



Audit Report



OIG-11-028

SAFETY AND SOUNDNESS: Failed Bank Review of Imperial Savings and Loan Association

November 15, 2010

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 JOHN E. BOWMAN
ACTING DIRECTOR
OFFICE OF THRIFT SUPERVISION

FROM: Susan L. Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Imperial Savings and Loan Association

This memorandum presents the results of our review of the failure of Imperial Savings and Loan Association (Imperial). Imperial opened in 1929 and operated from a single office in Martinsville, Virginia. The Office of Thrift Supervision (OTS) closed Imperial and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on August 20, 2010. As of June 30, 2010, the thrift had \$9.4 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$3.5 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 Imperial that was limited to (1) ascertaining the grounds identified by OTS 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 OTS reports of examination, and (3) interviewed OTS examination personnel.

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 Imperial's Failure

OTS appointed FDIC as receiver based on the following grounds: (1) the thrift was critically undercapitalized and (2) the thrift had substantially insufficient capital.

The primary causes of Imperial's failure were its extremely small asset size, multi-year operational losses, a failed merger, unsatisfactory management practices, poor asset quality, and insufficient capital to support its operating expenses. The generally slow local economy and cutbacks in the textile and furniture industries in the thrift's market area contributed to an increase in classified residential and consumer loans. Furthermore, Imperial moved its office in 2007, which increased operating expenses and created an additional strain on the bank's finances. As the thrift's asset quality continued to deteriorate, its problem assets and the loan loss provision significantly increased, which in turn, when combined with its high operating expenses, contributed to net losses, significantly diminished capital, and ultimately Imperial's closure by OTS.

Conclusion

Based on our review of the causes of Imperial's failure and the grounds identified by OTS for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the thrift's failure or the supervision exercised by OTS. 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 OTS management for comment. In its response, OTS stated that the primary causes of Imperial's failure summarized in this memorandum are consistent with the information contained in its reports of examinations and documents in support of the grounds for receivership. 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 Jai Mathai, Audit Manager, at (202) 927-0356.

Attachments

**Office of Thrift Supervision**
Department of the TreasuryThomas A. Barnes
Deputy Director, Examinations, Supervision, and Consumer Protection

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November 5, 2010

MEMORANDUM FOR: Susan Barron,
Director, Banking Audits
Office of Inspector General
U.S. Department of the Treasury

FROM: Thomas A. Barnes /s/
Deputy Director

SUBJECT: Draft Failed Bank Review of
Imperial Savings and Loan Association

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of Imperial Savings and Loan Association." Because the estimated loss of \$3.5 million to the Deposit Insurance Fund is below the \$200 million threshold set forth in section 38(k) of the Federal Deposit Insurance Act, the review of the failure of Imperial was limited to ascertaining the grounds identified by OTS for appointment of receiver and determining whether any unusual circumstances exist warranting a more in depth review.

The memorandum summarizes the primary causes of Imperial's failure, which are consistent with the information contained in the OTS Reports of Examination and documents in support of the grounds for the receivership. The memorandum cites Imperial's extremely small asset size, multi-year operational losses, a failed merger, unsatisfactory management practices, poor asset quality, and insufficient capital to support its operating expenses as the primary causes of the bank's failure. Imperial's movement of its office in 2007, is specifically noted as contributing to the bank's high operating expenses. The memorandum also cites the adverse impact on the bank's classified residential and consumer loans from the slow local economy and cutbacks in manufacturing in the region. Losses associated with deteriorating asset quality and high operating expenses diminished capital and resulted in the bank's closure.

The memorandum identified no unusual circumstances surrounding the failure or the supervision exercised by OTS warranting a more in depth review by the Office of Inspector General. No recommendations for OTS were made in the memorandum.

Thank you again for the opportunity to review and respond to the draft report. OTS appreciates the professionalism and courtesies provided by the staff of the Office of Inspector General.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of Thrift Supervision

Acting Director
Liaison Officer

Office of Management and Budget

OIG Budget Examiner