Audit Report

OIG-12-041

SAFETY AND SOUNDNESS: Material Loss Review of First National Bank of Georgia

February 14, 2012

Office of Inspector General

DEPARTMENT OF THE TREASURY

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Audit Report

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Abbreviations

ALLL	allowance for loan and lease losses
CRE	commercial real estate
FDIC	Federal Deposit Insurance Corporation
FNB Georgia	First National Bank of Georgia
IMCR	Individual Minimum Capital Requirements
MRA	matters requiring attention
OIG	Office of Inspector General
OCC	Office of the Comptroller of the Currency
OTTI	other than temporary impairment
PCA	prompt corrective action
ROE	report of examination

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February 14, 2012

John G. Walsh
Acting Comptroller of the Currency

This report presents the results of our material loss review of the failure of First National Bank of Georgia (FNB Georgia), of Carrollton, Georgia, and of the Office of the Comptroller of the Currency's (OCC) supervision of the institution. OCC closed FNB Georgia and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on January 29, 2010. Our review was mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of FNB Georgia's estimated loss to the Deposit Insurance Fund[1] which at the time of its failure was $240.2 million.[2] As of October 31, 2011, FDIC's estimated loss was $197.5 million. FDIC also estimated that FNB Georgia's failure resulted in a loss of $14 million to the Transaction Account Guarantee Program.

Our objectives were to determine the causes of FNB Georgia's failure; assess OCC's supervision of FNB Georgia, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives, we reviewed the supervisory files and interviewed OCC and FDIC officials. We conducted our fieldwork from April 2010 through January 2011. Appendix 1 contains a more detailed description of our review objectives, scope, and methodology.

[1] Certain terms that are underlined when first used in this report, are defined in, *Safety and Soundness: Material Loss Review Glossary*, OIG-11-065 (April 11, 2011). That document is available on the Treasury Office of Inspector General's (OIG) website at http://www.treasury.gov/about/organizational-structure/ig/Pages/by-date-2011.aspx.

[2] At the time of FNB Georgia's failure, section 38(k) defined a loss as material if it exceeded the greater of $25 million or 2 percent of the institution's total assets. Effective July 21, 2010, section 38(k) defines a loss as material if it exceeds $200 million for calendar years 2010 and 2011, $150 million for calendar years 2012 and 2013, and $50 million for calendar years 2014 and thereafter (with a provision that the threshold can be raised temporarily to $75 million if certain conditions are met).

Appendix 2 contains background information on FNB Georgia's history and OCC's assessment fees and examination hours.

In brief, FNB Georgia failed because of its aggressive growth strategy and high-risk concentration in commercial real estate (CRE) lending, ineffective credit risk management processes, and losses from its investment portfolio. These factors, combined with the rapid decline in the real estate market, resulted in the deterioration of the bank's asset quality, a substantial volume of problem loans, and significant losses. In turn, these losses diminished earnings and capital and, ultimately, led to FNB Georgia's failure.

OCC's supervision of FNB Georgia did not prevent a material loss to the Deposit Insurance Fund. However, we concluded that OCC's supervision of FNB Georgia was appropriate. OCC addressed the concentration in CREs and identified credit risk management issues in a timely manner. In addition, as the bank's capital levels deteriorated, OCC appropriately imposed PCA restrictions on the bank and took enforcement action.

We are not making any recommendations to OCC as a result of our material loss review of FNB Georgia. We provided a draft of this report to OCC for its review. In a written response, which is included as appendix 3, OCC stated that it agreed with our conclusions as to the causes of FNB Georgia and OCC's supervision over the bank.

