

RESULTS OF AUDIT

BestBank's management did not operate the institution in a safe and sound manner. Management's actions at BestBank show a pattern of high-risk business endeavors with a general disregard for strategic planning, policies and procedures, internal controls, and regulatory authority. These practices ultimately contributed to substantial losses in BestBank's unsecured credit card travel program. The bank entered into an agreement with Century, a non-affiliated entity, to fund an unsecured credit card travel program that targeted subprime borrowers. This program produced very rapid growth with the bank's total assets growing from \$42 million at June 30, 1996 to \$314 million at July 23, 1998 (date of closure).

The FDIC Division of Supervision's regulatory oversight of BestBank could have been more effective in controlling the bank's rapid asset growth and curbing the subsequent losses to the BIF. Obstacles created by BestBank management and existing regulatory authority impeded the regulators' access to the bank and restricted access to Century, the third-party entity that directly controlled a majority of the bank's assets. The examiners continued to rate BestBank without sufficient or reliable information to support the ratings, particularly asset quality. Moreover, the supervisory tools that were available to the regulators were not aggressively pursued in a timely or effective manner.

We recommend that DOS work with the Federal Reserve Board to expand its interpretations under section 23A of the Federal Reserve Act to include access to entities whose business relationships with an insured depository institution have the ability to significantly affect the safety and soundness of the insured institution. We also recommend that DOS work with the Legal Division to pursue alternative means of obtaining access to third-party servicers. In addition, we recommend that DOS pursue a remedy to grant examiners immediate and unfettered access to an insured financial institution that attempts to impede the examiners' access to bank employees or records. Our recommendations also include changes or clarifications to DOS policies and procedures relating to other issues raised during the BestBank material loss review.