



Audit Report



OIG-11-101

SAFETY AND SOUNDNESS: Failed Bank Review of Atlantic Bank & Trust

September 14, 2011

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 JOHN G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Susan L. Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Atlantic Bank & Trust, Charleston,
South Carolina

This memorandum presents the results of our review of the failure of Atlantic Bank & Trust (Atlantic) located in Charleston, South Carolina. 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. Atlantic was established in 2007 and operated four facilities: a main office in Charleston; an operations center in North Charleston; and two full service branch offices in Myrtle Beach, South Carolina, and Savannah, Georgia. Atlantic was wholly owned by Atlantic Banc Holdings, Inc., a unitary non-diversified savings and loan holding company. The Office of Thrift Supervision (OTS) closed Atlantic and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on June 3, 2011. As of March 31, 2011, Atlantic had approximately \$208 million in total assets and \$191.6 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$36.4 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 Atlantic 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 and (2) reviewed OTS reports of examination, and (3) interviewed OTS examination personnel.

We conducted this performance audit in June 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 Atlantic Bank and Trust's Failure

OTS appointed FDIC as receiver based on the following grounds: (1) the Institution was undercapitalized, and had materially failed to implement a capital restoration plan; (2) the Institution was critically undercapitalized; and (3) the Institution had substantially insufficient capital.

The primary causes of Atlantic's failure were its significant loan growth in the residential loan portfolio and higher-risk non-homogenous lending, including loans secured by land and commercial real estate. Its underwriting and credit administration practices were deficient. Specifically, Atlantic's management originated a substantial number of higher-risk loans with insufficient collateral and cash flows. As of March 31, 2010, approximately 52 percent of the entire loan portfolio consisted of loans with interest-only repayment terms. Problems with repayments and collateral coverage became more prevalent as those loans aged. Atlantic originated the majority of these loans before and during the initial stages of the current economic downturn. These factors resulted in significant operating losses that severely weakened the bank's capital position and, ultimately, led to the bank's failure.

Conclusion

Based on our review of the causes of Atlantic's failure and the grounds identified by OTS for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OTS. 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 their information and an opportunity to comment. In its response, OCC reiterated our findings and conclusions. 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) 927-5776 or J. Mathai, Audit Manager, at (202) 927-0356.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan L. Barron, Director, Banking Audits

From: John Walsh, Acting Comptroller of the Currency /s/

Date: September 2, 2011

Subject: Response to Failed Bank Review of Atlantic Bank and Trust of Charleston, South Carolina

We have received and reviewed your draft report titled "Failed Bank Review of Atlantic Bank and Trust (Atlantic)." 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 Atlantic 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 June 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 Atlantic's failure were its significant loan growth in the residential loan portfolio and higher-risk non-homogenous lending, including loans secured by land and commercial real estate.

You determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OTS. As a result, you determined that a more in-depth review of the bank'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 Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision 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 Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner