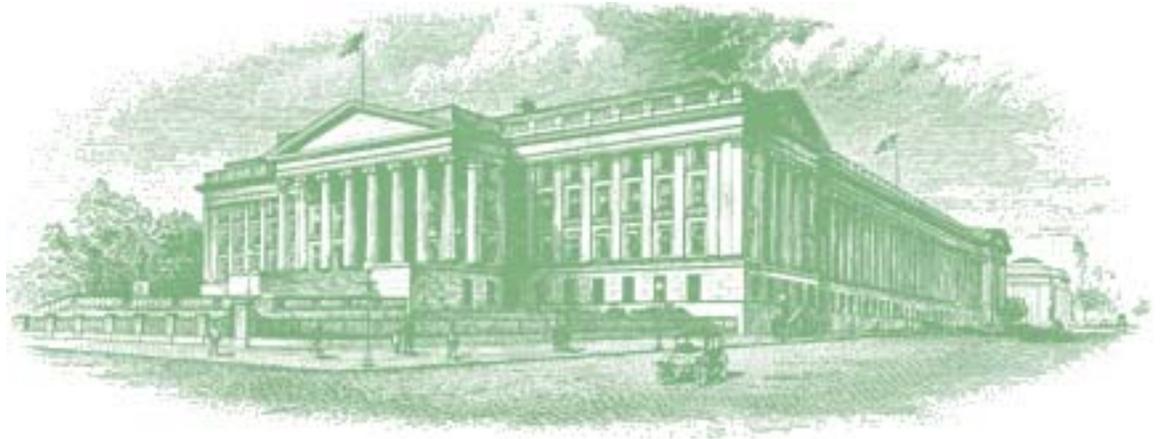




Audit Report



OIG-11-095

SAFETY AND SOUNDNESS: Failed Bank Review of Coastal Bank
August 30, 2011

Office of Inspector General

DEPARTMENT OF THE TREASURY



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

August 30, 2011

OIG-11-095

MEMORANDUM FOR JOHN G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Office of Thrift Supervision Regulated
Coastal Bank, Cocoa Beach, Florida

This memorandum presents the results of our review of the failure of Coastal Bank (Coastal), located in Cocoa Beach, Florida. Coastal was regulated by the Office of Thrift Supervision (OTS). We are providing the results of this review for your information since the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibilities for federal savings associations pursuant to P.L. 111-203.

Coastal opened as a de novo institution in February 1999. It had a main office in Cocoa Beach and another branch in Merritt Island, Florida. The thrift was wholly owned by Coastal Bancorporation, Inc. (CBI), a unitary, non-diversified thrift holding company. OTS closed Coastal and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on May 6, 2011. As of March 31, 2011, Coastal had approximately \$129.4 million in total assets and \$123.9 million in total deposits. At the time of closing, FDIC estimated the loss to the Deposit Insurance Fund to be \$13.4 million.

Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act (FDIA), we conducted a review of the failure of Coastal that was limited to (1) ascertaining the grounds identified by OTS 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 reports of examination, and (3) interviewed an OTS examiner and review examiner.

We conducted this performance audit in May and June of 2011 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 Coastal Bank's Failure

OTS appointed FDIC receiver based on the following grounds: (1) the thrift was undercapitalized and failed to submit an acceptable capital restoration plan and (2) the thrift had substantially insufficient capital.

The primary cause of Coastal's failure was its high concentration of commercial real estate and land loans. Adverse economic conditions and a depressed real estate market in Brevard County, Florida, led to asset quality deterioration and capital erosion beginning in 2008. In addition, Coastal's management failed to adequately identify, measure, monitor, and control credit and concentration risk, and Coastal's board did not sufficiently challenge or alter the strategies of the thrift's president. Ultimately, CBI decided not to make any further investments of capital into the thrift and Coastal was unable to raise additional capital, which ultimately resulted in its failure.

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

Conclusion

Based on our review of the causes of Coastal's failure and the grounds identified by OTS for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the thrift's failure or the supervision exercised by OTS. Accordingly, we have determined that a more in-depth review of the thrift's failure by our office is not warranted.

We provided a draft of this memorandum to OCC management for comment. In its response, OCC did not provide specific comments on the memorandum contents. 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

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision /s/

Date: August 22, 2011

Subject: Response to Failed Bank Review of Coastal Bank, Cocoa Beach, FL

We have received and reviewed your draft report titled "Failed Bank Review of Coastal Bank (Coastal)." Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of Coastal that was limited to: (1) ascertaining the grounds identified by the OTS 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 reports of examination; and, (3) interviewed OTS personnel.

You conducted your audit during May and June of 2011 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 Coastal's failure was its high concentration of commercial real estate and land loans.

You determined that there were no unusual circumstances surrounding the thrift's failure or the supervision exercised by OTS. As a result, you determined that a more in-depth review of the thrift's failure by the OIG is not warranted.

Thank you for this information and the opportunity to review and comment on your draft report. If you need additional information, please contact me at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Office of the Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner