



Audit Report



OIG-25-024

FINANCIAL REGULATION & OVERSIGHT AND FISCAL SERVICE

Safety and Soundness: Failed Bank Limited Review – First National Bank of Lindsay

March 27, 2025

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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**MEMORANDUM FOR RODNEY E. HOOD
ACTING COMPTROLLER OF THE CURRENCY**

From: Anne Halamar /s/
Acting Audit Director for Financial Regulation & Oversight
and Fiscal Service

Subject: Failed Bank Limited Review of First National Bank of Lindsay,
Lindsay, Oklahoma

This memorandum presents the results of our review of the failure of First National Bank of Lindsay (the Bank), which operated one office in Lindsay, Oklahoma. The Bank was an insured national bank without trust powers chartered on March 23, 1902. It was wholly owned by the First Lindsay Corporation, a closely held bank holding company.¹ As of June 30, 2024, the Bank reported total assets of \$108 million. On October 18, 2024, the Office of the Comptroller of the Currency (OCC) closed the Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. As of October 31, 2024, FDIC estimated the loss to the Deposit Insurance Fund to be \$42.3 million.

Because the loss to the Deposit Insurance Fund is less than \$50 million as set forth by section 38(k) of the Federal Deposit Insurance Act, we limited our review of the Bank's failure to: (1) ascertaining the grounds identified by OCC for appointing 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's failure, and (3) interviewed OCC examination personnel. We performed our fieldwork from January 2025 through February 2025.

¹ Shareholders included the First Lindsay Corporation's controlling shareholder who owned nearly 90 percent, as well as several minority shareholders.

We also reviewed the Government Accountability Office's² *Standards for Internal Control in the Federal Government* to identify the components and principles of internal control that are significant to our audit objectives. We determined the control environment and control activities as the internal control components that are significant to our audit objectives.³ As part of the control environment component, we determined that two underlying principles are significant to our objectives: (1) Principle 1- the oversight body and management should demonstrate a commitment to integrity and ethical values and (2) Principle 4 - management should demonstrate a commitment to recruit, develop, and retain competent individuals. For the control activities component, we determined that the underlying principles that are significant to our objectives are: (1) Principle 10 - management should design control activities to achieve objectives and respond to risks and (2) Principle 12 - management should implement control activities through policies. To assess management's design and implementation of these internal control components and principles; we interviewed OCC personnel, reviewed reports of examination, and reviewed OCC bank supervision guidance. Because our review was limited to these aspects of internal control, our audit may not disclose all internal control deficiencies that may have existed at the time of this audit. We will expand and continue our evaluation of internal control as part of our in-depth review.

We conducted this performance audit 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 Lindsay's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the Bank experienced substantial dissipation of assets or earnings due to unsafe or unsound practices; (2) the Bank was in an unsafe or unsound condition to transact business; (3) the Bank's unsafe or unsound practices or conditions were likely to cause

² Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, (September 10, 2014).

³ The Government Accountability Office's Standards for Internal Control in the Federal Government (1) provides managers criteria for designing, implementing, and operating an effective internal control system, (2) defines the standards through components and principles and explains why they are integral to an entity's internal control system, and (3) clarifies which processes management considers part of internal control.

insolvency or substantial dissipation of assets or earnings; (4) the Bank's unsafe or unsound practices or conditions were likely to weaken the Bank's condition, and (5) the Bank's assets were less than the Bank's obligations to its creditors and others, including members of the Bank.

The primary cause of the Bank's failure was a critical breakdown in the Bank's internal controls which allowed fraudulent activity to occur that affected a substantial portion of the Bank's loan portfolio and liquid assets. Deficiencies in the Bank's Board oversight and internal controls and other unsafe or unsound practices allowed one or more Bank employees to alter Bank records and hide weaknesses in the Bank's loan portfolio from examiners. As a result of the identification of discrepancies in its books and records, the Bank had to recognize losses that exceeded the Bank's capital, rendering the Bank insolvent.

Conclusion

We determined that an in-depth review of the Bank's failure is warranted given that fraud was a significant contributing factor to the Bank's failure and the extraordinarily high estimated loss rate to assets (54 percent). Performing an in-depth review will provide an opportunity to further evaluate the cause of failure and OCC's supervision of the Bank to determine whether there are any lessons to be learned from this failure. The planned scope of our in-depth review will include, but not be limited to, the current supervisory guidance to banks and examiners on fraud indicators observed during examinations that occurred at the Bank, particularly in the evaluation areas of asset quality, loan portfolio, and management. We anticipate completing the in-depth review by no later than December 2025.

We provided a draft of this memorandum to OCC management for comment. In their response, OCC management stated that they took no exception with our conclusions. A list of the recipients of this memorandum is provided as Attachment 1.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 270-2249, or contact Andrew Morgan, Audit Manager at (202) 486-3420.

Attachment 1: Distribution

Department of the Treasury

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Office of the Deputy Chief Financial Officer, Risk and Control Group

Office of the Comptroller of the Currency

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