



# Audit Report



OIG-13-003

SAFETY AND SOUNDNESS: Failed Bank Review of Alabama Trust Bank, National Association, Sylacauga, Alabama

October 15, 2012

## Office of Inspector General

DEPARTMENT OF THE TREASURY





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

October 15, 2012

OIG-13-003

MEMORANDUM FOR THOMAS J. CURRY  
COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Alabama Trust Bank, National  
Association

This memorandum presents the results of our review of the failure of Alabama Trust Bank, National Association (Alabama Trust), located in Sylacauga, Alabama. Alabama Trust opened in April 2000 and operated its only office in Sylacauga. The bank was owned by Guardian Bancshares, Inc., a Subchapter S corporation,<sup>1</sup> also located in Sylacauga. The Office of the Comptroller of the Currency (OCC) closed Alabama Trust and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on May 18, 2012. As of March 31, 2011, the bank had \$51.6 million in total assets. As of August 31, 2012, 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 \$150 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of Alabama Trust that was limited to (1) ascertaining the grounds identified by OCC for appointing 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 and (2) interviewed OCC examination personnel.

We performed our fieldwork during June and July 2012. We conducted this performance audit in accordance with generally accepted government auditing

---

<sup>1</sup> A Subchapter S corporation is a corporation that elects to pass corporate income, losses, deductions, and credit through to their shareholders for federal tax purposes. Shareholders report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. Among other qualifications, a Subchapter S corporation must have no more than 100 shareholders.

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 Alabama Trust's Failure**

OCC appointed FDIC receiver based primarily on the following grounds: (1) the bank had experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) the bank was in an unsafe or unsound condition to transact business, (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 it to become adequately capitalized without federal assistance, and (4) the bank was critically undercapitalized.

The primary cause of Alabama Trust's failure was its critically deficient management and direction by its board of directors. The board operated Alabama Trust without qualified and effective management, adequate strategic and capital planning, or sound corporate governance processes. As a result, Alabama Trust experienced pervasive problems related to credit administration including weak underwriting, concerns with problem loan identification and loss recognition, and conflicts of interest. Alabama Trust's growth strategy resulted in significant concentrations of commercial real estate loans, many of which were aggressively underwritten and poorly documented. This, combined with management's failure to effectively adjust to changing economic conditions and the declining real estate market, resulted in the deterioration of Alabama Trust's asset quality, increased credit losses, and declining capital levels. Also, in 2008, as asset quality was deteriorating, capital was significantly reduced by transactions resulting from a change in strategic direction by the bank's holding company.

During our review, certain matters came to our attention regarding the institution that we referred to the Treasury Inspector General's Office of Investigation.

## **Conclusion**

Based on our review of the causes of Alabama Trust's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that since 2009, when significant concerns with management and the board were identified by OCC, there were no unusual circumstances surrounding the bank's failure that

would necessitate an in-depth review. We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated that it agreed with our conclusion as to the causes of Alabama Trust's failure and that it had no concerns with our determination regarding an in-depth review of the bank's failure. 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) 927-0384 or James Lisle, Audit Manager, at (202) 927-6345.

Attachments

Attachment 1  
Management Response

○

## MEMORANDUM

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: Thomas J. Curry, Comptroller of the Currency /s/

Date: September 10, 2012

Subject: Response to Failed Bank Review of Alabama Trust Bank, National Association,  
Sylacauga, Alabama

---

We have received and reviewed your draft report titled “Failed Bank Review of Alabama Trust Bank, National Association, Sylacauga, Alabama (Alabama Trust).” The loss to the Deposit Insurance Fund is less than \$150 million, therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of Alabama Trust 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, and (2) interviewed OCC examination personnel.

You conducted your audit during June and July 2012 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. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions.

You concluded that the primary cause of Alabama Trust’s failure was its critically deficient management and direction by its board of directors. We agree.

You determined that there were no unusual circumstances surrounding the bank’s failure. 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 Midsize and Community Bank Supervision, at 202-874-5020.

**Department of the Treasury**

Deputy Secretary  
Office of Strategic Planning and Performance Management  
Office of the Deputy Chief Financial Officer, Risk and Control  
Group

**Office of the Comptroller of the Currency**

Comptroller of the Currency  
Liaison Officer

**Office of Management and Budget**

OIG Budget Examiner