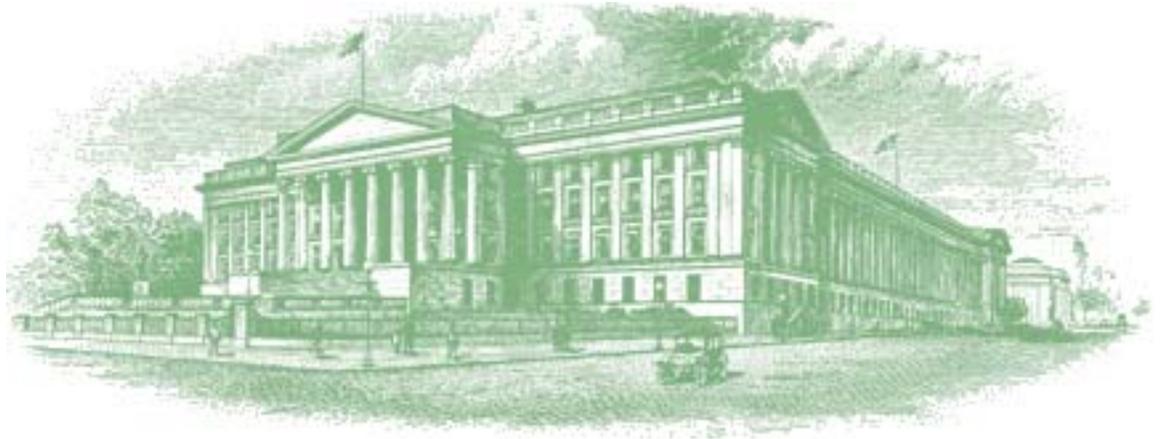




# Audit Report



OIG-12-004

SAFETY AND SOUNDESS: Failed Bank Review of The First National Bank of Florida

November 9, 2011

## Office of Inspector General

DEPARTMENT OF THE TREASURY





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 9, 2011

OIG-12-004

MEMORANDUM FOR JOHN G. WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of The First National Bank of Florida,  
Milton, Florida

This memorandum presents the results of our review of the failure of The First National Bank of Florida (FNB Florida) located in Milton, Florida. The bank opened in 1984 and operated eight offices, a main office in Milton and seven branches located in a three-county area in the Florida panhandle. The bank did not have a holding company. The Office of the Comptroller of the Currency (OCC) closed FNB Florida and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 9, 2011. As of June 30, 2011, FNB Florida had approximately \$296.8 million in total assets and \$280.1 million in total deposits. As of September 30, 2011, FDIC estimated the loss to the Deposit Insurance Fund to be \$48.4 million.

Because the estimated loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of FNB Florida that was limited to (1) ascertaining the grounds identified by OCC for appointing the FDIC as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing our review we (1) examined documentation related to the appointment of FDIC as receiver and (2) interviewed an OCC problem bank specialist.

We conducted this performance audit during September and October 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Causes of FNB Florida's Failure**

OCC appointed FDIC receiver based on the following grounds: (1) the bank had experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) the bank was in an unsafe and unsound condition to transact business, and (3) the bank was undercapitalized and failed to submit an acceptable capital restoration plan.

The primary cause of FNB Florida's failure was its aggressive loan growth strategy that focused on commercial real estate (CRE) loans without having sufficient capital levels to offset the risk. FNB Florida's inadequate credit administration and credit risk management practices and deficient board and management supervision also contributed to its failure. Examples of the bank's inadequate credit administration included inaccurate loan risk ratings, appraisal deficiencies, and a flawed allowance for loan and lease losses methodology. The bank's board and management failed to sufficiently address FNB Florida's inadequate credit administration and credit risk management practices. Losses associated with the high concentration in CRE loans and deficient credit risk management depleted capital and ultimately led to FNB Florida's failure.

## **Conclusion**

Based on our review of the causes of FNB Florida's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC. Accordingly, we have determined that a more in-depth review of the bank's failure by our office is not warranted.

We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated it agreed with our conclusion as to the causes of FNB Florida's failure and that it had no concerns with our determination that an in-depth review of the bank's failure was not warranted. The response is provided as Attachment 1. A list of the recipients of this memorandum is provided as Attachment 2.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-0384 or Theresa Cameron, Audit Manager, at (202) 927-1011.

Attachments



## MEMORANDUM

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: John Walsh, Acting Comptroller of the Currency /s/

Date: November 7, 2011

Subject: Response to Failed Bank Review of The First National Bank of Florida, Milton, Florida

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We have received and reviewed your draft report titled "Failed Bank Review of The First National Bank of Florida (FNB Florida), Milton, Florida." Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of FNB Florida that was limited to: (1) ascertaining the grounds identified by the OCC for appointing the FDIC as receiver; and, (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver; and, (2) interviewed an OCC problem bank specialist.

You conducted your audit during September and October 2011 in accordance with generally accepted government auditing standards. Those standards require that you plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for your findings and conclusions. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions.

You concluded that the primary cause of FNB Florida's failure was its aggressive loan growth strategy that focused on commercial real estate (CRE) loans without having sufficient capital levels to offset the risk. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC. As a result, you determined that a more in-depth review of the bank's failure by the OIG is not warranted. We have no concerns with your determination.

Thank you for the opportunity to review and comment on your draft report. If you need additional information, please contact Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-874-5020.

**Department of the Treasury**

Deputy Secretary  
Office of Strategic Planning and Performance Management  
Office of Accounting and Internal Control

**Office of the Comptroller of the Currency**

Acting Comptroller of the Currency  
Liaison Officer

**Office of Management and Budget**

OIG Budget Examiner