



# Audit Report



OIG-13-033

SAFETY AND SOUNDNESS: Failed Bank Review of Citizens First National Bank, Princeton, Illinois

March 8, 2013

## 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 THOMAS J. CURRY  
COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Citizens First National Bank

This memorandum presents the results of our review of the failure of Citizens First National Bank (Citizens) located in Princeton, Illinois, and the supervision of the bank by the Office of the Comptroller of the Currency (OCC). Citizens was formed in 1930. At the time of its failure, the bank was a subsidiary of Princeton National Bancorp, Inc. (PNB), located in Peoria, Illinois. Citizens had 21 offices in the north-central Illinois area. OCC closed Citizens and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on November 2, 2012. As of September 30, 2012, the bank had \$924 million in total assets. As of January 31, 2013, FDIC estimated that the loss to the Deposit Insurance Fund is \$47.7 million.

In January 2009, PNB issued \$25.1 million in preferred stock to the Department of Treasury (Treasury) under Treasury's Troubled Asset Relief Program (TARP), Capital Purchase Program.<sup>1</sup> PNB injected approximately \$8.8 million of the TARP funds into Citizens with the remainder being used to pay down PNB's debt. Treasury expects that none of the \$25.1 million in TARP funds will be repaid.

Because the loss to the Deposit Insurance Fund is less than \$150 million, as set forth by section 38(k) of the Federal Deposit Insurance Act (FDIA), we conducted a review of the failure of Citizens 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

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<sup>1</sup> TARP is a program established under the Emergency Economic Stabilization Act of 2008 with the goal of stabilizing the U.S. financial system and preventing a systemic collapse. The Capital Purchase Program, one of several programs under TARP, was created in October 2008 to stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the nation. The program was closed to new investments on December 31, 2009.

loss. In performing our review we (1) examined documentation related to the appointment of FDIC as receiver and (2) interviewed OCC examination personnel.

We performed our fieldwork during November and December 2012. 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.

## **Cause of Citizens First National Bank's Failure**

OCC appointed FDIC receiver based on the following grounds: (1) the bank had experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) the bank was in an unsafe or unsound condition to transact business, (3) the bank had incurred or was likely to incur losses that would deplete all or substantially all of its capital and there was no reasonable prospect for it to become adequately capitalized, (4) the bank's unsafe or unsound practices or conditions were likely to seriously prejudice the interests of the Deposit Insurance Fund, and (5) the bank was undercapitalized and had no reasonable prospect of becoming adequately capitalized.

The primary cause of Citizens' failure was its pursuit of an aggressive growth strategy to expand the bank's geographic area of business and increase its commercial real estate (CRE) lending without implementing the credit risk management practices or the strategic and capital planning needed to support its increasing risk profile. The expansion, combined with Citizens' lax underwriting, weak loan monitoring and an inadequate loan review function, resulted in a concentration of poorly performing CRE loans, with a sub-concentration in construction and development loans. Sustained economic deterioration in Citizens' lending area and the failure of the board and management to react quickly and decisively to the changing conditions led to asset deterioration, loan losses, and depletion of the bank's capital.

## **Conclusion**

Based on our review of the causes of Citizens' failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. We provided a draft of this memorandum to OCC management for

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comment. In its response, OCC stated that it agreed with our conclusion as to the causes of Citizens' failure 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) 927-0384 or James Lisle, Audit Manager, at (202) 927-6345.

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: Thomas J. Curry, Comptroller of the Currency /s/

Date: February 25, 2013

Subject: Response to Failed Bank Review of Citizens First National Bank

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We have received and reviewed your draft report titled "Failed Bank Review of Citizens First National Bank (Citizens)" located in Princeton, Illinois. The loss to the Deposit Insurance Fund is less than \$150 million, therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of Citizens 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 OCC personnel.

You conducted your audit during November and December 2012 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 cause of Citizens' failure was its pursuit of an aggressive growth strategy to expand the bank's geographic area of business and increase its commercial real estate (CRE) lending without implementing the credit risk management practices or the strategic and capital planning needed to support its increasing risk profile. We agree.

You determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. 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 Midsize and Community Bank Supervision, at 202-649-5420.

**Department of the Treasury**

Deputy Secretary  
Office of Strategic Planning and Performance Management  
Office of the Deputy Chief Financial Officer, Risk and Control  
Group

**Office of the Comptroller of the Currency**

Comptroller of the Currency  
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