Causes of FNB Georgia's Failure

Aggressive Growth and High-Risk CRE Concentration

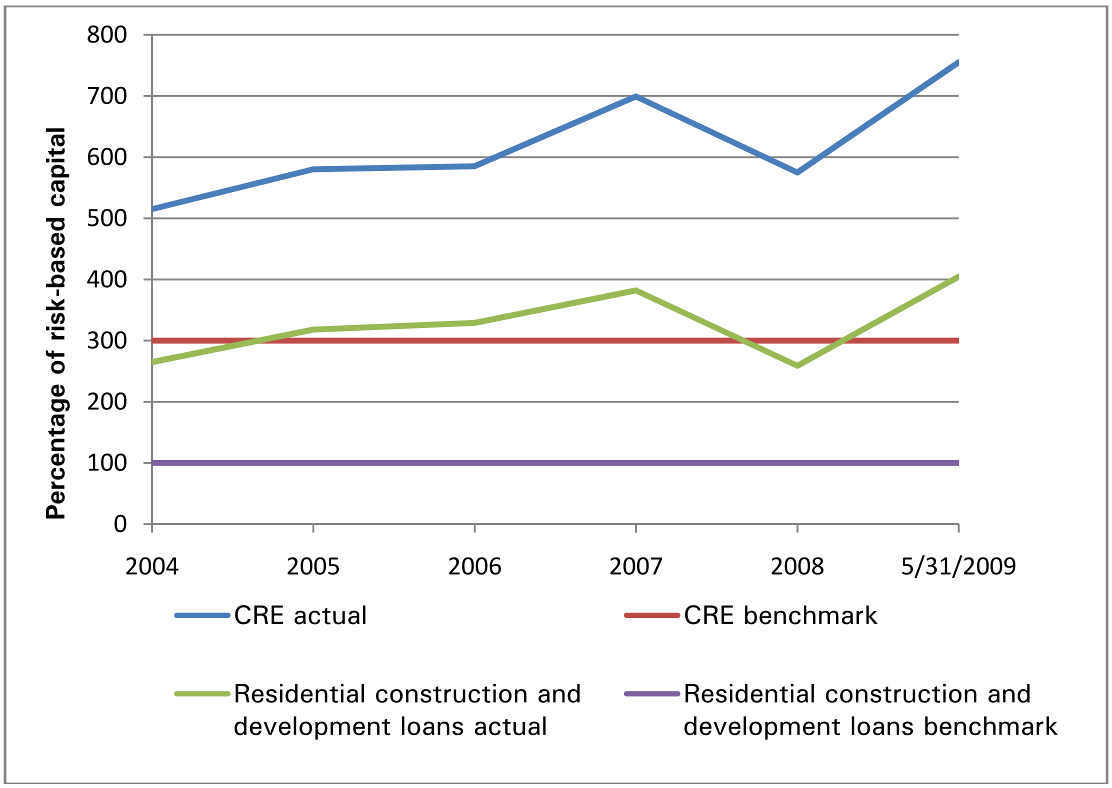
FNB Georgia's board and management executed a lending strategy that resulted in a high-risk concentration in CRE lending, particularly in land, construction, residential real estate, and acquisition and development loans. From December 2004 to December 2008, total CRE lending steadily increased 82 percent, from $223 million to $406 million.

OCC guidance to examiners specifies the following levels at which an institution's CRE loans represent a concentration risk requiring further analysis:

- total reported loans for construction, land development, and other land represent 100 percent or more of the institution's total risk-based capital; or
- total CRE loans represent 300 percent or more of the institution's total risk-based capital, and the outstanding balance of the institution's CRE loan portfolio has increased by 50 percent or more during the prior 36 months.[3]

As shown in Figure 1, FNB Georgia's CRE loans as percentages of total risk-based capital significantly exceeded these supervisory benchmarks.

Figure 1. FNB Georgia's CRE Loan Exposure as a Percentage of Total Risk-Based Capital



Source: OCC's analysis of 2004 – 2008 call reports and OCC 2009 report of examination (ROE)

[3] OCC Bulletin 2006-46, Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (Dec. 6, 2006).

OCC examiners noted in the 2009 ROE that a vast majority of the bank's problem loans were in its CRE portfolio and that the risk to earnings and capital from the bank's CRE lending remained high and was increasing. The bank's CRE concentration as a percentage of total risk-based capital further increased as the bank's capital began to significantly erode and asset quality declined. This condition was exacerbated by the decline in the local real estate market in 2007. As the real estate market continued to decline in 2009, FNB Georgia's level of problem loans dramatically increased. FNB Georgia's deteriorating asset quality led to net losses of $53.6 million for the first three quarters of 2009. In turn, these loan losses significantly reduced earnings and capital and, ultimately, led to FNB Georgia's failure.

