

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of)	
)	
EUROBANK)	
CORAL GABLES, FLORIDA)	NOTICE OF CHARGES
)	AND OF HEARING
)	FDIC-10-585b
)	
(INSURED STATE NONMEMBER BANK))	
_____)	

The Federal Deposit Insurance Corporation (“FDIC”), being of the opinion that EuroBank, Coral Gables, Florida (“Bank”), has engaged in unsafe or unsound banking practices and violation of laws or regulations, institutes this proceeding to determine whether an appropriate ORDER should be issued against the Bank under the provisions of section 8(b)(1) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b)(1). The FDIC hereby issues this NOTICE OF CHARGES AND OF HEARING (“NOTICE”) under the provisions of the Act, 12 U.S.C. §§ 1811-1831aa, and the FDIC Rules of Practice and Procedures, 12 C.F.R. Part 308, and alleges as follows:

1. The Bank, a corporation existing and doing business under the laws of the State of Florida and having its principal place of business at Coral Gables, Florida, is and has been, at all times pertinent to the charges herein, an insured State nonmember bank within the meaning of section 3(e)(2) of the Act, 12 U.S.C. § 1813(e)(2) and an insured depository institution within the meaning of section 3(c)(2) of the Act, 12 U.S.C. § 1823(c)(2). The Bank is subject to the Act, 12 U.S.C. §§ 1811-1831aa, the FDIC Rules and Regulations, 12 C.F.R. Chapter III (the

“Rules”), and the laws of the State of Florida. The FDIC has jurisdiction over the Bank, the institution-affiliated parties of the Bank, and the subject matter of this proceeding.

2. The Bank was examined by the FDIC commencing May 13, 2010 (“Examination”) utilizing financial information as of March 31, 2010, and it was determined:

- (a) The Bank's total deposits equaled \$89,086,000;
- (b) The Bank's total loans and leases equaled \$65,073,000;
- (c) The Bank's total assets, as defined in section 325.2(x) of the Rules, equaled \$96,837,000;
- (d) The Bank's Tier 1 capital, as defined in section 325.2(v) of the Rules, equaled \$5,755,000; and
- (e) The Bank's allowance for loan and lease losses (“ALLL”), as defined in section 325.2(a) of the Rules, equaled \$1,601,000.

3. The Bank has engaged in unsafe or unsound banking practices in that the Bank has engaged in lax loan administration and underwriting. Without limiting the generality of the foregoing allegations, it is further alleged:

- (a) The Bank has an excessive concentration of commercial real estate (“CRE”) loans and gas station loans in relation to the Bank’s total capital. As of the Examination, CRE loans were in the amount of \$34,735,000 which represents 604 percent of Tier 1 Capital and gas station loans were in the amount of \$12,162,000 which represents 211 percent of Tier 1 Capital and approximately 48 percent of the gas station loans were adversely classified.

(b) The Bank has 13 borrower relationships aggregating \$34,582,000 in funded balances which represent 604 percent of Tier 1 Capital. Four of those relationships total \$11,028,000 or 192 percent of Tier 1 Capital and are adversely classified;

(c) The Bank failed to monitor the development activity for its acquisition, development, and construction loans;

(d) The Bank originated loans to start-up businesses with guarantors that have weak documented payment performance and are inexperienced in operating the start-up business;

(e) The Bank extended loans to borrowers without properly evaluating their global cash flow and ability to repay;

(f) The Bank extended asset based loans without the proper staff and experience to service these types of loans; and

4. As a result of the lax loan administration and underwriting practices, the Bank has an excessive volume of poor quality loans and other assets in relation to its total assets and in relation to its Tier 1 capital and ALLL, resulting in an excessive volume of adversely classified assets. The Bank's adversely classified assets are concentrated in both its loan portfolio and owned real estate ("ORE"). As of the Examination, adversely classified assets totaled \$22,867,000 and comprised 245 percent of Tier 1 capital plus the Bank's ALLL. Adversely classified ORE totaled \$6,278,000;

In particular, the classified assets were as follows:

Substandard	\$ 20,681,000
Loss	\$ 2,186,000
TOTAL	\$ 22,867,000

5. The Bank has engaged in unsafe or unsound banking practices in that the Bank has been operated with insufficient capital in relation to the kind and quality of assets held by the Bank as follows:

(a) As of December 31, 2009, the Bank's leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratios were 8.10 percent, 11.22 percent, and 16.71 percent, respectively; and

(b) As of March 31, 2010, the Bank's leverage ratio had declined to 5.94 percent, Tier 1 risk-based capital ratio to 8.27 percent, and its total risk-based capital ratio to 13.84 percent as a result of adjustments to the ALLL, other operational expenses, and improperly booked items.

6. The Bank has engaged in unsafe or unsound banking practices in that the Bank has been operated with an inadequate ALLL. As of the Examination, the Bank's ALLL was \$1,601,000. The ALLL required an additional \$890,000 provision to adequately reserve for the overall risk in the Bank's loan portfolio. The Bank's ALLL methodology did not comply with GAAP. The Bank did not account for the level of credit risk in the loan portfolio or document all factors used in order to support its general reserve calculations. Among other things, the Bank improperly allocated reserves on a case by case basis for certain loans that were not impaired. The Board of Directors ("Board") has failed to conduct an independent validation of the ALLL methodology.

