Audit Report

OIG-11-104

SAFETY AND SOUNDNESS: Material Loss Review of Vantus Bank

September 20, 2011

Office of Inspector General

DEPARTMENT OF THE TREASURY

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Abbreviations

C&D order	cease and desist order
CDO	collateralized debt obligation
FDIC	Federal Deposit Insurance Corporation
MOU	memorandum of understanding
MRBA	matter requiring board attention
OIG	Treasury Office of Inspector General
OCC	Office of the Comptroller of the Currency
OTS	Office of Thrift Supervision
OTTI	other-than-temporary impairment
PCA	prompt corrective action
ROE	report of examination
TPS	trust preferred security

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OIG

Audit Report

The Department of the Treasury
Office of Inspector General

September 20, 2011

John G. Walsh
Acting Comptroller of the Currency

This report presents the results of our review of the failure of Vantus Bank (Vantus), of Sioux City, Iowa, and of the Office of Thrift Supervision's (OTS) supervision of the institution. We are providing the results of this review for your information since the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibilities for federal savings associations on July 21, 2011, pursuant to P.L. 111-203. OTS closed Vantus and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 4, 2009. This review was mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of Vantus's estimated loss to the Deposit Insurance Fund.[1,2] As of March 31, 2011, FDIC estimated the loss at $182.2 million. FDIC also estimated that Vantus's failure resulted in a loss of $1.9 million to its Transaction Account Guarantee Program.

Our objectives were to determine the causes of Vantus's failure; assess OTS's supervision of the thrift, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives, we reviewed the supervisory files and interviewed OTS and FDIC officials. We conducted our fieldwork from November 2009 through February 2010. Appendix 1 contains

[1] At the time of Vantus's failure, section 38(k) defined a loss as material if it exceeded the greater of $25 million or 2 percent of the institution's total assets. Effective July 21, 2010, section 38(k) defines a loss as material if it exceeds $200 million for calendar years 2010 and 2011, $150 million for calendar years 2012 and 2013, and $50 million for calendar years 2014 and thereafter (with a provision that the threshold can be raised temporarily to $75 million if certain conditions are met).
[2] Definitions of certain terms, which are underlined where first used in this report, are available in OIG-11-065, *Safety and Soundness: Material Loss Review Glossary* (April 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.

a more detailed description of our review objectives, scope, and methodology. Appendix 2 contains background information on Vantus's history and OTS's assessment fees and examination hours.

In brief, Vantus failed because the board of directors and management pursued an aggressive growth strategy involving high concentrations in collateralized debt obligations (CDO)[3] backed by trust preferred securities (TPS)[4] and did not adequately manage the risks associated with these assets. The high concentration in risky investments, combined with the economic downturn and subsequent deterioration of the securitization market resulted in significant losses and decreased regulatory capital. Negative press reports on the thrift's deteriorating financial condition triggered significant customer cash withdrawals, resulting in a liquidity crisis, and ultimately, Vantus's failure. Regarding supervision, OTS did not take adequate or timely action in response to Vantus's change in investment strategy. Miscommunication between the OTS's Midwest Region and headquarters staff contributed to a protracted delay and the failure to enforce investment concentration limits. As Vantus's capital levels deteriorated, OTS acted timely to impose PCA restrictions but those restrictions were unsuccessful in preventing the thrift's failure.

In light of the transfer of OTS functions to other federal banking agencies on July 21, 2011, we are not making any recommendations as a result of our material loss review of the Vantus failure. We provided OCC with a draft of this report for its review. In a written response, which is included as appendix 3, OCC did not provide specific comments on the report contents.

[3] A CDO is a structured investment security that consists of a securitized pool of debt instruments, such as trust preferred securities. The cash flows of the underlying collateral are divided into separate portions, or tranches, each having its own yield, term, and other characteristics designed to appeal to different investors. Each CDO tranche represents a different type of credit risk. To compensate for their higher risk, tranches with higher-risk debt (junior or mezzanine tranches) offer higher interest rates to investors than more senior tranches. Typically, senior notes are rated at a higher investment grade than mezzanine notes.

[4] This report refers to trust preferred securities using the acronym TPS for consistency with OTS terminology. While not used in this report, these investments are also commonly referred to as TruPS.

