

FDIC Inspector General Material Loss Report Findings on Appraisal Issues

2010 Reviews

<u>Report Date</u>	<u>Bank</u>	<u>FDIC Examination Findings Identified by Material Loss Report</u>
1/6/2010	Cooperative Bank	Examiners report weaknesses in loan underwriting, including not ordering, receiving, and analyzing real estate appraisals independent of the lending function. Examiners noted nine apparent violations of Regulation O, appraisals, lending practices, and interest rate risk management. Contraventions pertaining to such areas as The institution's appraisal ordering and review process continued to lack independence. Not ordering, receiving, and analyzing real estate appraisals independent of the lending function.
1/6/2010	Southern Community Bank	N/A
1/6/2010	Metro Pacific Bank	Failure to obtain current appraisals or perform adequate appraisal reviews, which significantly impacted the accuracy of the ALLL. In addition, examiners concluded that there were substantial deficiencies in key risk management controls including, but not limited to, credit underwriting, appraisal review, loan impairment analysis, and verification of a borrower's financial status that resulted in uncontrolled deterioration in the bank's asset quality.
12/16/2009	Bank of Lincolnwood	Failure to obtain or properly document the review of appraisals before loan origination.
12/4/2009	America West Bank	At the bank's final examination in 2009, examiners noted frequent renewals, modifications, and extensions made to borrowers with credit deficiencies and without obtaining updated appraisals, and concluded that the risks from AWB's excessively high concentrations in higher risk CRE loans had become more apparent as the real estate market downturn had intensified. In the case of AWB, examiners reported apparent violations and contraventions in seven of AWB's eight examinations related to transactions with affiliates and insiders, unsafe and unsound practices, appraisals, real estate lending, and ALLL.

Report Date **Bank**

FDIC Examination Findings Identified by Material Loss Report

Examiners cited apparent violations and contraventions in four out of five examinations of Great Basin from February 2005 to January 2009, involving: appraisals, real estate lending, asset quality, loan underwriting and credit administration, and other unsafe and unsound practices.

12/4/2009 Great Basin Bank of Nevada

12/4/2009 Strategic Capital Bank

N/A

12/2/2009 American Southern Bank

N/A

12/2/2009 Westsound Bank

N/A

11/5/2009 First Bank of Beverly Hills

First Bank relied on hypothetical appraised values that were based on certain assumptions (such as the site being ready for development and properly zoned) rather than on “as is” or projected values when approving the loan.

In addition, the November 2006 ROE stated that First Bank used improper market values as defined in the Interagency Appraisal and Evaluation Guidelines when underwriting four ADC loans. This contravention resulted in one of the four loans exceeding the supervisory LTV limit of 80 percent as defined in Part 365. Two of these four ADC loans accounted for 14 percent of the total asset classifications in the November 2008 examination.

First Bank exhibited a number of weak credit administration practices that impaired the quality of the institution’s ADC loans. Such weaknesses included: Not recognizing the severity of loan problems and losses in a timely manner. Not obtaining current financial statements, tax returns, appraisals, cash flow data, and other financial information on loans.

10/23/2009 New Frontier Bank

Failure to obtain accurate and current financial statements, appraisals and/or evaluations, and collateral perfection for loans.

10/23/2009 Cape Fear Bank

Subsequent examinations of Cape Fear identified weak underwriting practices. Such practices included, but were not limited to, the capitalization of interest for loan renewals, a failure to establish and enforce appropriate loan repayment programs, inadequate analysis of borrower repayment capabilities, liberal renewal and extension practices, inadequate borrower equity in real estate projects, over-reliance on collateral as the primary repayment source, and unsupported real estate appraisals.

Report Date Bank

FDIC Examination Findings Identified by Material Loss Report

In response to the July 2002 joint examination, this BBR required Cape Fear's management to take such actions as strengthening its loan policy to address the acquisition and analysis of financial information on borrowers, documenting credit decisions, performing real estate appraisals, and making ADC loans; improving the institution's loan grading system; and developing a plan to comply with the Interagency Guidelines for Real Estate Lending Policies.

