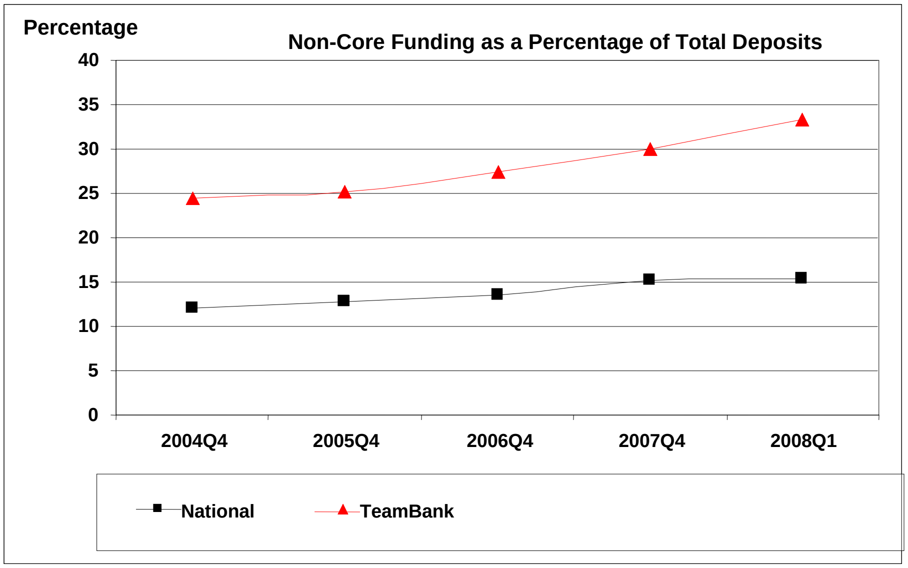
Heavy Reliance on Non-Core Funding

During 2007 and 2008, TeamBank relied heavily on non-core funding, including $78 million in FHLB advances and $34 million in brokered deposits, to fund CRE loan growth. As of March 31, 2008, net non-core funding was about $183 million, or 33 percent

[6] For example, during a 2008 CRE targeted examination of TeamBank, discussed later, OCC downgraded the risk ratings of 42 percent of the credit relationships reviewed, causing TeamBank's adversely classified loans to increase to 96 percent of Tier 1 capital plus the ALLL, from 34 percent when the review began.

of total deposits, considerably higher than national percentages, as illustrated in figure 2.

Figure 2. TeamBank's Dependence on Non-Core Funding



Source: OCC 2008 ROE.

In 2008, TeamBank's liquidity became critically deficient. According to OCC records, one factor that affected liquidity was that TeamBank incurred $33 million in losses in 2008, of which approximately $31.8 million was attributed to the second half of 2008. Another factor that affected the bank's liquidity was the $26 million in ALLL provisions that it made for 2008, of which $20 million was provided for during the second half of 2008. Because of TeamBank's concentration in CRE loans, its growing asset quality problems strained liquidity. TeamBank relied heavily on credit-sensitive funding and borrowing. Further affecting the bank's liquidity as its asset quality deteriorated was that its funding sources became more limited. FHLB required additional collateral and limited the amount TeamBank could borrow from FHLB to $5 million.[7] In addition, $10 million in brokered deposits matured and were withdrawn on November 30, 2008. By that time, based on the capital requirement within the consent order signed on September 2, 2008, TeamBank was considered to be adequately

[7] When an institution's financial condition deteriorates, FHLB may require additional collateral for the same advance. As a general example, for each $100 in collateral, FHLB may advance $80 in favorable conditions, but $50 or less as conditions worsen.

capitalized, which meant it could no longer accept or renew brokered deposits unless specifically authorized to do so by FDIC.

In summary, board and management failed to implement adequate controls and manage the risks associated with the high-risk growth in CRE concentrations. When conditions worsened and the bank incurred substantial losses, non-core funding sources became limited (in the case of FHLB borrowings) or unavailable (in the case of brokered deposits). The bank became undercapitalized for PCA purposes, as discussed later. OCC closed TeamBank on March 20, 2009, and appointed FDIC as receiver.

OCC Supervision of TeamBank

OCC's supervision of TeamBank was not adequate to prevent a material loss to the Deposit Insurance Fund. We believe that OCC should have exercised greater supervisory concern in

- the 2006 examination by issuing MRAs, adequately assessing the CEO/president and his duties, reviewing TeamBank's incentive plans for executives and loan officers, and, as appropriate, ensuring that stress testing was performed;
- the 2007 quarterly reviews, to ensure that adequate credit administration and loan supervision practices were implemented; and
- the January 2008 examination, when the examiner in charge (EIC) concluded that classified assets had improved since the previous examination and preliminarily recommended CAMELS ratings of 2 for the composite rating and all component ratings.

We concluded that OCC followed its internal requirements with respect to the timeliness of annual examinations of TeamBank and quarterly monitoring of the bank. In addition, OCC's Special Supervision Division took appropriate supervisory actions after oversight of TeamBank was transferred to it. Furthermore, OCC properly took required PCA action as TeamBank's capital levels fell.

The following table summarizes OCC's examinations of TeamBank from 2005 to 2009. Appendix 5 provides further detail on the results of these examinations.

Table 2. Summary of OCC TeamBank Examinations and Enforcement Action

		Examination Results			
Date started	**Assets (millions)**	**CAMELS ratings**	**No. of MRAs**	**No. of recommendations**	**Formal enforcement action**
10/5/2005	$569	2/222222	0	5	None
8/31/2006	$601	2/222222	0	6	None
1/22/2008	$705	4/444442	23	0	Consent order 9/2/2008
1/5/2009	$670	5/555555	1[a]	0	Consent order remained in place

Source: OCC reports of examination and call reports.
[a] The MRA in the 2009 ROE addressed areas of TeamBank's noncompliance with the consent order, which incorporated many of the MRAs in the 2008 ROE.

OCC Did Not Appropriately Address Issues in the 2006 Examination

OCC Did Not Raise Significant Issues to MRAs

In accordance with the OCC Comptroller's Handbook, MRAs are bank practices that

- deviate from sound fundamental governance, internal control, and risk management principles, which may adversely affect the bank's earnings or capital, risk profile, or reputation, if not addressed or
- result in substantive noncompliance with laws or internal policies or processes.

In a memorandum to bank examiners dated July 5, 2005, OCC's Senior Deputy Comptroller for Midsize/Community Bank Supervision addressed the matter of MRAs. It stated that issues identified during an examination fall into one of two categories: (1) issues that must be addressed, or MRAs, or (2) issues that are simply recommendations that more accurately describe best practices. It also stated that examiners should not defer listing weaknesses as MRAs pending bank management's efforts to address them, and that MRAs require OCC follow-up and specific implementation efforts by bank management, whereas recommendations do not.

OCC's 2006 ROE for TeamBank did not include any MRAs. Instead, OCC presented actions to be taken by the bank as "encouragements" or "suggestions." We believe that three issues identified during the 2006 examination should have been presented as MRAs. These issues related to

- a new independent loan review system with an acceptable scope,
- completion of the exception tracking project, and
- a newly formed appraisal review group.

TeamBank management was in the process of implementing system enhancements to address these issues.

The OCC Assistant Deputy Comptroller (ADC) for the Kansas City South field office at the time of the 2006 examination provided us with the comments she made when reviewing the draft 2006 ROE and told us that she had questioned why certain issues were not elevated to MRAs, including the above three issues. After discussion with the EIC, however, the ADC agreed to report the issues as originally stated in the draft—that is, as encouragements to management. This decision was made partly because the EIC was considered to be very experienced and knowledgeable about TeamBank. In our interview with the Western District Deputy Comptroller, she indicated she had emphasized to district staff the importance of adhering to the July 2005 memorandum by the Senior Deputy Comptroller for Midsize/Community Bank Supervision addressing the use of MRAs. However, there had been a culture in the Kansas City South field office of not raising issues to MRAs in a ROE if OCC had a good working relationship with the bank and the bank committed to implementing OCC's recommendations.

