



Executive Summary:

Review of the Failure of Waccamaw Bank

2015-SR-B-005

March 26, 2015

Purpose

Consistent with the requirements of section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Office of Inspector General conducted an in-depth review of the failure of Waccamaw Bank (Waccamaw) because the failure presented unusual circumstances that warranted an in-depth review.

Background

Waccamaw, headquartered in Whiteville, North Carolina, opened on September 2, 1997, and became a state member bank on May 31, 2001. The bank was supervised by the Federal Reserve Bank of Richmond (FRB Richmond), under delegated authority from the Board of Governors of the Federal Reserve System (Board), and by the North Carolina Office of the Commissioner of Banks (State). On June 8, 2012, the State closed Waccamaw and appointed the Federal Deposit Insurance Corporation as receiver.

Findings

Waccamaw failed because its board of directors and senior management did not control the risks associated with its rapid growth strategy. This strategy consisted of expanding the bank's branch network and growing its commercial real estate lending portfolio, particularly the acquisition, development, and construction segment of the commercial real estate portfolio. As a result of this strategy, Waccamaw developed high commercial real estate and acquisition, development, and construction loan concentrations. Meanwhile, the bank's branch network expansion increased overhead expenses and decreased the bank's profitability. This combination heightened Waccamaw's vulnerability to weak economic conditions. Following a decline in the local economy, the bank's commercial real estate loans experienced substantial losses, which began to erode capital.

In assessing a transaction designed to augment the bank's capital, FRB Richmond made a material supervisory determination that prohibited the bank from considering the proceeds resulting from a sale of preferred stock as regulatory capital. Waccamaw filed a series of appeals contesting this determination, which ultimately proceeded to the Board for consideration. In January 2012, a Board Governor reversed the results of the prior appeals and allowed Waccamaw to consider some of the proceeds from the preferred stock sale as regulatory capital. Nevertheless, Waccamaw's persistent asset quality deterioration continued its losses, which further depleted capital and resulted in the bank becoming *critically undercapitalized* in April 2012. The State appointed the Federal Deposit Insurance Corporation as receiver and closed the bank on June 8, 2012.

With respect to supervision, FRB Richmond complied with the applicable examination frequency guidelines for the time frame we reviewed, conducted regular offsite monitoring, and implemented applicable prompt corrective action provisions. Our review noted three issues that this failure had in common with other failures, which are outlined in our [Summary Analysis of Failed Bank Reviews](#) report. In addition, we have specific findings involving unique supervisory aspects associated with this failure.

Recommendations

We made recommendations to address supervisory aspects associated with the failure of Waccamaw. In his response to our draft report, the Director of the Division of Banking Supervision and Regulation agreed with our recommendations and outlined planned corrective actions to address them.