

Washington, DC 20219

Corporate Decision #2001-09
May 2001

April 18, 2001

Mr. Marvin Boyd
Spokesperson
Security National Bank (Proposed)
110 South Port Road #31
Spartanburg, South Carolina 29306

Subject: Application to charter a national bank with the title “ Security National Bank”,
Spartanburg, South Carolina
Application Control No. 2000-SE-01-012

Dear Mr. Boyd:

This is to inform you that the Office of the Comptroller of the Currency (OCC) has disapproved the application to charter Security National Bank, Spartanburg, South Carolina (Bank). The organizers failed to demonstrate to the OCC that the proposed bank would have a reasonable chance of success and would be operated in a safe and sound manner.¹ The decision was made after an extensive and thorough evaluation of the application, including information obtained during the field investigation and made available to the OCC in its regulatory and supervisory activities.

Summary of Decision

The OCC concluded that this application should be denied based on the following factors supported by evidence contained in the administrative record.

1. The organizing group failed to select and/or identify management skills needed to successfully offer the proposed line of bank products and services.

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3. The organizers do not have a consistent vision about the overall target goal for generating business from the low-to-moderate income (LMI) community.

¹ 12 C.F.R. ' 5.20(f)(1)

4. The operating plan does not support the organizing group's stated intent to primarily serve the LMI community.
5. Financial projections are unreliable due to the number of inconsistencies and omissions from the operating plan.
6. Proposed capital is inadequate to support planned operations in a highly competitive market.
7. The operating plan does not demonstrate the group's collective ability to establish and operate a successful bank given the economic and competitive conditions of the market to be served.

Background

This application is for a proposed *de novo* bank that would focus on serving consumers and small and medium-sized businesses in Spartanburg/Greenville County market. The market is considered to be highly competitive with 16 established banks and seven new banks that have opened or been approved within the past two years. The Bank proposes to have a community development (CD) focus that would target the underserved LMI areas of the market, which are predominantly minority neighborhoods.

The OCC began working with an organizing group for this Bank late in 1998. The group changed substantially prior to filing the application. OCC staff provided technical assistance about various aspects of the proposal throughout 1999 and until the application was filed on August 28, 2000.

The organizing group is made up of ten individuals including the proposed president and CEO. A non-organizing director was added to the proposal recently. The OCC reviewed two draft applications and discussed serious deficiencies in the proposal with the entire organizing group, including the proposed President and CEO. The OCC highlighted areas of concern that included [] [], inconsistencies in the operating plan, and questions about how the bank would offer financial services to the entire market. Some of those deficiencies remained uncorrected or unresolved in the final application that was filed with the OCC.

Discussion of Decision Criteria

In reviewing a proposal to charter a national bank, the OCC is required by 12 U.S.C. ' 27(a) to make a "careful examination of the facts." Consistent with OCC procedures for evaluating charter applications, the OCC reviewed the application and conducted a field investigation. The OCC analyzed the charter application using the criteria contained in 12 C.F.R. ' 5.20(f)(1) & (2). Those criteria and the OCC's assessment of each follow.

A. Organizers Familiar with National Banking Laws and Regulations.

The proposed Bank must have organizers who are familiar with national banking laws and regulations.² In addition to the proposed President and CEO, three organizers have some experience in banking. One served as a management trainee for two years at a bank and two served on local advisory boards of national banks. In addition, one proposed director who is not an organizer has worked at a bank for nearly 30 years in human resources. While none of the remaining organizers have experience either as a board member or executive management of a national bank, they have expressed their commitment to increase their knowledge of national banking laws and regulations.

B. Competent Management, Including a Board of Directors, with Ability and Experience Relevant to the Types of Services to be Provided.

Although economic conditions are a major influence on a bank's ability to achieve financial success, management is the "dominant factor." Many of the bank failures that occurred in the 1980s and early 1990s can be attributed primarily to poor management decisions.³ A 1988 OCC study showed that deficiencies within boards of directors and management were the "primary" causes of most problem and failed banks.⁴

The OCC evaluates a proposed bank's organizing group and its operating plan together.⁵ In its evaluation of a bank's organizing group, the OCC considers general factors, such as the group's experience, competence, willingness, and ability to be active in directing the bank's affairs in a safe and sound manner. The OCC also considers specific factors relating to

² 12 C.F.R. § 5.30(f)(2).

³ OCC, An Examiner's Guide to Problem Bank Identification, Rehabilitation, and Resolution, at 8 (2001).

⁴ OCC, Bank Failure: An Evaluation of the Factors Contributing to the Failure of National Banks, at 5 (1988).

⁵ 12 C.F.R. ' 5.20(f)(3).

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Each organizer should be knowledgeable about the operating plan.¹² A board must have a mutual understanding with management regarding the operating philosophy and vision for the bank. More importantly, they must agree among themselves in formulating the business plan and setting the operating course for the bank. Our investigation revealed an organizing group that is divided as to the overall focus of the Bank. For example, some see the Bank as primarily CD-focused, while others view it as a more traditional bank.

As previously stated, the organizers proposed for this charter to have a CD focus. That means the Bank's activities must primarily benefit its LMI community.¹³ At the same time, the Bank must be willing to offer its products to its entire market. The organizers do not have a consistent vision about the overall target goal for generating business from the LMI community. During the field investigation, OCC examiners met individually with organizers. One question asked concerned the amount of business that the Bank would derive from the LMI community. Organizer responses ranged from 12 percent to 85 percent of the Bank's business. Two organizers did not express an opinion on this critical issue.

