



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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OCC Files Notice of Charges Against People's National Bank of Paris, Texas

WASHINGTON -- The Office of the Comptroller of the Currency today filed a notice of charges against People's National Bank, Paris, Texas, alleging that the bank engaged in unsafe and unsound practices in connection with its high-risk, subprime payday lending operation.

In filing the charges, the OCC found that the bank had been unwilling or unable to deal with a number of serious issues in the management of its payday lending program, including problems with underwriting, high concentrations, inadequate capital and a failure to ensure that critical third-party vendors had appropriate and prudent contingency plans.

The charges detail violations of laws and regulations, and unsafe and unsound practices that are likely to weaken the condition of the bank and prejudice the interests of the bank's depositors.

The OCC is asking an Administrative Law Judge to determine whether an order should be issued directing the bank to cease and desist from the unsafe and unsound practices, and violations of laws and regulations, detailed in the charges.

The OCC found that the bank had allowed its payday-lending program to grow too quickly and beyond prudent limits. Although the bank's board set a volume limit for payday loans of \$2.5 million, or 25 percent of capital, the bank allowed the product to grow exponentially, to 120 percent of capital, in the first three months it was offered. In the next five months, the bank allowed its payday loan volume to double, to 240 percent of capital. The bank has continued to permit its payday loan volume to far exceed prudent limits.

In addition, the OCC found that the bank failed to supervise the program adequately. The program was implemented without a strategic plan to address the increased risks and resource needs of payday lending, and without adequate capital support or prudent underwriting standards.

The bank has failed to classify delinquent loans, even though they meet the criteria for substandard loans. The bank's methodology for setting the Allowance for Loans and Lease

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Losses was also found to be significantly flawed and resulted in an underfunded ALLL account.

The OCC found that the bank continues to expose all of its capital to risk by relying upon two third-party vendors to market, underwrite, originate, disburse, service and collect the payday loans, while failing to assure itself that the vendors would be able to perform those services. In particular, the bank failed to assure itself that the vendors had contingency plans that would permit them to continue operations in the case of unforeseen events.

In addition, the bank obtained an indirect \$3 million loan from the third party that originated all of its payday loans. The loan has a rapidly escalating interest rate and provides strong incentive for the bank to maintain its payday loan volume at an excessive level to generate earnings to repay the loan.

The bank also violated laws by filing call reports that contained material and significant errors. Specifically, the bank incorrectly and repeatedly overstated the assets and capital of the bank, resulting in errors equal to more than 9 percent of its capital.

The bank was given 20 days to respond to the [Notice](#) of Charges.

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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.