Ineffective Credit Risk Management Processes

Although OCC guidance does not specify limits on banks' CRE lending, it does describe risk management practices an institution is expected to have in place in order to carryout CRE lending in a safe and sound manner. According to the guidance, institutions should address the following key elements in establishing a risk management framework that effectively identifies, monitors, and controls CRE concentration risk:

- board and management oversight
- portfolio management
- management information systems
- market analysis
- credit underwriting standards
- portfolio stress testing and sensitivity analysis
- credit risk review function

FNB Georgia did not effectively address all these key elements. For example, OCC identified numerous unsafe and unsound practices related to credit risk management processes, principally in the areas of the bank's board and management oversight, concentration risk management, stress testing, problem asset management, and allowance for loan and lease losses (ALLL) adequacy and methodology.

In the 2009 ROE, OCC examiners noted that internal loan review and problem asset management were critically deficient. Examiners identified numerous underwriting and monitoring issues. For example, the examiners noted the bank management renewed or restructured loans without obtaining an appraisal or preparing an evaluation of the collateral as outlined in OCC guidance.

In addition, FNB Georgia's board and management did not adequately control the risks related to its CRE loan concentration. FNB Georgia's board and management did not implement adequate loan diversification practices and did not realistically estimate the risk related to loan concentrations. Also, FNB Georgia's management did not conduct adequate stress testing or a comprehensive downside risk analysis of CRE concentrations and the potential impact a sudden or sharp real estate market downturn could have on both earnings and capital, which further exposed the bank to a high level of credit risk.

Furthermore, examiners noted that the loan losses in the second quarter of 2009 exceeded the balance and completely depleted the reserve. In the 2009 ROE, OCC examiners stated that this was a clear indication that the ALLL balance did not reflect credit risk inherent in the loan portfolio. The examiners found that $22.1 million was needed to return the ALLL to a minimally adequate level. The examiners also concluded that management had engaged in additional unsafe or unsound practices in connection with the ALLL methodology by, among other things: (1) failing to perform quarterly required analyses for impaired, collateral dependent loans; (2) failing to adequately stratify risk in the portfolio; (3) reaching inaccurate conclusions on some qualitative/environmental factors, such as adequacy of problem loan identification, timely loss recognition, quality underwriting, collateral exceptions, and policy exceptions; and (4) using arbitrary values to determine the high and low end of ranges.

Investment Portfolio Losses

As of March 31, 2009, FNB Georgia's investment portfolio totaled $101 million and represented 11 percent of total assets.[4] As of that date, examiners noted in the 2009 ROE that the credit risk related to the investment portfolio was significant and the bank reported an unrealized loss of $1.4 million, or 1.4 percent, of the investment

[4] The investment portfolio was comprised of municipal securities (53 percent); mortgage-backed securities (20 percent); agency collateralized mortgage obligations (16 percent); and other debt and equity securities (11 percent).

portfolio. Subsequently, for the second quarter of 2009, the bank recorded other than temporary impairments (OTTI) of $6.5 million. These losses contributed to the reduction of the bank's earnings and erosion of capital levels.

In addition, examiners noted in the 2009 ROE that FNB Georgia's management pursued investment opportunities without (1) adequately assessing investment risk; (2) implementing adequate investment policies and procedures; and (3) properly accounting for investments in accordance with generally accepted accounting principles (GAAP) and call report instructions. In this regard, the examiners stated that procedures for measuring fair market value and assessing OTTI for investment securities were deficient; and that FNB Georgia's accounting for investment securities did not conform to GAAP, resulting in misstatements in regulatory reports and public financial statements. OCC examiners further found that management did not account for structured investment products, equity securities, and certain debt securities in accordance with call report instructions, resulting in call report errors and an overstatement of regulatory capital ratios for an undetermined period of time.