7. The Bank has engaged in unsafe or unsound banking practices in that the Bank has operated with inadequate earnings to fund its operations and augment capital. For the year ended December 31, 2009, the Bank reported an after tax loss of \$4,181,000 which represented a negative 4.24% return on average assets ("ROAA"). For the three month period ending March

31, 2010, the Bank reported an after tax loss of \$251,000 which represented a negative 1.02% ROAA. In addition, the Bank's poor earnings are expected to continue due to losses caused by deteriorating asset quality.

8. The Bank has engaged in unsafe or unsound practices in that it has operated with inadequate liquidity and funds management in light of the Bank's asset and liability mix as evidenced by the following:

(a) The Bank has relied on volatile funding sources to fund growth. As of March 31, 2010, the Bank was funding 39.50 percent of earning assets with non-core funding. This amount is excessive and includes volatile brokered deposits and large time deposits;

(b) As of March 31, 2010, the Bank had brokered deposits which represented 9.02 percent of its deposits and 49 percent of its deposits were time deposits over \$100,000.

(c) As of the Examination, the Bank held \$27,789,000 of certificates of deposit which would mature by September 30, 2010; and

(d) The Bank has not implemented a liquidity policy or an adequate Contingency Funding Plan which is reflective of its significant non-core, volatile funding mix, so the Bank is not adequately prepared for an emergency liquidity situation.

9. The Bank has engaged in unsafe or unsound banking practices in that it has not effectively monitored or managed the Bank's interest rate risk as follows:

(a) The Bank failed to implement a comprehensive system of policies and procedures to enhance the Bank's ability to respond effectively to unanticipated fluctuations in interest rates;

(b) The Bank's net interest margin ("NIM") significantly declined due to a decline in interest rates combined with a high level of nonperforming loans and a significant

decline in earning assets. The Bank's NIM declined from 3.96 percent in 2007 to a weak 2.84 percent as of March 31, 2010; and

(c) As of June 17, 2010, the Bank had not completed an analysis of its interest rate risk exposure for the first quarter of 2010. The Bank last validated its interest rate risk measurement system on May 21, 2009.

10. The Bank has engaged in unsafe or unsound banking practices by operating with management and a Board whose policies and practices are detrimental to the Bank and jeopardize the safety of the Bank's deposits as evidenced by its failure to provide for the following:

- (a) effective assessment of the risk profile of the Bank;
- (b) timely and accurate financial, operational, and regulatory reports;
- (c) adequate procedures to safeguard and manage assets;
- (d) an independent validation of the ALLL methodology;
- (e) compliance with applicable laws and regulations;
- (f) credit underwriting procedures that take adequate account of concentrations of credit risk;
- (g) an internal audit system that establishes appropriate and timely corrective actions to resolve problem assets;
- (h) a system to evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital and reserves;
- (i) a measurement system of its current and potential interest rate risk exposure; and

(j) policies on real estate lending that require timely reporting to the Board loans that are in excess of supervisory loan to value limits quarterly.

11. By reason of the foregoing, the Bank's management and the Board have engaged in unsafe or unsound banking practices in that it has failed to provide adequate supervision over and direction of the active officers of the Bank to prevent the practices described above.

12. Notice is hereby given that a hearing will be held in Miami, Florida, within 60 days from the date of service on the Bank of this NOTICE, or on such date as may be set by the Administrative Law Judge appointed to hear this matter, for the purpose of taking evidence on the above-mentioned charges in order to determine whether an Order should be issued under the Act requiring the Bank: (1) to cease and desist from the unsafe or unsound banking practices herein specified; and/or (2) to take affirmative action to correct the conditions resulting from such practices.

13. The hearing will be held before an Administrative Law Judge to be assigned by the Office of Financial Institution Adjudication pursuant to 5 U.S.C. § 3105. The hearing will be open to the public and in all respects will be conducted in compliance with the provisions of the Act and the FDIC Rules of Practice and Procedures.

14. The Bank is hereby directed to file an answer to this NOTICE within 20 days as provided by section 308.19 of the FDIC Rules of Practice and Procedures, 12 C.F.R. § 308.19. All papers filed or served in this proceeding shall be filed upon the Office of Financial Institution Adjudication, 3501 N. Fairfax Drive, Suite VS-D8116, Arlington, Virginia 22226-3500, pursuant to section 308.10 of the FDIC Rules of Practice and Procedure, 12 C.F.R. § 308.10. The Bank is encouraged to file any answer electronically with the Office of Financial Institution Adjudication at ofia@fdic.gov.

15. In addition, copies of all papers filed in this proceeding shall be served upon the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429-9990, A. T. Dill, III, Assistant General Counsel, Legal Division, Enforcement Unit, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429-9990 and upon Andrea Fulton Toliver, Regional Counsel (Supervision), Federal Deposit Insurance Corporation, Atlanta Regional Office, 10 Tenth Street, N.E. Suite 800, Atlanta, Georgia 30309-3906.

Pursuant to delegated authority.

Dated at Atlanta, Georgia this 3rd day of May, 2011.

/s/

Thomas J. Dujenski
Regional Director