



Audit Report



OIG-12-053

SAFETY AND SOUNDNESS: Failed Bank Review of American Eagle Savings Bank, Boothwyn, Pennsylvania

May 24, 2012

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 THOMAS J. CURRY
COMPTROLLER OF THE CURRENCY

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

SUBJECT: Failed Bank Review of American Eagle Savings Bank,
Boothwyn, Pennsylvania

This memorandum presents the results of our review of the failure of American Eagle Savings Bank (American Eagle), located in Boothwyn, Pennsylvania, and the former Office of Thrift Supervision's (OTS) supervision of the bank. OTS regulated American Eagle until July 21, 2011, when the Office of the Comptroller of the Currency (OCC) assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203.

American Eagle opened in January 1917 under its former name, American Eagle Savings and Loan Association. In 1999, the bank changed from a state charter to a federal charter, and changed its name to American Eagle Savings Bank. OCC closed American Eagle and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on January 20, 2012. At the time of closure, American Eagle had approximately \$19.6 million in total assets. As of April 30, 2012, FDIC estimated the loss to the Deposit Insurance Fund to be \$6.2 million.

Because the loss to the Deposit Insurance Fund is less than \$150 million, as set forth by section 38(k) of the Federal Deposit Insurance Act (FDIA), we conducted a review of the failure of American Eagle 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 OTS reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

We performed our fieldwork during February and March 2012. 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.

Causes of American Eagle's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank experienced substantial dissipation of assets or earnings due to unsafe or unsound practices; (2) the bank was in an unsafe or unsound condition to transact business; (3) the bank incurred losses that depleted all or substantially all of its capital, and there was no reasonable prospect for the bank to become adequately capitalized without federal assistance; (4) the bank was undercapitalized and had failed to submit a capital restoration plan acceptable to the appropriate federal banking agency within the time prescribed; and (5) the bank was critically undercapitalized.

The primary causes of American Eagle's failure were its significant investments in two mutual funds and inadequate risk management practices. The two mutual funds primarily invested in mortgage-related financial instruments. Examples of the bank's inadequate risk management practices included the board and management's failure to (1) fully understand the risks related to the investments purchased, (2) establish appropriate concentration limits, and (3) analyze and identify the effective cost of the investments. In 2008, the bank's situation was exacerbated when it sought to cash-out its mutual fund holdings. Because one mutual fund holding was unable to fully redeem the bank's holdings in cash, the bank received a redemption-in-kind in the form of non-agency collateralized mortgage obligations (CMO).¹ American Eagle's board and management did not (1) demonstrate an appropriate understanding of the CMOs, (2) react to changing market conditions, and (3) address the declining asset quality of the investments. Other-than-temporary-impairment charges related to the CMOs contributed to the bank's net operating losses. These factors resulted in critically deficient earnings and capital levels, which ultimately led to American Eagle's failure.

¹ A non-agency CMO is a type of financial debt vehicle that is not issued by a government-sponsored enterprise such as Fannie Mae. Legally, a CMO is a special purpose entity that is wholly separate from the institution(s) that create it. The entity is the legal owner of a set of mortgages, called a pool. Investors in a CMO buy bonds issued by the CMO, and they receive payments according to a defined set of rules.

Conclusion

Based on our review of the causes of American Eagle's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. In making this determination, we took into consideration that the federal savings association functions of OTS, American Eagle's regulator until July 2011, transferred to OCC. 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 the failure of American Eagle and that it had no concerns with our determination that an in-depth review of the bank's failure is 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

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MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan Barron, Director, Banking Audits

From: Thomas J. Curry, Comptroller of the Currency /s/

Date: May 18, 2012

Subject: Response to Failed Bank Review of American Eagle Savings Bank,
Boothwyn, Pennsylvania

We have received and reviewed your draft report titled "Failed Bank Review of American Eagle Savings Bank (American Eagle)." The loss to the Deposit Insurance Fund is less than \$150 million, therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of American Eagle 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. Your report presents the results of your review of American Eagle's failure and the former Office of Thrift Supervision's (OTS) supervision of the institution. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OTS reports of examination for the five year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit during February and March 2012 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. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions.

You concluded that the primary causes of American Eagle's failure were its significant investments in two mutual funds and inadequate risk management practices. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by the OCC and the former OTS. 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

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Office of Strategic Planning and Performance Management
Office of the Deputy Chief Financial Officer, Risk and Control
Group

Office of the Comptroller of Currency

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