In a matter requiring attention (MRA), the examiners informed the board and management that the bank should assess the fair market value of all investment securities on a quarterly basis for call report purposes. The examiners also informed the bank that it should establish policies and practices that assess OTTI for the investment portfolio on an individual security basis, and that this process should incorporate the relevant accounting guidance for each type of security. It should be noted that according to the 2009 ROE, that FNB Georgia's Chief Executive Officer and Chief Financial Officer committed to ensure accurate call report filings going forward. They also committed to ensuring implementation of robust processes to estimate fair market value and assess OTTI. However, the bank was closed before these actions were taken.

OCC's Supervision of FNB Georgia

Supervision of FNB Georgia Was Appropriate

OCC's supervision of FNB Georgia did not prevent a material loss to the Deposit Insurance Fund. However, based on our review, we concluded that OCC's supervision of FNB Georgia was appropriate. OCC addressed the concentration in CREs and identified credit risk management issues in a timely manner. In addition, as the bank's capital levels deteriorated, OCC appropriately imposed PCA restrictions on the bank and took enforcement action.

The following table summarizes OCC's examinations of FNB Georgia and related enforcement actions from 2004 to 2010.[5] Generally, MRAs represent the most significant items reported in ROEs requiring corrective action.

Table 1. Summary of OCC's FNB Georgia Examinations and Enforcement Actions

		Examination Results			
Date started/completed/ Type of exam	**Assets (millions)**	**CAMELS rating**	**Number of MRAs**	**Number of recommendations**	**Enforcement actions**
7/23/2004 9/6/2004 Full-scope Examination	$439	1/121121	1	6	None
6/23/2005 9/1/2005 Full-scope Examination	$520	2/222221	2	7	None
7/6/2006 9/18/2006 Full-scope Examination	$573	2/222221	0	4	None
9/4/2007 1/8/2008 Full-scope Examination	$879	2/232221	2	2	None
4/28/2008 10/30/2008 Full-scope examination with focus on CRE and asset quality	$889	4/443532	4	0	Notice of Troubled Condition issued 9/8/2008 Formal agreement issued 11/12/2008 Individual Minimum Capital Ratios issued 12/18/2008

[5] OCC followed its internal requirements with respect to the timeliness of annual examinations of FNB Georgia and quarterly monitoring of the bank.

Table 1. Summary of OCC's FNB Georgia Examinations and Enforcement Actions

		Examination Results			
Date started/completed/ Type of exam	**Assets (millions)**	**CAMELS rating**	**Number of MRAs**	**Number of recommendations**	**Enforcement actions**
1/5/2009 6/4/2009 Targeted-scope examination with focus on compliance with formal agreement and review of capital plan	$841	5/554532	N/A	N/A	Notice of CAMELS downgrade issued 6/4/2009
6/22/2009 1/6/2010 Full-scope Examination	$841	5/555544	6	0	PCA directive issued 12/22/2009

Source: OCC ROEs and FDIC call reports.

As discussed above, FNB Georgia's board and management implemented a lending strategy with high-risk concentration in CRE lending. OCC identified numerous unsafe and unsound practices related to the bank's credit risk management processes. The following is a summary of key actions taken by OCC relating to these areas.

- In the 2004 ROE, examiners noted: (1) a moderate level of credit risk; (2) weaknesses in the banks' management information systems, and (3) unresolved credit administration issues and new issues identified by internal loan review. An MRA relating to loan review findings was issued.

- In the 2005 ROE, examiners informed the board that it needed to be mindful of bank policy limits relating to CRE concentration that had been exceeded. In addition, examiners noted that credit administration needed improvement. During their review, examiners identified issues such as inadequate expertise to oversee the loan administration function, an inadequate loan review function, inadequate management information systems, and problem loan management that warranted additional improvement. An MRA addressing these issues was issued.

- In the 2006 ROE, examiners noted that the board had established reasonable policy limits for concentrations as a percentage of total loans, but recommended the board establish policy limits for concentrations as a percentage of capital.

