



Audit Report



OIG-11-078

SAFETY AND SOUNDNESS: Failed Bank Review of Rosemount National Bank

July 8, 2011

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR JOHN WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of the Rosemount National Bank,
Rosemount, Minnesota

This memorandum presents the results of our review of the failure of Rosemount National Bank (Rosemount) located in Rosemount, Minnesota. Rosemount was a small community bank established in 1982. It offered traditional commercial and consumer loans and deposit products. OCC closed Rosemount and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 15, 2011. As of December 31, 2010, Rosemount had approximately \$37.6 million in total assets and \$36.6 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$3.6 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 Rosemount 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 five year period before the bank's failure, and (3) interviewed OCC personnel.

We conducted this performance audit in May 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 Failure of Rosemount National Bank

OCC appointed FDIC as receiver on the following grounds: (1) the bank experienced a substantial dissipation 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 cause of Rosemount's failure was the purchase of a large quantity of loan participations related to commercial real estate (CRE), primarily located in Florida, Minnesota, and Arizona, without appropriate concentration limits, safe and sound credit administration, or risk management. With declining economic conditions, Rosemount's board and management failed to address the increased risks arising from the bank's concentration of CRE loans and increasing levels of problem loans. In addition, the board and management failed to correct unsafe or unsound practices regarding capital levels, strategic and capital planning, problem loan levels, credit administration, and risk management. Continuing loan-related losses and expenses depleted Rosemount's capital levels.

Conclusion

Based on our review of the causes of Rosemount'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 it agreed with our conclusion as to the causes of the failure of Rosemount National Bank; and it had no concerns with our determination that an in-depth review of the bank's 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) 927-0384.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: John Walsh, Acting Comptroller of the Currency /s/

Date: July 5, 2011

Subject: Response to Failed Bank Review of Rosemount National Bank

We have received and reviewed your draft report titled "Failed Bank Review of Rosemount National Bank, Rosemount, Minnesota (Rosemount)." 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 Rosemount 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 in May 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 Rosemount's failure was the purchase of a large quantity of loan participations related to commercial real estate, primarily located in Florida, Minnesota, and Arizona, without appropriate concentration limits, safe and sound credit administration, or risk 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 Midsize and Community Bank Supervision, at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Performance Management
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