



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Executive Summary, 2018-SR-B-016, September 26, 2018

Review of the Failure of Fayette County Bank

Finding

Fayette County Bank (FCB) failed primarily because of an aggressive growth strategy coupled with ineffective oversight by its board of directors, leading to declining asset quality and rapid capital depletion. In addition, the bank's board of directors was unable to hire and retain effective management following a long-tenured Chief Executive Officer's retirement in December 2012.

In early 2013, FCB's board of directors encouraged the bank's management to lead a significant and rapid expansion of the bank's loan portfolio. The bank fueled this growth with loans that had little to no underwriting, leading to losses that eroded the bank's capital. Board members had limited banking experience and relied heavily on external consultants to improve the bank's condition. In late 2014, shareholders, including board members, injected sufficient capital to stabilize the bank temporarily, but management continued the bank's poor underwriting practices. As losses from asset quality deterioration continued to mount, the bank's capital once again fell to critical levels. FCB was unable to obtain sufficient funding to recapitalize the bank a second time, resulting in the bank's failure.

With respect to supervision, the Federal Reserve Bank of St. Louis (FRB St. Louis) generally took decisive supervisory action to address FCB's weaknesses and deficiencies during the time frame we reviewed, 2011 through 2017, by appropriately downgrading the bank's CAMELS composite rating consistent with its risk profile and promptly issuing an emergency supervisory directive. FRB St. Louis's supervisory activity included formal enforcement actions and a recommendation to implement an enforcement action against an FCB bank official.

Our review resulted in a finding related to enhanced communication between the Board of Governors of the Federal Reserve System's Legal Division and FRB St. Louis. Because our office has recently issued a recommendation to address that communication issue, our report contains no new recommendations. In its response to our report, the Board acknowledges the conclusions in the report and outlines ongoing efforts to address the previously issued recommendation.

Purpose

In accordance 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, we conducted an in-depth review of the failure of FCB because the failure presented unusual circumstances that warranted an in-depth review.

Background

FCB began operations as a state chartered bank on February 26, 1915, in St. Elmo, Illinois, and became an insured depository institution on January 1, 1934. On February 28, 1941, FCB became a state member bank and was supervised by FRB St. Louis and the Illinois Department of Financial and Professional Regulation (IDFPR). On May 26, 2017, the IDFPR closed the bank and appointed the Federal Deposit Insurance Corporation as receiver.