- In the 2007 ROE, examiners found that the bank's classified asset levels as of September 30, 2007, were high at 48 percent of capital, and were expected to increase as market weaknesses continued. The examiners downgraded the asset quality CAMELS component rating to a 3, and cautioned the bank to strengthen the bank's credit risk management practices and continue to ensure that adequate concentration limits were maintained. Furthermore, OCC recommended that due to its merger with another bank, the board revisit limits established for concentrations.[6] The examiners reemphasized to the bank the need to establish policy limits for concentrations as a percentage of capital. An MRA addressing the excessive increase in problem loans was issued.

- In the 2008 ROE, examiners noted that the bank's classified asset levels increased to 184 percent of capital as of March 31, 2008. As a result, examiners found the bank to be in unsatisfactory condition due to acute deterioration in asset quality, and downgraded the asset quality CAMELS component rating to a 4. Examiners found that the primary cause of the bank's condition was a direct result of the board's failure to adequately control the risk related to loan concentrations by not (1) implementing adequate loan diversification practices and (2) realistically estimating the risk related to loan concentrations.

  Examiners also noted that concentration risk management systems were deficient since the board and management did not effectively plan, assess, and manage portfolio concentrations. Because of this deficiency, examiners concluded that the bank was not in compliance with the CRE concentration risk management guidance in OCC Bulletin 2006-46.[7]

  The examiners issued an MRA directing the bank to reduce credit risk by: (1) reducing special mention and classified loan levels; (2) reducing past due and non-performing assets; (3) reducing loan concentrations, especially in the riskier loan sectors; (4) remaining

[6] On July 1, 2007, the bank, operating under the name of West Georgia National Bank, merged with the First National Bank of Georgia, Buchanan, Georgia, and became FNB Georgia.
[7] OCC Bulletin 2006-46, Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (Dec. 6, 2006)

proactive in identifying troubled credit relationships; and (5) continuing to ensure that the ALLL remained at an adequate level.

In addition, on November 12, 2008, OCC and the board entered into a formal agreement to address unsafe and unsound banking practices related to levels of concentration and classified assets in the bank's CRE portfolio. The formal agreement required the board to, among other things: (1) implement a written action plan detailing the board's assessment of actions to take to improve the bank's condition; (2) implement a written diversification program to address concentration of credit-risk issues; and (3) establish a loan workout division for the purpose of restoring and reclaiming classified assets, including CRE.

- On December 18, 2008, OCC notified the board that it established an individual minimum capital ratio (IMCR) because of the increased risk from the bank's excessive CRE concentrations. Specifically, the IMCR required the bank to achieve by March 31, 2009, and maintain, a Tier 1 leverage ratio of at least 9 percent, and a total risk based capital ratio of at least 13 percent to be deemed well capitalized.[8] OCC subsequently extended the date to meet the IMCR to April 17, 2009.

- In a letter dated June 4, 2009, examiners noted concerns with the bank's compliance with the formal agreement and the establishment of the IMCR. Examiners found that the bank had failed to raise additional capital to meet the minimum capital ratios. Regarding concentrations of credit, examiners noted that an asset diversification program was implemented and approved by the board on December 19, 2008. That program was designed to lower the bank's aggregate limits of 100 percent for construction, land development, and land loans and 300 percent for total CRE loans. OCC had no supervisory objection to the program except that: (1) the calculation of concentration percentages should have been based on commitment amounts, (2) an overall timeline with target dates should have been established, and (3) interim period target benchmark percentages should have been established so that progress could be monitored.

[8] The PCA minimum capital ratios to be deemed well capitalized were for Tier 1 leverage ratio, 5 percent and total risk-based capital, 10 percent.

- In the 2009 ROE, completed on January 6, 2010, examiners continued to identify and report on a number of unsafe or unsound practices such as problem loan identification, problem asset management, concentration risk management, and the failure to comply with the formal agreement discussed above. The examiners concluded that the level of problem loans was a direct result of an inadequate portfolio diversification strategy that resulted in a high concentration of CRE loans. The examiners also found that the bank was in noncompliance with all asset-related articles in the formal agreement.

