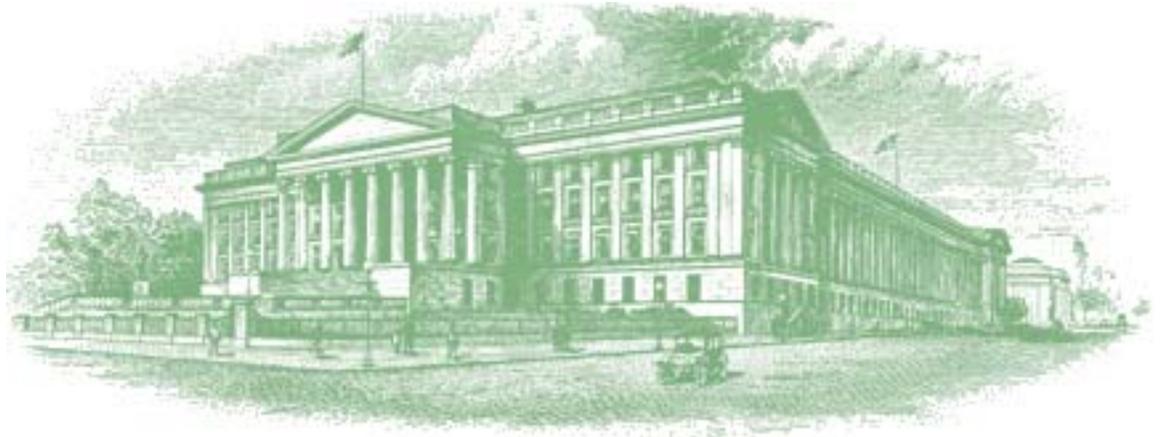




Audit Report



OIG-12-055

SAFETY AND SOUNDNESS: In-Depth Review of the First National Bank of Davis, Davis, Oklahoma

June 7, 2012

Office of Inspector General

DEPARTMENT OF THE TREASURY

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Audit Report

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Abbreviations

EIC	Examiner-in-Charge
FDIC	Federal Deposit Insurance Corporation
MRA	matter requiring attention
LEA	law enforcement agency
OCC	Office of Comptroller of the Currency
OIG	Office of Inspector General
PCA	prompt corrective action
ROE	report of examination

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*The Department of the Treasury
Office of Inspector General*

June 7, 2012

Thomas J. Curry
Comptroller of the Currency

This report presents the results of our in-depth review of the failure of the First National Bank of Davis (FNB Davis), of Davis, Oklahoma, and the Office of the Comptroller of the Currency's (OCC) supervision of the institution. OCC closed FNB Davis and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on March 11, 2011. As of April 30, 2012, FDIC estimated that the loss to the Deposit Insurance Fund¹ would be \$25.9 million.

Because the magnitude of the loss estimate was less than the threshold requiring a material loss review pursuant to section 38(k) of the Federal Deposit Insurance Act, we conducted a limited review of FNB Davis that focused on the causes of the bank's failure, and issued a report in June 2011.² As a result of our limited review, we determined that an in-depth review of FNB Davis' failure was warranted based on the nature of the bank's unsafe and unsound lending practices.

The objectives of our in-depth review were to assess OCC's supervision of the bank, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing any such loss in the future. To accomplish these objectives, we reviewed the supervisory files and interviewed current and former OCC officials. We also

¹ Definitions of certain terms, which are underlined where first used in this report, are found in *Safety and Soundness: Material Loss Review Glossary*, OIG-11-065 (Apr. 11, 2011). That document is available on the Treasury Office of Inspector General's (OIG) website at <http://www.treasury.gov/about/organizational-structure/ig/Pages/by-date-2011.aspx>.

² OIG, *Safety and Soundness: Failed Bank Review of the First National Bank of Davis*, OIG-11-074 (Jun. 8, 2011)

interviewed personnel at FDIC's Division of Resolutions and Receivership. Appendix 1 contains a more detailed description of our review objectives, scope, and methodology. Appendix 2 contains background information on FNB Davis' history and OCC's assessment fees and examination hours.

