



Audit Report



OIG-12-005

SAFETY AND SOUNDNESS: Failed Bank Review of First Southern National Bank

November 9, 2011

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 G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of First Southern National Bank,
Statesboro, Georgia

This memorandum presents the results of our review of the failure of First Southern National Bank (First Southern) located in Statesboro, Georgia. First Southern, a community bank, was chartered in February 2002. The Office of the Comptroller of the Currency (OCC) closed First Southern and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on August 19, 2011. As of June 30, 2011, First Southern had approximately \$164.6 million in total assets and \$159.7 million in total deposits. As of August 31, 2011, FDIC estimated that the loss to the Deposit Insurance Fund was \$39.6 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, we conducted a review of the failure of First Southern 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 for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

We conducted this performance audit in August and September 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 First Southern's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had experienced a substantial depletion of assets or earnings due to unsafe or unsound practices; (2) the bank's losses depleted all or substantially all of its capital and there was no reasonable prospect for the bank to become adequately capitalized; and (3) the bank was undercapitalized, and failed to submit a capital restoration plan acceptable to OCC within the time prescribed.

The primary causes of First Southern's failure were (1) its aggressive growth strategy funded, in part, by wholesale sources that included brokered deposits, Federal Home Loan Bank advances, and Internet certificates of deposits; (2) excessive concentration in commercial real estate loans; and (3) ineffective credit risk management practices. Additionally, the bank's board and management's lax oversight and failure to adjust quickly or effectively to changing economic conditions, coupled with the declining real estate markets in Georgia and South Carolina, led to deterioration in the bank's asset quality. As asset quality declined, the loan-related losses increased, resulting in critically deficient capital and earnings, which, ultimately, led to First Southern's failure.

Conclusion

Based on our review of the causes of First Southern'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 this 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 that it agreed with our conclusion as to the causes of failure of First Southern and that it had no concerns with our determination that an in-depth review of the bank's failure is 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) 927-5776 or J. Mathai, Audit Manager, at (202) 927-0356.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan Barron, Director, Banking Audits

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

Date: November 7, 2011

Subject: Response to Failed Bank Review of First Southern National Bank, Statesboro, Georgia

We have received and reviewed your draft report titled "Failed Bank Review of First Southern National Bank (First Southern)." 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 First Southern 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 your audit during August and September 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. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions.

You concluded that the primary causes of First Southern's failure were (1) its aggressive growth strategy funded, in part, by wholesale sources that included brokered deposits, Federal Home Loan Bank advances, and Internet certificates of deposits; (2) excessive concentration in commercial real estate loans; and (3) ineffective credit risk management practices. 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 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