  In a repeat MRA, the examiners stated that credit risk was very high, and that a continued downturn in the economy and local real estate market had continued to result in increasing problem loans, non-performing assets, and high loan losses.

- On January 29, 2010, less than 1 month after completion of the 2009 examination, OCC exercised its authority to close the bank and appointed FDIC as receiver.

Use of PCA and Enforcement Actions

The purpose of PCA is to resolve problems of insured depository institutions with the least possible long-term loss to the Deposit Insurance Fund. PCA requires federal banking agencies to take certain actions when an institution’s capital drops to certain levels. PCA also gives regulators flexibility to supervise institutions based on criteria other than capital levels to help reduce deposit insurance losses caused by unsafe and unsound practices.

As FNB Georgia’s capital levels deteriorated, OCC appropriately imposed PCA restrictions on the bank and took enforcement action. OCC took the following key actions relating to capital:

- On September 8, 2008, OCC designated FNB Georgia to be in troubled condition because of deficiencies identified in the examination that commenced on March 31, 2008.

- On November 12, 2008, OCC and FNB Georgia entered into a formal agreement in response to unsafe and unsound banking practices relating to concentration levels and classified assets, including construction, and acquisition and development loans.

- As discussed above, in December 2008 OCC notified the board that it established IMCRs requiring the bank to achieve, and thereafter maintain, a Tier 1 leverage ratio of at least 9 percent, and a total risk-based capital ratio of at least 13 percent to be deemed well capitalized. Additionally, OCC required the bank to submit an acceptable capital plan to achieve the IMCRs by January 15, 2009.

- On March 5, 2009, OCC notified the board that it disapproved of the capital plan submitted by the bank on January 15, 2009, because it did not contain all of the required information.

- On August 4, 2009, OCC notified the board that the bank was significantly undercapitalized based on the total risk-based capital ratio of 4.27 percent reported on its June 30, 2009, call report. OCC also required the bank to resubmit a capital restoration plan by September 14, 2009.[9]

- On September 14, 2009, the bank submitted a capital restoration plan.

- On November 10, 2009, OCC notified the board that the bank was critically undercapitalized based on the tangible equity ratio of 1.15 percent reported on its September 30, 2009 call report.

- On November 19, 2009, OCC notified the board that it did not accept the capital restoration plan submitted on September 14, 2009, because it was based on future events that had not occurred and were not within the bank's control.

- On December 22, 2009, OCC issued a PCA directive requiring FNB Georgia to achieve, and thereafter maintain a total risk-based capital ratio of 13 percent and leverage ratio of 9 percent, pursuant

[9] Based on the bank's total risk-based capital ratio of 9.5 percent reported on its call report as of June 30, 2008, the bank had fallen to adequately capitalized. However, after raising $12 million in capital, it became and remained well-capitalized as of September 30, 2008, and through the first quarter of 2009. By June 30, 2009, only 3 months later, the bank went from being well-capitalized to significantly undercapitalized, as a result of a $42 million loss suffered in the quarter. This loss is mainly due to a $26 million charge in its ALLL, a $6 million loss on its other real estate owned assets, a $4 million tax charge, and nearly $4 million in losses on sales of held to maturity securities from its investment portfolio. This$ 42 million loss reduced its capital by 63 percent.

to PCA and capital program requirements of the IMCR dated December 18, 2008. The PCA directive was effective immediately.

- On January 29, 2010, OCC closed the bank and appointed FDIC as receiver. The action, in this case 80 days, was within the PCA required timeframe after FNB Georgia was first deemed critically undercapitalized.[10]

Conclusion

We are not making any new recommendations to OCC as a result of our material loss review of the FNB Georgia failure. It is important to note that we have reported in prior MLRs that high concentrations in CRE loans were a significant factor in the failure of a number of other banks. For example, in our May 2010 MLR report on Union Bank, we recommended that OCC work with its regulatory partners to determine whether to propose legislation and/or change regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner responses to high-risk concentrations.[11] The failure of FNB Georgia was another case in which a bank failed primarily because it had a high concentration in CRE loans.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-5776. Major contributors to this report are listed in appendix 4.