The ADC stated that presenting "must-do" issues as MRAs in the 2006 ROE may have made a difference. One EIC told us that if these issues had been MRAs in 2006, the board would have been required to submit documentation of corrections and that OCC might have followed up with the bank. The EIC also said that because OCC had been dealing with TeamBank for at least 20 years and had not found any significant issues during that time, it had no reason to question whether TeamBank had corrected the issues raised in the 2006 ROE.

TeamBank, however, had not addressed the encouragements in the 2006 ROE. As stated in the cause section of this report, TeamBank did not ensure that an independent loan review system was in place to detect declining credit quality issues in a timely manner. In addition, appraisals were not kept up to date and the review of appraisals lacked an in-depth assessment and consisted mainly of a checklist to assess compliance with appraisal standards.

In a June 2007 e-mail to Kansas City South staff, the ADC re-emphasized the importance of adhering to the July 2005 memorandum with respect to proper use of MRAs in ROEs. The ADC stressed that "must-do" issues are to be presented as MRAs, even when a bank (1) is implementing corrective action or (2) has taken immediate action but the action's effectiveness has yet to be tested. The ADC identified this as a no-tolerance policy and stated that any ROE in nonconformance would be returned to the EIC for correction.

OCC Did Not Identify Until 2008 That TeamBank Was Being Controlled by a Dominant CEO/President with Too Much Responsibility

The Comptroller's Handbook states that directors must provide a clear framework of objectives and policies within which the CEO must operate and administer the bank's affairs. Such objectives and policies should cover all areas. Directors may delegate certain authority to executive officers but not the primary responsibility to maintain the bank and its policies on a sound and legal basis. In addition, it is the primary duty of a board of directors to select and appoint executive officers who are qualified to administer the bank's affairs effectively and soundly. The board is also responsible for removing bank officers who prove unable to meet reasonable standards of executive ability and efficiency.

We found that the CEO/president of TeamBank dominated the bank's board and management and that the bank's board failed to act as a control to ensure the bank's safe and sound operation.

TeamBank's CEO/president had held both the position of CEO and the position of president since January 2004. He had also served as chairman of the board at Team Financial, Inc., since May 1986 and as its CEO since September 1995. In addition, he had been a member of the board's loan committee and of the bank's senior loan committee and its asset and liability committee since 2004. He had also joined two new committees—credit risk and foreclosure—that were formed in 2006.

We learned from board minutes and interviews with OCC officials that the CEO/president was responsible for promoting TeamBank's asset growth through an aggressive lending strategy that led to a concentration in CRE loans. The other board members generally did not challenge the CEO/president concerning the reasonableness and risk of bank practices. As discussed earlier, the board approved multiple increases in concentration limits. The board also accepted the CEO/president's reports on loan matters and unanimously approved various policies with no discussion documented in the minutes of board meetings.

In 2008, OCC concluded that the magnitude of the CEO/president's duties, particularly in a troubled institution of TeamBank's size, was excessive for any one individual and compromised the effectiveness with which the duties could be carried out. OCC also concluded that the CEO/president had not exhibited the requisite skills and abilities needed to implement appropriate controls and correct problems.

The EIC for the 2005 and 2006 examinations of TeamBank stated that the individual was a good CEO/president, was more patient with personnel than he needed to be, had a proactive approach to developing people, and was a good delegator, but could assert his opinion and "override things" when necessary. The EIC did not consider the CEO/president to be dominant and stated that he was well-liked and respected by the board and bank staff, particularly the loan officers. Another EIC stated that the CEO/president basically had been in control of the bank since 1986 and seemed to have done an adequate job before 2008. This EIC also said that OCC relied on the CEO/president because of his history with OCC, the lack of problems, and his cooperation with OCC.

Based on the bank's risk profile and growth strategies in CREs, we believe that OCC should have shown greater and timelier skepticism of the CEO/president's ability to manage the risk and growth and of the board of director's ability to oversee the bank. In this regard, in 2006 OCC should have directed TeamBank to take measures to ensure that adequate senior management resources and appropriate separation of control responsibilities were in place to manage its high level of risk.

OCC Did Not Review TeamBank's Incentive Compensation Plan

According to the insider activities booklet of the Comptroller's Handbook, compensation and fees paid to insiders must serve the legitimate needs of the bank, be justified for the services rendered, and be reasonable in amount. Banks may rely on incentive pay to attract, motivate, and retain insiders, but compensation arrangements that provide incentives contrary to the safe and sound operation of the institution are to be avoided. The board of directors is responsible for reviewing and closely monitoring all insider incentives to ensure that they do not result in any unreasonable risk-taking to the bank.

OCC examiners are to focus on the adequacy of the bank's policies governing insider activities and the processes for monitoring compliance with these policies and applicable laws. OCC also requires that, when assessing a bank's credit risk assessment, examiners determine if the compensation structure for the loan officers provides appropriate balance between loan/revenue production, loan quality, and portfolio administration, including risk identification.[8] In addition, when assessing credit, an examiner should see if loan officers' compensation is tied solely to growth or volume targets.[9]

The incentive compensation plan for TeamBank's loan officers and the bonus plan for the CEO/president, chief operating officer, and chief financial officer encouraged uncontrolled growth of the bank's loan portfolio. From our review of selected TeamBank personnel files and additional documentation obtained from the review of bank documents, we learned that the loan officers'

[8] Comptroller's Handbook, "Insider Activities" (March 2006).
[9] OCC publication titled "Detecting Red Flags in Board Reports" (Oct. 2003).

incentive compensation program focused on rewarding loan officers and senior personnel based on asset growth and/or on loan fees generated. For example, some loan officers could make up to 30 percent of loan fee income in incentive compensation under a plan in existence since at least 2002. In 2006, TeamBank modified the loan officers' incentive compensation program to allow adjustments for subsequent loan performance. Based on the bank documents we reviewed, this new program became effective in January 2007. We did see evidence that adjustments were being made for some loan officers in 2007.

In 2006 and 2007, the CEO/president, the chief operating officer, and the chief financial officer received bonus payments of up to 50 percent of their salary based on the bank's asset growth. For these years, the CEO/president's bonus payments totaled 50 percent of his salary—$131,000 in 2006 and $143,000 in 2007. These bonuses were not subject to adjustment based on subsequent loan performance.

An EIC stated to us that she was aware that the CEO/president's compensation was tied to growth, but the expectation was that it was "quality growth." The EIC also said that the CEO/president was being paid appropriately because he was running two banks. She was not aware that the chief operating officer, the chief financial officer, and loan officers received bonus payments based on a percentage of loan growth or loan fees.

Poorly designed compensation policies can create incentives that ultimately jeopardize a bank's health. Therefore, we believe that OCC should have reviewed TeamBank's compensation incentive plans to determine their possible effect on loans being generated and to ensure that they did not encourage unnecessary or excessive risk-taking. In our opinion, OCC's examinations did not adequately address TeamBank's compensation policies and practices.

<u>OCC Did Not Ensure That TeamBank Conducted Stress Testing</u>

According to the Comptroller's Handbook, in stress testing, a bank alters assumptions about one or more financial, structural, or economic variables to determine the potential effect on the performance of a loan, concentration, or portfolio segment. As the Handbook states, the issue is asking that critical "what if" question and incorporating the resulting answers into the risk management process. Stress testing is a risk management concept, and all banks will derive benefits, regardless of the sophistication of their methods, from applying this risk management concept to their loans and portfolios.

The Comptroller's Handbook also states that credits in significant loan pool concentrations should be stress tested as indicators of the strength of those pools. Based on the results of stress testing, management can develop contingency plans for the credits or pools that stress testing indicates are vulnerable. These plans might include increasing supervision, limiting further advances, restricting portfolio growth, devising exit strategies, or hedging portfolio segments.

