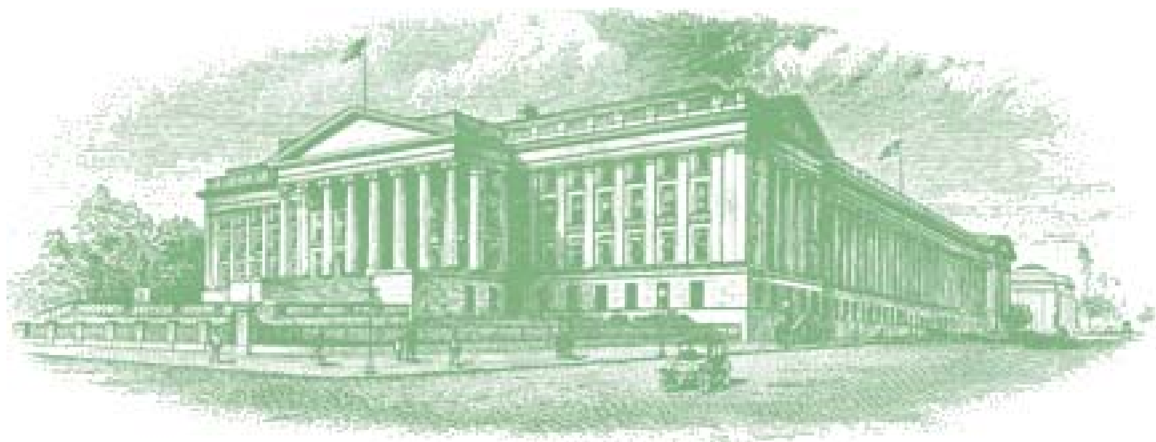
Audit Report



OIG-11-102

SAFETY AND SOUNDNESS: Material Loss Review of Platinum Community Bank

September 16, 2011

Office of Inspector General

DEPARTMENT OF THE TREASURY

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Abbreviations

CEO	chief executive officer
FDIC	Federal Deposit Insurance Corporation
FHLMC	Federal Home Loan Mortgage Corporation
MRBA	matter requiring board attention
OTS	Office of Thrift Supervision
PCA	prompt corrective action
PBI	Platinum Bancshares, Inc
Platinum	Platinum Community Bank
ROE	report of examination
TBW	Taylor, Bean and Whitaker Mortgage Corporation

OIG

Audit Report

The Department of the Treasury
Office of Inspector General

September 16, 2011

John G. Walsh
Acting Comptroller of the Currency

This report presents the results of our review of the failure of Platinum Community Bank (Platinum), of Rolling Meadows, Illinois, and the Office of Thrift Supervision's (OTS) supervision of the institution. We are providing the results of this review for your information since the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibilities for thrifts pursuant to P.L. 111-203. OTS closed the thrift and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 4, 2009. Section 38(k) of the Federal Deposit Insurance Act mandated this review because of the magnitude of the thrift's estimated loss[1] to the Deposit Insurance Fund.[2] As of September 13, 2011, FDIC estimated that the loss would be $49.5 million. FDIC also estimated that Platinum's failure resulted in a loss of $704,000 to FDIC's Transaction Account Guarantee Program.

The objectives of our review were to determine the causes of the thrift's failure; assess OTS's supervision of the thrift, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing any such loss in the future. To accomplish these objectives, we reviewed the supervisory files and interviewed key officials involved in the regulatory enforcement matters. We conducted fieldwork at OTS's

[1] At the time of the failure, Section 38(k) defined a loss as material if it exceeded the greater of $25 million or 2 percent of the institution's total assets. Effective July 21, 2010, section 38(k) defines a loss as material if it exceeds $200 million for calendar years 2010 and 2011, $150 million for calendar years 2012 and 2013, and $50 million for calendar years 2014 and thereafter (with a provision that the threshold can be raised temporarily to $75 million if certain conditions are met).
[2] Definitions of certain terms, which are underlined where first used in this report, are available in OIG-11-065, *Safety and Soundness: Material Loss Review Glossary* (April 11, 2011). That document is available on the Treasury Office of Inspector General's (OIG) website at http://www.treasury.gov/about/organizational-structure/ig/Pages/by-date-2011.aspx.

headquarters in Washington, D.C.; OTS's regional office in Chicago, Illinois; and at the bank headquarters in Rolling Meadows, Illinois. We also interviewed personnel at FDIC's Division of Resolutions and Receivership. Appendix 1 contains a more detailed description of our objectives, scope, and methodology. Appendix 2 contains background information on Platinum. Appendix 3 is OCC's response to this report.