/s/
Susan Barron
Audit Director

[10] Except in unusual circumstances, which did not exist in this case, OCC is required by 12 U.S.C. § 1831o(h)(3)(A) to appoint a receiver for a national bank not later than 90 days after the bank becomes critically undercapitalized for purposes of PCA.
[11] *Safety and Soundness: Material Loss Review of Union Bank, National Association*, OIG-CA-10-009 (May 11, 2010).

We conducted this material loss review of First National Bank of Georgia (FNB Georgia), of Carrollton, Georgia, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[12] This section provides that if the Deposit Insurance Fund incurs a material loss with respect to an insured depository institution, the inspector general for the appropriate federal banking agency is to prepare a report to the agency that

- ascertains why the institution's problems resulted in a material loss to the insurance fund;
- reviews the agency's supervision of the institution, including its implementation of the prompt corrective action (PCA) provisions of section 38; and
- makes recommendations for preventing any such loss in the future.

At the time of FNB Georgia's failure, section 38(k) defined a loss as material if it exceeds the greater of $25 million or 2 percent of the institution's total assets. The law also requires the inspector general to complete the report within 6 months after it becomes apparent that a material loss has been incurred.

We initiated a material loss review of FNB Georgia based on the loss estimate to the Deposit Insurance Fund by the Federal Deposit Insurance Corporation (FDIC), which was $240.2 million when the Office of the Comptroller of the Currency (OCC) closed the bank on January 29, 2010.

Our objectives were to determine the causes FNB Georgia's failure; assess OCC's supervision of FNB Georgia, including implementation of the PCA provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish our objectives, we conducted fieldwork at OCC's headquarters in Washington, DC; its field office in Atlanta, Georgia; and FNB Georgia's former headquarters located in Bremen, Georgia. We conducted our fieldwork from April 2010 through January 2011.

To assess the adequacy of OCC's supervision of FNB Georgia, we determined (1) when OCC first identified FNB Georgia's safety and soundness problems, (2) the gravity of the problems, and (3) the

[12] 12 U.S.C. § 1831o(k).

supervisory response OCC took to get the bank to correct the problems. We also assessed whether OCC (1) might have discovered problems earlier; (2) identified and reported all the problems; and (3) issued comprehensive, timely, and effective enforcement actions that dealt with any unsafe or unsound activities. Specifically, we performed the following work:

- We determined that the time period relating to OCC's supervision of FNB Georgia covered by our audit would be from July 23, 2004, through FNB Georgia's failure on January 29, 2010. This period included six full-scope safety and soundness examinations and one 60-day formal agreement follow-up examination.

- We reviewed OCC's supervisory files and records for FNB Georgia from 2004 through FNB Georgia's failure on January 29, 2010. We analyzed examination reports, supporting workpapers, and related supervisory correspondence. We performed these analyses to gain an understanding of the problems identified, the approach and methodology OCC used to assess the bank's condition, and the regulatory action OCC used to compel bank management to address deficient conditions. We did not conduct an independent or separate detailed review of the external auditor's work or associated workpapers other than those incidentally available through the supervisory files.

- We interviewed and discussed various aspects of FNB Georgia's supervision with OCC officials and supervisory and specialist staff to obtain their perspectives on the bank's condition and the scope of the examinations.

- We interviewed an FDIC official responsible for monitoring FNB Georgia for federal deposit insurance purposes.

- We assessed OCC's actions based on its internal guidance and requirements of the Federal Deposit Insurance Act.[13]

[13] 12 U.S.C. § 1811 et seq.

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.

History of First National Bank of Georgia

First National Bank of Georgia (FNB Georgia), Carrollton, Georgia, was chartered in 1948, and was wholly owned by WGNB Corporation, a one bank holding company. FNB Georgia's name at the time of charter was West Georgia National Bank of Carrollton, Georgia. In April 2004, the bank changed its name to West Georgia National Bank. On July 1, 2007, the bank merged with the First National Bank of Georgia, Buchanan, Georgia, and became FNB Georgia with its main office in Carrollton, Georgia. FNB Georgia's main office and all branches were located in the West Atlanta area.