In a December 2005 letter, the Western District reminded its banks that OCC encourages them to conduct CRE transactional and portfolio stress testing. The message stated that banks should be performing some type of stress test, including

- at the transactional level, at both the underwriting stage and throughout the life of the loan;
- on individual loans, for variables other than interest rate changes; and
- for the overall CRE portfolio.

In the letter, OCC stated that it would share a transactional level stress-testing tool with banks that did not have one.

As credit risk in TeamBank's risk profile began to grow in 2006, management did not implement an adequate stress testing model to identify, measure, monitor, and control risk. OCC, however, did not bring up the issue of stress testing in the 2006 ROE.

In 2008, OCC found that TeamBank's management did not require its officers to consistently include sufficient detail in the loan presentations including risk analysis, stress testing of assumptions, or in-depth analysis of a guarantor's financial ability. OCC emphasized that the bank's board needed to hold management accountable for implementing effective concentration risk management practices by aggregating the results of stress testing of individual borrowers. For example, OCC stated that a stress test of residential development projects could note scenarios that pose low, normal, and high vulnerability based on location, absorption, rates, and sales price. As a concern, OCC further identified a credit where there was no documentation of multi-variable stress testing and the potential impact it could have on repayment.

The 2009 ROE stated that TeamBank was not consistently conducting stress testing or sensitivity analysis of significant credits for its non-problem loans, even though the bank had steadily increased its CRE concentration from 2006 through the first quarter of 2008. Although OCC does not require banks to conduct stress testing, we believe that OCC should have more forcefully encouraged TeamBank, in light of its increasing CRE concentration, to conduct transactional and portfolio stress testing in 2006.

OCC's 2007 Quarterly Monitoring and 2008 Examination Missed Critical Issues

OCC's 2007 Quarterly Monitoring Did Not Ensure That TeamBank Had Implemented Adequate Credit Administration and Loan Supervision Practices

The Comptroller's Handbook states that quarterly monitoring or periodic monitoring activities are a key component of supervision by risk. The timing of the activities is risk-based and driven by supervisory objectives rather than predetermined calendar dates. The objectives of periodic monitoring include

- identifying significant (actual or potential) changes in the bank's risk profile,
- ensuring the validity of the supervisory strategy, and
- achieving efficiencies during onsite activities.

The Comptroller's Handbook also states that the specific objectives of quarterly monitoring are determined by the portfolio manager in consultation with the supervisory office and are based on knowledge of the bank's condition and risks.[10] Depending on the circumstances and the bank's risk profile, quarterly monitoring may be as limited as a brief phone call to bank management or a review of the bank's financial information. If circumstances warrant, quarterly monitoring may also be more in-depth, and could include a comprehensive analysis of various CAMELS components or a visit to the bank. It is the joint responsibility of the supervisory office's ADC and the portfolio manager to determine the depth and breadth of the activities needed to achieve supervisory objectives.

With respect to documenting quarterly monitoring, if the bank's risk profile or CAMELS ratings have not changed, the only required documentation in OCC's system is a statement that the monitoring objectives were met and that the bank's risk profile had not changed since the prior review.

For the Kansas City South field office, it is the practice that the portfolio manager will contact bank management and review the bank financial information. We saw that this was accomplished when we reviewed the OCC memorandums documenting the quarterly reviews of TeamBank, which included a description of the work that was performed and a brief update of the CAMELS components.

For the first quarterly review in 2007, the EIC met with the CEO/president to discuss the 2006 ROE issues and was informed by the CEO/president that an outside firm had been hired to conduct the independent loan reviews. The CEO/president stated that TeamBank was working on the exception tracking project.[11] For the remainder of the quarterly reviews in 2007, the EIC stated that she called the CEO/president to ask how things were going and if there were any changes in the bank. The CEO/president stated that there was nothing to report. The EIC went on to state that no testing was performed and there was no reason to do so because, based on OCC's experience with the CEO/president, there

[10] In the majority of cases, including this one, the EIC is also the portfolio manager. The EIC for the 2008 examination was assigned to TeamBank in December 2006.
[11] As discussed earlier, the exception tracking project was one of the three issues reported in the 2006 ROE as encouragements that we believe should have been presented as an MRA.

was no reason to believe that TeamBank was not doing what he stated it would do.

As discussed in the cause section, TeamBank had by 2006 engaged in high risk activities in two primary areas: (1) a large concentration of CRE loans and (2) funding the CRE loans with FHLB borrowings and brokered deposits. The board and management failed to control the risks associated with the concentration in CRE loans by not implementing appropriate controls, concentration limits, or risk management processes corresponding with the loan growth.

To strengthen credit administration and loan supervision in the bank, OCC suggested in the 2006 examination that TeamBank

- ensure the recognition of nonaccrual assets in a timely manner,
- re-establish concentration of credit limits,
- strengthen the required action plans on classified credits,
- establish maximum tolerance levels by individual officers for all monitored exceptions, and
- enhance the ALLL analysis.

The 2008 ROE stated that the board did not ensure that management implemented adequate practices in pace with the bank's aggressive growth and the complexity of the loan portfolio. Conditions had deteriorated so that the following were MRAs:

- criticized assets,
- concentration risk management,
- credit administration practices, and
- ALLL methodology.

As shown, OCC elevated its 2006 suggestions to MRAs in the 2008 ROE, placing increased emphasis on managing classified credits and concentration risk. From a suggestion to enhance the ALLL analysis in 2006, the situation evolved so that there were serious concerns in 2008 about a faulty process that led to a determination of noncompliance with generally accepted accounting principles and OCC guidance, and an inadequate ALLL balance to cover the inherent credit risk. These matters were subsequently included in the consent order.

OCC was aware from its quarterly reviews of the growth in CRE loans that TeamBank was using non-core funding sources. We believe that OCC should have conducted more in-depth quarterly monitoring in 2007, including an onsite review, to ensure that appropriate credit administration and loan supervision practices were in place.

OCC's 2008 Examination Did Not Initially Detect Serious Issues at TeamBank

During the 2008 examination of TeamBank, which began in January 2008, OCC examiners initially missed serious issues and reached a preliminary result that the bank's situation had improved because its classified assets had decreased to 33 percent, from 40 percent reported in the 2006 examination. At that time, the EIC recommended CAMELS ratings of 2 (composite and all components).

Because of TeamBank's concentration in CRE loans being over 300 percent, the ADC had concerns about the examiners' preliminary results that classified assets had declined. As a result, she determined that a closer look needed to be taken at the asset quality review and deferred issuing the ROE. She then had the line sheets for the TeamBank loans that were sampled in January 2008 independently reviewed, and put TeamBank first on the list of CRE targeted examinations to be conducted by the Kansas City South field office.

As a result of the ADC's questioning of the decrease in classified credits with the Western District Deputy Comptroller, OCC determined that it needed to more closely review the line sheets of the loans sampled for the asset quality review. A different EIC who was subsequently assigned to conduct the TeamBank CRE targeted examination found several credits during his review that needed to be discussed with bank management, which led to a substantial increase in classified credits. The EIC reviewed the line sheets and accompanying documents for 13 credits and found that the narrative and documentation for 5 of the credits did not fully support the risk ratings and that the information for 2 of the credits was insufficient to risk rate the credit.

On March 31, 2008, OCC began the CRE targeted examination. After the first week, the following risk management issues surfaced:

- Board minutes indicated that as the bank exceeded the concentration limit, the board merely raised the limit.
- Loan officers were not monitoring the status of the projects.
- Appraisal reviews were typically limited to checklists.
- Inspections were not being performed on construction and development loans.
- Interest was capitalized on stalled projects.
- Feasibility studies appeared to be nonexistent or weak.

We believe the preceding risk management issues should have been discovered earlier during the January 2008 exam. Also, during the CRE targeted examination, OCC had significant problems with information gathering, documentation, and bank management disagreeing with its ratings of credits sampled.

While OCC was conducting the CRE targeted examination, the CEO/president raised the issue of charter conversion with an EIC. By changing its charter, TeamBank could be subject to the supervision of a bank regulator other than OCC. The EIC told the CEO/president that she understood but believed that other regulators would be just as concerned about the CRE concentration as OCC was.

As a result of the CRE targeted examination, completed in April 2008, classified assets increased to 96 percent, about three times higher than the January 2008 percentage. The field office revised the ROE, and in June 2008, recommended a composite rating of 4 to the Western District Supervision Review Committee. The Committee concurred with the composite rating of 4.

To facilitate ongoing and consistent supervision, OCC generally assigns responsibility for each national bank to a commissioned national bank examiner, who as the EIC/portfolio manager must

- maintain an up-to-date understanding of the risks of each assigned bank;

- identify risks and respond in an appropriate and expedient manner;
- consider the risks posed by each significant line of business within the bank in determining the bank's ratings and consolidated risk assessment; and
- follow up on bank management's actions to address deficiencies noted during any supervisory activity.

Activities performed during a supervisory cycle must be sufficient in scope to assign a bank's CAMELS composite and component ratings.

As discussed, serious issues were not addressed in the preliminary results of the full-scope onsite examination that began in January 2008. Upon supervisory review, OCC management required first a review of line sheets and then a CRE targeted examination. Although we are not making a recommendation related to the conduct of the 2008 examination, we believe that in the case of TeamBank, the examiners should have been more thorough earlier.

OCC Transferred Supervision to Its Special Supervision Division and Appropriately Used Enforcement Action and PCA

At the conclusion of the CRE targeted examination on April 18, 2008, OCC had significant regulatory concerns about TeamBank, noting that the bank's growth and poor credit risk management had led to its deteriorating financial condition. As a result, on April 24, 2008, OCC notified TeamBank that it was designated as in troubled condition.[12] Following review by DSRC, OCC transferred supervision of TeamBank to its Special Supervision Division, which directed overall supervision of the bank from July 31, 2008, until it was closed on March 20, 2009.[13]

[12] Under 12 U.S.C. § 1831i, once OCC designates a bank as in troubled condition, the bank is required to notify OCC at least 30 days before the proposed addition of any individual to the board of directors or the employment of any individual as a senior executive officer. OCC may then issue a notice of disapproval or remain silent on the proposal.

[13] The Special Supervision Division of the Midsize/Community Bank Supervision Department supervises critical problem banks through rehabilitation or other resolution processes such as orderly failure management or the sale, merger, or liquidation of such institutions. It is located at OCC headquarters in Washington, D.C.

On September 2, 2008, TeamBank's board agreed to enter into a consent order with OCC that addressed numerous deficiencies identified in the 2008 examination. The consent order required the bank to address deficiencies in management, capital, asset quality, and liquidity within specified time limits and to develop strategic, capital, and liquidity risk management plans. As part of a capital plan, TeamBank was required to achieve and maintain by December 31, 2008, a Tier 1 risk-based capital ratio of 10 percent and a leverage ratio of 8 percent. These ratios are higher than those for the well-capitalized standard. If the bank failed to develop an adequate capital plan, the consent order stated that OCC could require the development of a plan to sell, merge, or liquidate it. TeamBank failed to meet the mandated capital ratios by the deadline.

As of the December 31, 2008, call report, TeamBank's capital level had fallen to undercapitalized.[14] On February 11, 2009, OCC issued a PCA notice advising TeamBank that it was undercapitalized and requiring it to file a capital restoration plan by March 2, 2009. This plan was to address how TeamBank would comply with the requirements of the September 2, 2008, consent order. OCC determined that the plan, received on March 3, 2009, was unacceptable because it did not contain the required information.

We concluded that the Special Supervision Division did its best to address TeamBank's problems under the circumstances. Because conditions at TeamBank had already begun to deteriorate rapidly before its supervision was transferred, however, there was little that the division could do to rehabilitate the bank. We also concluded that OCC took appropriate enforcement action and properly implemented PCA in reclassifying the bank's capital level.

OCC Lessons-Learned Review

According to OCC headquarters officials, an internal lessons-learned review of the failure of TeamBank was underway at the time of our review. The purpose of the lessons-learned review is to

[14] Tier 1 capital to adjusted total assets, Tier 1 capital to risk-weighted assets, and total capital to risk-weighted assets ratios were 4.00, 5.07, and 6.35 percent, respectively. For detail on PCA capitalization requirements, see the definition for Prompt Corrective Action in appendix 3.

assess both the causes of the failure and OCC's supervision of the bank.

Recommendations

Our material loss review of TeamBank is the fifth such review we have performed of a failed OCC-regulated financial institution during the current financial crisis. Appendix 6 lists the other four material loss reviews and our associated recommendations. OCC 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 TeamBank, we recommend that the Comptroller of the Currency do the following:

1. Emphasize to examiners that matters requiring attention are to be issued in reports of examination in accordance with the criteria regarding deviations from sound management and noncompliance with laws or policies listed in the Comptroller's Handbook.

   <u>Management Response</u>

   OCC agreed that it is critical for examiners to properly use MRAs to clearly communicate concerns and expectations to bank boards and management in a timely manner. OCC continues to reinforce the importance of adhering to its MRA policy in numerous ways, including quality assurance activities, management discussions, and, most recently, during an October 2, 2009, conference call with midsize and community bank examiners.

2. Emphasize to examiners the need to
   a. adequately assess the responsibilities of a controlling official (CEO/president, for example) managing the bank to ensure that the official's duties are commensurate with the risk profile and growth strategy of the institution;

b. review incentive compensation and bonus plans for executives and loan officers; and
c. ensure that banks conduct transactional and portfolio stress testing when appropriate.

Management Response

OCC agreed and stated that examiners are provided with guidance on (a) assessing the adequacy of management resources to ensure they are commensurate with a bank's risk profile and growth strategies and (b) incentive and compensation plans. Additionally, the Senior Deputy Comptroller for Midsize and Community Bank Supervision and the Director for Special Supervision emphasized these points during the October 2, 2009, conference call with examiners.

Having found that the use of portfolio stress testing and sensitivity analysis required by OCC policy continues to be challenging for many institutions, particularly community banks, OCC developed a transactional level CRE Loan Stress Workbook, which is available to all national banks on OCC's National BankNet Web site. An additional model designed for CRE stress testing at the portfolio level is currently under development and will be available to national banks as soon as it is completed. OCC continues to use outreach and other activities to encourage national banks to use these tools in measuring and managing the level of risk in their CRE portfolios.

OIG Comment

OCC's actions, both taken and planned, meet the intent of our recommendations. OCC will need to establish a planned completion date in the Department of the Treasury Joint Audit Management Enterprise System (JAMES) for making available the model under development for CRE stress testing at the portfolio level. It should also be noted that the recommendations involve matters that require ongoing management attention.

* * * * *

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 TeamBank, National Association, of Paola, Kansas, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[15] 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.

To accomplish our review, we conducted fieldwork at the Office of the Comptroller of the Currency's (OCC) headquarters in Washington, D.C., its district office in Denver, Colorado, and its Kansas City South field office in Overland Park, Kansas. We also performed work at the Federal Deposit Insurance Corporation's (FDIC) Division of Resolutions and Receiverships in Dallas, Texas, and interviewed its officials and those of the FDIC Division of Supervision and Consumer Protection. We conducted our fieldwork from May through July 2009.

To assess the adequacy of OCC's supervision of TeamBank, we determined (1) when OCC first identified TeamBank'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 determined whether OCC (1) might have discovered problems earlier; (2) identified and reported all the problems; and (3) issued comprehensive, timely, and effective

[15] 12 U.S.C. § 1831o(k).

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 begin with the 2005 examination and end with TeamBank's failure on March 20, 2009. This period included two safety and soundness examinations prior to OCC's identifying TeamBank as a troubled institution and assigning it a composite CAMELS rating of 4.

- We reviewed OCC supervisory files and records for TeamBank from 2005 through 2009. 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 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 the supervision of TeamBank with OCC officials, examiners, and an attorney to obtain their perspective on the bank's condition, the scope of the examinations, and supervisory steps taken. We also interviewed FDIC Division of Supervision and Consumer Protection personnel who were responsible for monitoring TeamBank for federal deposit insurance purposes.

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

- We assessed OCC'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 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.

TeamBank History

TeamBank, National Association, Paola, Kansas (TeamBank), was established in 1885 as the Miami County National Bank of Paola. The bank's name was changed to TeamBank in 1997. TeamBank was a community bank with trust powers. In addition to its main office, TeamBank had 15 branch offices in Kansas, Missouri, and Nebraska. Team Financial, Inc. (TFI), a bank holding company, wholly owned Team Financial Acquisition Subsidiary, Inc., which wholly owned TeamBank. TFI also wholly owned Colorado National Bank through an intermediate holding company.[16] TFI was publicly traded on the NASDAQ stock exchange. TFI's largest shareholder was the Team Financial, Inc., Employees' Stock Ownership Plan, which owned 11.65 percent of TFI.

Appendix 4 contains a chronology of significant events regarding TeamBank.

Types of Examinations Conducted by the Office of the Comptroller of the Currency

The Office of the Comptroller of the Currency (OCC) conducts various types of bank examinations, including full-scope examinations. A full-scope examination is a combined examination of the institution's safety and soundness, compliance with various rules and regulations, and information technology (IT) systems. The safety and soundness portion of the examination includes a review and evaluation of capital adequacy, asset quality, management effectiveness, earnings performance, liquidity and asset/liability management, and sensitivity to market risk. The IT portion of the full-scope examination evaluates the overall performance of IT within the institution and the institution's ability to identify, measure, monitor, and control technology-related risks. The compliance portion of the examination includes an assessment of how well the bank manages compliance with various consumer protection regulations, such as Truth in Lending, Truth in Savings, and the Bank Secrecy Act. A targeted examination is any

[16] OCC closed Colorado National Bank, Colorado Springs, Colorado, on the same day that it closed TeamBank and appointed the Federal Deposit Insurance Corporation as receiver. The estimated $9 million cost to the Deposit Insurance Fund resulting from the failure of Colorado National Bank did not reach the threshold for a material loss review by our office.

examination that does not fulfill all the statutory requirements of a full-scope examination.[17]

The results of full-scope examinations are used to assign ratings to banks.[18] OCC, like other bank regulatory agencies, uses the Uniform Financial Institutions Rating System, commonly called CAMELS ratings. A bank's composite rating under CAMELS integrates ratings from six component areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

OCC assigns each banking organization individual CAMELS component ratings and a composite rating that indicates the institution's overall condition. CAMELS composite and component ratings are on a five-point scale, with 1 being the best score and 5 being the worst.

Banks with a composite rating of 1 are sound in every respect, generally have components rated 1 or 2, and give no cause for supervisory concern. Banks with a composite rating of 2 are fundamentally sound, generally have no component rated 4 or 5, and exhibit no material supervisory concerns. Banks with a composite rating of 3 exhibit some degree of supervisory concern in one or more component areas, generally have no component with a rating of 5, and require more than normal supervision, which may include formal or informal enforcement actions. Banks with a composite rating of 4 exhibit unsafe and unsound practices and have problems ranging from severe to critically deficient that are not being satisfactorily addressed by management. Banks with a composite rating of 5 exhibit extremely unsafe and unsound practices or conditions, have critically deficient performance, and present the greatest supervisory concern.

[17] 12 U.S.C. § 1820(d) generally requires that the appropriate federal banking agency conduct a full-scope, onsite examination of each insured depository institution at least once during each 12-month period. However, the 12-month period may be extended to 18 months depending on the size and other circumstances of the affected institution.
[18] Ratings may also be assigned as a result of targeted examinations, and in some cases, periodic monitoring activities.

Types of Enforcement Actions Available to OCC

OCC uses informal and formal enforcement actions to address violations of laws, rules, regulations, and unsafe and unsound practices or conditions.

Informal Enforcement Actions

When a bank's overall condition is sound but it is necessary to obtain written commitments from its board of directors to ensure that identified problems and weaknesses will be corrected, OCC may use informal enforcement actions. Informal enforcement actions provide a bank with more explicit guidance and direction than a report of examination normally contains but are generally not legally binding.

Informal enforcement actions include commitment letters, memoranda of understanding, and 12 C.F.R. Part 30 safety and soundness plans. Commitment letters and memoranda of understanding contain specific bank commitments to take corrective actions in response to problems or concerns identified by OCC in its supervision of the bank. Part 30 informal enforcement actions require the bank to submit a compliance plan for OCC approval that outlines the steps the bank will take and timeframes to correct identified deficiencies. Unlike formal enforcement actions, informal actions are not disclosed to the public.

Formal Enforcement Actions

Formal enforcement actions are authorized by statute, generally more severe, and disclosed to the public. Formal actions are also enforceable through the assessment of civil money penalties and, with the exception of formal agreements, through the federal court system. Formal enforcement actions available to OCC include consent orders, cease and desist orders, formal written agreements, and Prompt Corrective Action directives.

OCC Enforcement Guidelines

OCC policy specifies that determining the appropriate enforcement action, whether informal or formal, depends on the following:

- the overall condition of the bank;
- the nature, extent, and severity of the bank's problems and weaknesses;
- the commitment and ability of bank management to correct the identified deficiencies; and
- the existence of previously identified but unaddressed problems or weaknesses.[19]

[19] *Bank Supervision Operations—Enforcement Action Policy* (PPM 5310-3).

(Adversely) classified asset	An asset rated as substandard, doubtful, and loss. Substandard assets are inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. A doubtful asset has all the weaknesses of a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full questionable and improbable. A loss asset is considered uncollectible and of such little value that continuation as a bankable asset is not warranted.
Allowance for loan and lease losses	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.
Brokered deposit	Any deposit that is obtained, directly or indirectly, from a deposit broker. The bank solicits deposits by offering rates of interest that are significantly higher than the rates offered by other insured depository institutions in its normal market area. Under 12 U.S.C. § 1831(f) and 12 C.F.R. 337.6, the use of brokered deposits is limited to well-capitalized insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to adequately capitalized institutions. Undercapitalized institutions are not permitted to accept brokered deposits.
Call report	A quarterly report of income and financial condition that banks file with their regulatory agency. The contents of a call report include consolidated detailed financial information on assets, liabilities, capital, and loans to executive officers, as well as income, expenses, and changes in capital accounts.
CAMELS	An acronym for performance rating components for financial institutions: <u>c</u>apital adequacy, <u>a</u>sset quality,

	management, 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.
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.
Commercial real estate loans	Loans secured by raw land, land development, and construction. Commercial real estate includes one- to four-family residential construction, multifamily property, and nonfarm nonresidential property where the primary or a significant source of repayment is from rental income associated with the property (i.e., loans for which 50 percent or more of the source of repayment comes from third-party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property.
Concentration (of credit)	A situation where direct, indirect, or contingent obligations exceed 25 percent of a bank's capital structure.
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 a small number of sectors, areas, or borrowers would pose a smaller risk to the institution's financial health.
Consent order	The title given by the Office of the Comptroller of the Currency (OCC) to a cease and desist order that is

entered into and becomes final through the board of directors' execution, on behalf of the bank, of a stipulation and consent document. Its provisions are set out in article-by-article form and prescribe restrictions and corrective and remedial measures necessary to correct deficiencies or violations in the bank and return it to a safe and sound condition.

