



# Audit Report



OIG-14-043

SAFETY AND SOUNDNESS: Failed Bank Review of Texas  
Community Bank, National Association, The Woodlands, Texas

July 17, 2014

Office of  
Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

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MEMORANDUM FOR THOMAS J. CURRY  
COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Texas Community Bank, National  
Association

This memorandum presents the results of our review of the failure of Texas Community Bank, National Association (Texas Community), located in The Woodlands, Texas. The bank was chartered in 2002, and since 2005 had been a wholly-owned subsidiary of TCB Holding Company. The Office of the Comptroller of Currency (OCC) closed Texas Community and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on December 13, 2013. As of September 30, 2013, Texas Community had approximately \$160.1 million in total assets. As of June 30, 2014, FDIC estimated the loss to the Deposit Insurance Fund at \$10.8 million.

Because the estimated 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 Texas Community 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's failure, and (3) interviewed an OCC problem bank specialist.

We performed our fieldwork from January to March 2014. 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 Texas Community Bank's Failure**

OCC appointed FDIC as receiver based on the following grounds: (1) the bank experienced substantial dissipation of assets or earnings; (2) the bank was in an unsafe or unsound condition to transact business; (3) 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; (4) the bank's unsafe or unsound practices or conditions were likely to cause insolvency or substantial dissipation of assets or earnings; (5) the bank's unsafe or unsound practices or conditions were likely to weaken the bank's condition; (6) the bank was undercapitalized, and had no reasonable prospect of becoming adequately capitalized; (7) the bank was undercapitalized, and failed to submit a capital restoration plan acceptable to the OCC within the time prescribed; and (8) the bank was critically undercapitalized.

The primary causes of Texas Community's failure were its (1) ineffective board and management and (2) aggressive high-growth strategy built around commercial real estate (CRE) loans and wholesale funding. Despite repeated criticism from OCC and the imposition of enforcement actions, the board and management failed to implement credit administration, underwriting, and risk management practices to mitigate the increased risks of its CRE loan concentration. In addition, the bank failed to adjust quickly or effectively to changing economic conditions and the declining real estate market. These conditions resulted in the bank's high level of problem assets, increased losses, and diminishing capital levels, which eventually led to its failure.

Our review of Texas Community revealed certain matters that we referred to the Treasury Inspector General's Office of Investigation.

## **Conclusion**

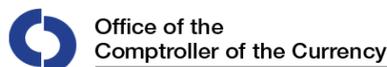
Based on our review of the causes of Texas Community's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the bank's failure that would necessitate an in-depth review. We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated that it agreed with our conclusion as to the causes of the failure of Texas Community and that it had no concerns with our determination that an in-depth review of the bank's failure is 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) 927-5776 or Dana Duvall, Audit Manager, at (202) 927-9648.

Attachments



## MEMORANDUM

To: Susan Barron, Director, Banking Audits

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

Date: July 16, 2014

Subject: Response to Failed Bank Review of Texas Community Bank, National Association

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We have received and reviewed your draft report titled "Failed Bank Review of the Texas Community Bank, National Association (Texas Community)" located in Woodlands, Texas. The loss to the Deposit Insurance Fund is less than \$50 million. Therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of Texas Community that was limited to: (1) ascertaining the grounds identified by the Office of the Comptroller of the Currency (OCC) for appointing the Federal Deposit Insurance Corporation (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 for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit from January to March 2014 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 the primary causes of Texas Community's failure were its (1) ineffective board and management and (2) aggressive high-growth strategy built around commercial real estate (CRE) loans and wholesale funding. Despite repeated criticism from OCC and the imposition of enforcement actions, the board and management failed to implement credit administration, underwriting, and risk management practices to mitigate the increased risks of its CRE concentration. In addition, the bank failed to adjust quickly or effectively to changing economic conditions and the declining real estate market. These conditions resulted in the bank's high level of problem assets, increased losses, and diminishing capital levels, which eventually led to its failure. We agree.

You determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. 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 202-649-5420.

**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  
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