Causes of Vantus's Failure

In 2006, Vantus implemented an aggressive growth strategy to increase commercial lending. When the thrift did not meet its lending goals, Vantus's board and management revised the growth strategy to include the purchase of CDO/TPSs to generate income. Between the fourth quarter of 2006 and the second quarter of 2007, Vantus purchased $65 million in CDO/TPSs. The TPSs that served as collateral for Vantus's CDO portfolio were primarily issued by banks, savings and loan holding companies, or insurance companies, some of which later failed. The three largest financial institution issuers of securities in Vantus's CDO/TPS portfolio were IndyMac Bancorp, Inc., the holding company of the failed IndyMac Bank, FSB; Guaranty Bank, which also failed; and Irwin Financial Corporation, the multibank holding company of two failed institutions, Irwin Union Bank and Trust (IUBT) and Irwin Union, FSB.[5] At the time of the purchases in 2006 and 2007, the CDOs were rated investment-grade quality by an independent credit rating agency.[6]

OTS Thrift Bulletin 73a, Investing in Complex Securities (TB 73a), states that TPSs pose higher risk to investors than traditional corporate debt securities, particularly due to the issuer's option to defer payments and extend the maturity of the issue. Because of these risks, thrifts that invest in TPSs must, among other things, limit their aggregate investment in TPSs or CDOs backed by TPSs to 15 percent of the institution's total capital.

[5] We completed material loss reviews of IndyMac Bank, FSB (OIG-09-032, *Safety and Soundness: Material Loss Review of IndyMac Bank, FSB*; issued Feb. 26, 2009), Guaranty Bank (OIG-11-066, *Safety and Soundness: Material Loss Review of Guaranty Bank*; issued Apr. 29, 2011), and Irwin Union, FSB (OIG-11-100, *Material Loss Review of Irwin Union, FSB;* issued Sept. 14, 2011). The estimated losses to the Deposit Insurance Fund for the three thrifts were $10.7 billion, $1.3 billion, and $158.5 million, respectively. These documents are available on the OIG website at http://www.treasury.gov/about/organizational-structure/ig/Pages/by-date-2011.aspx. The Board of Governors of the Federal Reserve System Office of Inspector General completed a material loss review of IUBT (*Material Loss Review of Irwin Union Bank and Trust*; issued April, 2010). That document is available at http://www.federalreserve.gov/oig/oig_rpt_2011.htm. The estimated loss to the Deposit Insurance Fund for IUBT was $552.4 million.

[6] Vantus primarily used nationally recognized statistical rating organizations required to be registered with the Securities and Exchange Commission, such as Moody's Investment Service, Standard & Poor's Rating Services, and Fitch, Inc.

Vantus's board and management did not adhere to the OTS concentration limitation. Vantus previously purchased single issuer TPSs in 2001 and 2002 that had a June 2007 book value of approximately $4 million. By the second quarter of 2007, Vantus's $69 million combined CDO/TPS portfolio represented approximately 135 percent of capital, which far exceeded the 15 percent limit established for such investments.

Due to the deterioration in the economy and the securitization market in mid-2007 and 2008, Vantus's CDO/TPS portfolio declined in market value and the thrift incurred significant unrealized losses. Between June 2007 and June 2009, the market value of the portfolio decreased $56 million, from $69 million to $13 million. These losses and the downgrade of certain CDO/TPS investment ratings from investment-grade to below investment-grade quality triggered an other-than-temporary impairment (OTTI) accounting treatment[7] on a portion of Vantus's CDO/TPS portfolio and negatively impacted the thrift's regulatory capital.[8] From June 2007 to June 2009, OTTI charges increased $26.9 million in the aggregate and the thrift's total risk-based capital level fell from 10.5 percent to 4.0 percent which was considered significantly undercapitalized for PCA purposes.

The high concentration in CDO/TPSs, related investment downgrades, and OTTI charges were the primary contributors to the decrease in Vantus's regulatory capital and weakened financial condition. In August 2009, media coverage indicating the bank might fail led to mass customer withdrawals and a significant decrease in Vantus's liquidity. From August 17, 2009, to September 4, 2009, Vantus's liquidity decreased from $57.6 million to $14.4 million. OTS closed Vantus and appointed the FDIC as receiver on September 4, 2009.

[7] Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, May 1993.

