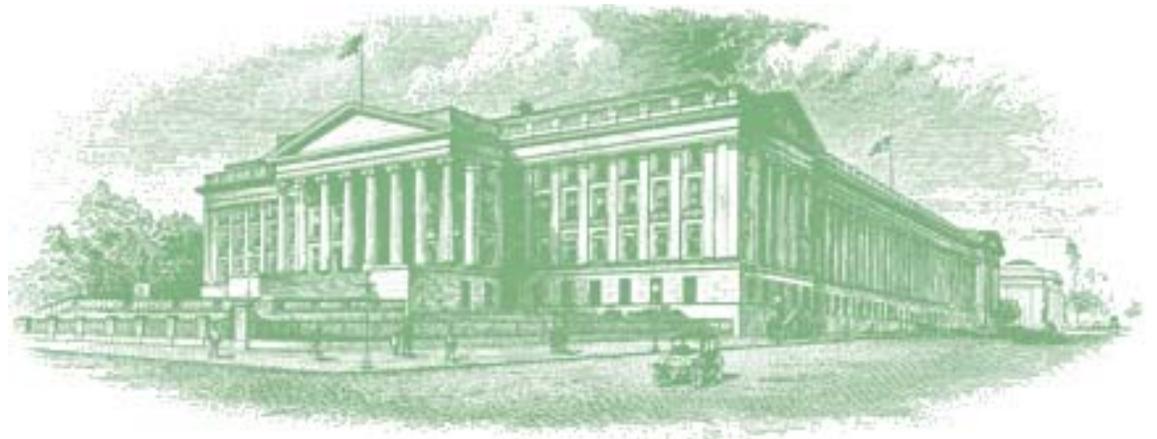




# Audit Report



OIG-11-074

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

June 08, 2011

## Office of Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

June 08, 2011

OIG-11-074

MEMORANDUM FOR JOHN WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of the First National Bank of Davis,  
Davis, Oklahoma

This memorandum presents the results of our review of the failure of the First National Bank of Davis (FNB Davis) located in Davis, Oklahoma. FNB Davis was established in 1900, serving commercial, agricultural, and consumer customers in Davis and three surrounding counties. OCC closed FNB Davis and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on March 11, 2011. As of December 31, 2010, FNB Davis had approximately \$90.2 million in total assets and \$68.3 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$26.5 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 Davis 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, (2) reviewed OCC reports of examination for the five year period before the bank's failure, and (3) interviewed OCC personnel.

We conducted this performance audit from March 2011 through May 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 Failure of the First National Bank of Davis**

OCC appointed FDIC as receiver on the following grounds: (1) the bank experienced a substantial dissipation of assets or earnings due to violation of statute, regulation, or unsafe or unsound practice; (2) the bank's violations of law, regulation, or unsafe or unsound practices were likely to seriously prejudice the interests of the institution's depositors or the Deposit Insurance Fund; (3) the bank's losses depleted all or substantially all of its capital and there was no reasonable prospect for the bank to become adequately capitalized; and (4) the bank was critically undercapitalized.

The primary cause of FNB Davis' failure was unsafe and unsound lending practices including imprudent underwriting, violations of the bank's legal lending limit regarding two related borrowers, and failing to identify loan losses. Due to these unsafe or unsound practices and violations of law, OCC identified \$8.6 million in loan losses that FNB Davis had failed to recognize. OCC noted that the majority of these losses were related to extensions of credit to the two borrowers whose loan relationships violated the bank's legal lending limit. The combination of loans to these borrowers and their related interests totaled almost \$12 million, greatly exceeding FNB Davis' legal lending limit of \$1.22 million as of December 31, 2010.

## **Conclusion**

We determined that an in-depth review of the FNB Davis' failure is warranted based on the nature of the bank's unsafe and unsound lending practices. We anticipate completing the in-depth review in March 2012.

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 the failure of FNB Davis; and that it has no concerns with our determination that an in-depth review of the bank's failure is 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 Rashmi Bartlett, Audit Manager, at (202) 927-5839.

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: June 2, 2011

Subject: Response to Failed Bank Review of the First National Bank of Davis

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We have received and reviewed your draft report titled "Failed Bank Review of the First National Bank of Davis, Davis, Oklahoma (FNB Davis)." 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 Davis 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; (2) reviewed OCC reports of examination; and, (3) interviewed OCC personnel.

You conducted this performance audit from March through May 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 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 cause of FNB Davis's failure was unsafe and unsound lending practices including imprudent underwriting, violations of the bank's legal lending limit regarding two related borrowers, and failing to identify loan losses. We agree.

You determined that an in-depth review of the FNB Davis failure is warranted based on the nature of the bank's unsafe and unsound lending practices. 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