Audit Report

OIG-11-027

SAFETY AND SOUNDNESS: Failed Bank Review of Woodlands Bank

November 15, 2010

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 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 Woodlands Bank

This memorandum presents the results of our review of the failure of Woodlands Bank, (Woodlands), of Bluffton, South Carolina. Woodlands began operations in 1963 as Gulf Federal Savings and Loan Association (Gulf Federal), a mutual savings association, headquartered in Mobile, Alabama. In January 2007, Woodlands Financial, LLC acquired Gulf Federal Holdings, Inc., and Gulf Federal. Later that year, Gulf Federal changed its name to Woodlands Bank and moved its headquarters to Bluffton, South Carolina. Woodlands had a loan production office in Florida and seven branch offices in Alabama, South Carolina, Georgia, and North Carolina. The Office of Thrift Supervision (OTS) closed Woodlands and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 16, 2010. As of March 31, 2010, the thrift had $376.2 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is $115.0 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 Woodlands 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) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OTS reports of examination, 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 Woodlands' Failure

OTS appointed FDIC as receiver based on the following grounds: (1) the bank was in an unsafe and unsound condition to transact business, (2) the bank, by resolution of its board of directors, had consented to the appointment of a receiver, and (3) the bank had substantially insufficient capital.

The primary causes of Woodlands' failure were its (1) aggressive growth strategy, (2) excessive concentrations in higher-risk loans consisting of commercial real estate and construction and development loans, (3) ineffective management and inadequate board oversight, and (4) insufficient capital relative to the risk level of its loans. These conditions were exacerbated by the downturn in real estate values in its primary lending area, the southeast region of the United States. The board of directors did not provide sound policies or effective management over critical policies, lending, and staffing functions. For example, the thrift's poor credit underwriting allowed a significant volume of interest only loans and a liberal renewal and extension policy allowed extension of interest only payments until maturity. These factors resulted in increases in its problem assets and loan losses. In turn, these loan losses significantly diminished earnings and capital and, ultimately, led to Woodlands' failure.

Conclusion

Based on our review of the causes of Woodlands' 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 Woodlands Bank'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 Jai Mathai, Audit Manager, at (202) 927-0356.

Attachments

Office of Thrift Supervision
Department of the Treasury

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

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November 9, 2010

MEMORANDUM FOR: Susan 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
Woodlands Bank, FSB

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of Woodlands Bank." Because the estimated loss of $115.0 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 Woodlands was limited to ascertaining the grounds identified by OTS for appointment of receiver and determining whether any unusual circumstances exist warranting a more in depth review.

The memorandum summarizes the primary causes of Woodland'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. The memorandum cites the bank's aggressive growth strategy, excessive concentrations in higher-risk loans, ineffective management, inadequate board oversight, and insufficient capital relative to the risk level of its loans, as the primary causes of the failure. The memorandum specifically notes that the board of directors did not provide sound policies or effective management over critical lending and staffing functions, and cites poor underwriting and credit administration practices, such as liberal renewals and extensions for interest only loans, as an example. The downturn in the real estate market in the bank's primary lending area, exacerbated these conditions. These factors resulted in increases in problem assets and loan losses, which in turn, diminished earnings and capital.

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. 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