District Supervision Review Committee	An OCC committee in each district that ensures that OCC bank supervision and enforcement policies are applied effectively and consistently. Each committee advises the deputy comptroller for its district on bank supervision and enforcement cases by providing recommendations on supervisory strategies and enforcement actions.
Federal Home Loan Bank	The Federal Home Loan Bank System, chartered by Congress in 1932, provides liquidity to member institutions that hold mortgages in their portfolios and facilitates the financing of mortgages by making low-cost loans, called advances, to its members. Federal Home Loan Bank (FHLB) advances are available to members with a wide variety of terms to maturity, from overnight to long term. Qualifying collateral for advances includes residential mortgages, commercial mortgages, and (for small institutions) small business and agricultural loans. Advances facilitate asset liability management of depository institutions by providing medium- and long-term instruments not available elsewhere and by setting individualized terms to maturity. All advances are collateralized. FHLBs require substantial levels of over-collateralization and can usually demand additional collateral at will. Advances are designed to prevent any possible loss to FHLBs, which also have a super lien (a lien senior or superior to all current and future liens on a property or asset) when institutions fail. To protect their position, FHLBs have a claim on any of the additional eligible collateral in the failed bank. In addition, the Federal Deposit Insurance Corporation has a regulation that

	reaffirms FHLB priority, and FHLBs can demand prepayment of advances when institutions fail.
Full-scope onsite examination	Examination activities performed during the supervisory cycle that: (1) are sufficient in scope to assign or confirm a bank's CAMELS composite and component ratings; (2) satisfy core assessment; (3) result in conclusions about a bank's risk profile; (4) include onsite supervisory activities; and (5) generally conclude with the issuance of a report of examination.
Generally accepted accounting principles	A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.
Line sheet	A work document used by an examiner to review a bank loan. The line sheet initially contains basic information about a loan, including the original amount, the current balance, and the monthly payment. The examiner then uses the line sheet as he/she reviews the loan file, documenting his/her analysis, the disposition of the loan, and the reasons for that disposition.
Loan presentation	A document that a loan officer prepares for a loan committee when a loan is initially approved, extended, or renewed. An informative loan presentation would include the purpose of the credit, the sources of repayment, the terms of the note, a description of the project, the strength and weaknesses of the credit, and other analysis of the project.
Matter requiring attention	A bank practice noted during an examination that deviates from sound governance, internal control, and risk management principles, which may adversely affect the bank's earnings or capital, risk profile, or reputation if not addressed. It may also result in substantive noncompliance with laws and regulations, internal policies or processes, OCC supervisory

guidance, or conditions imposed in writing in connection with the approval of any application or other request by a bank. Matters requiring attention are not enforcement actions, but failure by a bank's board and management to address a matter requiring attention could lead to an enforcement action.

Prompt Corrective Action

A framework of supervisory actions, set forth in 12 U.S.C. § 1831o, for insured banks 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 bank 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:

Capital Category	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 bank also cannot be subject to a higher capital requirement imposed by OCC.

Special mention

An asset that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified

	and do not expose an institution to sufficient risk to warrant adverse classification.
Stress testing	Analysis that estimates the effect of economic or other changes on key performance measures, such as losses, delinquencies, and profitability. Key variables used in stress testing may include interest rates, score distributions, asset values, growth rates, and unemployment rates.
Targeted examination	A bank examination that does not fulfill all of the requirements of a statutory full-scope onsite examination. Targeted examinations may focus on one particular product, function, or risk, or may cover specialty areas.
Tier 1 (capital)	Common shareholder’s equity (common stock, surplus, and retained earnings), noncumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries.

The following chronology describes significant events in the history of TeamBank, National Association (TeamBank), including examinations conducted and enforcement actions taken by the Office of the Comptroller of the Currency (OCC). For additional information on the results of examinations, including any significant safety and soundness matters requiring attention and recommended actions, see appendix 5.

6/15/1997	The Miami County National Bank of Paola, Kansas, established in 1885 and insured by the Federal Deposit Insurance Corporation (FDIC) since 1934, changes its name to TeamBank, National Association.
10/5/2005	OCC begins an examination with financial information as of June 30, 2005. The report, with ratings of 2/222222, is mailed on December 16, 2005.
12/12/2005	The Western District Deputy Comptroller sends banks a letter outlining expectations for sound commercial real estate (CRE) risk management practices. This includes having policy guidelines appropriate to the volume and complexity of lending activities, adopting and adhering to sound credit structure and underwriting guidelines, and stress testing CRE transactions on multiple variables and at the portfolio level.
8/31/2006	OCC begins an examination with financial information as of August 31, 2006. The report, with ratings of 2/222222, is mailed on November 17, 2006.
12/6/2006	OCC issues guidance on CRE concentrations, emphasizing the need for financial institutions to implement sound concentration risk management practices (OCC Bulletin 2006-46).
10/5/2007	The Western District Deputy Comptroller sends banks a letter on the results of a CRE survey and the need for additional progress in key areas, including CRE loan growth, underwriting, and risk management. This includes reviewing procedures to ensure that CRE loans are properly coded, closely monitoring CRE growth, establishing policies with both concentration and growth guidelines, perfecting and expanding transactional level stress testing, and implementing portfolio level stress testing.

4Q 2007	Team Financial, Inc. (TFI), injects $2 million into TeamBank to maintain the minimum ratios for well-capitalized status.
1Q 2008	TFI injects $1.75 million into TeamBank to offset increased provisions to the allowance for loan and lease losses due to significant deterioration in the loan portfolio.
1/22/2008	OCC begins an examination with financial information as of December 31, 2007 and updated with information from March 31, 2008. The report, with ratings of 4/444442, is mailed on August 12, 2008.
3/31/2008	During the ongoing 2008 examination, OCC begins an expanded review of TeamBank's CRE loan portfolio.
4/22/2008	During an exit conference, OCC advises the bank that it is downgrading a number of loans. Classified assets increase to 96 percent of capital (from 34 percent) and special mention loans are another 37 percent of capital.
4/24/2008	OCC notifies TeamBank by letter that it is designated as in Troubled Condition.
5/20/2008	The chief operating officer of TeamBank reports at a board meeting that the recent resignations of loan officers have resulted in a $400,000 savings in salary and that current loan officers are very capable of handling the extra duties assigned.
6/23/2008	The OCC Western District Supervision Review Committee meets to discuss TeamBank. Decisions are made to downgrade the CAMELS ratings (see 1/22/2008 entry) and to initiate a consent order.
6/24/2008	TFI selects an investment banking firm to serve as financial advisor to assist TFI and its board with analysis of strategic alternatives, including capital planning efforts.
7/31/2008	The Western District transfers TeamBank to Special Supervision due to the bank's significant asset quality problems.

8/21/2008	The Federal Home Loan Bank requires TeamBank to deliver acceptable collateral to secure $86 million of term loans and credit line balances and $37 million of letters of credit.
9/1/2008	The chief executive officer (CEO)/president resigns from all positions within TFI and its subsidiaries, including TeamBank. He joined TeamBank in April 1973 and was promoted to TFI chairman of the board and director in May 1986. He became CEO of TFI in September 1995 and in January 2004 was appointed CEO/president of TeamBank.
9/2/2008	TeamBank enters into a consent order with OCC to address the numerous deficiencies identified during the 2008 examination. Among other things, the consent order requires TeamBank to achieve, by December 31, 2008, a total risk-based capital ratio of 10 percent and a leverage ratio of 8 percent.
11/18/2008	OCC notifies TeamBank by letter that its composite rating and its liquidity component rating are being downgraded to 5, resulting in CAMELS ratings of 5/444452. The downgrade was based, in part, on a collateral deficiency with the Federal Home Loan Bank.
12/2/2008	TFI and TeamBank board resolutions to obtain a definitive sale contract for the bank no later than March 15, 2009, are delivered in a letter to OCC. The boards view selling the bank as the only viable option to resolving capital deficiencies.
12/31/2008	TeamBank fails to achieve the capital ratios required by the consent order. The total risk-based capital ratio is 6.35 percent (10 percent required) and the leverage ratio is 4 percent (8 percent required).
12/31/2008	TeamBank reports a net operating loss of $33 million after allowance for loan and lease losses provision expense of $26 million.
1/5/2009	OCC begins an examination with financial information as of December 31, 2008, resulting in ratings of 5/555555.