10/5/2009 FirstCity Bank

Specifically, the BOD and management failed to establish strong loan underwriting and credit administration practices, had inadequate loan policies and practices, and, at various times, violated laws and regulations, including those related to obtaining adequate appraisals.

The 2008 examination identified 15 loans for which the appraisal did not include appropriate deductions for holding costs, selling costs, and entrepreneurial profit in accordance with tract real estate lending guidance. In addition, the ROE noted one instance where the appraiser was not independent and two instances where the basis of appraised value was not adequately documented.

Among other items, the provisions of the Board resolution included steps to address appraisal violations, credit administration weaknesses, and improve the ALLL methodology. Some appraisals had flaws relating to comparables and financial computations performed by the appraisers.

2009 Reviews

9/18/2009 Security Savings Bank

N/A

9/18/2009 Freedom Bank of Georgia

...appraisals were out-of-date in some files because of the deterioration in the market; and criticized and classified loans did not contain asset improvement plans, as required by the loan policy.

9/18/2009 Heritage Community Bank

N/A

9/4/2009 Sherman County Bank

N/A

9/4/2009 Corn Belt Bank and Trust Company

N/A

Report Date **Bank**

9/3/2009 First Bank Financial Services

FDIC Examination Findings Identified by Material Loss Report

Appraisal reviews were not consistently conducted
The FDIC also noted deficiencies concerning the lack of consistent internal appraisal review procedures.

9/1/2009 Silver Falls Bank

One inspection report described the project as 95-percent complete, but an appraisal performed after the inspection report described the project as 80-percent complete.

Refine guidelines to improve the required content of real estate evaluations in accordance with the Statement of Policy on Interagency Appraisal and Evaluation Guidelines.

Expand appraisal review guidelines to include the procedures for correcting identified weaknesses and ordering reappraisals.

Revise other real estate guidelines to require an updated appraisal of real estate at the time of acquisition if the existing appraisal is more than 6 months old.

Appraisal review practices should be improved.

Management needs to better define the bank's trading area, permissibility of speculative lending, acceptable levels of construction concentrations, accounting treatment of non-accrual loans, internal risk grades, insider overdraft levels, and the useful life of an appraisal.

9/1/2009 Alliance Bank

The appraisal review function was conducted by the individual loan officers rather than an independent reviewer.

8/24/2009 MagnetBank

N/A

8/11/2009 1st Centennial Bank

N/A

8/5/2009 Haven Trust Bank

Establish real estate appraisal and evaluation programs.

Appraisal Independence. Haven accepted appraisals prepared for someone other than Haven, an apparent violation of section 323.5(b)(1) of the FDIC Rules and Regulations.

Also, the bank would generally rely on appraised values rather than actual cost in computing LTV ratios.

Examiners noted that credit files were not being updated at least annually and the bank frequently relied on stale appraisals.

Report Date Bank

FDIC Examination Findings Identified by Material Loss Report

The FDIC obtained an appraisal of the property (see Figure 4) in April 2009, which showed no construction on the project, and estimated that the project was about one-third complete, yet 75 percent of the loan proceeds had been disbursed.

DSC examiners noted in the 2005 ROE that the bank was in apparent violation of laws and regulations for inadequate real estate appraisals and loan originations exceeding real estate LTV limits.

Also, many loan files lacked documentation for an examiner to fully analyze the borrowers' financial condition.

Although examiners identified many technical exceptions in the lending area, individual loans were seldom criticized in ROEs until 2008, because the loans were performing in accordance with the loan agreements and, according to appraisals on file, appeared to have sufficient collateral underlying the loans.

The DBF found that the bank's ALLL analysis was flawed due to its use of outdated appraisals, lack of management recognition of loans that were subject to impairment analysis, and a lack of qualitative factors for assessing the ALLL.

8/4/2009 Bank of Clark County

During the course of this examination, examiners found that bank staff had not been forthright in providing the most current appraisal information on at least 11 lending relationships. Examiners expanded the loan review and demanded access to all appraisal information.

