



Audit Report



OIG-11-063

SAFETY AND SOUNDNESS: Failed Bank Review of The First National Bank of Barnesville

March 22, 2011

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

March 22, 2011

OIG-11-063

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 Barnesville

This memorandum presents the results of our review of the failure of The First National Bank of Barnesville (Barnesville). Barnesville was established in 1902. Its main office was located in Barnesville, Georgia, and it had one branch located in Zebulon, Georgia. The bank did not have a holding company. The Office of the Comptroller of the Currency (OCC) closed Barnesville and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on October 22, 2010. As of June 30, 2010, the bank had \$131.4 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$33.9 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 Barnesville 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 and (2) interviewed an OCC problem bank specialist.

We conducted this performance audit during November and December 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 Barnesville'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 and unsound

practice, (2) the bank was in an unsafe and unsound condition to transact business, and (3) the bank's capital was severely impaired.

The primary causes of Barnesville's failure were its aggressive lending strategy that focused on direct lending and participations in commercial real estate loans (CRE) concentrated in its local market in Georgia, as well as in Alabama, Florida, and North Carolina; and ineffective oversight by the board and management. For example, management had an unreliable risk rating system, disregarded external loan review decisions, and failed to document collateral support for real estate loans. The board and management did not demonstrate the leadership or ability to correct serious deficiencies in capital and strategic planning, credit administration, or liquidity risk management. As a result, significant risks were not adequately identified, measured, monitored, or controlled. By 2009, OCC determined Barnesville's capital, asset quality, management, earnings, and liquidity were critically deficient, which ultimately led to its failure.

It should be noted that our review of Barnesville revealed certain questionable transactions. We referred these matters to the Treasury Inspector General's Office of Investigation.

Conclusion

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

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

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

Date: March 14, 2011

Subject: Response to Failed Bank Review of The First National Bank of Barnesville

We have received and reviewed your draft report titled "Failed Bank Review of The First National Bank of Barnesville (Barnesville)." 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 Barnesville 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; and, (2) interviewed an OCC problem bank specialist.

You conducted this performance audit during November and December 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 causes of Barnesville's failure were its aggressive lending strategy that focused on commercial real estate loans concentrated in its local market in Georgia, and also in Alabama, Florida, and North Carolina; and ineffective oversight by the board and management. 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