



Audit Report



OIG-11-013

SAFETY AND SOUNDNESS: Failed Bank Review of Southern Colorado National Bank

November 4, 2010

Office of Inspector General

Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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MEMORANDUM FOR JOHN G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Michael J. Maloney /s/
Director, Fiscal Service Audits

SUBJECT: Failed Bank Review of Southern Colorado National Bank

This memorandum presents the results of our review of the failure of Southern Colorado National Bank (Southern Colorado). Southern Colorado opened in March 2002 and had one branch in Pueblo, Colorado. The bank was a subsidiary of Southern Colorado National Bancorp, Inc., a bank holding company located in Pueblo, Colorado. The Office of the Comptroller of the Currency (OCC) closed Southern Colorado and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on October 2, 2009. As of September 4, 2009, the bank had \$39.5 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$6.6 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 Southern Colorado 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 OCC examination personnel.

We conducted this performance audit during 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 Southern Colorado's Failure

The primary causes of Southern Colorado's failure were its (1) aggressive growth strategy, (2) significant loan concentrations in commercial real estate loans, and (3) ineffective board and management. Southern Colorado's aggressive growth strategy was funded by unstable brokered deposits and borrowings from Federal Home Loan Bank. Due to a weakening economy and slow real estate sales, the bank's asset quality began to deteriorate severely. In turn, poor asset quality caused losses, depleted capital, and strained liquidity, ultimately resulting in the bank's failure.

Conclusion

Based on our review of the causes of Southern Colorado'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 or the supervision exercised by OCC. 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 comment. In its response, OCC stated that it agrees with our conclusion about the primary causes of Southern Colorado's failure. OCC also stated that it had no concern with our determination that an in-depth review of the 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) 927-6512 or Shaneasha Edwards, Acting Audit Manager, at (202) 927-5814.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Michael J. Maloney, Director, Fiscal Service Audits

From: John Walsh, Acting Comptroller /s/

Date: October 25, 2010

Subject: Response to Failed Bank Review of Southern Colorado National Bank

We have received and reviewed your draft report titled “Failed Bank Review of Southern Colorado National Bank (Southern Colorado).” 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 Southern Colorado that was limited to: (1) ascertaining the grounds identified by the 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 your review you: (1) examined documentation related to the appointment of FDIC as receiver; (2) reviewed OCC reports of examination; and, (3) interviewed OCC personnel.

You conducted this performance audit during September 2010 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 based on your audit objectives. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions based on your audit objectives.

You concluded that the primary causes of Southern Colorado’s failure were its aggressive growth strategy, significant loan concentrations in commercial real estate loans, and ineffective board and management. We agree.

You determined that there were no unusual circumstances surrounding the bank’s failure or the supervision exercised by OCC. As a result, you determined that a more in-depth review of the bank’s failure by the OIG is not warranted. 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 Mid-size and Community Bank Supervision, at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
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