



Audit Report



OIG-10-052

SAFETY AND SOUNDNESS: Failed Bank Review of Olde Cypress Community Bank

September 29, 2010

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

September 29, 2010

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MEMORANDUM FOR JOHN E. BOWMAN
ACTING DIRECTOR
OFFICE OF THRIFT SUPERVISION

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

SUBJECT: Failed Bank Review of Olde Cypress Community Bank

This memorandum presents the results of our review of the failure of Olde Cypress Community Bank (Olde Cypress). Olde Cypress opened in January 1927 and had a main office in Clewiston, Florida, and four other offices located in Hendry County, Florida, and Polk County, Florida. The thrift was wholly owned by First Glades Corporation, a unitary thrift holding company. The Office of Thrift Supervision (OTS) closed Olde Cypress and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 16, 2010. As of March 31, 2010, the thrift had \$169 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$31.5 million.

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

We conducted this performance audit during August and September 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Causes of Olde Cypress's Failure

The primary causes of Olde Cypress's failure were its aggressive growth strategy, primarily in one- to four- family, nonresidential, and land loans, and diversification of lending into other geographic areas of Florida during the peak of the real estate market. The goal of the strategy was to diversify its geographic area and alleviate the concentration and economic risks within its local market. However, the strategy resulted in Olde Cypress expanding its lending activity to areas that suffered some of the highest real estate depreciation rates in the country. These factors resulted in significant increases in its problem assets and loan losses. In turn, the loan losses significantly diminished earnings and capital and, ultimately, led to Olde Cypress's failure.

Conclusion

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

We provided a draft of this memorandum to OTS management for comment. In its response, OTS stated that the primary causes of Olde Cypress's failure summarized in this memorandum are consistent with the information contained in its reports of examinations and documents in support of the grounds for receivership. The response is provided as Attachment 1. A list of the recipients of this memorandum is provided as Attachment 2.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-5776 or Amni Samson, Audit Manager, at (202) 927-0264.

Attachments

**Office of Thrift Supervision**

Department of the Treasury

Thomas A. Barnes
Deputy Director, Examinations, Supervision, and Consumer Protection

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September 28, 2010

MEMORANDUM FOR: Susan L. Barron
Director, Banking Audits
Office of Inspector General
U.S. Department of the Treasury

FROM: Thomas A. Barnes /s/
Deputy Director

SUBJECT: Draft Failed Bank Review of
Olde Cypress Community Bank

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of Olde Cypress Community Bank." Because the estimated loss of \$31.5 million to the Deposit Insurance Fund is below the \$200 million threshold set forth in section 38(k) of the Federal Deposit Insurance Act, the review of the failure of Olde Cypress was limited to ascertaining the grounds identified by OTS for appointment of a receiver and determining whether any unusual circumstances exist warranting a more in depth review.

The memorandum summarizes the primary causes of Olde Cypress's failure, which are consistent with the information contained in the OTS Reports of Examination and documents in support of the grounds for the receivership. Specifically, the memorandum cites the bank's aggressive growth in one to four family, nonresidential and land loans in its home market in Florida, and its expansion of lending into other geographic areas in Florida, during the peak of the real estate market, as the primary causes of the failure.

The memorandum identified no unusual circumstances surrounding the failure or the supervision exercised by OTS warranting a more in depth review by the Office of Inspector General. Further, no recommendations for OTS were made in the memorandum.

Thank you again for the opportunity to review and respond to the draft report. OTS appreciates the professionalism and courtesies provided by the staff of the Office of Inspector General.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of Thrift Supervision

Acting Director
Liaison Officer

Office of Management and Budget

OIG Budget Examiner