



Audit Report



OIG-11-016

SAFETY AND SOUNDNESS: Failed Bank Review of American National Bank

November 05, 2010

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR JOHN WALSH
ACTING COMPTROLLER OF THE CURRENCY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

FROM: Kieu T. Rubb /s/
Director, Procurement and Manufacturing Audits

SUBJECT: Failed Bank Review of American National Bank

This memorandum presents the results of our review of the failure of American National Bank (American). American opened in 1963 and had a main office in Parma, Ohio. The bank was a wholly owned subsidiary of American National Bancorp, a bank holding company in Parma, Ohio. The Office of the Comptroller of the Currency (OCC) closed American and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on March 19, 2010. At December 31, 2009, the bank had \$70.3 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$17.1 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 American that was limited to (1) ascertaining the grounds identified by OCC for appointing the FDIC as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing our review we (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OCC reports of examination, and (3) interviewed OCC 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 American's Failure

The primary causes of American's failure were its aggressive growth strategy in mortgage servicing assets, reliance on wholesale deposits to fund its mortgage banking operations, and insufficient capital relative to the risk level of its mortgage servicing portfolio. These conditions were exacerbated by the downturn in the housing market and overall economy. In addition, risk management activities at American were inadequate. For example, the bank's board and management lacked the expertise to develop and execute complex hedging strategies to effectively control and mitigate the high risk associated with mortgage servicing activities. American's mortgage servicing portfolio quickly deteriorated in 2009, resulting in significant losses. In turn, these losses significantly diminished earnings and capital and, ultimately, led to American's failure.

Conclusion

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

We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated it agreed with the primary causes of American's failure summarized in this memorandum and had no concerns with our determination that a more in-depth review of the bank's failure by our office is not warranted. The response is provided as Attachment 1. A list of the recipients of this memorandum is provided as Attachment 2.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-5904 or Katherine Johnson, Audit Manager, at (202) 927-8783.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Kieu T. Rubb, Director, Procurement and Manufacturing Audits

From: John Walsh, Acting Comptroller /s/

Date: October 25, 2010

Subject: Response to Failed Bank Review of American National Bank

We have received and reviewed your draft report titled "Failed Bank Review of American National Bank (American)." 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, you conducted a review of the failure of American that was limited to: (1) ascertaining the grounds identified by the OCC for appointing the FDIC as receiver; and, (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver; (2) reviewed OCC reports of examination; and (3) interviewed OCC personnel.

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

You concluded that the primary causes of American's failure were its aggressive growth strategy in mortgage servicing assets, reliance on wholesale deposits to fund its mortgage banking operations, and insufficient capital relative to the risk level of its mortgage servicing portfolio. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC. As a result, you determined that a more in-depth review of the bank's failure by the OIG is not warranted. We have no concerns with your determination.

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

Department of the Treasury

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

Office of the Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner