



Audit Report



OIG-11-012

SAFETY AND SOUNDNESS: Failed Bank Review of Williamsburg
First National Bank

November 3, 2010

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 Williamsburg First National Bank

This memorandum presents the results of our review of the failure of Williamsburg First National Bank (Williamsburg), of Kingstree, South Carolina. Williamsburg was established in 1958 as Williamsburg State Bank and converted to a national bank in 1966. The bank operated five offices in Kingstree and Florence, South Carolina, and was the sole-bank subsidiary of WFNB Bankshares, a privately held company, located in Kingstree, South Carolina. The Office of the Comptroller of the Currency (OCC) closed Williamsburg and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 23, 2010. As of March 31, 2010, the bank had \$139.3 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$8.8 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 Williamsburg 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 in September 2010 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 Williamsburg's Failure

The primary causes of Williamsburg's failure were (1) its aggressive loan growth strategy that focused on commercial real estate (CRE) loans concentrated in eastern South Carolina and (2) an ineffective board and management that did not implement internal controls over the lending function. For example, Williamsburg did not have proper segregation of duties in the processing of its loans and allowed construction loan draws without proper inspections and oversight of the appraisal process. These inadequacies allowed a former loan officer to originate poor-quality loans that ultimately constituted over 75 percent of the criticized loans in the bank's portfolio. In 2009 and 2010, the combination of aggressive growth, loan concentrations, weak oversight, and weak credit risk management caused asset quality to deteriorate significantly. Loan losses significantly diminished earnings and capital levels, which ultimately led to Williamsburg's failure.

Conclusion

Based on our review of the causes of Williamsburg'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 Williamsburg'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

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: John Walsh, Acting Comptroller /s/

Date: October 25, 2010

Subject: Response to Failed Bank Review of Williamsburg First National Bank

We have received and reviewed your draft report titled "Failed Bank Review of Williamsburg First National Bank (Williamsburg)." 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 Williamsburg 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 personnel.

You conducted this performance audit in September 2010 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 based on your audit objectives. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions based on your audit objectives.

You concluded that the primary causes of Williamsburg's failure were its aggressive loan growth strategy that focused on commercial real estate loans concentrated in eastern South Carolina and an ineffective board and management that did not implement internal controls over the lending function. 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 Mid-size and Community Bank Supervision, at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
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