Subsequent to the field investigation, the organizing group provided supplemental information to the OCC. They agreed that the Bank would obtain 30-40 percent of its business from the LMI community. Yet, the accompanying proforma statement reflected only 20 percent of its business coming from that community (i.e., CD loans), even after five years of operations. This level of CD lending is similar to that of other banks operating in the market. The operating plan data submitted to the OCC does not support the intended CD focus since the Bank would not be primarily engaged in providing benefits to the LMI community. This lack of consistency reflects adversely on the organizing group's understanding and commitment to chartering a CD focused institution.

The organizers provided a good analysis of the need for financial services within the LMI areas of Spartanburg and Greenville Counties. Unfortunately, the plan they developed would not effectively deliver those services and it did not address the needs of the other portions (i.e., the non-LMI areas) of the two-county market area. While the plan states that 80 percent of the loan products will come from the non-LMI areas, there is little detail about how the Bank would identify the non-LMI community's needs and solicit its business, develop products, and deliver services in that highly competitive market. Overall, the lack of sufficient details to

¹¹ 12 C.F.R. ' 5.20(g)(3).

¹² 12 C.F.R. ' 5.20(g)(1).

¹³ 12 C.F.R. ' 24.3(a).

implement the business plan envisioned by the organizers and the absence of a consistent vision on important issues reflects negatively on the group's ability to develop an operating plan that would enable the bank to operate successfully.

C. Has Capital That is Sufficient to Support the Projected Volume and Type of Business.

A proposed bank must have sufficient initial capital, net of any organizational expenses that will be charged to the bank's capital after it begins operations, to support the bank's projected volume and type of business.¹⁴ The OCC may determine that higher or lower amounts of capital from those proposed originally are needed based on local market conditions or the operating plan presented by the organizing group. The OCC expects projected capital for new banks to remain at or above the "well capitalized" level as defined in 12 C.F.R. ' 6.4(b)(1) for the first three years of operations.¹⁵

The organizing group plans to raise \$5 million in capital. []
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[]]. OCC staff also identified concerns about the bank's proposed loan underwriting criteria and loan administration. The operating plan projects significant net loan losses, aggregating \$868 thousand over the first five years of operation. Even if the organizers could reach their goal of raising \$5 million in capital, that amount would not be sufficient in light of the high levels of credit risk and projected losses called for in the operating plan.

The organizers have stated that the Bank intends to open a branch in Greenville by purchasing an existing branch office from another bank in the market within three months after opening its main office in Spartanburg. Typically, charter proposals that include plans to open a branch in the early years of operation require higher levels of initial capital to provide for anticipated growth.

Recently approved national bank charters in this market have had significantly higher levels of capital than proposed by this application. Some organizing banks have taken longer than initially planned to raise capital. In other cases, the organizing groups have needed to inject additional capital to cover shortfalls not raised in the market. These are indicators that start-up capital for new banks is becoming scarce.

¹⁴ 12 C.F.R. ' 5.20(h)(4).

¹⁵ "Charters" booklet, *Comptroller's Corporate Manual*, page 17.

As previously discussed in Section B and based on financial statement projections, we are not convinced that this proposal would **primarily** benefit the LMI community. This is a requirement for a bank that will have a CD focus and one that the organizing group identified as critical to the Bank's success. If the Bank does not have a CD focus, other national banks would not be able to legally invest in it. Therefore, the group cannot rely upon capital sources critical to the Bank's operating plan and ultimate success, which normally would be available to a bank with a CD focus.

D. Can Reasonably Be Expected to Achieve and Maintain Profitability.

The OCC reviews all operating plan projections to assess if the assumptions are reasonable and consistent with the operating plan.¹⁶ The operating plan indicates that the Bank will need to charge "slightly higher rates to compensate for the higher risk [it] will take in order to make more credit available to the community." However, based on the Bank's funding cost and anticipated losses, interest rates ranging from 10.25 percent to 11.7 percent are not likely to adequately compensate the Bank for the degree of credit risk it plans to take. As previously noted in Section B, supplemental information submitted to the OCC contained discrepancies between the description of the amount of business that would be derived from the targeted LMI community and the financial projections. Submission of the supplemental information was an attempt by the organizing group to address issues identified by the OCC. Reliance on the projections in either the initial submission or the supplemental material is difficult because of the number of inconsistencies in and omissions from the operating plan. Accordingly, the OCC was unable to evaluate the earnings prospects for the proposed bank.

E. Will Be Operated in a Safe and Sound Manner.

The operating plan must demonstrate that the organizing group is aware of and understands safe and sound banking operations and practices. The OCC will deny an application that does not meet these safety and soundness requirements.¹⁷ The operating plan does not reflect an understanding of sound banking principles as evidenced by numerous weaknesses in the operating plan that are detailed elsewhere in this letter. Collectively, they reflect negatively on the group's ability to lead the operations of the bank in a safe and sound manner.

F. Additional Factors

In reviewing a charter proposal, the OCC may also consider additional factors listed in 12 U.S.C. ' 1816, including the risk to the federal deposit insurance fund.¹⁸ The OCC's

¹⁶ 12 C.F.R. ' 5.20(h)(2).

¹⁷ 12 C.F.R. ' 5.20(h)(6).

¹⁸ 12 C.F.R. ' 5.20(f)(2)(ii).

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concerns with respect to the organizing group and its operating plan have been addressed throughout this letter. []

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[]. The operating plan did not demonstrate the group's collective ability to establish and operate a successful bank in the economic and competitive conditions of the market to be served. The OCC concludes that the proposal would constitute an undue risk to the bank insurance fund.¹⁹

Accordingly, based upon the reasons described above, the application to charter "Security National Bank," Spartanburg, South Carolina is hereby denied.

Questions regarding this decision should be directed to NBE/Senior Licensing Analyst Maria G. Arevalo at (202) 874-5060.

Sincerely,

-signed-

Alan Herlands
Director, Licensing Operations

¹⁹ 12 U.S.C. ' 1816(5).