



Audit Report



OIG-11-030

SAFETY AND SOUNDNESS: Failed Bank Review of Home National Bank

November 16, 2010

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR JOHN WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Home National Bank

This memorandum presents the results of our review of the failure of Home National Bank (Home), of Blackwell, Oklahoma. Home opened in 1933 as First National Bank and Trust Company and adopted its current name in 1997. Its main office was in Blackwell, Oklahoma, and it had 14 branches in south central Kansas, north central Oklahoma, and the area around Phoenix, Arizona. The bank was a wholly-owned subsidiary of HNB Corporation, a holding company located in Arkansas City, Kansas. The Office of the Comptroller of the Currency (OCC) closed Home and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 9, 2010. As of March 31, 2010, the bank had \$644.5 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$78.7 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 Home 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 and examination personnel.

We conducted this performance audit in 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 Home's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had 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 had been severely impaired.

The primary causes of Home's failure were its aggressive growth strategy that focused on commercial real estate loans (CRE), and the lack of appropriate risk controls to support the growth strategy. For example, Home did not have concentration limits for loans by type, purpose, geography, or other meaningful factors; and did not assign accurate risk ratings. In addition, in 2009, Home's senior management failed to administer the bank's loan portfolio in a safe and sound manner by discouraging or stopping Home's employees from identifying problem credits in a timely manner or obtaining updated or current financial information or collateral valuations. These actions, considered egregious by OCC, inflated earnings and capital levels by delaying the recognition of losses and expenses. By December 31, 2009, Home's asset quality, capital, and earnings were critically deficient which ultimately led to its failure

Conclusion

Based on our review of the causes of Home'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 Home'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: November 5, 2010

Subject: Response to Failed Bank Review of Home National Bank

We have received and reviewed your draft report titled "Failed Bank Review of Home National Bank (Home)." 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 Home 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 in 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 causes of Home's failure were its aggressive growth strategy that focused on commercial real estate loans, and the lack of appropriate risk controls to support the growth strategy. 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