



Audit Report



OIG-14-041

SAFETY AND SOUNDNESS: Failed Bank Review of Millennium Bank, National Association, Sterling, Virginia

July 2, 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 Millennium Bank, National Association

This memorandum presents the results of our review of the failure of Millennium Bank, National Association (Millennium Bank), located in Sterling, Virginia. Millennium Bank was chartered in 1999 and is wholly owned by Millennium Bankshares Corporation (Holding Company). In addition to its headquarters in Sterling, Millennium Bank maintained a branch in Herndon, Virginia. The Office of the Comptroller of the Currency (OCC) closed Millennium Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on February 28, 2014. As of December 31, 2013, Millennium Bank had approximately \$130.3 million in total assets. As of May 31, 2014, FDIC estimated the loss to the Deposit Insurance Fund to be \$7.7 million.

Because the loss to the Deposit Insurance Fund was less than \$50 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of Millennium 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 for the 5-year period before the bank's failure, and (3) interviewed an OCC problem bank specialist.

We performed our fieldwork during March and April 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 Millennium 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 any unsafe or unsound practice; (2) the bank was in an unsafe or unsound condition to transact business; (3) 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 the bank 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's unsafe or unsound practices or conditions were likely to seriously prejudice the interests of the Deposit Insurance Fund; (7) the bank was undercapitalized, and had no reasonable prospect of becoming adequately capitalized; (8) the bank was undercapitalized, and had failed to submit a capital restoration plan acceptable to the OCC within the time prescribed; and (9) the bank was critically undercapitalized.

The primary causes of Millennium Bank's failure were (1) an ineffective board of directors and management due in part by high management turnover and insufficient staffing and (2) excessive concentrations in commercial real estate (CRE) loans. The bank's problems stemmed from the decision by the board and senior management to pursue an aggressive CRE loan growth strategy without appropriate risk selection, underwriting, and credit administration. Despite repeated criticism from OCC, the board and management failed to comply with OCC's formal enforcement actions to rehabilitate the bank's declining financial condition and correct the bank's unsafe or unsound practices. The board and management's inadequate oversight and failure to adjust quickly or effectively to the changing economic conditions and the declining real estate market resulted in the deterioration of the bank's asset quality and dissipation of capital, which eventually lead to its failure.

Conclusion

Based on our review of the causes of Millennium 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 agreed with our conclusion as to the causes of the failure of Millennium Bank 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: June 30, 2014

Subject: Response to Failed Bank Review of Millennium Bank

We have received and reviewed your draft report titled "Failed Bank Review of the Millennium Bank (Millennium)" located in Sterling, Virginia. 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 Millennium 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 during March and April 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 cause of Millennium's failure was its ineffective board of directors and management due in part by high management turnover and insufficient staffing and excessive concentrations in commercial real estate (CRE) loans. The bank's problems stemmed from the decision by the board and senior management to pursue an aggressive CRE loan growth strategy without appropriate risk selection, underwriting, and credit administration. Despite repeated criticism from OCC, the board and management failed to comply with OCC's formal enforcement actions to rehabilitate the bank's declining financial condition and correct the bank's unsafe or unsound practices. The board and management's inadequate oversight and failure to adjust quickly or effectively to the changing economic conditions and the declining real estate market resulted in the deterioration of the bank's asset quality and dissipation of capital, which eventually lead 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

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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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Office of the Comptroller of the Currency

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