



# Audit Report



OIG-12-067

SAFETY AND SOUNDNESS: Failed Bank Review of Carolina Federal Savings Bank, Charleston, South Carolina

August 7, 2012

Office of  
Inspector General

DEPARTMENT OF THE TREASURY





OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 7, 2012

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MEMORANDUM FOR THOMAS J. CURRY  
COMPTROLLER OF THE CURRENCY

FROM: Susan L. Barron /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Carolina Federal Savings Bank,  
Charleston, South Carolina

This memorandum presents the results of our review of the failure of Carolina Federal Savings Bank (Carolina), located in Charleston, South Carolina, and the supervision exercised over the institution. The former Office of Thrift Supervision (OTS) regulated Carolina until July 21, 2011, when the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203.

Carolina was chartered in August 1960 as a federal credit union under the name of Sacred Heart of Charleston, S.C. Federal Credit Union. In August 1999, the credit union converted its charter to a thrift and changed its name to Carolina Federal Savings Bank. At the time of the failure, Carolina operated one main office and one branch in Charleston County, South Carolina. OCC closed Carolina and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on June 8, 2012. As of March 31, 2012, Carolina had approximately \$54.4 million in total assets. As of June 30, 2012, FDIC estimated the loss to the Deposit Insurance Fund to be \$17.1 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 Carolina 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 OTS and OCC reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel. We performed our field work during June 2012.

We conducted this performance audit 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 Carolina's Failure**

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had experienced a substantial dissipation of assets or earnings due to unsafe or unsound practices; (2) the bank 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 (3) the bank was undercapitalized, and failed to submit an acceptable capital restoration plan within the time prescribed.

The primary causes of Carolina's failure were its (1) concentration in subprime single-family mortgage loans and commercial real estate loans; (2) weak credit administration and credit management practices; and (3) ineffective board of directors and management. Despite repeated criticisms by OTS and then OCC, Carolina's board and management did not adequately address weaknesses related to concentration risk management for its commercial real estate loans, problem loan identification and administration, underwriting of loans and problem loan modifications, allowance for loan and lease losses and methodology, and real estate owned administration. Deficient board and management, combined with a significant downturn in the real estate market, resulted in deterioration in the bank's asset quality and sizeable operating losses, which ultimately led to Carolina's failure.

## **Conclusion**

Based on our review of the causes of Carolina'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 that would necessitate an in-depth review. In making this determination, we took into consideration that the federal savings association functions of OTS, Carolina's regulator until July 2011, transferred to OCC. 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 the failure of Carolina and that it had no concerns with our determination that an in-depth review of the bank's failure is not warranted. The

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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 Amni Samson, Audit Manager, at (202) 927-0264.

Attachments



## MEMORANDUM

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

To: Susan L. Barron  
Director, Banking Audits  
From: Thomas J. Curry, Comptroller of the Currency /s/  
Date: July 25, 2012

Subject: Response to Failed Bank Review of Carolina Federal Savings Bank, Charleston, SC

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We have received and reviewed your draft report titled "Failed Bank Review of Carolina Federal Savings Bank (Carolina)" located in Charleston, South Carolina. 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 Carolina 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 OTS and OCC reports of examination for the five year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit during June 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 causes of Carolina's failure were (1) concentration in subprime single-family mortgage loans and commercial real estate loans; (2) weak credit administration and credit management practices; and (3) ineffective board of directors and management. 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**

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Office of Strategic Planning and Performance Management  
Office of the Deputy Chief Financial Officer, Risk and Control  
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Comptroller of the Currency  
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