



Audit Report



OIG-14-013

SAFETY AND SOUNDNESS: Failed Bank Review of Mountain National Bank

December 18, 2013

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: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Mountain National Bank, Sevierville,
Tennessee

This memorandum presents the results of our review of the failure of Mountain National Bank located in Sevierville, Tennessee. The bank was chartered in 1998 and was wholly owned by Mountain National Bancshares, a one-bank holding company. The Office of the Comptroller of Currency (OCC) closed Mountain National Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on June 4, 2013. As of March 31, 2013, Mountain National Bank had approximately \$437.3 million in total assets. As of September 30, 2013, FDIC estimated the loss to the Deposit Insurance Fund at \$33.5 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 (FDIA), we conducted a review of the failure of Mountain National Bank 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, and (3) interviewed an OCC problem bank specialist and the examiner-in-charge. We performed our fieldwork from June to September 2013.

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 Mountain 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 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; (3) the bank's unsafe or unsound practices or conditions would likely weaken its condition; and (4) the bank was critically undercapitalized.

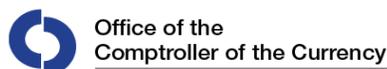
The primary cause of Mountain National Bank's failure was its pursuit of an aggressive growth strategy centered on commercial real estate (CRE) lending without appropriate underwriting, risk management, and credit administration. From 2004 through 2013, the bank maintained significant concentrations of CRE loans. At its peak in 2013, the bank's CRE concentration exceeded 1,200 percent of total risk-based capital. When local real estate markets began to deteriorate in 2008, the combination of Mountain National Bank's aggressive lending strategy, excessive CRE concentrations, and lax underwriting and credit administration practices caused asset quality to deteriorate. Examples of the lax underwriting and credit administration practices included failing to properly evaluate borrowers' financial condition and repayment capacity, and renewing CRE loans on an interest-only basis despite the decline in real estate sales and valuations in the bank's lending area. This led to excessive loan losses, high levels of classified assets, erosion of capital through deficient earnings, and ultimately, the bank's failure.

Conclusion

Based on our review of the causes of Mountain National Bank'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 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.

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

To: Jeffery Dye, Director, Banking Audits

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

Date: December 6, 2013

Subject: Response to Draft Report for the Failed Bank Review of Mountain National Bank

We have received and reviewed your draft report titled "Failed Bank Review of the Mountain National Bank" located in Sevierville, Tennessee. 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 Mountain National Bank 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 the FDIC as receiver, (2) reviewed OCC reports of examination and (3) interviewed an OCC problem bank specialist and the examiner-in-charge.

You conducted your audit from June through September 2013 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 Mountain National Bank's failure was its pursuit of an aggressive growth strategy centered on commercial real estate lending without appropriate underwriting, risk management, and credit administration.

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
Liaison Officer

Office of Management and Budget

OIG Budget Examiner