In brief, our review found that Platinum failed because of its unsafe and unsound affiliate transactions with Taylor, Bean and Whitaker Mortgage Corporation (TBW) in July 2009. TBW acquired Platinum in July 2008. About a year later, TBW began to infuse large amounts of its Federal Home Loan Mortgage Corporation (FHLMC)[3] escrow deposits[4] into Platinum and, using those same deposits, ordered the thrift to purchase TBW mortgage loans. This practice is considered unsafe and unsound. In regard to supervision, OTS did not (1) perform a key examination procedure when assessing TBW's eligibility to assume ownership of Platinum, (2) restrict Platinum's use of TBW FHLMC escrow deposits, and (3) take forceful and immediate action to stop Platinum from purchasing additional mortgage loans with the FHLMC escrow deposits in July 2009 after it first learned about the practice.

Our review of Platinum also revealed certain matters that were referred to the Treasury Inspector General's Office of Investigations. It should be noted that on June 30, 2011, the former chairman and owner of TBW was sentenced to 30 years in prison and ordered to forfeit approximately $38.5 million for his role in a more than $2.9 billion fraud scheme that contributed to the failure of TBW and Colonial Bank, Montgomery, Alabama, which was regulated by the Alabama State Banking Department and FDIC. The sentencing occurred after a federal jury found the former chairman and owner guilty of 14 counts, including bank

[3] FHLMC, also called Freddie Mac, was chartered by Congress in 1970 with a public mission to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Its statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. FHLMC participates in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities. FHLMC is operating under a conservatorship that began on September 6, 2008, conducting its business under the direction of the Federal Housing Finance Agency.

[4] An escrow deposit is a trust account held in a borrower's name to pay obligations such as property taxes and insurance premiums.

fraud, on April 19, 2011. The TBW official and his co-conspirators engaged in a scheme that misappropriated more than $1.4 billion from Colonial Bank's Mortgage Warehouse Lending Division in Orlando, Florida, and approximately $1.5 billion from Ocala Funding, a mortgage lending facility controlled by TBW. The fraud scheme contributed to the failures of Colonial Bank and TBW. Six other individuals pled guilty and have been sentenced from three months to eight years in prison for their roles in the fraud scheme.

In light of the fact that OTS functions transferred to other federal banking agencies on July 21, 2011, we are not making any new recommendations to OTS as a result of our material loss review of Platinum. We provided OCC with a draft of this report for its review. In a written response, which is included as appendix 3, OCC did not provide specific comments on the report contents. We also received technical comments regarding our report from former OTS officials who are now employed by OCC. We have incorporated those comments into our report as we deemed appropriate.

Causes of Platinum Community Bank's Failure

Before TBW acquired Platinum in July 2008, the thrift had been unprofitable since opening in 1999. By late 2007, Platinum had a CAMELS composite rating of 4 and OTS issued a troubled condition letter and cease and desist (C&D) order related to the thrift's failed mortgage banking activities. In conjunction with TBW's acquisition of Platinum, OTS approved a new business plan which included the infusion of TBW FHLMC escrow deposits into the thrift. However, the unsafe and unsound use of those escrow deposits—to buy TBW mortgage loans during July 2009—caused Platinum's failure.

Unsafe and Unsound Affiliate Transactions

TBW filed a change in control application to acquire Platinum's holding company, Platinum Bancshares, Inc (PBI), and Platinum in February 2008. OTS approved the application in June 2008. As part of the acquisition transition, TBW replaced Platinum's CEO, and TBW's chairman and majority owner was elected chairman of Platinum's board of directors.

As part of a business plan submitted to OTS in February 2008, TBW advised that $5 million of its FHLMC escrow deposits would be transferred to the thrift in December 2008 and another $5 million would be transferred in June 2009. However, an October 2008 OTS full scope examination of Platinum found that Platinum began receiving FHLMC escrow deposits from TBW in October 2008 and that by October 31, 2008, the balance of escrow deposits had reached $38.7 million.

