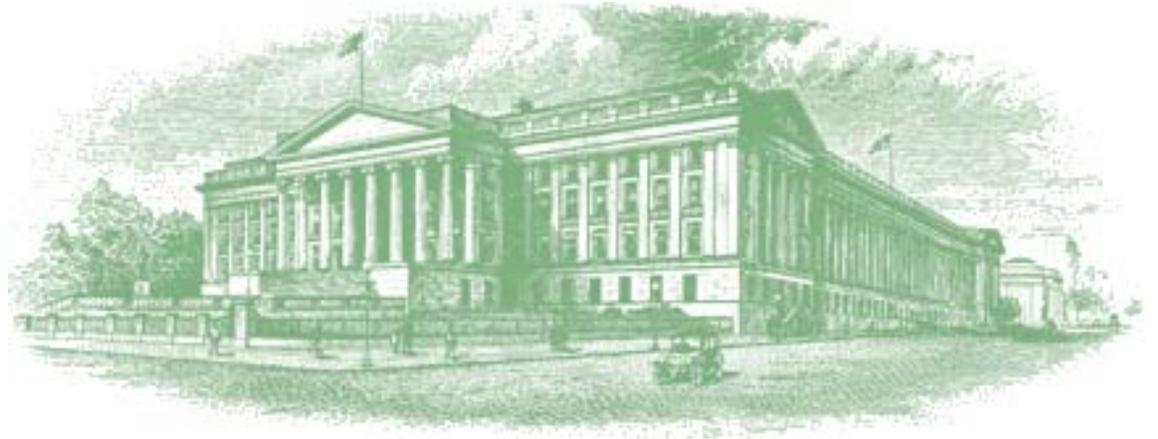




# Audit Report



OIG-11-008

SAFETY AND SOUNDNESS: Failed Bank Review of First National Bank, Savannah, Georgia

November 2, 2010

## Office of Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 2, 2010

OIG-11-008

MEMORANDUM FOR JOHN WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of First National Bank, Savannah,  
Georgia

This memorandum presents the results of our review of the failure of First National Bank (First National) located in Savannah, Georgia. First National opened in April 1996 and had a main office and three branches in the Savannah metropolitan area. The bank was a subsidiary of First National Corporation, a bank holding company also located in Savannah. The Office of the Comptroller of the Currency (OCC) closed First National and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on June 25, 2010. As of March 31, 2010, First National had \$252.5 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$68.9 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 First National 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 5 year period before the bank failure, and (3) interviewed OCC personnel.

We conducted this performance audit during August and 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 First National's Failure**

The primary cause of First National's failure was the pursuit of growth without the development of adequate risk management and credit administration practices. For example, management did not possess meaningful concentration of credit reporting. In addition, financial statements and other documentation needed to evaluate the ability of borrowers to repay the loans were often missing or deficient. This resulted in a portfolio of questionably underwritten, highly concentrated commercial real estate loans in the Savannah metropolitan area. When confronted with a downturn in the commercial real estate market, First National suffered diminished earnings and capital and, ultimately, failure.

## **Conclusion**

Based on our review of the causes of First National'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 that it agreed with our conclusion as to the causes of First National'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 /s/

Date: October 25, 2010

Subject: Response to Failed Bank Review of First National Bank, Savannah, Georgia

We have received and reviewed your draft report titled "Failed Bank Review of First National Bank, Savannah, Georgia (First National)." 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 First National 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 during August and 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 cause of First National's failure was the pursuit of growth without the development of adequate risk management and credit administration practices. 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