[8] OTTI charges have a negative impact on regulatory capital, whereas unrealized losses are added back to equity capital in regulatory capital calculations and therefore have no impact. Additionally, the investment downgrades on Vantus's portfolio had a double impact on risk-based capital. It contributed to the classification of losses as OTTI which negatively impacted the capital component of the ratio and the downgrades triggered the requirement for the assets to be risk-weighted more heavily, thus impacting the risk-weighted asset portion of the ratio.

OTS's Supervision of Vantus

OTS performed timely examinations of Vantus in accordance with examination guidelines but did not adequately respond to Vantus's change in investment strategy. OTS initially failed to recognize that the thrift's CDO/TPS investment plans did not comply with OTS's concentration limitation. Once the excess investment concentration was identified, miscommunication between OTS's Midwest Region and headquarters staff contributed to a protracted delay in enforcing concentration and loans to one borrower (LTOB)[9] limits related to the CDO/TPS portfolio. Had OTS taken more forceful actions in 2007 and 2008 to compel Vantus's board and management to divest its large concentration of CDO/TPSs, the losses on the thrift's risky investments would have been reduced giving the thrift a better chance of survival.

Table 1 summarizes OTS's examinations of Vantus from December 2003 to September 2009. Generally, matters requiring board attention (MRBA) represent the most significant items reported in a report of examination (ROE) requiring corrective action.

[9] 12 CFR 560.40(a)(3), Commercial Paper and Corporate Debt Securities, limits purchases of commercial paper and corporate debt securities of any one issuer, together with other loans, to the thrift's LTOB limit. The LTOB limit, 12 CFR 560.93(c), Banks and Banking, Lending and Investment, Lending limitations, states that the total loans and extensions of credit by a savings association to one borrower outstanding at one time and not fully secured, by collateral having a market value at least equal to the amount of the loan or extension of credit, shall not exceed 15 percent of the unimpaired capital and unimpaired surplus of the association. Two of Vantus's CDOs exceeded this limit.

Table 1. OTS Examinations of Vantus (December 2003-September 2009)

		Examination Results			
Date started	Total assets (in millions)	CAMELS Rating	No. of MRBAs	No. of corrective actions	Enforcement actions
12/8/2003 Full-scope	$640	2/222221	None	None	None
2/28/2005 Full-scope	$570	2/222221	6	6	None
3/27/2006 Full-scope	$586	2/222221	2	2	None
5/29/2007 Full-scope	$646	2/222221	3	3	None
8/18/2008 Full-scope	$583	3/433332	7	7	Memorandum of Understanding (MOU) 1/7/2009 (informal enforcement action)
9/25/2008 Limited	$583	3/333332	None	None	None
3/5/2009 Limited	$524	3/443332	None	None	None
5/6/2009 Limited	$492	4/543332	None	None	Cease and Desist Order (C&D order) 7/31/2009 (formal enforcement action)
7/7/2009 Limited	$499	5/553432	None	None	None
8/24/2009 Limited	$504	5/553452	None	None	PCA directive 8/31/2009
9/2/2009 Limited	$504	5/553452	None	None	None

Source: OTS ROEs, examination history and enforcement actions.

OTS Did Not Timely Require Vantus to Comply With CDO/TPS Concentration Guidance and Regulatory Limits

In February 2007, in conjunction with OTS's offsite quarterly monitoring activities, examiners learned of Vantus's CDO/TPS investment plans. During the full-scope examination that began in May 2007, OTS examiners identified the following issues related to the thrift's CDO/TPS portfolio.

- Vantus's portfolio far exceeded (129 percent of capital during the first quarter of 2007) the 15 percent of capital aggregate investment limit set forth in TB 73a.

- Vantus purchased two CDOs in violation of 12 CFR 560.40(a)(3) because they exceeded LTOB limits on purchases from individual issuers.

As TB 73a states, a thrift's purchase of complex securities is limited to the aggregate of 15 percent of capital. However, CDOs may be excluded from this restriction if they have no payment deferral features. Generally, CDO issuers have the option to defer any payments beyond their due date, typically for up to 5 years, creating increased risks for holders of these investments.

Vantus management disagreed with OTS on the applicability of TB 73a. Although the CDOs in Vantus's portfolio included a payment deferral option, Vantus management believed that over-collateralization in the CDOs' structure made payment deferral only a remote possibility.[10] This reliance on over-collateralization proved to be a mistake since 29 percent of all bank issuers of CDO/TPSs defaulted or deferred payments as of March 2010.[11] At the time Vantus's CDO/TPSs were purchased, the default/deferral rate was not this high. However, these investments were relatively new financial instruments and there was very little, if any, experience on how they would perform over time or in a stressed environment. Based on the belief that the payment deferral possibility was remote, Vantus contended that its CDO/TPS portfolio concentration limit should be subject to thresholds similar to those for either pass-through investments or corporate bonds[12] and not the TB 73a limit.