As discussed in our June 2011 report, OCC appointed FDIC as receiver for FNB Davis on the following grounds: (1) the bank experienced a substantial dissipation of assets or earnings due to violation of statute, regulation, or unsafe or unsound practice; (2) the bank's violations of law, regulation, or unsafe or unsound practices were likely to seriously prejudice the interests of the institution's depositors or the Deposit Insurance Fund; (3) 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 (4) the bank was critically undercapitalized. In this regard, the primary cause of FNB Davis' failure was unsafe and unsound lending practices including imprudent underwriting, violations of the bank's legal lending limit³ regarding two related borrowers, and failing to identify loan losses. Due to these unsafe or unsound practices and violations of law, OCC identified \$8.6 million in loan losses that FNB Davis had failed to recognize. OCC noted that the majority of these losses involved extensions of credit to two borrowers. The combination of loans to these borrowers and their related interests totaled almost \$12 million, which clearly exceeded FNB Davis' legal lending limit of \$1.22 million as of December 31, 2010.

In brief, our in-depth review of FNB Davis revealed that (1) OCC did not timely identify the extensions of credit that contributed to FNB Davis' failure, (2) OCC's supervisory response to a 2009 federal law enforcement agency (LEA) investigation of FNB Davis was insufficient, and (3) OCC did not confirm that FNB Davis had addressed supervisory directives stated in matters requiring attention (MRA). We concluded that once the

³ 12 U.S.C. § 84 and 12 CFR § 32 limit the total dollar amount a bank can lend to a single borrower. Congress imposed these limits to restrict the impact of a default by any individual borrower on the overall safety and soundness of a bank. A bank computes the dollar amount of the lending limit as a percentage of its capital and surplus. The general limit is 15 percent, but may be higher in certain circumstances.

supervision of FNB Davis was transferred to OCC's Special Supervision Division in February 2011, its supervisory actions were appropriate.

We are recommending that OCC: (1) remind examiners of the importance of following OCC's guidance regarding performing reconciliations of all reports submitted by management and analyzing a bank's new products to determine the effect on credit risk; (2) establish formal guidance to address OCC's response to LEA investigations and requests for information from LEAs, to include when examination procedures should be expanded as well as notification to OCC Headquarters and OIG; and (3) remind examiners of the importance of following OCC's guidance regarding verifying that the bank's corrective actions have been successful and timely.

In a written response, which is included in appendix 3, OCC provided its planned corrective actions which we consider responsive to our recommendations. However, OCC will need to identify and record planned completion dates for taking these actions in the Joint Audit Management Enterprise System (JAMES), the Department of the Treasury's audit recommendation tracking system.

As of the date of this report, there are multiple open investigations by various agencies, including the Treasury Inspector General's Office of Investigations, related to FNB Davis. These investigations relate to questionable activities by the bank and some of its affiliated corporate borrowers.

OCC's Supervision of FNB Davis

Table 1 summarizes OCC's examinations of FNB Davis and enforcement actions taken from 2007 to 2011.⁴ Generally, MRAs represent the most significant items reported in reports of examination (ROE).

⁴ OCC conducted its examinations and performed offsite monitoring of FNB Davis in accordance with the timeframes prescribed in OCC's Comptroller's Handbook.

**Table 1. Summary of OCC’s FNB Davis Examinations and Enforcement Actions
Examination Results**

Date started/ Type of exam	Assets (millions)	CAMELS rating	Number of MRAs	Number of recommendations or suggestions	Enforcement actions
1/8/2007 Full-scope examination	\$64.5	2/222222	None	2	None
8/25/2008 Full-scope examination	\$70.1	2/222221	7	7	None
1/4/2010 ^a Full-scope Examination	\$75.6	2/232221	6	11	None
2/2/2011 ^b Full-scope Examination	\$86.6	5/555552	N/A	N/A	PCA directive issued 3/2/2011

^a OCC changed the bank’s full scope examination cycle from 18 months to 12 months.

