



Audit Report



OIG-10-050

SAFETY AND SOUNDNESS: Failed Bank Review of Bayside Savings Bank, FSB

September 29, 2010

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

September 29, 2010

OIG-10-050

MEMORANDUM FOR JOHN E. BOWMAN
ACTING DIRECTOR
OFFICE OF THRIFT SUPERVISION

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

SUBJECT: Failed Bank Review of Bayside Savings Bank, FSB

This memorandum presents the results of our review of the failure of Bayside Savings Bank, FSB (Bayside). Bayside opened in October 2003 and had a main office in Port St. Joe, Florida and one branch in Mexico Beach, Florida. The thrift was a subsidiary of Coastal Community Investments, Inc., a bank holding company located in Panama City Beach, Florida. The Office of Thrift Supervision (OTS) closed Bayside and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 30, 2010. As of March 31, 2010, the thrift had \$66.1 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$16.2 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 Bayside 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) reviewed documentation related to the appointment of FDIC as receiver, (2) reviewed OTS reports of examination, and (3) interviewed OTS examination personnel.

We conducted this performance audit during August and September 2010 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 Bayside's Failure

The primary causes of Bayside's failure were its aggressive growth strategy, excessive concentrations in higher-risk land and commercial real estate loans, and insufficient capital relative to the risk level of its loans. These conditions were exacerbated by the downturn in real estate values in Florida, Bayside's market. In addition, risk management activities at Bayside were inadequate. For example, lack of documentation and weak appraisal review procedures led the thrift to hold a significant number of classified and delinquent assets. Bayside experienced rapid asset deterioration beginning in September 2007, resulting in significant increases in its problem assets and loan losses. In turn, these loan losses significantly diminished earnings and capital and, ultimately, led to Bayside's failure.

Conclusion

Based on our review of the causes of Bayside'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 OTS management for comment. In its response, OTS stated that the primary causes of Bayside's failure summarized in this memorandum are consistent with the information contained in OTS's reports of examinations and documents in support of the grounds for receivership. 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 Amni Samson, Audit Manager, at (202) 927-0264.

Attachments

**Office of Thrift Supervision**
Department of the TreasuryThomas A. Barnes
Deputy Director, Examinations, Supervision, and Consumer Protection

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September 17, 2010

MEMORANDUM FOR: Susan L. Barron,
Director, Banking Audits
Office of Inspector General
U.S. Department of the Treasury

FROM: Thomas A. Barnes /s/
Deputy Director

SUBJECT: Draft Failed Bank Review of
Bayside Savings Bank, FSB

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of Bayside Savings Bank, FSB." Because the estimated loss of \$16.2 million to the Deposit Insurance Fund is below the \$200 million threshold set forth in section 38(k) of the Federal Deposit Insurance Act, the review of the failure of Bayside was limited to ascertaining the grounds identified by OTS for appointment of a receiver and determining whether any unusual circumstances exist warranting a more in depth review.

The memorandum summarizes the primary causes of Bayside's failure, which are consistent with the information contained in the OTS Reports of Examination and documents in support of the grounds for the receivership. Specifically, the memorandum cites aggressive growth strategy, excessive concentrations in higher risk loans, and insufficient capital levels relative to loan risk as the primary causes of the failure. The downturn in the Florida real estate market exacerbated these conditions. The memorandum identified no unusual circumstances surrounding the failure or the supervision exercised by OTS warranting a more in depth review by the Office of Inspector General.

No recommendations for OTS were made in the memorandum.

Thank you again for the opportunity to review and respond to the draft review of Bayside. OTS appreciates the professionalism and courtesies provided by the staff of the Office of Inspector General.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of Thrift Supervision

Acting Director
Liaison Officer

Office of Management and Budget

OIG Budget Examiner