In its July 2007 ROE on Vantus, OTS directed the thrift's board to stop buying CDO/TPSs while the OTS Midwest Region sought guidance from OTS headquarters on the interpretation of TB 73a. OTS also directed the Vantus board to bring the two CDOs that exceeded the LTOB limit into regulatory compliance by

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[10] Over-collateralization occurs when the face value of the underlying portfolio is larger than the security it backs.
[11] Fitch Ratings Structured Credit Special Report (March 31, 2010).
[12] A pass-through investment occurs when a thrift invests in an entity that engages only in activities that the thrift may conduct directly and the investment meets the requirements of 12 C.F.R. §560.32. Commercial debt securities are governed by 12 C.F.R. §560.40 pursuant to Home Owners' Loan Act section 5(c)(2)(D). An entity's total investment in pass-through investments and corporate bonds is limited to 50 percent of capital and 35 percent of its total assets, respectively.

September 30, 2007. Due to miscommunication between the Midwest Region and headquarters staff, it was not until February 2008 (7 months later) that OTS finally informed Vantus that the total investment limit set forth in TB 73a applied to its CDO/TPS portfolio and directed Vantus to divest the excessive holdings as soon as practical given the current market conditions. A regional OTS capital market specialist told us that, based on market data, had Vantus divested its excess CDO/TPS in July 2007, shortly after OTS recognized the applicability of TB 73a, the resulting loss would have been limited to less than $2 million. With that, Vantus would have maintained its well-capitalized status. By 2008, when OTS finally acted to enforce the aggregate concentration limit, there was no longer a market for CDO/TPSs. OTS granted repeated extensions to Vantus related to both the LTOB and aggregate concentration limit directives. Ultimately, Vantus never divested the investments.

Given the timing of the collapse of the securitization market that began in mid-2007, we believe that more timely and forceful action on the part of OTS to address Vantus's CDO/TPS concentration would have given the thrift a better chance of survival and may have prevented a loss to the Deposit Insurance Fund.

OTS Implemented PCA as Vantus's Capital Levels Fell

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 to certain levels. PCA also gives regulators flexibility based on criteria other than capital levels to help reduce deposit insurance losses caused by unsafe and unsound practices.

Although we determined that OTS should have acted sooner and more forcefully to address the unsafe and unsound practices with Vantus, we concluded that OTS appropriately implemented PCA as Vantus's condition deteriorated.

The following key events and OTS's response occurred in 2008 and 2009.

- In November 2008, Vantus formally notified OTS that its PCA capital status fell from well-capitalized to adequately capitalized based on an OTTI write-down on the CDO/TPS portfolio and a restatement of its June 30, 2008, financial statements. On January 7, 2009, based on the full-scope examination that began in August 2008, OTS entered into an MOU with Vantus to address unsafe and unsound practices and conditions, such as a precarious capital position, deteriorating asset quality, and increased liquidity risk. Among other things, the MOU required the thrift to achieve a risk-based capital ratio of 10 percent by March 31, 2009.

- Vantus's financial statements for the quarter ended March 31, 2009, included additional OTTI write-downs on the CDO/TPS portfolio and Vantus's PCA capitalization status fell to significantly undercapitalized. On May 8, 2009, OTS directed Vantus to submit a capital restoration plan by June 15, 2009, in accordance with PCA requirements.

- OTS issued a C&D order dated July 31, 2009, replacing the MOU dated January 7, 2009. Among other things, the C&D order reiterated the MOU and required the thrift to submit a capital restoration plan by August 31, 2009. The C&D order also required Vantus to achieve and maintain a Tier 1 core capital ratio of 8 percent and a total risk-based capital ratio of 12 percent, by December 31, 2009.

- On August 13, 2009, OTS rejected Vantus's capital restoration plan, stating that it was based on unrealistic assumptions.

- OTS issued a PCA directive dated August 31, 2009, that required Vantus to be recapitalized by September 30, 2009. The PCA notice also contained other relevant PCA restrictions.

- Deeming the thrift in unsafe and unsound condition, OTS closed Vantus and appointed FDIC as receiver on September 4, 2009.

OTS's Internal Failed Bank Review

In accordance with its policy, OTS completed an internal failed bank review of Vantus and concluded that the thrift's failure resulted primarily from the deterioration in its CDO/TPS portfolio and the resulting impact on earnings, capital, and liquidity. According to the internal review, the OTS Midwest Region identified Vantus's CDO/TPS investment concentration; however, the supervisory staff did not make an adequate assessment of whether the concentrations represented an unsafe or unsound condition nor did they perform an analysis of the impact on capital or earnings. In addition, the review found that the OTS Midwest Region's decision to require compliance with the concentration guidance "as soon as practical" based on market conditions eliminated pressure for the thrift to divest the risky investments.

The internal OTS review also found that the increase in the level of the thrift's nonperforming loans and classified assets contributed to Vantus's failure, but was not sufficient to have caused the failure. According to the internal review, OTS examinations identified significant concentrations of high risk loans, such as construction and commercial real estate loans, but no specific action was taken to require a reduction in the concentration.

The internal review made recommendations for OTS to (1) require Regional Directors to approve staff decisions that vary from guidance outlined in a current Thrift Bulletin and (2) clearly communicate to the industry and examination staff the expectation of OTS that each institution establish a concentration limit as a percent of core capital plus the allowance for loan and lease losses for the institution's aggregate high risk loan position. The internal review noted the recommendation related to loan concentrations had already been addressed by OTS through its issuance of CEO Letter 311 dated July 9, 2009. While these were prudent actions, we are not making any recommendations as a result of our material loss review of the Vantus failure because OTS functions transferred to other federal banking agencies on July 21, 2011.

*   *   *   *   *

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) 927-5904 or Debbie Harker, Audit Manager, at (202) 927-5762. Major contributors to this report are listed in appendix 4.

/s/
Kieu T. Rubb
Audit Director

We conducted this material loss review of Vantus Bank (Vantus), of Sioux City, Iowa, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[13] This section provides that if the Deposit Insurance Fund incurs a material loss with respect to an insured depository institution, the inspector general for the appropriate federal banking agency is to prepare a report to the agency that

- ascertains why the institution's problems resulted in a material loss to the insurance fund;
- reviews the agency's supervision of the institution, including its implementation of the prompt corrective action (PCA) provisions of section 38; and
- makes recommendations for preventing any such loss in the future.

We initiated a material loss review of Vantus based on the loss estimate by the Federal Deposit Insurance Corporation (FDIC), which on the date of failure (September 4, 2009) was $168 million. As of March 31, 2011, FDIC estimated that the loss to the Deposit Insurance Fund from Vantus's failure would be $182.2 million.

Our objectives were to determine the causes of Vantus's failure and assess the Office of Thrift Supervision's (OTS) supervision of the thrift. To accomplish our review, we conducted fieldwork at OTS's headquarters in Washington, D.C.; OTS's Central Region office in Chicago, Illinois; OTS's Western Region office in Irving, Texas; and Vantus's former headquarters in Sioux City, Iowa. We interviewed OTS headquarters, region, and field personnel. We also interviewed officials of FDIC's Division of Supervision and Consumer Protection, and personnel from FDIC's Division of Resolutions and Receiverships. We conducted our fieldwork from November 2009 through February 2010.

To assess the adequacy of OTS's supervision of Vantus, we performed the following work:

[13] 12 U.S.C. § 1831o(k).

- We reviewed OTS's supervisory files and records for Vantus from 2003 through 2009. We analyzed examination reports, supporting workpapers, and related supervisory and enforcement correspondence. We performed these analyses to gain an understanding of the problems identified, the approach and methodology OTS used to assess the thrift's condition, and the regulatory action OTS used to compel thrift management to address deficient conditions.

- We interviewed and discussed various aspects of the supervision of Vantus with OTS officials and examiners to obtain their perspectives on the thrift's condition and the scope of the examinations.

- We interviewed FDIC officials who were responsible for monitoring Vantus for federal deposit insurance purposes.

- We interviewed personnel from FDIC's Division of Resolutions and Receiverships who were involved in the receivership process, which was conducted before and after Vantus's closure and appointment of a receiver.

- We assessed OTS's actions based on its internal guidance and the requirements of the Federal Deposit Insurance Act.[14]

We conducted this performance audit 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.

[14] 12 U.S.C. § 1811 et seq.

Vantus Bank History

Vantus Bank (Vantus) was established in 1923 and was a federally chartered stock savings bank wholly owned by First Federal Bankshares, Inc., a unitary non-diversified thrift holding company. Vantus's main office was in Sioux City, Iowa, and at the time of its closure the thrift served its customers through a branch network of 14 offices in northwest and central Iowa, and northeast Nebraska.

OTS Assessments Paid by Vantus

OTS funded its operations in part through semiannual assessments on thrifts. OTS determined each institution's assessment by adding together three components reflecting the size, condition, and complexity of an institution. OTS computed the size component by multiplying an institution's total assets, as reported on its thrift financial report, by the applicable assessment rate. The condition component was a percentage of the size component and was imposed on institutions that had a 3, 4, or 5 CAMELS composite rating. OTS imposed a complexity component if (1) a thrift administered more than $1 billion in trust assets, (2) the outstanding balance of assets fully or partially covered by recourse obligations or direct credit substitutes exceeded $1 billion, or (3) the thrift serviced over $1 billion of loans for others. OTS calculated the complexity component by multiplying set rates by the amounts by which an association exceeded each threshold. Table 2 shows the assessments that Vantus paid to OTS from 2003 through 2009.

Table 2: Assessments Paid by Vantus to OTS, 2003–2009

Billing Period	Exam Rating	Amount Paid
1/1/2003-6/30/2003	2	$66,107
7/1/2003-12/31/2003	2	65,707
1/1/2004-6/30/2004	2	67,678
7/1/2004-12/31/2004	2	66,859
1/1/2005–6/30/2005	2	62,689
7/1/2005–12/31/2005	2	63,464
1/1/2006–6/30/2006	2	64,964
7/1/2006–12/31/2006	2	67,018
1/1/2007–6/30/2007	2	68,655
7/1/2007–12/31/2007	2	73,718
1/1/2008–6/30/2008	2	74,127
7/1/2008–12/31/2008	2	70,848
1/1/2009–6/30/2009	3	101,186
7/1/2009–12/31/2009	4	124,662

Source: OTS Electronic Continuing Examination Folder system.

Number of OTS Staff Hours Spent Examining Vantus

Table 3 shows the number of OTS staff hours spent examining Vantus from 2003 to 2009.

Table 3: Number of OTS Hours Spent Examining Vantus, 2003-2009

Examination Start Date	Exam Type	Number of Examination Hours
12/8/2003	Full	923
2/28/2005	Full	912
3/27/2006	Full	813
5/29/2007	Full	761
8/18/2008	Full	1,069
3/5/2009	Limited	3
7/7/2009	Limited	110
8/24/2009	Limited	88

Source: OTS Electronic Continuing Examination Folder system.

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Kieu Rubb, Director, Procurement and Manufacturing Audits

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

Date: September 12, 2011

Subject: Response to Material Loss Review of OTS-Regulated Vantus Bank

We have received and reviewed your draft report titled "Material Loss Review of Vantus Bank (Vantus)." This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of the thrift's estimated loss to the Deposit Insurance Fund at the time of its failure. Your objectives were to determine the causes of Vantus's failure; assess OTS's supervision of the thrift, including implementation of the prompt corrective action (PCA) provisions of section 38; and make recommendations for preventing such a loss in the future. To accomplish these objectives, you reviewed the supervisory files and interviewed OTS and FDIC officials.

You concluded that the primary causes of Vantus's failure were the board of directors and management pursued an aggressive growth strategy involving high concentrations in collateralized debt obligations and did not adequately manage the risks associated with these assets.

You also concluded that the OTS did not timely require Vantus to comply with CDO/TPS concentration guidance and regulatory limits. OTS implemented PCA as Vantus's capital levels fell.

Your report did not contain any recommendations.

Thank you for this information and 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.

Deborah L. Harker, Audit Manager
Katherine E. Johnson, Auditor-in-Charge
Yvens A. Dalmeida, Auditor
Regina A. Morrison, Auditor
Justin D. Summers, Auditor
Timothy F. Cargill, Referencer

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

Federal Deposit Insurance Corporation

Acting Chairman
Inspector General

United States Senate

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

Chairman and Ranking Member
Committee on Finance

U.S. House of Representatives

Chairman and Ranking Member
Committee on Financial Services

U.S. Government Accountability Office

Comptroller General of the United States