



# Audit Report



OIG-11-047

SAFETY AND SOUNDNESS: Failed Bank Review of BC National Banks

December 8, 2010

Office of  
Inspector General

Department of the Treasury



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

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MEMORANDUM FOR JOHN G. WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Michael J. Maloney /s/  
Director, Fiscal Service Audits

SUBJECT: Failed Bank Review of BC National Banks

This memorandum presents the results of our review of the failure of BC National Banks (BC National), of Butler, Missouri. BC National was established in 1902 as Bank of Amoret. BC National converted from a state nonmember institution to a national charter in October 1981, and changed its name to Bates County National Bank. In 1995, the bank changed its name to BC National Banks. BC National had 4 locations in Missouri: 2 in Butler, 1 in Peculiar, and 1 in Lee's Summit. BC National was 99 percent owned by Amoret Bancshares, Inc., a one-bank holding company. The Office of the Comptroller of the Currency (OCC) closed BC National and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 30, 2010. As of December 31, 2009, the bank had \$67.2 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$11.4 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, we conducted a review of the failure of BC National that was limited to (1) ascertaining the grounds identified by OCC for appointing the FDIC as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing our review we (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OCC reports of examination for the 5-year period before the bank failure, and (3) interviewed OCC examination personnel.

We conducted this performance audit during September and October 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 BC National's Failure**

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

The primary causes of BC National's failure were its (1) strategic decision to change its focus from agricultural lending to commercial real estate (CRE) lending through branch expansion into new local markets in metropolitan Kansas City, Missouri; (2) concentrations in higher-risk CRE loans; (3) ineffective board and management oversight; and (4) ineffective lending policies and procedures and underwriting guidelines. BC National's aggressive growth began when the bank expanded to new markets in Missouri between 1999 and 2001. During that time, total assets increased from \$61 million to \$97 million with total loans increasing by 52 percent. Despite warning signs related to the slowing real estate market, and without addressing its credit administration shortcomings, the board and management continued to execute the bank's lending strategy in the Kansas City metropolitan area when it opened its Peculiar branch in 2008. That same year, OCC stated in its report of examination that the board and management failed to adopt or implement commensurate risk management processes. The president and the board decided to pursue significant growth in a highly competitive CRE market without employing prudent underwriting standards and credit risk management processes, which ultimately resulted in the bank's failure.

## **Conclusion**

Based on our review of the causes of BC National'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 that it agrees with our conclusion about the primary

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causes of BC National's failure. OCC also stated that it had no concerns with our determination that a more in-depth review of the failure is not warranted. The response is provided as Attachment 1. A list of the recipients of this memorandum is provided as Attachment 2.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-6512 or Susan Roy, Audit Manager, at (202) 927-5746.

Attachments



## MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, DC 20219

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

From: John Walsh, Acting Comptroller of the Currency /s/

Date: December 6, 2010

Subject: Response to Failed Bank Review of BC National Banks

We have received and reviewed your draft report titled "Failed Bank Review of BC National Banks (BC National)." 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 BC National 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 September and October 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 BC National's failure were its: (1) strategic decision to change its focus from agricultural lending to commercial real estate (CRE) lending through branch expansion into new local markets in metropolitan Kansas City, Missouri; (2) concentrations in higher-risk CRE loans; (3) ineffective board and management oversight; and, (4) ineffective lending policies and procedures and underwriting guidelines. 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

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