^b The bank was closed before the examination was completed. OCC, however, notified the bank’s board of directors in writing of the change in CAMELS ratings and the bank’s critically undercapitalized prompt corrective action capital category on March 2, 2011. A final 2011 ROE was not issued.

Source: OCC ROEs, consent orders, and PCA directives; FNB Davis call reports.

OCC Did Not Timely Identify the Extensions of Credit that Contributed to FNB Davis’ Failure

FNB Davis failed because of a concentration of unpaid loans and other extensions of credit to a number of affiliated corporate borrowers. While OCC examiners did identify \$2.4 million in loans to the affiliated corporate borrowers, it did not identify another \$6.8 million in extensions of credit to the same borrowers until the 2011 examination, when a new Examiner-in-Charge (EIC) was assigned to the bank. The extensions of credit were accounted for in the bank’s Cash Flow Manager (CFM) program.⁵

⁵ According to OCC, bank management had represented that the CFM program as an accounts receivable factoring program. In general, “factoring” is a financial practice whereby a commercial entity sells its accounts receivable to a purchaser at a discount in exchange for immediate funds to finance the seller’s continued business. However, OCC concluded that the CFM accounts in question were really extensions of credit to the affiliated borrowers rather than a factoring program because FNB Davis failed to purchase the underlying accounts receivables or secure the rights to collect on them.

We identified bank and OCC documents that show as early as 2007, OCC examiners had knowledge of, but did not question bank management about, the CFM program. Among these documents were the bank's general ledgers as of December 31, 2006 and 2009, which included individual line items titled "CFM loans"; and a September 2008 OCC supervisory strategy document. The supervisory strategy document specifically stated that OCC needed to review the CFM program during the next full scope examination.

OCC's Handbook on Portfolio Management states examiners should determine whether new products have been introduced since the last examination, and analyze their potential effect on credit risk. When we asked the EIC for the 2003 through 2010 examinations about the CFM program, he stated that he may have been aware of the program but his lack of experience with factoring programs may have prevented an adequate analysis of the program and its risks.⁶ We do not find this response satisfactory as the necessary expertise should have been sought to implement the supervisory strategy. The EIC assigned to the bank's 2011 examination identified the \$6.8 million in extensions of credit to the affiliated corporate borrowers by comparing the bank's electronic loan file⁷ to its call report. As a result of the 2011 examination, OCC required the bank to recognize a total of \$8.6 million in losses, putting the bank in a negative capital position.

We were also told by the EIC for the 2003 through 2010 examinations that prior to the 2011 examination, OCC examiners did not identify the CFM program extensions of credit because the bank did not include them in the electronic loan files provided to the examiners. OCC's Handbook on the Review of Regulatory Reports states that examiners must determine that all reports submitted by management are accurate, and agree to the bank's general books. Until its 2011 examination,

⁶ The examiner had been in charge of the FNB Davis examinations for 8 years. In November 2011, OCC updated its Policy and Procedures Manual to establish a formal EIC rotational policy. The policy states that employees may serve as EICs at the same bank for no longer than 5 consecutive years.

⁷ During a typical safety and soundness examination, bank management provides OCC with an electronic loan file listing all of the bank's extensions of credit. OCC uses this electronic loan file to select the sample of loans to be reviewed during the examination.

OCC examiners did not reconcile FNB Davis' electronic loan file provided by bank management to either the bank's general ledger or call report to ensure the file was accurate and complete. The findings by the 2011 examination EIC underscore the importance of the Handbook requirement.

OCC's Supervisory Response to a 2009 Federal Law Enforcement Agency Investigation of FNB Davis Was Insufficient

In October 2009, an LEA contacted OCC's district counsel regarding an investigation of one of FNB Davis' borrowers. The LEA had received an allegation that (1) FNB Davis extended credits worth \$5 million to a number of affiliated corporate borrowers, (2) those credits were collateralized by fraudulent invoices and could not be repaid, and (3) bank management may have been aware that some of the invoices were fraudulent. OCC's district counsel provided the OCC field office with written authorization to communicate with, and assist the LEA with its investigation.⁸

Despite knowledge of the investigation, the OCC field office did not perform any additional loan review procedures during the January 2010 examination to determine the validity of the allegations. In addition, neither the OCC field office official nor the EIC informed the examiner assigned to review the loans in question, which totaled \$5 million, that they were allegedly collateralized by fraudulent invoices.

