



# Audit Report



OIG-12-049

SAFETY AND SOUNDESS: Failed Bank Review of Western National Bank

April 5, 2012

Office of  
Inspector General

DEPARTMENT OF THE TREASURY





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

April 5, 2012

OIG-12-049

MEMORANDUM FOR JOHN G. WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Western National Bank, Phoenix,  
Arizona

This memorandum presents the results of our review of the failure of Western National Bank (Western) located in Phoenix, Arizona. The bank opened in 2005 and operated a main office in Phoenix and two branches located in Maricopa County that were opened in 2007 and 2008. Great Western Bankcorp, Inc., a one-bank holding company, held 72 percent of Western's stock, and the remaining shares were held by several investors. The Office of the Comptroller of the Currency (OCC) closed Western and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on December 16, 2011. As of September 30, 2011, Western had approximately \$162.9 million in total assets and \$144.5 million in total deposits. As of December 31, 2011, FDIC estimated the loss to the Deposit Insurance Fund to be \$42.9 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 Western 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 and (2) interviewed an OCC problem bank specialist.

We conducted this performance audit during January and February 2012 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 Western National Bank's Failure**

OCC appointed FDIC as receiver based 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 and unsound condition to transact business, and (3) the bank was critically undercapitalized and failed to submit an acceptable capital restoration plan.

The primary cause of Western's failure was its aggressive growth in commercial real estate (CRE) loans primarily secured by owner-occupied properties, without commensurate credit administration and credit risk management practices. Examples of the bank's inadequate credit administration included inaccurate risk ratings, appraisal deficiencies, and a flawed allowance for loan and lease losses methodology. Deficient board and management supervision were also contributing factors. The board and management failed to (1) effectively supervise the bank's operations, (2) adapt sufficiently to the changing economy, (3) address the bank's excessive concentrations in CRE loans, and (4) comply with OCC informal and formal enforcement actions. The bank's high concentration in CRE loans, losses on problem loans, declining capital, and board and management's inability to rehabilitate the bank ultimately led to Western's failure.

There are matters currently under review by OCC that we have referred to the Treasury Inspector General's Office of Investigations.

## **Conclusion**

Based on our review of the causes of Western'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 our conclusion as to the causes of Western's failure and that it had no concerns with our determination that an in-depth review of the bank's failure was not warranted. The response is provided as Attachment 1. A list of the recipients of this memorandum is provided as Attachment 2.

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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 Theresa Cameron, Audit Manager, at (202) 927-1011.

Attachments

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**MEMORANDUM**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

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

Date: March 30, 2012

Subject: Response to Failed Bank Review of Western National Bank, Phoenix, Arizona

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We have received and reviewed your draft report titled "Failed Bank Review of Western National Bank, Phoenix, Arizona (Western)." 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 Western 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 an OCC problem bank specialist.

You conducted your audit during January and February 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 Western's failure was its aggressive growth in commercial real estate (CRE) loans primarily secured by owner-occupied properties, without commensurate credit administration and credit risk management practices. 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 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**

Acting Comptroller of the Currency  
Liaison Officer

**Office of Management and Budget**

OIG Budget Examiner