



# Audit Report



OIG-11-092

SAFETY AND SOUNDNESS: Failed Bank Review of First National Bank of Central Florida

August 17, 2011

Office of  
Inspector General

DEPARTMENT OF THE TREASURY





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

August 17, 2011

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MEMORANDUM FOR JOHN WALSH  
ACTING COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/  
Director, Banking Audits

SUBJECT: Failed Bank Review of First National Bank of Central Florida,  
Winter Park, Florida

This memorandum presents the results of our review of the failure of First National Bank of Central Florida (FNBCF) located in Winter Park, Florida. FNBCF, a small community bank, was chartered in 1985 as First Sanlando Bank, National Association and changed to its current name in 1988. FNBCF operated five offices in and around Orlando, Florida. The Office of the Comptroller of the Currency (OCC) closed FNBCF and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 29, 2011. As of December 31, 2010, FNBCF had approximately \$352.0 million in total assets and \$312.1 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$42.9 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 FNBCF 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 during May and June 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 FNBCF's Failure**

OCC appointed FDIC as receiver based on the following grounds: (1) the bank 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 critically undercapitalized.

The primary causes of FNBCF's failure were its aggressive growth strategy funded by wholesale funding sources; excessive concentrations in higher-risk commercial real estate loans, including loans secured by residential real estate and land subdivisions; lax underwriting and loan portfolio management practices; and ineffective board and management oversight. Despite repeated criticisms from OCC examiners, FNBCF's board and management failed to improve the bank's credit administration and risk management practices relating to concentration risk management, underwriting, problem loan identification, and the allowance for loan and lease loss level. In the end, FNBCF's focus on commercial real estate loans in central Florida without commensurate risk management practices or adequate capital to protect the bank from a prolonged period of deterioration ultimately led to FNBCF's failure.

## **Conclusion**

Based on our review of the causes of the FNBCF'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 FNBCF 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) 927-5776 or J. Mathai, Audit Manager, at (202) 927-0356.

Attachments



## MEMORANDUM

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

To: Susan Barron, Director, Banking Audits

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

Date: August 1, 2011

Subject: Response to Failed Bank Review of First National Bank of Central Florida

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We have received and reviewed your draft report titled "Failed Bank Review of First National Bank of Central Florida, Winter Park, Florida (FNBCF)." 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 FNBCF 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 this performance audit during May and June 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 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 FNBCF's failure were its aggressive growth strategy funded by wholesale funding sources; excessive concentrations in higher-risk commercial real estate loans, including loans secured by residential real estate and land subdivisions; lax underwriting and loan portfolio management practices; and ineffective board and management oversight. 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 Midsize 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