Lacking key information about the nature of the allegations, the examiner only reviewed the same \$2.4 million worth of loans to the affiliated corporate borrowers that had been reviewed in the prior examination. Those particular loans were collateralized by equipment, as opposed to receivables (supported by invoices). In the end, the examiner did not review the credits that were the subject of the allegations. The examiner stated that he did not review a copy of FNB Davis' 2009 general ledger during the 2010 examination, but that if he had, the line item of CFM loans in the amount of \$6 million, at the time, would have

⁸ Provisions for OCC making non-public information on banks available to government agencies upon request are found in 12 CFR § 4.34 and § 4.37.

prompted him to question bank management about the loans. As discussed in the previous finding, if OCC examiners had reconciled FNB Davis' electronic loan file to either the bank's general ledger or call report prior to the 2011 examination, they would have discovered the extensions of credit referenced in the LEA's investigation (which were the same credits accounted for in the CFM Program).

In March 2010, after completing its examination, OCC's field office informed the LEA that it had reviewed the affiliated corporate borrowers' loans (the \$2.4 million of loans that had been reviewed before; not the extensions of credit that were the subject of the allegations) and had downgraded some of the loans to special mention or substandard.

The OCC field office informed OCC headquarters of the LEA's investigation only after the bank was transferred to OCC's Special Supervision Division in February 2011. In an email to OCC headquarters dated September 26, 2011, the field office stated that (1) the CFM program credits to the affiliated corporate borrowers in the amount of \$6.8 million did not appear in the electronic loan file during the 2010 examination; (2) the field office reviewed loans to the affiliated corporate borrowers that did appear in the electronic loan file, and believed that those were the credits the LEA was referring to; and (3) the field office concluded that the receivables pledged to the credits reviewed during the 2010 examination appeared to be good receivables. However, as stated above, the examiner reviewed the loans collateralized by equipment, not the extensions of credits that were collateralized by receivables/invoices and the subject of the LEA investigation.

OCC does not have guidelines or internal written protocols specifically addressing contact between field office/examination staff and LEAs. The assistant deputy controller responsible for FNB Davis stated that although there are no specific procedures for handling inquiries from LEAs, he believed the appropriate officials in the field were made aware of the investigation in this instance. He also stated that OCC headquarters was not notified of the investigation prior to 2011 because the results of the review performed in 2010 did not support the allegations.

We believe that OCC should establish formal guidance to address its response to investigations and requests for information from LEAs. The guidance should address, for example, when examination procedures should be expanded based on information provided by LEAs and the conditions that warrant notification of such matters to OCC Headquarters, which we believe should be done in all cases. The guidance should also consider the need to share with OIG any information concerning possible obstruction of or fraud upon any OCC programs or operations, including information about possible criminal activity involving entities or persons subject to OCC oversight.

OCC Did Not Confirm FNB Davis Had Addressed Prior MRAs

OCC's Bank Supervision Handbook states that examiners should verify that the bank's corrective actions to address MRAs have been successful and timely. This includes verifying that the bank is executing the action plans and evaluating whether the actions the bank has taken or plans to take adequately address the deficiencies.

The MRA sections of the 2008 and 2010 ROEs stated that the examinations revealed a number of deficiencies and system weaknesses in FNB Davis' retail credit lending. OCC issued an MRA in 2008 requiring, among other things: (1) proper classification and charge-offs of past due loans, (2) creation of board-approved policies for loan extensions and retail credit underwriting, and (3) creation of a retail credit monitoring report for board meetings. OCC's work papers document the site visits and discussions with bank management to follow up on this MRA; however, there is no evidence that examiners reviewed bank documents to verify management's assertions that the issues were being corrected. In October 2009, based on discussions with management, OCC concluded that management appeared to have corrected the 2008 MRA. However, a similar MRA was issued as a result of the 2010 examination and in December 2010, again based on discussions with bank management, the examiners concluded that MRA had been corrected as well.