1/12/2009	FDIC begins its participation with OCC in the TeamBank examination. FDIC concurs with the ratings assigned by OCC.
2/11/2009	OCC deems TeamBank undercapitalized and in accordance with the Prompt Corrective Action provisions in 12 U.S.C. § 1831o requires it to submit a capital restoration plan by March 2, 2009.
2/26/2009	OCC notifies TeamBank during a meeting that its composite and component CAMELS ratings are all 5.
3/3/2009	TeamBank submits a capital restoration plan.
3/16/2009	OCC notifies TeamBank in a letter that its capital restoration plan is unacceptable because it does not contain the required information. The plan did not identify how and when TeamBank would raise additional capital or correct the unsafe and unsound banking practices that caused its capital to become impaired.
3/20/2009	OCC closes TeamBank and appoints FDIC as receiver. FDIC enters into a purchase and assumption agreement with a Missouri bank.

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring attention, corrective actions, recommendations, and other issues cited in reports of examination[20]	Formal enforcement action
10/5/2005	2/222222	$569	**Matters Requiring Attention** • None identified. **Recommendations** • Enhance the problem loan action plan. • Strengthen the audit and/or process for validating the accuracy of the interest rate risk model used by the bank. • Implement an appraisal review process by December 30, 2005. • Establish a centralized process for ordering and reviewing the reasonableness of appraisals on commercial real estate prior to preparation of loan documents. • Obtain a certified appraisal of sufficient quality to support the type of real estate securing a specific debt.	None
8/31/2006	2/222222	$601	**Matters Requiring Attention** • None identified. **Recommendations** • Ensure that the loan review system and exception tracking project are implemented in a timely manner. • Ensure the recognition of nonaccrual assets in a timely manner. • Re-establish concentration of credit limits for construction lending and raw land purchases. • Strengthen the required action plans on classified credits to include an analysis of the causative factors, establish timeframes for implementation of the plan, and outline alternative courses of action and triggers for rating changes. • Establish maximum tolerance levels by individual officers for all monitored exceptions and implement procedures to ensure accountability. • Enhance the allowance for loan and lease losses (ALLL) analysis by providing support for percentage allocations used, considering unfunded commitments in the analysis.	None

[20] This table includes all OCC safety and soundness examinations that began during or after 2005.

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring attention, corrective actions, recommendations, and other issues cited in reports of examination	Formal enforcement action
1/22/2008	4/444442	$705	**Matters Requiring Attention** • Develop a comprehensive business plan to achieve financial strength and integrate a comprehensive risk management program. • Identify areas of risk, develop systems to effectively monitor and control that risk, and update practices as needed when risk exposures change. • Assess the ability of staff members to effectively fulfill assigned responsibilities and, as appropriate, determine how the bank will acquire the needed expertise. • Acquire sufficient additional capital to achieve and maintain the higher minimum capital levels that will be required by the enforcement action. • Provide management with clear and well-defined quantifiable goals and objectives, describing assumptions for significant projected income and expense components. The specific strategy should focus on improving trends in asset quality, reducing the level of concentrations of credit, reducing the bank's cost of funds, and maintaining adequate capital. • Ensure that the plan assesses all major risk areas affecting the bank and identifies steps to control significant risks. • Assess the skills and abilities of the president and bank staff to ensure that they are commensurate with the type and magnitude of issues and operations. • Provide quantifiable measures for each strategy and a monitoring process to hold management accountable. Management should prepare monthly progress reports comparing actual results to defined targets for board review. • Closely monitor variances from the established plan and hold management accountable for explaining significant deviations and identifying options to achieve targeted results. • Develop a detailed capital plan that ensures the maintenance of sufficient capital. It should include projections for asset growth, primary sources that the bank can access to strengthen its capital structure, and a contingency plan that identifies alternative methods to the primary source. • Immediately begin the process to hire an experienced and qualified senior loan officer with the authority to oversee all lending functions, ensure that key credit systems and controls are in place, enhance concentration risk management systems, and provide vital input on the structure and terms for new and renewed credits. • Ensure that management decreases the level of classified and special mention assets. This includes developing and implementing an effective problem loan workout program that incorporates specific workout objectives, target dates, and performance criteria to measure progress toward problem resolution. • Ensure that all underwriting and credit administration practices are commensurate with the level of risk in the loan portfolio.	Consent order 9/2/2008

Date started	CAMELS rating	Assets (millions)	Significant safety and soundness matters requiring attention, corrective actions, recommendations, and other issues cited in reports of examination	Formal enforcement action
1/22/2008 (continued)			**Matters Requiring Attention** • Hold management accountable for taking prompt actions to require - expanded loan presentations and analyses; - quarterly reports of project status to senior management and the loan committee; - an enhanced appraisal review process; - development, implementation, and adherence to a written program designed to improve and strengthen the loan risk rating function. • Develop and adopt a comprehensive loan review program that assesses significant risks in the portfolio, ensures accurate risk ratings, and ensures prompt corrective action to address identified credit system weaknesses. Ensure that comprehensive reports on credit quality and administration are developed. • Hold management accountable for implementing effective concentration risk management practices by - implementing new risk limits to guide management and requiring management to reduce the level of concentrations of credit; - enhancing the concentration report to the board with written analysis and synopsis support; - assessing the adequacy of current credit administration practices; - adopting guidelines addressing when reappraisals are required; - aggregating the results of stress testing of individual borrowers; - developing realistic concentration guidelines; - identifying actions management should take when concentrations approach or exceed limits established by the board; and - ensuring that concentration risk management is directionally consistent, e.g., as risk increases in a sector, management establishes strategies to reduce exposure or mitigate risk. • Ensure that management improves the bank's ALLL analysis process, complies with generally accepted accounting principles and Office of the Comptroller of the Currency (OCC) Bulletin 2006-47, and ensures an adequate balance to cover the inherent credit risk. • Ensure that the ALLL methodology is directionally consistent with the level of risk in the portfolio and that management maintains adequate supporting documentation. • Ensure sufficient liquidity to sustain the bank's current operations and withstand any unanticipated or extraordinary demand against the bank’s funding base. • Take immediate steps to increase more-traditional core funding. • Develop a long-term business plan that focuses on diversification of funding sources. • Continue to submit to OCC agreed-upon daily reports showing sources of liquidity in relation to bank needs. • Ensure implementation of the board-approved contingency funding plan to effectively address scenarios in which increasing credit risk threatens the availability of credit-sensitive funding.	

<table>
<tr><th>Date started</th><th>CAMELS rating</th><th>Assets (millions)</th><th>Significant safety and soundness matters requiring attention, corrective actions, recommendations, and other issues cited in reports of examination</th><th>Formal enforcement action</th></tr>
<tr><td>1/5/2009</td><td>5/555555</td><td>$670</td><td><u>Matters Requiring Attention</u>
• Achieve compliance with the following eight actionable articles in the consent order to return the bank to a satisfactory condition. The number of each article is shown in parentheses here and in the Other Matters section below, which provides specific information about specific points of noncompliance.
- Compliance Committee (I)
- Strategic Plan (II)
- Capital Plan and Higher Minimums (III)
- Criticized Assets (VI)
- Loan Portfolio Management (VII)
- External Loan Review (IX)
- Concentrations of Credit (X)
- Allowance for Loan and Lease Losses (XI)

<u>Other Matters</u>
• TeamBank has not adequately implemented corrective actions required by the Matters Requiring Attention from the last report of examination related to concentration risk, credit risk management, and external loan review.
• Specific points of noncompliance with the consent order included the following:
- TeamBank did not have sufficient processes, personnel, and control systems to adhere to all provisions of the consent order. (I)
- TeamBank failed to adequately address the high level of criticized assets. Problem loan management still needed improvement. Some problem loan reports lacked sufficient analysis of the adequacy of primary source of repayment, documentation to adequately explain discrepancies, analysis of current and satisfactory credit information, and action plans for the credit. (VI)
- Systems have not been developed to provide fully effective monitoring of early problem loan identification. (VII)
- Independent loan reviews by a contractor failed to accurately risk-rate credits and did not include all required analysis. (IX)
- The quarterly market analysis developed by management did not adequately support the concentration percentages. Stress testing or sensitivity analysis of significant credits was not consistently being done for non-problem loans. (X)
- The ALLL methodology did not fully comply with accounting standards. (XI)</td><td></td></tr>
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Source: OCC reports of examination and call reports.