On July 2, 2009, Platinum purchased $198 million in TBW loans, using FHLMC escrow deposits that had been transferred from TBW. Platinum received additional FHLMC escrow deposits from TBW, totaling $210 million received in July 2009. From July 15, 2009, through July 31, 2009, Platinum continued to use these and other funds to purchase an additional $292 million in loans from TBW. In total, Platinum purchased $481 million in TBW mortgage loans during July 2009. There were two very unusual aspects to these purchases. First, Platinum purchased a significant amount of the loans with FHLMC escrow deposits TBW transferred into Platinum's escrow clearing account with Colonial Bank. Second, the loan purchases lacked signed agreements with all parties involved.

On August 3, 2009, OTS notified Platinum that it was in troubled condition and issued a supervisory directive instructing TBW to repurchase, by August 4, 2009, any loans originated in its name held on Platinum's books. TBW management advised OTS that it did not have the financial resources to repurchase the loans. In addition, FHLMC suspended TBW as an approved originator of FHLMC loans. On August 13, 2009, FHLMC informed OTS that it planned to request the return of the $210 million in escrow deposits held by Platinum.

On August 14, 2009, the Alabama State Banking Department closed Colonial Bank and appointed FDIC as receiver. Colonial Bank was TBW's primary warehouse lender and custodian for those loans that either TBW or Platinum originated and/or serviced itself.[5] On August 24, 2009, TBW filed a Chapter 11 bankruptcy petition in Florida.

On September 1, 2009, FHLMC directed Platinum to transfer $210 million in escrow deposits that it received from TBW to another depository institution by September 8, 2009. Because Platinum could not sell the loans back to TBW, it lacked sufficient liquidity to make the transfer. In addition, Platinum was unable to sell the loans to third parties because FDIC, as Colonial Bank's receiver, had possession of the loan files. FDIC could not release the loans due to a temporary restraining order related to Colonial Bank's lending activities and as Colonial Bank's receiver, FDIC had a fiduciary responsibility to resolve loan ownership issues. On September 4, 2009, OTS closed Platinum and placed it into FDIC receivership.

OTS's Supervision of Platinum Community Bank

OTS's supervision of Platinum did not prevent a material loss to the Deposit Insurance Fund. OTS did not (1) perform a key task when it examined TBW's eligibility to acquire Platinum Bancshares, Inc (PBI) and Platinum; (2) restrict Platinum's use of the FHLMC escrow deposits from TBW; and (3) upon learning of Platinum's July 2, 2009, loan purchases using the escrow deposits, take immediate action to prevent subsequent loan purchases.

Table 2 summarizes the results of OTS's full-scope safety and soundness and limited-scope examinations of Platinum from 2007 until the thrift's closure.[6] Generally, matters requiring board attention (MRBA) represent the most significant items reported in ROEs requiring corrective action.

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[5] On August 14, 2009, the Alabama State Banking Department closed Colonial Bank and named FDIC as receiver. FDIC OIG conducted a material loss review of Colonial Bank and determined Colonial failed due to a liquidity crisis brought on by (1) bank management's failure to implement adequate risk management practices, (2) deficiencies in loan underwriting, credit administration, and risk analysis and recognition; and (3) an alleged fraud affecting its mortgage warehouse lending operation. *Material Loss Review of Colonial Bank, Montgomery, Alabama, Report No. MLR-10-031* (April 23, 2010)

[6] OTS conducted its examinations and performed off-site monitoring of Platinum in accordance with the timeframes prescribed in the OTS Examination Handbook.

Table 2: Summary of OTS's Examinations and Enforcement Actions for Platinum

Date started/ completed	Assets (in millions)	Examination Results			
		CAMELS rating	Number of MRBAs	Number of corrective actions	Enforcement actions
7/30/2007 10/01/2007 Full-scope examination	$109	4/444522	12	12	Troubled condition letter, 9/26/2007; cease and desist order, 12/20/2007
10/31/2007 11/20/2007 Limited-scope examination	N/A	N/A	-	-	None
3/17/2008 3/27/2008 Limited-scope examination	N/A	N/A	-	-	None
7/28/2008 8/27/2008 Limited-scope examination	N/A	N/A	-	-	None
10/27/2008 1/15/2009 Full-scope examination	$79	3/333522	6	19	Memorandum of understanding, 3/18/2009
7/13/2009 Limited-scope examination	Not completed	No report issued	-	-	Supervisory directive letter, 7/31/2009; troubled condition letter, 8/3/2009
8/5/2009 8/5/2009 Limited-scope examination	$148	5/555555	-	-	Cease and desist order, 8/21/2009

