



# Audit Report



OIG-11-011

SAFETY AND SOUNDNESS: Failed Bank Review of Community National Bank at Bartow

November 03, 2010

Office of  
Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 03, 2010

OIG-11-011

MEMORANDUM FOR JOHN WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of Community National Bank at Bartow

This memorandum presents the results of our review of the failure of Community National Bank at Bartow (Bartow) of Bartow, Florida. Established in 1984, Bartow had one office and was a wholly owned subsidiary of Community One Bancshares, Inc., a one-bank holding company. The Office of the Comptroller of the Currency (OCC) closed Bartow and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on August 20, 2010. As of June 30, 2010, the bank had \$67.9 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$10.3 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 Bartow 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, and (2) interviewed OCC problem bank specialist.

We conducted this performance audit during 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 Bartow's Failure**

The primary causes of Bartow's failure were its aggressive and concentrated loan growth in interim loans for residential construction of 1-4 family homes, and critically-deficient internal controls and risk assessment systems. For example, Bartow had ineffective risk rating and problem loan identification processes, ineffective audits and loan review, and improper accounting practices associated with its other real estate owned (OREO) assets. As a result of this growth strategy and weak risk management, Bartow experienced significant asset deterioration beginning in 2008. By 2009, Bartow's capital levels were critically deficient and unable to support its high risk profile, which ultimately led to its failure.

## **Conclusion**

Based on our review of the causes of Bartow's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the thrift's failure or the supervision exercised by OCC. Accordingly, we have determined that a more in-depth review of the thrift'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 Bartow'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 /s/

Date: October 25, 2010

Subject: Response to Failed Bank Review of Community National Bank of Bartow

---

We have received and reviewed your draft report titled "Failed Bank Review of Community National Bank of Bartow (Bartow)." 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 Bartow 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 this performance audit during 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 Bartow's failure were its aggressive and concentrated loan growth in interim loans for residential construction of 1-4 family homes, and critically-deficient internal controls and risk assessment systems. 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 Comptroller of the Currency**

Acting Comptroller of the Currency  
Liaison Officer

**Office of Management and Budget**

OIG Budget Examiner