Other evidence of management's awareness of market deterioration includes bank board of directors' (BOD) reports highlighting real estate market trends, as well as updated appraisals on specific credits showing declining values as early as December 2007.

Further, according to the 2007 ROE, BOCC's BOD did not establish risk criteria unique to construction and land development lending (i.e., construction delays; cost overruns; slow absorption; number of extensions; unit sales prices that were less than appraised value, thereby jeopardizing collateral margins, etc).

During the 2004 examination, examiners noted that nearly half of the loan relationships reviewed by the examiners contained loan underwriting and credit administration weaknesses related to loan pricing that was not commensurate with risks, high advance rates on construction or land acquisition and development loans, appraisals and appraisal reviews, cash flow analysis, credit presentations, and excessive reliance on the lead bank's analysis and monitoring for construction loan participation purchases.

Report Date **Bank**

FDIC Examination Findings Identified by Material Loss Report

examiners advised bank management that it should enhance the appropriate loan policies and improve underwriting practices with respect to adhering to the applicable appraisal guidance, laws, and regulations

Beginning with the bank's January 2002 examination through the 2008 examination, examiners cited BOCC for apparent violations of laws and regulations related to real estate appraisals, loans in excess of supervisory loan-to-value limits, real estate concentrations, retention of records, standards for safety and soundness, restrictions on transactions with affiliates, and contraventions of interagency policies on interest rate risk, loan to value, and ALLL.

the 2008 examination cited repeat violations of appraisal regulations and repeat failure to report loans in excess of supervisory loan-to-value limits to the BOD.

The DBF completed its principal fieldwork in January 2008. However, based on concerns related to Community's ALLL calculation, the DBF required bank management to obtain new appraisals on impaired loans in order for the bank to re-compute its ALLL.

8/3/2009 The Community Bank

7/2/2009 Franklin Bank, S.S.B.

Apparent violation of Part 323 – Appraisals 8/07, 7/08

5/18/2009 Security Pacific Bank

N/A

5/8/2009 Freedom Bank

Inadequate documentation of appraisal reviews and/or approval of loans, and/or inconsistent documentation included in loan files

Inadequate risk management controls, including appraisal review, consumer credit parameters, methodology for loan loss allowance, and loan-to-value exceptions

Weak appraisal ordering, review process, or review practices

5/1/2009 Alpha Bank and Trust

Three apparent violations: legal lending limits, real estate loan-to-value ratios, and appraisals

Incomplete and unsigned appraisal reviews

Bank management should determine that upward adjustments to collateral values by the appraiser are fully explained and documented in the appraisal report

However, underwriting weaknesses, such as incomplete appraisals, were not detected or addressed as part of this process.

4/15/2009 Main Street Bank

N/A

Report Date **Bank**

FDIC Examination Findings Identified by Material Loss Report

3/30/2009 Silver State Bank

The loan officer used the incorrect appraised value to calculate the LTV for these loans. Examiners cited apparent violations of Part 323, Appraisals, in several ROEs, including, for one loan, SSB's failure to provide documentation that an appraisal had been reviewed and was in conformance with regulatory guidelines.

3/17/2009 Integrity Bank

Integrity did not provide adequate controls over the lending function, including credit underwriting, credit approval, appraisals, loan documentation, and problem loan recognition. Examiners also noted appraisal deficiencies and minor deficiencies in loan underwriting and administration.

3/11/2009 The Columbian Trust and Bank Company

N/A

2/18/2009 First Priority Bank

FPB did not follow sound loan underwriting standards and administration practices, including those pertaining to: (1) effectively identifying loan portfolio risk, (2) obtaining current appraisals.
Inadequate documentation of appraisal reviews and approval of loans, and/or inconsistent documentation included in loan files

Beginning with the bank's June 2004 examination, examiners cited FPB for apparent violations of laws and regulations related to loans to directors and officers, appraisals, and minimum capital requirements;