Source: OTS

OTS's Eligibility Examination of TBW Did Not Include Contacts with State Regulators

As discussed above, TBW filed a change in control application to acquire Platinum's holding company, PBI, and Platinum in February 2008. OTS performed an eligibility examination of TBW from February 25 to April 28, 2008, and approved TBW's application on June 24, 2008. The purpose of the eligibility examination was to obtain and analyze critical information regarding TBW's financial condition, operating practices, and risk exposure related to the proposed acquisition. In evaluating TBW's change in control application to acquire PBI and Platinum, OTS also considered the likely and potential effects of the acquisition on Platinum with regard to its safety and soundness rating (CAMELS) and compliance requirements. Based on its review, OTS concluded that TBW was a capably managed, successful company with conservative and sound mortgage banking practices.

OTS guidance on conducting eligibility examinations required it to coordinate with other applicable agencies during the planning and scoping phase of the examination. It also required the examiner-in-charge to obtain the applicant's two most recent examination reports from other applicable regulatory agencies, including state agencies.

Contrary to its guidance on conducting eligibility examinations, OTS did not contact the state mortgage banking regulators that licensed TBW and monitored its risk management practices. Had it done so, OTS would likely have learned about the following examinations that were being conducted at the same time as its eligibility examination. While the states' examinations were on-going at the time of OTS's consideration of TBW's application, this was a missed opportunity for OTS to inquire about any preliminary findings.

The Kentucky Department of Financial Institutions began an examination of TBW in January 2008. The examination found that TBW funded numerous loans over a 1-year period that were brokered by unlicensed mortgage loan brokers and originated by unregistered loan officers. On August 8, 2008, as a result of these findings, TBW agreed to pay $150,000 in fines.

TBW was the subject of a multistate examination that included mortgage regulators from Arizona, Georgia, Idaho, Illinois, Massachusetts, Mississippi, New Jersey, North Carolina, Pennsylvania, Vermont, and the District of Columbia. The examination, which began in March 2008, identified numerous issues related to TBW's regulatory compliance and business practices, including evidence of fraudulent activity, evidence of risk disregarded or unrecognized by TBW underwriters, and violations of TBW's own underwriting guidelines. Given the seriousness of the findings, the regulators recommended significant regulatory supervision of TBW. On June 22, 2009, TBW reached a settlement agreement with the state regulators and paid $9 million in fines.

We discussed the scope of the eligibility examination with OTS management and examiners. They acknowledged that the other regulators should have been contacted and the information regarding their examinations of TBW considered.

OTS Did Not Restrict the Use of FHLMC Escrow Deposits from TBW

OTS became aware of TBW's intent to transfer FHLMC escrow deposits to Platinum when TBW submitted its business plan to OTS in conjunction with its change in control application in February 2008. As discussed above, Platinum received FHLMC escrow deposits from TBW sooner and in larger amounts than its 2008 through 2010 business plan stated. As a result, Platinum's total assets increased from $78.5 million to $111.6 million, or 42 percent, during October 2008. The growth reduced Platinum's Tier 1 capital ratio from 9.26 percent on September 30, 2008 to 7.19 percent on October 31, 2008, falling below Platinum's self imposed minimum Tier 1 capital ratio of 7.5 percent. Additionally, the ROE for the October 27, 2008, examination noted that Platinum lacked a proper set of policies and procedures to manage the escrow clearing account. OTS included an MRBA in this ROE that required Platinum's board of directors to review and approve the business plan and to specifically address the substantial increase in FHLMC escrow deposits. OTS also directed the board to establish minimum acceptable capital ratios, based on the risk in the bank's balance sheet; and to ensure there is a method to monitor and maintain capital in excess of the limits on a daily basis.

Platinum submitted a new business plan to OTS on June 5, 2009, which specifically stated Platinum intended to use FHLMC escrow deposits it received from TBW to purchase loans. Although OTS never approved the business plan, according to OTS documentation, an OTS assistant regional director discussed the plan with TBW's CEO at a June 23, 2009, meeting. At that meeting, the CEO was told that the business plan was unacceptable because of concerns regarding (1) transactions with affiliates, (2) growth projections, and (3) the accounting for combining TBW mortgage origination operations into Platinum. When we asked the OTS official whether Platinum's intent to purchase loans with the FHLMC escrow deposits was discussed at the meeting, she told us that that she could not recall that particular piece of the discussion. She also stated that the comments made to TBW's CEO about the business plan were preliminary comments and that she told Platinum management OTS needed more time to review the business plan.