When asked about the ongoing monitoring of the bank's progress to address the MRAs, the EIC said that during site visits and phone conversations, he felt comfortable with management's response and their efforts to address the MRAs. We believe bank management representations alone are insufficient evidence to verify compliance with OCC's MRAs, especially in light of the fact that MRAs that had supposedly been corrected, were identified again as issues in the following examination. Examiners should have reviewed copies of relevant bank documentation to corroborate management's assertions and should have documented that review as provided in OCC's Handbook.

OCC's Use of Prompt Corrective Action

The purpose of PCA is to resolve problems of insured depository institutions with the least possible long-term loss to the Deposit Insurance Fund. PCA requires federal banking agencies to take certain actions when an institution's capital drops below certain levels. PCA also gives regulators flexibility to supervise institutions based on criteria other than capital levels.

Prior to 2011, FNB Davis' call reports indicated that the bank was well capitalized for PCA purposes. As mentioned above, during the examination that started February 2, 2011, OCC examiners required the bank to recognize a total of \$8.6 million in loan losses. Supervision of FNB Davis was transferred to OCC's Special Supervision Division on February 25, 2011. On March 2, 2011, OCC notified FNB Davis that its deficit equity capital position caused the bank to become critically undercapitalized for PCA purposes. The examiners calculated that, as of December 31, 2010, Davis' ratio of Tier I capital to adjusted total assets was negative 0.57 percent, below the 2 percent threshold ratio for the critically undercapitalized category. On March 11, 2011, OCC closed FNB Davis and appointed FDIC as receiver. We concluded that once the supervision of FNB Davis was transferred to OCC's Special Supervision Division, its supervisory actions under PCA were appropriate.

Recommendations

We recommend that the Comptroller of the Currency:

1. Remind examiners of the importance of following OCC's guidance regarding (1) performing reconciliations of all reports submitted by management to ensure that the reports are accurate and agree to the bank's general books, and (2) analyzing a bank's new products to determine the effect on credit risk.

Management Response

Examiners will be reminded to follow established OCC guidance regarding performing reconciliations of reports received from bank management during examinations. This will provide reasonable assurance that critical assets are captured. Further, examiners will be reminded to evaluate the effect of new products on key risks, including credit risk.

OIG Comment

OCC's planned action is responsive to our recommendation. OCC will need to record its estimated completion date in JAMES.

2. Establish formal guidance to address OCC's response to investigations and requests for information from LEAs. The guidance should address, for example, when examination procedures should be expanded based on information provided by LEAs as well as notification to OCC Headquarters and OIG.

Management Response

OCC will formalize guidance that addresses interactions with law enforcement agencies and develop communication protocols for notifications to OCC Headquarters and OIG.

OIG Comment

OCC's planned action is responsive to our recommendation. OCC will need to record its estimated completion date in JAMES.

3. Remind examiners of the importance of following OCC's guidance regarding verifying that the bank's corrective actions have been successful and timely. This includes verifying that the bank is executing the action plans and evaluating whether the actions the bank has taken or plans to take adequately address the deficiencies noted.

Management Response

OCC will reinforce the expectation for its examiners to comply with all aspects of the MRA Reference Guide that was distributed on July 1, 2010.

OIG Comment

OCC's planned action is responsive to our recommendation. OCC will need to record its estimated completion date in JAMES.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-0384 or Theresa Cameron, Audit Manager, at (202) 927-1011. Major contributors to this report are listed in appendix 4.

Jeffrey Dye /s/
Audit Director

We performed an in-depth review of the failure of the First National Bank of Davis (FNB Davis) of Davis, Oklahoma. The objectives of our in-depth review were to assess OCC's supervision of the bank, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing any such loss in the future.

