



# Audit Report



OIG-12-060

SAFETY AND SOUNDNESS: Failed Bank Review of Plantation  
Federal Bank

July 26, 2012

Office of  
Inspector General

DEPARTMENT OF THE TREASURY





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

July 26, 2012

OIG-12-060

MEMORANDUM FOR THOMAS J. CURRY  
COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Plantation Federal Bank, Pawleys  
Island, South Carolina

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

Plantation opened in 1986 as a stock association under its former name, Plantation Federal Savings and Loan Corporation; it was acquired by Plantation Financial Corporation in 1990. Plantation is a wholly-owned subsidiary of Plantation Financial Corporation, a unitary nondiversified savings and loan holding company. Plantation had a main office in Pawleys Island and five branches in the Grand Strand and Greenville areas of South Carolina. OCC closed Plantation and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 27, 2012. As of December 31, 2011, Plantation had approximately \$486.4 million in total assets and \$440.5 million in total deposits. As of May 31, 2012, FDIC estimated the loss to the Deposit Insurance Fund at \$75.9 million.

Because the loss to the Deposit Insurance Fund was 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 Plantation 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, and (3) interviewed an OCC problem bank specialist. We performed our fieldwork during May and 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 Plantation's Failure**

OCC appointed FDIC 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, (3) the bank was undercapitalized and failed to submit an acceptable capital restoration plan, and (4) the bank was critically undercapitalized.

The primary cause of Plantation's failure was its board of directors' and management's implementation of an aggressive growth strategy without having sufficient capital or adequate risk management practices to support the growth. As part of a 5-year plan formulated in 2006, Plantation pursued rapid growth by (1) merging with First Savers Bank of Greenville, South Carolina, which increased the bank's total assets by approximately \$298 million, and (2) focusing on higher risk commercial-related lending like nonresidential mortgage, construction, and land loans. The bank's holding company planned to raise \$20 million in capital to support its strategy but was ultimately unable to do so. Examples of the bank's inadequate risk management practices were inaccurate loan classifications, appraisal deficiencies, and a flawed allowance for loan and lease losses methodology. The aggressive growth and concentration in higher risk loans along with the deficient risk management practices resulted in losses which eventually depleted capital and ultimately led to Plantation's failure.

## **Conclusion**

Based on our review of the causes of Plantation'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 OTS and 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 Plantation's failure and that it had no concerns with our determination that an in-depth review

OIG-12-060

Page 3

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.

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



## MEMORANDUM

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

To: Jeffrey Dye, Banking Audits

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

Date: July 9, 2012

Subject: Response to Failed Bank Review Plantation Federal Bank,  
Pawleys Island, South Carolina

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We have received and reviewed your draft report titled "Failed Bank Review of Plantation Federal Bank (Plantation), Pawleys Island, 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 Plantation 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, and (3) interviewed an OCC problem bank specialist.

You conducted your audit during May and 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 cause of Plantation's failure was its board of directors' and management's implementation of an aggressive growth strategy without having sufficient capital or adequate risk management practices to support the growth. 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  
Group

**Office of the Comptroller of the Currency**

Comptroller of the Currency  
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