OCC Assessments Paid by FNB Georgia

OCC funds its operations in part through semiannual assessments on national banks. OCC publishes annual fee schedules, which include general assessments to be paid by each institution based on the institution's total assets. If the institution is a problem bank (i.e., it has a CAMELS composite rating of 3, 4, or 5), OCC also applies a surcharge to the institution's assessment to cover additional supervisory costs. These surcharges are calculated by multiplying the sum of the general assessment by 50 percent for 3 - rated institutions or by 100 percent for 4- and 5-rated institutions. Table 2 shows the assessments that FNB Georgia paid to OCC from 2004 through 2009 and their share of the total assessments paid by OCC-regulated banks.

Table 2: Assessments Paid by FNB Georgia to OCC, 2004–2009

Billing Period	Exam Rating	Amount Paid	Percent of Total Collections
1/1/2004–6/30/2004	1	$51,037	0.021%
7/1/2004–12/31/2004	1	53,868	0.022%
1/1/2005–6/30/2005	2	56,662	0.020%
7/1/2005–12/31/2005	2	63,196	0.022%
1/1/2006–6/30/2006	2	65,920	0.022%
7/1/2006–12/31/2006	2	68,750	0.022%
1/1/2007-6/30/2007	2	73,268	0.022%
7/1/2007–12/31/2007	2	78,000	0.023%
1/1/2008–6/30/2008	2	99,426	0.028%
7/1/2008-12/31/2008	4	101,575	0.028%
1/1/2009–6/30/2009	4	203,658	0.053%
7/1/2009-12/31/2009	5	195,782	0.052%

Source: OCC

Number of OCC Staff Hours Spent Examining FNB Georgia

Table 3 shows the number of OCC staff hours spent examining FNB Georgia from 2004 to 2009.

Table 3: Number of OCC Hours Spent on Examining FNB Georgia, 2004–2009

Examination Start Date	Number of Examination Hours
7/23/2004	586
6/23/2005	584
7/6/2006	640
9/4/2007	663
4/28/2008	700
1/5/2009	612
6/22/2009	2,817
Total	6,602

Source: OCC Examiner View.
Note: Examination hours are totaled for safety and soundness, information technology, compliance and follow up examinations. They do not include time spent performing off-site monitoring.

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MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan Barron, Audit Director

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

Date: February 1, 2012

Subject: Response to Material Loss Review of First National Bank of Georgia

We have received and reviewed your draft report titled "Material Loss Review of First National Bank of Georgia (FNB Georgia), of Carrollton, Georgia." This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of the bank's estimated loss to the Deposit Insurance Fund at the time of its failure. Your objectives were to determine the causes of FNB Georgia's failure; assess OCC's supervision of FNB Georgia, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives you reviewed the supervisory files and interviewed officials at OCC and FDIC.

You concluded that FNB Georgia failed because of its aggressive growth and high-risk commercial real estate (CRE) concentration, ineffective credit risk management processes, and investment portfolio losses. You concluded that the OCC's supervision of FNB Georgia was appropriate. You also determined that the OCC appropriately imposed PCA restrictions on the bank and took enforcement action. We agree with these conclusions.

Your report did not contain any new recommendations.

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.

Lisa DeAngelis, Audit Manager
Amni Samson, Audit Manager
Fawntrella Thompson, Auditor-In-Charge
Angelo Arpaia, Auditor
Rufus Etienne, Auditor
Robert Hong, Auditor
Khuyen Tran, Auditor
Adelia Gonzales, Referencer

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

Federal Deposit Insurance Corporation

Acting Chairman
Inspector General

United States Senate

Chairman and Ranking Member
Committee on Banking, Housing, and Urban Affairs

Chairman and Ranking Member
Committee on Finance

United States House of Representatives

Chairman and Ranking Member
Committee on Financial Services

Government Accountability Office

Comptroller General of the United States