In the end, Platinum purchased $481 million in TBW loans using, in part, FHLMC escrow deposits transferred to Platinum by TBW. We believe OTS should have strongly objected, in writing, to Platinum that the purchase of loans was not an acceptable use of FHLMC escrow deposits.

In reviewing OTS's examination handbook, we noted a lack of examiner guidance regarding the review of escrow deposits.

OTS Did Not Take Timely Supervisory Action in July 2009

On July 2, 2009, Platinum purchased $198 million in loans made in TBW's name using FHLMC escrow deposits transferred by TBW into Platinum's escrow clearing account. The transaction on that day constituted an unsafe and unsound practice because it more than doubled the thrift's asset size and reduced its capital ratios. Additionally, the purchase of mortgage loans with FHLMC escrow deposits did not comply with Platinum's obligations under the applicable FHLMC seller/servicer guide. In this regard, the FHLMC seller/servicer guide states that custodial account funds may only be invested in time deposits or in federal funds that mature within 7 days of the date of the deposit.[7]

On July 13, 2009, during an OTS limited-scope examination, Platinum's president informed an onsite OTS examiner of the FHLMC escrow deposit transfer and July 2nd loan purchase. With that information, the examiner notified the OTS assistant regional director of the transaction by e-mail the same day. The examiner's email stated that (1) the bank grew significantly in July, from about $120 million to about $300 million, significantly exceeding the growth called for in its business plans; (2) FHLMC had recently approved Platinum as an escrowee of custodial funds; (3) Platinum had received about $150 million in interest-free escrow funds from TBW; and (4) Platinum had purchased about $200 million in loans from TBW. In response to this e-mail, the examiner was directed to gather more information on the transaction.

On July 17, 2009, in an e-mail, the OTS assistant regional director told the onsite examiner that she had had a conversation with the TBW CEO about the July 2nd transactions. According to that e-mail, the TBW CEO told the OTS official that the TBW chairman of the board authorized the transaction and he (the TBW CEO) was uncertain whether Platinum had obtained the proper loan documentation. Again, the OTS official instructed the examiner in the e-mail to gather more information.

On July 20, 2009, Platinum's chief financial officer told the OTS onsite examiner that loan purchases using FHLMC escrow deposits were continuing. The examiner told us that she notified her field manager that same day. Between July 15 and July 31, 2009, while OTS was onsite at the thrift, Platinum purchased an additional $292 million in TBW loans using, in part, the FHMLC escrow deposits received from TBW.

The OTS field manager told us that he did not recall which day he told the assistant regional director about the ongoing loan purchases. The OTS assistant regional director told us that she recalled being told by the field manager on July 30, 2009, that the loan purchases were ongoing. We asked the OTS official whether

[7] FHLMC Single-Family Seller/Servicer Guide

she had considered enforcement action against TBW or Platinum in response to the July 2nd loan purchases. The OTS official said that more information about the July 2nd transactions was necessary before issuing a directive.

On July 30, 2009, in an e-mail, OTS directed Platinum management to discontinue funding loans that were in TBW's name. OTS issued a supervisory directive[8] to Platinum on July 31, 2009, ordering Platinum to cease all further purchases of TBW loans until otherwise notified by OTS. According to the directive, OTS had serious concerns about the July 2nd transactions and subsequent loan purchases because they (1) were not in conformance with Platinum's 2008 business plan, (2) were entered into without appropriately signed agreements, and (3) may have resulted in violations of transactions with affiliates regulations.[9]

We believe OTS should have directed Platinum to cease further loan purchases on July 13th when it first learned of the unsafe and unsound practice. Furthermore, we found the lack of urgency on the part of OTS officials alarming. Had OTS taken action on July 13th, it may have prevented Platinum's purchase of the additional $292 million in loans and the loss to the Deposit Insurance Fund as a result of the thrift's failure may have been lessened.

Prompt Corrective Action

The purpose of PCA is to resolve problems of insured depository institutions with the least possible long-term loss to the Deposit Insurance Fund. PCA requires federal banking agencies to take certain actions when an institution's capital drops below certain levels. PCA also gives regulators flexibility to supervise institutions based on criteria other than capital levels.