We conducted this in-depth review of FNB Davis in response to Section 38(k) of the Federal Deposit Insurance Act. This section provides that if the inspector general for the appropriate federal banking agency determines an in-depth review of a nonmaterial loss to the Deposit Insurance Fund is warranted, the inspector general is to prepare a report to the agency that

- reviews the agency's supervision of the institution, including its implementation of the PCA provisions of Section 38; and
- makes recommendations for preventing any such loss in the future.

To accomplish our review objectives, we reviewed the supervisory files and interviewed current and former OCC officials. We also interviewed personnel at FDIC's Division of Resolutions and Receivership. We conducted our fieldwork from May 2011 to January 2012. Specifically, we performed the following work:

- We determined that the period covered by our review would be from 2006 through the bank's failure on March 11, 2011. This period included four full scope safety and soundness examinations.
- We reviewed OCC's supervisory files and records for FNB Davis from the 2006 through 2011 examination cycles. We analyzed examination reports, supporting work papers, and related supervisory and enforcement correspondence. We performed these analyses to gain an understanding of the problems identified, the approach and methodology OCC used to assess the institution's condition, and the regulatory action used by OCC to compel the institution's management to address deficient

conditions. We did not conduct an independent or detailed review of the external auditor's work or associated work papers.

- We interviewed and discussed various aspects of the supervision of the institution with OCC officials and current and former examiners to obtain their perspectives on the institution's condition and the scope of the examinations. We also interviewed FDIC officials who were responsible for monitoring FNB Davis prior to and after receivership.
- We assessed OCC's actions based on its internal guidance and the requirements of the Federal Deposit Insurance Act, as amended by 12 U.S.C. § 1820(d).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review 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.

First National Bank of Davis History

The First National Bank of Davis (FNB Davis) of Davis, Oklahoma, was established in 1895. FNB Davis provided various loan and deposit products to commercial, agricultural, and consumer customers in Davis, Oklahoma and three surrounding counties. FNB Davis had one office located in Davis, Oklahoma, and was wholly owned by its holding company, Davis Bancorporation (Davis Bancorp), Inc. Davis Bancorp was formed in 1996. FNB Davis's assets were approximately \$90.2 million as of December 31, 2010.

From 1992 to 2009, FNB Davis's composite CAMELS ratings along with its asset quality, management, earnings, and liquidity component ratings were 1 or 2. Prior to recognizing losses from loans to affiliated corporate borrowers in 2011, FNB Davis's call report as of December 31, 2010 indicated that the bank was well capitalized for Prompt Corrective Action purposes.

During the 2011 safety and soundness examination, OCC discovered significant unrecognized losses in the amount of \$8.6 million. These unrecognized losses exceeded the bank's capital and allowance for loan and lease losses. On March 2, 2011, FNB Davis was deemed both undercapitalized and critically undercapitalized for PCA purposes. On March 11, 2011, OCC closed FNB Davis and appointed the FDIC as receiver.

OCC Assessments Paid by FNB Davis and OCC Examination Hours

OCC funds its operations in part through semiannual assessments on national banks. OCC publishes annual fee schedules, which include general assessments to be paid by each institution based on the institution's total assets. If the institution is a problem bank (i.e., it has a CAMELS composite rating of 3, 4, or 5), OCC also applies a surcharge to the institution's assessment to cover additional supervisory costs. These surcharges are calculated by multiplying the sum of the general assessment by 50 percent for 3-rated institutions or by 100 percent for 4- and 5-rated institutions.

Table 2 shows the assessments that FNB Davis paid to OCC from 2006 through 2011.

