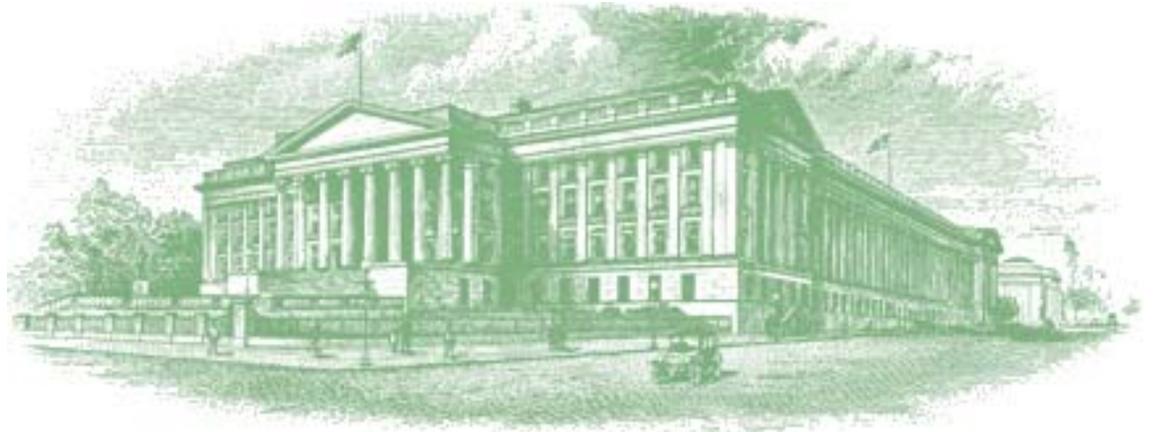




Audit Report



OIG-11-070

SAFETY AND SOUNDNESS: Failed Bank Review of Canyon National Bank

May 19, 2011

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

May 19, 2011

OIG-11-070

MEMORANDUM FOR JOHN WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Canyon National Bank

This memorandum presents the results of our review of the failure of Canyon National Bank (Canyon) located in Palm Springs, California. Canyon operated three branches in the Palm Springs area and was designated by the Office of the Comptroller of the Currency (OCC) as a minority-owned bank. OCC closed Canyon and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on February 11, 2011. As of December 31, 2010, Canyon had approximately \$210.9 million in total assets. As of March 31, 2011, FDIC estimated that the loss to the Deposit Insurance Fund is \$10.0 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, we conducted a review of the failure of Canyon 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's failure, and (3) interviewed OCC personnel.

We conducted this performance audit during February and March 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 Canyon's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had experienced a substantial depletion of assets or earnings due to unsafe or unsound practice, (2) the bank's losses depleted all or substantially all of its capital and there was no reasonable prospect for the bank to become adequately capitalized, and (3) the bank was critically undercapitalized.

The primary causes of Canyon's failure were excessive concentrations in commercial real estate (CRE) and construction loans, weak credit risk management practices, and ineffective board and management oversight. Over the years, OCC examiners identified various repeated weak credit risk management practices in areas that included problem loan reporting, the appraisal process, financial analysis, and concentration risk management. Canyon's board and management failed to properly identify and address potential and existing weaknesses in the loan portfolio in a timely manner. In the end, asset quality deteriorated significantly, which when coupled with the unprecedented decline in the residential real estate market, depleted the bank's earnings and capital, and ultimately led to Canyon's failure.

Conclusion

Based on our review of the causes of the Canyon'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 this 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 agreed with our conclusion as to the causes of the failure of Canyon and that it had no concerns with our determination that an in-depth review of the bank's failure was 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) 927-5776 or J. Mathai, Audit Manager, at (202) 927-0356.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan Barron, Director, Banking Audits
From: John Walsh, Acting Comptroller of the Currency /s/
Date: May 17, 2011
Subject: Response to Failed Bank Review of Canyon National Bank

We have received and reviewed your draft report titled "Failed Bank Review of Canyon National Bank (Canyon)." 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 Canyon 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 February and March 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 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 Canyon's failure were excessive concentrations in commercial real estate and construction loans, weak credit risk management practices, and ineffective 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 Midsize 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