OTS did not implement PCA during its supervision of Platinum which is not surprising given the rapid chain of events leading to its

[8] A supervisory directive is an informal enforcement action that directs a thrift to cease an activity or take an affirmative action to remedy or prevent an unsafe or unsound practice.

[9] Sections 23A and 23B of the Federal Reserve Act (12 U.S.C. 371c, 371c–1) establish certain quantitative limits and other prudential requirements for loans, purchases of assets, and certain other transactions between a member bank and its affiliates.

failure. As a result of the July 2009 loan purchases, OTS notified Platinum in a letter dated August 3, 2009, that it was in troubled condition. This letter informed Platinum of the restrictions associated with its troubled condition status, which included restrictions on growth, severance pay, and dividends.

OTS also issued a (C&D) order to Platinum on August 24, 2009. The C&D order included a provision requiring Platinum to maintain Tier 1 capital and total risk-based capital ratios (8 and 12 percent, respectively) that were higher than PCA well-capitalized ratios (6 and 10 percent, respectively). Because of this requirement, the C&D order stated that Platinum could not be deemed well-capitalized for PCA purposes. In addition, the C&D order included other provisions normally associated with PCA requirements for undercapitalized banks.

OTS Internal Failed Bank Review

In accordance with its policy, OTS staff completed an internal review to determine the causes of Platinum's failure and evaluate OTS's supervision of the thrift. According to the review, which was released on April 5, 2010, the direct cause of the thrift's failure was significant unauthorized transactions between TBW and Platinum. As a result of these transactions, Platinum did not have sufficient funds to meet FHLMC's demand for the return of $210 million in custodial escrow deposits that TBW had transferred to the thrift.

The review did not identify any weakness in OTS's supervision of Platinum and stated that OTS's supervision of Platinum and TBW was not a cause of the thrift's failure. However, the review stated that OTS's eligibility examination and the application review of TBW identified several potential risks in TBW's operations-specifically, TBW's mortgage-servicing rights concentration and liquidity risk profile. According to the review, OTS did not follow up with TBW or require that TBW take action on these risk elements before its June 24, 2008, approval of TBW's application to acquire control of PBI and Platinum. The internal review did not include any recommendations.

As discussed in this report, we believe that OTS's supervision was not timely nor sufficiently forceful based on when OTS first learned of the TBW loan purchases in early July 2009. More timely and direct action should have been taken to stop Platinum from making further TBW loan purchases. With respect to the eligibility examination, we found that OTS also did not contact state regulatory agencies before approving TBW, a significant omission in the examination.

Conclusion

Our material loss review of Platinum revealed two significant deficiencies in supervision. First, OTS should have exercised greater due diligence in determining TBW's eligibility to acquire the thrift. The in-progress examinations of TBW by various state regulatory agencies may have provided important leads, but OTS did not contact the agencies. Second, Platinum is a clear example of the need for regulators to sometimes act very swiftly and forcefully to stop an institution from engaging in a practice that is clearly unsafe and unsound. In the case of Platinum, the additional two weeks of buying TBW loans likely increased the eventual loss to the Deposit Insurance Fund.

Pursuant to P.L. 111-203, the functions of OTS transferred to other federal banking agencies on July 21, 2011. Accordingly, we are not making any new recommendations to OTS as a result of our material loss review of Platinum.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-0384 or Theresa Cameron, Audit Manager, at (202) 927-1011. Major contributors to this report are listed in appendix 4.

/s/
Jeffrey Dye
Audit Director

We conducted this material loss review of Platinum Community Bank (Platinum) of Rolling Meadows, Illinois, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[10] This section provides that if the Deposit Insurance Fund incurs a material loss with respect to an insured depository institution, the inspector general for the appropriate federal banking agency is to prepare a report to the agency that

- ascertains why the institution's problems resulted in a material loss to the insurance fund;
- reviews the agency's supervision of the institution, including its implementation of the prompt corrective action provisions of section 38; and
- makes recommendations for preventing any such loss in the future.

At the time of Platinum's failure on September 4, 2009, section 38(k) defined a loss as material if it exceeded the greater of $25 million or 2 percent of the institution's total assets. We initiated a material loss review of Platinum based on the loss estimate by the Federal Deposit Insurance Corporation (FDIC), which was $114.3 million on September 4, 2009. As of September 13, 2011, FDIC estimated that the loss to the Deposit Insurance Fund would be $49.5 million. FDIC also estimated that the thrift's failure resulted in a loss of $704,000 to the Transaction Account Guarantee Program.

