



# Audit Report



OIG-11-059

SAFETY AND SOUNDNESS: Failed Bank Review of Community National Bank

February 24, 2011

Office of  
Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

February 24, 2011

OIG-11-059

MEMORANDUM FOR JOHN WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Community National Bank, Lino Lakes,  
Minnesota

This memorandum presents the results of our review of the failure of Community National Bank (CNB) located in Lino Lakes, Minnesota. The bank opened in 1980 and operated two offices, a main office in Lino Lakes and a branch office in Vadnais Heights, Minnesota. In 2000, CNB acquired Lakeland National Bank of Lino Lakes, Minnesota, nearly doubling its asset size. CNB was a wholly-owned subsidiary of Community Investment Services, Inc., a one-bank holding company. The Office of the Comptroller of the Currency (OCC) closed CNB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on December 17, 2010. As of September 30, 2010, CNB had approximately \$31.6 million in total assets and \$28.8 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$3.7 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 CNB 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, and (3) interviewed an OCC problem bank specialist.

We conducted this performance audit in December 2010 and January 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 Community National Bank's Failure**

OCC appointed FDIC receiver based on the following grounds: (1) the bank had experienced substantial depletion of assets or earnings due to unsafe and unsound practices and (2) the bank was in an unsafe and unsound condition to transact business.

The primary causes of CNB's failure were its prior management's unsafe and unsound practices which led to excessive concentrations in commercial real estate (CRE) loans and critically deficient oversight and supervision. A majority of its problem loans were originated before 2006 to real estate developers. Despite the decline in the real estate market, the borrowers' inability to sell the properties, and the decline in property values, CNB lent these developers additional money for interest payments on the problem loans. CNB also renewed several of these loans without obtaining updated appraisals and without developing exit strategies. Although CNB hired a new president and senior loan officer in late 2008, the bank's condition remained critically deficient due to the unsafe or unsound practices of the prior board and management, which resulted in poor asset quality, insufficient earnings and capital. The new board was unable to raise additional capital, sell or merge CNB, and by October 2010, voluntarily agreed to FDIC being appointed as receiver.

## **Conclusion**

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

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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: February 17, 2011

Subject: Response to Failed Bank Review of Community National Bank

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We have received and reviewed your draft report titled "Failed Bank Review of Community National Bank, Lino Lakes, Minnesota (CNB)." 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 CNB 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 an OCC problem bank specialist.

You conducted this performance audit during December 2010 and January 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 causes of CNB's failure were its prior management's unsafe and unsound practices which led to excessive concentrations in commercial real estate (CRE) loans and critically deficient oversight and supervision. 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