Table 2: Assessments Paid by FNB Davis to OCC, 2006–2011

Billing Period	Exam Rating	Amount Paid
1/1/2006–6/30/2006	2/222222	\$17,367
7/1/2006–12/31/2006	2/222222	17,106
1/1/2007–6/30/2007	2/222222	17,371
7/1/2007–12/31/2007	2/222222	17,961
1/1/2008–6/30/2008	2/222222	18,630
7/1/2008–12/31/2008	2/222222	18,025
1/1/2009–6/30/2009	2/222221	18,792
7/1/2009–12/31/2009	2/222221	19,662
1/1/2010–6/30/2010	2/222221	19,459
7/1/2010–12/31/2010	2/232221	21,254
1/1/2011–6/30/2011	5/555552	22,389

Source: OCC

Number of OCC Staff Hours Spent Examining FNB Davis

Table 3 shows the number of OCC staff hours spent examining FNB Davis from 2006 to 2011.

Table 3: OCC Hours Spent Examining FNB Davis, 2006-2011

Examination Start Date	Number of Examination Hours^a
1/8/2007	701
8/25/2008	253
1/4/2010	374
2/2/2011	720

Source: OCC.

^a Hours are totaled for safety and soundness examinations, information technology examinations, and compliance examinations. They do not include time spent performing off-site monitoring.

○

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Audit Director
From: Thomas J. Curry, Comptroller of the Currency /s/
Date: May 29, 2012

Subject: Response to In-Depth Review of the First National Bank of Davis, Davis, Oklahoma

We have received and reviewed your draft report titled "In-Depth Review of the First National Bank of Davis, Davis, Oklahoma (FNB Davis)." You had conducted a limited review of FNB Davis that focused on the causes of the bank's failure and issued a report in June 2011. As a result of your limited review, you determined that an in-depth review of FNB Davis' failure was warranted based on the nature of the bank's unsafe and unsound lending practices. The objectives of your in-depth review were to assess OCC's supervision of the bank, including implementation of the prompt corrective action (PCA) provisions of section 38 and make recommendations for preventing any such loss in the future. To accomplish these objectives, you reviewed the supervisory files and interviewed current and former OCC officials and personnel at FDIC's Division of Resolutions and Receivership.

Your report concludes that (1) the OCC did not timely identify the extensions of credit that contributed to FNB Davis' failure, (2) OCC's supervisory response to a 2009 federal law enforcement agency investigation of FNB Davis was insufficient, and (3) OCC's procedures to confirm FNB Davis' compliance with supervisory directives stated in matters requiring attention (MRA) were insufficient. You also concluded that, once the supervision of FNB Davis was transferred to OCC's Special Supervision Division in February 2011, its supervisory actions were appropriate. The paragraphs below represent our response to your specific recommendations.

Remind examiners of the importance of following OCC's guidance regarding performing reconciliations of all reports submitted by management and analyzing a bank's new products to determine the effect on credit risk.

Examiners will be reminded to follow established OCC guidance (processes and procedures) regarding performing reconciliations of reports received from bank management during examinations. This will provide reasonable assurance that critical assets are captured. Further, examiners will be reminded to evaluate the effect of new products on key risks, including credit risk.

Establish formal guidance to address OCC's response to Law Enforcement Agency (LEA) investigations and requests for information from LEAs, to include when examination procedures should be expanded as well as notification to OCC Headquarters and OIG.

The OCC will formalize guidance that addresses our interactions with law enforcement agencies and develop communication protocols for notifications to OCC Headquarters and OIG.

Remind examiners of the importance of following OCC's guidance regarding verifying that the bank's corrective actions have been successful and timely.

We will reinforce the expectation for our examiners to comply with all aspects of the Matters Requiring Attention (MRA) Reference Guide that was distributed on July 1, 2010.

Thank you for the opportunity to review and comment on your draft report. If you have questions or need additional information, please contact Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-874-5020.

Appendix 4
Major Contributors to This Report

Theresa Cameron, Audit Manager
Christen Janell Stevenson, Auditor-in-Charge
Brandon Crowder, Auditor
April Ellison, Auditor
Maria McLean, Auditor
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U.S. Senate

Chairman and Ranking Member
Committee on Banking, Housing, and Urban Affairs

Chairman and Ranking Member
Committee on Finance

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Chairman and Ranking Member
Committee on Financial Services