



Audit Report



OIG-12-033

SAFETY AND SOUNDNESS: Failed Bank Review of First National Bank of Olathe, Olathe, Kansas

December 20, 2011

Office of
Inspector General

DEPARTMENT OF THE TREASURY



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR JOHN WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of First National Bank of Olathe in
Olathe, Kansas

This memorandum presents the results of our review of the failure of First National Bank of Olathe (FNB Olathe). FNB Olathe opened in June 1887. At the time of failure, it operated one main office and five branches in Olathe, Kansas, and a loan production office in Scottsdale, Arizona. The bank was a subsidiary of First Olathe Bancshares, Inc., located in Mission Hills, Kansas. The Office of the Comptroller of the Currency (OCC) closed FNB Olathe and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on August 12, 2011. As of June 30, 2011, the bank had approximately \$538.1 million in assets and \$524.3 million in deposits. As of October 31, 2011, FDIC estimated the loss to the Deposit Insurance Fund to be \$118.6 million.

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 (FDIA), we conducted a review of the failure of FNB Olathe 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 OCC examination personnel.

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.

Cause of First National Bank of Olathe's Failure

OCC appointed FDIC receiver based on the following grounds: (1) FNB Olathe had experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) the bank incurred or was likely to incur losses that would deplete all or substantially all of its capital and there was no reasonable prospect for it to become adequately capitalized without federal assistance, (3) the bank's unsafe or unsound practices or condition were likely to seriously prejudice the interests of the Deposit Insurance Fund, and (4) the bank was critically undercapitalized.

The primary cause of FNB Olathe's failure was its pursuit of an aggressive growth strategy without implementing the strong risk management practices needed to support that growth. This resulted in significant concentrations of questionably underwritten and monitored commercial real estate loans both in its nearby market of Kansas City, Kansas, and in the Phoenix, Arizona, market which FNB Olathe entered in 2003. Credit risk management weaknesses included insufficient financial analysis of borrowers, errors in loan-to-value calculations, out-of-date collateral appraisals, and inadequate action plans for dealing with problem loans. These factors, combined with a weakening real estate market, led to increasing losses and a depletion of the bank's capital.

Conclusion

Based on our review of the causes of FNB Olathe's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated that it agreed with our conclusion as to the causes of FNB Olathe'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 James Lisle, Audit Manager, at (202) 927-6345.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

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

Date: December 15, 2011

Subject: Response to Failed Bank Review of First National Bank of Olathe in Olathe, Kansas

We have received and reviewed your draft report titled "Failed Bank Review of The First National Bank of Olathe in Olathe, Kansas (FNB Olathe)." 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 Olathe 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 OCC examination personnel.

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 Olathe's failure was its pursuit of an aggressive growth strategy without implementing the strong risk management practices needed to support that growth. We agree.

You determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. 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