



Audit Report



OIG-11-041

SAFETY AND SOUNDNESS: Failed Bank Review of Granite Community Bank, N.A.

December 2, 2010

Office of
Inspector General

Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 2, 2010

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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 Granite Community Bank, N.A.

This memorandum presents the results of our review of the failure of Granite Community Bank, N.A. (Granite). On June 4, 2002, Granite opened as a de novo¹ national chartered bank with the main office in Granite Bay, California, and two branches located in Auburn and Roseville, California, and a loan production office in Paradise, California. The bank was wholly owned by Granite Bancshares, Inc. a publicly traded, one-bank holding company. The Office of the Comptroller of the Currency (OCC) closed Granite and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on May 28, 2010. As of March 31, 2010, Granite had \$102.9 million in assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$17.3 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 Granite 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 for the 5-year period before the bank failure, 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

¹ A newly chartered bank that has been open for less than 3 years.

objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Causes of Granite's Failure

OCC appointed the FDIC as receiver based on grounds that included the following: (1) the bank had experienced substantial dissipation of assets or earnings due to any unsafe or unsound practice; (2) the bank was in an unsafe or unsound condition to transact business; and (3) the bank had incurred or was likely to incur losses that would deplete all or substantially all of its capital, and there was no reasonable prospect for Granite to become adequately capitalized without federal assistance.

The primary causes of Granite's failure were its (1) high concentration in commercial real estate (CRE) loans, (2) poor underwriting and credit administration practices, and (3) inadequate board and management oversight. As of December 31, 2007, Granite's total CRE loan concentration was 811 percent of Tier 1 capital plus the allowance for loan and loss leases.² The poor underwriting and credit administration practices resulted in declining asset quality that was exacerbated by a decline in the local real estate market that began in mid-2007.

Conclusion

Based on our review of the causes of Granite'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 Granite's failure. OCC also stated that it had no concerns with our determination that a more 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.

² Tier 1 capital is common shareholder's equity (common stock, surplus, and retained earnings), noncumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries.

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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 Susan Roy, Audit Manager, at (202) 927-5746.

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 of the Currency /s/

Date: November 23, 2010

Subject: Response to Failed Bank Review of Granite Community Bank, N.A.

We have received and reviewed your draft report titled "Failed Bank Review of Granite Community Bank, N.A. (Granite)." 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 Granite 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 Granite's failure were its: (1) high concentration in commercial real estate loans; (2) poor underwriting and credit administration practices; and, (3) inadequate board and management oversight. 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