Our objectives were to determine the causes of Platinum's failure; assess the Office of Thrift Supervision's (OTS) supervision of Platinum, including implementation of the PCA provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish our review, we conducted fieldwork at OTS's headquarters in Washington, D.C.; it's Central Region Office in Chicago, Illinois; and at the thrift, in Rolling Meadows, Illinois. We also interviewed officials of FDIC's Division of Resolutions and Receivership. We conducted our fieldwork from November 2009 through May 2010.

[10] 12 U.S.C. § 1831o (k).

Due to the significant role that Taylor, Bean and Whitaker Mortgage Corporation (TBW), who acquired Platinum's holding company (Platinum Bancshares, Inc.) in 2008, played in the failure of Platinum, we included OTS's supervision of TBW in the scope of our work. To assess the adequacy of OTS's supervision of Platinum and TBW, we determined (1) when OTS first identified the thrift's safety and soundness problems, (2) the gravity of the problems, and (3) the supervisory response OTS took to get the thrift to correct the problems. We also assessed whether OTS (1) might have discovered problems earlier; (2) identified and reported all the problems; and (3) issued comprehensive, timely, and effective enforcement actions that dealt with any unsafe or unsound activities. Specifically, we performed the following work:

- We determined that the period covered by our audit would be from July 1, 2003, through the thrift's failure on September 4, 2009. This period included five full-scope safety and soundness examinations and eight limited-scope examinations of Platinum. This period also included an eligibility examination and one full-scope holding company examination of TBW.

- We reviewed OTS's supervisory files and records for Platinum from 2003 through 2009 and for TBW from 2008 through 2009. We analyzed examination reports, supporting workpapers, and related supervisory and enforcement correspondence. We performed these analyses to gain an understanding of the problems identified, the approach and methodology OTS used to assess the thrift's and holding company's condition, and the regulatory action used by OTS to compel thrift and holding company management to address deficient conditions. We did not conduct an independent or separate detailed review of the external auditor's work or associated workpapers other than those incidentally available through the supervisory files.

- We interviewed and discussed various aspects of the supervision of the thrift and holding company with OTS officials and examiners to obtain their perspectives on the thrift's and holding company's condition and the scope of the examinations.

We also interviewed an FDIC examiner who was responsible for monitoring Platinum for federal deposit insurance purposes.

- We selectively reviewed Platinum's documents that had been taken by FDIC and inventoried by FDIC Division of Resolutions and Receivership personnel. From FDIC's inventory list, we identified documents for our review that were most likely to shed light on the reasons for the thrift's failure and OTS's supervision of the institution.

- We assessed OTS's actions based on its internal guidance and the requirements of the Federal Deposit Insurance Act.[11]

- We reviewed OTS's internal failed bank review report of Platinum, dated April 5, 2010.

We conducted this performance audit 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.

[11] 12 U.S.C. § 1811 et seq.

Platinum Community Bank History

Platinum Community Bank (Platinum) was established as a federally chartered stock institution on March 1, 1999. It was wholly owned by Platinum Bancshares, Inc. (PBI), a nondiversified, publicly traded, unitary thrift holding company.[12]

Platinum's home office was in Rolling Meadows, Illinois, and its operations included mortgage, home equity, consumer and commercial real estate lending. In June 2001, Platinum formed Platinum Direct Funding Corporation, a service corporation, to perform mortgage banking operations. By December 2002, Platinum transferred its mortgage banking operations to Platinum Direct Funding, a newly formed division of Platinum, and Platinum Direct Funding Corporation was effectively closed. PBI also owned Platinum Home Mortgage Corporation, and Platinum purchased mortgage loans from the corporation for sale and for investment. In July 2007, Platinum closed its mortgage banking operations. On July 9, 2008, Taylor, Bean Whitaker Mortgage Corporation (TBW) acquired 76 percent of PBI and gained control of Platinum.

From its beginning, Platinum lacked a successful business strategy and experienced net operating losses in most reporting periods throughout its existence. Before its acquisition by TBW, many of Platinum's problems resulted from its pursuit of business strategies that were difficult to profitably implement and required strict oversight by the board and its management team. After TBW gained control of Platinum in July 2008, Platinum's earnings continued to suffer.

