



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Contact: Robert M. Garsson
(202) 874-5770

OCC Closes NextBank and Appoints FDIC Receiver

WASHINGTON -- NextBank NA, Phoenix, Arizona, was closed today by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) was appointed receiver.

The OCC acted after finding that the bank was operating in an unsafe and unsound manner and had experienced a substantial dissipation of assets and earnings through unsafe and unsound practices. The OCC also found that NextBank's unsafe and unsound practices were likely to deplete all or substantially all of the bank's capital, and that there was no reasonable prospect for the bank to become adequately capitalized without federal assistance. In addition, the OCC found that the bank would be unlikely to be able to pay its obligations or meet the demands of its depositors in the normal course of business.

After being acquired by NextCard Inc. on September 16, 1999, NextBank pursued a strategy of marketing credit cards solely through the Internet. However, the OCC found that the bank's risk management policies and procedures were inadequate and the bank's assets were of lower credit quality than initially projected in the bank's business plan. The bank failed to identify the extent of its credit quality problem or to implement effective corrective measures.

At the OCC's insistence, the board of directors of the bank adopted a detailed board resolution on October 26, 2000 that was designed to correct these deficiencies, but the bank was unable to implement the resolution. The bank failed to achieve profitability, and the \$300 million in capital that had been provided by the bank's parent company, NextCard, Inc., was dissipated through credit losses and high operating expenses.

During the bank's most recent examination, the OCC determined that the bank was classifying some delinquent accounts sold into a securitization trust as fraud losses, although the delinquencies were actually attributable to credit quality problems. These assets were being repurchased by the bank at par, a practice that constituted sale of assets with recourse.

This finding, together with significant accounting adjustments and the need for additional loan loss reserves, resulted in the bank becoming significantly undercapitalized. The OCC issued a Prompt Corrective Action Directive on November 15, 2001 that required NextBank to restore Tier 1 capital

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to at least 12 percent of risk-weighted assets or commit to sell or liquidate the bank at no cost to the FDIC.

NextCard, Inc. made efforts to find a buyer for the bank and holding company, but was unsuccessful. On January 12, 2002, NextCard notified the OCC that it was not possible to prepare and submit a Capital Restoration Plan, and said liquidation of the bank's assets would not raise enough money to retire in full the bank's existing and anticipated liabilities. In light of these findings, the OCC determined that it was necessary to close the bank and appoint the FDIC as receiver to protect the interests of the bank's insured depositors.

As of December 31, 2001, NextBank had total assets of approximately \$700 million and total deposits of approximately \$550 million. NextBank was an Internet-only bank, and had no branch operations.

The FDIC will release information about the resolution of the bank.

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The OCC charters, regulates and examines approximately 2,200 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 54 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.