Since November 2008, we have completed four mandated material loss reviews of failed banks in addition to our review of TeamBank. This appendix provides our recommendations to the Office of the Comptroller of the Currency (OCC) resulting from the first four reviews. OCC 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 OCC management and examiner attention.

Report Title	Recommendations to the Comptroller
Safety and Soundness: Material Loss Review of ANB Financial, National Association, OIG-09-013 (Nov. 25, 2008) OCC closed ANB Financial and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on May 9, 2008. At that time, FDIC estimated that ANB's failure would cost the Deposit Insurance Fund $214 million.	Re-emphasize to examiners that examiners must closely investigate an institution's circumstances and alter its supervisory plan if certain conditions exist as specified in OCC's Examiner's Guide to Problem Bank Identification, Rehabilitation, and Resolution. Re-emphasize to examiners that formal action is presumed warranted when certain circumstances specified in OCC's Enforcement Action Policy (PPM 5310-3) exist. Examiners should also be directed to document in the examination files the reasons for not taking formal enforcement action if those circumstances do exist. Reassess guidance and examination procedures in the Comptroller's Handbook related to bank use of wholesale funding with focus on heavy reliance on brokered deposits and other nonretail deposit funding sources for growth. Establish in policy a "lessons-learned" process to assess the causes of bank failures and the supervision exercised over the institution and to take appropriate action to address any significant weaknesses or concerns identified.
Safety and Soundness: Material Loss Review of First National Bank of Nevada and First Heritage Bank, National Association, OIG-09-033 (Feb. 27, 2009) OCC closed First National Bank of Nevada and First Heritage Bank and appointed FDIC as receiver on July 25, 2008. As of December 31, 2008, FDIC had recorded an estimated loss of $706 million for First National Bank of Nevada and $33 million for First Heritage Bank.	Re-emphasize to examiners the need to ensure that banks take swift corrective actions in response to examination findings. Re-emphasize to examiners OCC's policy on the preparation of supervision workpapers (i.e., workpapers are to be clear, concise, and readily understood by other examiners and reviewers).

Safety and Soundness: Material Loss Review of National Bank of Commerce, OIG-09-042 (Aug. 6, 2009) OCC closed National Bank of Commerce and appointed FDIC as receiver on January 16, 2009. As of June 30, 2009, FDIC had recorded an estimated loss of $92.5 million because of this failure.	Conduct a review of investments by national banks for any potential high-risk concentrations and take appropriate supervisory action. Reassess examination guidance regarding investment securities, including government-sponsored-enterprises securities.
Safety and Soundness: Material Loss Review of Ocala National Bank, OIG-09-043 (Aug. 26, 2009) OCC closed Ocala National Bank and appointed FDIC as receiver on January 30, 2009. As of August 7, 2009, FDIC had recorded an estimated loss of $99.6 million because of this failure.	Caution examiners and their supervisors that when a bank's condition has deteriorated, it is incumbent on examiners to properly support and document in examination work papers the CAMELS component and composite ratings assigned, including those that may not have changed from prior examinations, as well as support a decision not to take an enforcement action. Remind examiners that it is prudent to expand examination procedures for troubled or high-risk banks to review the appropriateness of (a) dividends and (b) payments to related organizations, particularly when the dividends or payments may benefit bank management and board members. In this regard, OCC should reassess, and revise as appropriate, its examination guidance for when expanded reviews of dividends and related organizations should be performed.

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Michael J. Maloney, Director, Fiscal Services Audits

From: John C. Dugan, Comptroller of the Currency /s/

Date: October 6, 2009

Subject: Response to Material Loss Review of TeamBank, National Association, Paola, Kansas

We have received and reviewed your draft report titled "Material Loss Review of TeamBank, National Association." Your overall objectives were to determine the cause of the failure of TeamBank, National Association (TeamBank), assess the OCC's supervision of the bank including implementation of the Prompt Corrective Action (PCA) provisions of section 38(k), and make recommendations for preventing such a loss in the future.

You concluded that TeamBank failed primarily because its board and management did not provide effective oversight or establish adequate controls before embarking on a high-risk growth strategy with a concentration in commercial real estate (CRE) loans. Growth was coupled with deficient underwriting and credit administration and heavy reliance on non-core funding. You also concluded that the OCC did not: raise significant issues to the level of Matters Requiring Attention (MRAs) in the 2006 examination; identify until 2008 that TeamBank was controlled by a chief executive officer with too much responsibility to manage the bank's risk profile and growth strategy; review the bank's incentive compensation plan; or ensure TeamBank conducted CRE stress testing.

The paragraphs below outline the steps that we have taken, or will take, to address your recommendations.

Use of MRAs to Address Supervisory Concerns

We agree it is critical that examiners properly use MRAs to clearly communicate our concerns and expectations to bank boards and management in a timely manner. OCC's policy for utilizing MRAs is clearly stated in the Comptroller's Handbook and was more fully developed in a memorandum, dated July 5, 2005, to all midsize and community bank examiners. We continue to reinforce the importance of adhering to our policy in numerous ways including quality assurance activities, management discussions and, most recently, during an October 2, 2009, conference call with our midsize and community bank examiners.

Compensation Plans and Management Responsibilities Commensurate with Risk

We agree that examiners must assess the adequacy of management resources to ensure they are commensurate with a bank's risk profile and growth strategies. Additionally, it is a well established principle that inappropriately structured incentive and compensation plans often result in undue risk taking that is not in the long term interest of the bank. Examiners are provided with guidance on these issues in the *Community Bank Supervision, Duties and Responsibilities of Directors,* and *Insider Activities* booklets of the Comptroller's Handbook. Additionally, Senior Deputy Comptroller for Midsize and Community Bank Supervision Jennifer Kelly and Director for Special Supervision Henry Fleming emphasized these points in their remarks during the October 2, 2009, examiners conference call.

Transaction and Portfolio Stress Testing of Commercial Real Estate Loans

In the 2006 interagency issuance "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" and subsequent examiner guidance, the OCC described risk management practices that institutions should employ when they have concentrations in CRE loans. Among these practices is the use of portfolio stress testing and sensitivity analysis, as appropriate. This aspect of the CRE guidance continues to be challenging for many institutions, particularly community banks. In response, we developed a transaction level CRE Loan Stress Workbook, which is available to all national banks on the OCC's National BankNet web site. An additional model designed for CRE stress testing at the portfolio level is currently under development and will be available to national banks as soon as it is completed. OCC continues to use outreach and other activities to encourage national banks to utilize these tools in measuring and managing the level of risk in their CRE portfolios.

Processes for Developing Final Supervisory Conclusions

I would also like to address a matter that was not included as a recommendation, but was noted in your report. You correctly observed that during the 2008 examination of TeamBank, examiners initially missed serious issues and reached a "preliminary result" that the bank's condition had improved. You also noted that subsequent analysis by the Kansas City South Field Office, additional field examination work, and review by the Western District Supervisory Review Committee occurred before the agency's official conclusions were finalized. Independent reviews and the utilization of subject matter experts are integral elements of the strong controls OCC has in place to ensure the accuracy of the agency's final supervisory conclusions. The effectiveness of these controls is evident in the final TeamBank 2008 examination conclusions, which accurately reflected the bank's seriously deteriorated condition.

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

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Department of the Treasury

Deputy Secretary
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Office of Accounting and Internal Control

Office of the Comptroller of the Currency

Comptroller of the Currency
Senior Advisor—OIG/GAO Liaison

Office of Management and Budget

OIG Budget Examiner

Federal Deposit Insurance Corporation

Chairman
Inspector General

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