TBW developed a 2008-2010 business plan for Platinum that depended to a great extent on affiliated transactions with TBW and involved significant growth in residential mortgages, commercial real estate loans, and mortgage-backed securities. Platinum failed in September 2009 before the business plan could be fully implemented.

[12] A unitary thrift holding company controls a single thrift.

OTS Assessments Paid by Platinum

OTS funded its operations in part through semiannual assessments on savings associations. OTS determined each institution's assessment by adding together three components reflecting the size, condition, and complexity of an institution. OTS computed the size component by multiplying an institution's total assets as reported on the thrift financial report by the applicable assessment rate. The condition component is imposed on institutions that have a 3, 4, or 5 CAMELS composite rating. OTS imposed a complexity component if (1) a thrift administers more than $1 billion in trust assets, (2) the outstanding balance of assets fully or partially covered by recourse obligations or direct credit substitutes exceeds $1 billion, or (3) the thrift services over $1 billion of loans for others. OTS calculated the complexity component by multiplying set rates times the amounts by which an association exceeds each particular threshold. Table 4 shows the assessments that Platinum paid OTS from 2003 through 2009.

Table 4: Assessments Paid by Platinum to OTS, 2003—2009

Billing Period	Exam Rating	Amount Paid
1/1/2003–6/30/2003	3	$19,300
7/1/2003–12/31/2003	3	18,136
1/1/2004–6/30/2004	3	26,118
7/1/2004–12/31/2004	3	29,085
1/1/2005–6/30/2005	3	32.934
7/1/2005–12/31/2005	3	30,401
1/1/2006–6/30/2006	3	30,345
7/1/2006–12/31/2006	3	31,371
1/1/2007–6/30/2007	4	32,127
7/1/2007–12/31/2007	4	29,654
1/1/2008–6/30/2008	3	34,976
7/1/2008–12/31/2008	3	40,118
1/1/2009–6/30/2009	3	32,552
7/1/2009–12/31/2009	5	32,898

Source: OTS

Number of OTS Staff Hours Spent Examining Platinum

Table 5 shows the number of OTS staff hours spent examining Platinum from 2003 to 2009.

Table 5: Number of OTS Hours Spent on Examining Platinum, 2003-2009

Examination Start Date	Number of Examination Hours
7/28/2003	960
4/26/2004	206
10/28/2004	1,191
8/22/2005	97
3/27/2006	1,206
4/16/2007	255
7/30/2007	1,447
10/31/2007	77
2/25/2008	N/A
3/17/2008	110
7/28/2008	186
10/27/2008	1,092
11/3/2008	N/A
7/13/2009	277
8/4/2009	N/A
8/5/2009	59

Source: OTS

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: September 12, 2011

Subject: Response to Material Loss Review of Platinum Community Bank

We have received and reviewed your draft report titled "Material Loss Review of Platinum Community Bank (Platinum)." This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of the thrift's estimated loss to the Deposit Insurance Fund at the time of its failure. Your objectives were to determine the causes of Platinum's failure; assess OTS's supervision of the thrift, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives, you reviewed the supervisory files and interviewed key officials involved in the regulatory enforcement matters and personnel at FDIC's Division of Resolutions and Receivership.

You concluded that the primary causes of Platinum's failure were unsafe and unsound affiliate transactions.

You also concluded that the OTS did not include contacts with state regulators related to the eligibility examination of Taylor, Bean, and Whitaker Mortgage Corporation (TBW); did not restrict the use of FHLMC escrow deposits from TBW; and did not take timely supervisory action in 2009. OTS did not implement PCA given the rapid chain of events leading to its failure.

Your report did not contain any recommendations.

Thank you for this information and 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.

Theresa Cameron, Audit Manager
Adelia Gonzales, Auditor
Carolyn Peyton, Program Analyst
Gerald Crispino, Special Agent
Gerald Kelly, Referencer

Department of the Treasury

Deputy Secretary of the Treasury
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

Federal Deposit Insurance Corporation

Acting Chairman
Inspector General

U.S. Senate

Chairman and Ranking Member
Committee on Banking, Housing, and Urban Affairs

Chairman and Ranking Member
Committee on Finance

U.S. House of Representatives

Chairman and Ranking Member
Committee on Financial Services

U.S. Government Accountability Office

Comptroller General of the United States