



Audit Report



OIG-15-028

SAFETY AND SOUNDNESS: Failed Bank Review of First National Bank of Crestview, Crestview, Florida

April 6, 2015

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

April 6, 2015

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MEMORANDUM FOR THOMAS J CURRY
COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of First National Bank of Crestview

This memorandum presents the results of our review of the failure of First National Bank of Crestview (Crestview). Crestview was chartered in 1956 as a national bank and is a wholly-owned subsidiary of FNBC Financial Corporation, a one-bank holding company that was formed in 2007. The bank's main office and two branches were located in Crestview, Florida. The Office of the Comptroller of the Currency (OCC) closed Crestview and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on January 16, 2015. As of September 30, 2014, the bank had approximately \$79.7 million in total assets. As of February 28, 2015, FDIC estimated that the loss to the Deposit Insurance Fund is \$4.4 million.

Because the loss to the Deposit Insurance Fund is less than \$50 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of Crestview 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 an OCC problem bank specialist.

We conducted this performance audit from January to February 2015 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 Crestview'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's unsafe or unsound practices or conditions were likely to cause insolvency or substantial dissipation of assets or earnings, (4) the bank's unsafe or unsound practices or conditions were likely to weaken the bank's condition, (5) 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 without Federal assistance, (6) the bank was undercapitalized and had no reasonable prospect of becoming adequately capitalized, (7) the bank was undercapitalized and had failed to submit a capital restoration plan acceptable to OCC within the time prescribed, and (8) the bank was critically undercapitalized.

The primary causes of Crestview's failure were (1) deficient oversight and supervision by the board and management; (2) aggressive growth strategy in commercial real estate lending with an emphasis in construction and development loans; and (3) critically deficient asset quality, credit administration, and risk management practices. Despite repeated criticism by OCC in the form of identification of unsafe or unsound practices and conditions, recommendations, and matters requiring attention, the board and management failed to implement and adhere to credit administration, credit and concentration risk management, strategic and capital planning, and other real estate owned accounting and appraisal processes commensurate with the bank's risk profile and loan concentrations. Further, board and management did not adapt promptly or effectively to a weakened local real estate market. As a result, Crestview's asset quality deteriorated and its capital and earnings declined, eventually leading to its failure.

Conclusion

Based on our review of the causes of Crestview'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 that would necessitate an in-depth review. 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 the failure of Crestview and that it had no concerns with our determination that an in-depth review of the bank's failure is not warranted. The

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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 Alicia Weber, Audit Manager, at (202) 927-5811.

Attachments



MEMORANDUM

To: Susan Barron, Director, Banking Audits

From: Thomas J. Cury, Comptroller of the Currency /s/

Date: April 1, 2015

Subject: Response to Failed Bank Review of First National Bank of Crestview, Crestview, Florida

The Office of the Comptroller of the Currency (OCC) has received and reviewed the Treasury Office of Inspector General (OIG) draft memorandum titled “Failed Bank Review of First National Bank of Crestview” (Crestview). The loss to the Deposit Insurance Fund is less than \$50 million. Therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, the OIG conducted a review of the failure of Crestview that was limited to: (1) ascertaining the grounds identified by the OCC for appointing the Federal Deposit Insurance Corporation (FDIC) as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing the review the OIG (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 examination personnel.

The OIG conducted the audit from January to February 2015 in accordance with generally accepted government auditing standards. Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the OIG findings and conclusions. The OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions.

The OIG concluded the primary cause of Crestview’s failure was deficient oversight and supervision by the board and management; aggressive growth strategy in commercial real estate lending with an emphasis in construction and development loans; and critically deficient asset quality, credit administration, and risk management practices. Also, despite repeated criticism by OCC in the form of identification of unsafe or unsound practices and conditions, recommendations, and matters requiring attention, the board and management failed to implement and adhere to credit administration, credit and concentration risk management, strategic and capital planning, and other real estate owned accounting and appraisal processes commensurate with the bank’s risk profile and loan concentrations. Further, board and management did not adapt promptly or effectively to a weakened local real estate market. As a result, Crestview’s asset quality deteriorated and its capital and earnings declined, eventually leading to its failure. We agree.

The OIG determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. The OCC has no concerns with the determination.

If you need additional information, please contact Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-649-5420.

Department of the Treasury

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Office of the Deputy Chief Financial Officer, Risk and Control
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