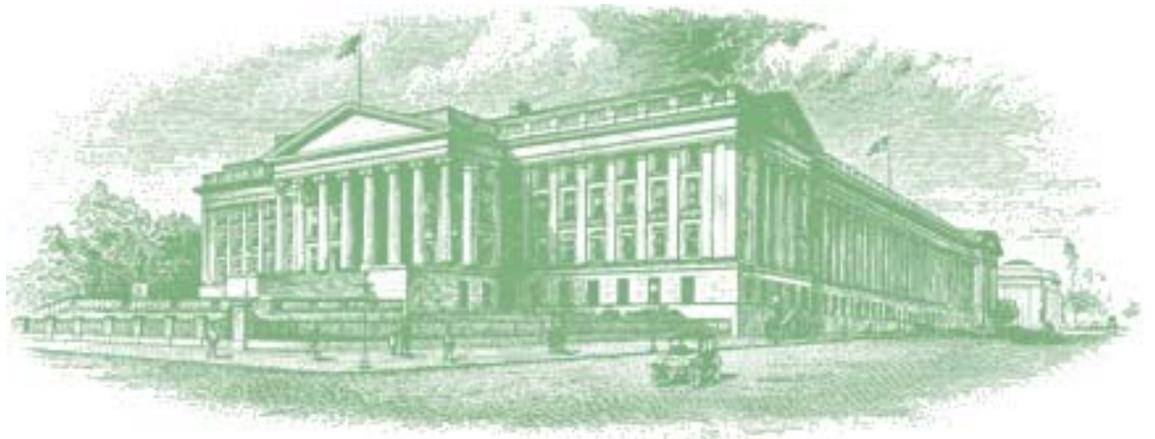




Audit Report



OIG-11-018

SAFETY AND SOUNDNESS: Failed Bank Review of Valley Capital Bank, N.A.

November 8, 2010

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 08, 2010

OIG-11-018

MEMORANDUM FOR JOHN G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

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

SUBJECT: Failed Bank Review of Valley Capital Bank, N.A.

This memorandum presents the results of our review of the failure of Valley Capital Bank, N.A. (Valley Capital). Valley Capital opened in November 2006 and operated out of one location in Mesa, Arizona, under the name of Premier Commercial Bank Arizona. Its parent company was Premier Commercial Bancorp. The ownership changed in September 2007, and the name was changed to Valley Capital. The Office of the Comptroller of the Currency (OCC) closed Valley Capital and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on December 11, 2009. As of September 30, 2009, the bank had \$40.3 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$7.4 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 Valley Capital 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 personnel in OCC's Special Supervision Division.

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 Valley Capital's Failure

Valley Capital had a short life span. It was chartered in November 2006 and failed December 2009. It failed primarily because the board and management pursued a growth strategy that permitted high concentrations in commercial real estate loans without implementing adequate concentration risk management practices and ensuring effective underwriting and credit administration. During a series of transactions which ultimately led to the change of control of the bank in September 2007, Valley Capital inherited non-earning assets from its former holding company in the form of prepaid taxes, deferred taxes, and goodwill, which amounted to almost 30 percent of the bank's total assets. At OCC's direction, the deferred taxes of \$332,000 were written off in 2008. The deferred tax write-off and excessive executive salaries resulted in high operating losses. Valley Capital's unsound and unsafe management practices, combined with a declining real estate market, caused a rapid deterioration in asset quality, significant loan losses, and capital depletion.

Conclusion

Based on our review of the causes of Valley Capital'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 Valley Capital'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 Myung Han, Audit Manager, at (202) 927-4878.

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 Valley Capital Bank, N.A.

We have received and reviewed your draft report titled "Failed Bank Review of Valley Capital Bank, N.A. (Valley Capital)." 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 Valley Capital 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 August and 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 cause of Valley Capital's failure was that board and management pursued a growth strategy that permitted high concentrations in commercial real estate loans without implementing adequate concentration risk management practices and ensuring effective underwriting and credit administration. 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