# Audit Report

OIG-11-100

SAFETY AND SOUNDNESS: Material Loss Review of Irwin Union, FSB

September 14, 2011

# Office of Inspector General

DEPARTMENT OF THE TREASURY

# Contents



## Abbreviations

| | |
|---|---|
| ALLL | allowance for loan and lease losses |
| CRE | commercial real estate |
| FDIC | Federal Deposit Insurance Corporation |
| FRB | The Board of Governors of the Federal Reserve System |
| IDFI | Indiana Department of Financial Institutions |
| IFC | Irwin Financial Corporation |
| IUBT | Irwin Union Bank and Trust |
| MRBA | matter requiring board attention |
| OCC | Office of the Comptroller of the Currency |

| | |
|---|---|
| OTS | Office of Thrift Supervision |
| PCA | prompt corrective action |
| ROE | report of examination |

# OIG

# Audit Report

***The Department of the Treasury***
***Office of Inspector General***

September 14, 2011

John G. Walsh
Acting Comptroller of the Currency

This report presents the results of our review of the failure of Irwin Union Bank, FSB (Irwin Union) of Louisville, KY, 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 Irwin Union and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 18, 2009. This review was mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of Irwin Union's estimated loss to the Deposit Insurance Fund.[1, 2] As of March 31, 2011, FDIC estimated the loss at $138.7 million. FDIC also estimated that Irwin Union's failure resulted in a loss of $19.8 million to its Transaction Account Guarantee Program.

Our objectives were to determine the causes of Irwin Union'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 October 2009 through April 2010.

[1] At the time of Irwin Union'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 website at http://www.treasury.gov/about/organizational-structure/ig/Pages/by-date-2011.aspx.

Appendix 1 contains a more detailed description of our review objectives, scope, and methodology. Appendix 2 contains background information on Irwin Union's history and OTS's assessment fees and examination hours.

In brief, Irwin Union failed primarily because of an overreliance on, and transactions with, affiliates—Irwin Financial Corporation (IFC) and Irwin Union Bank and Trust (IUBT).[3] In addition, the board of directors and management of the thrift engaged in risky management practices, including high concentrations in commercial real estate (CRE) loans and a high concentration of business with a troubled affiliate, IUBT. When IUBT failed on September 18, 2009, OTS deemed Irwin Union unable to continue operations as a separate entity and closed the thrift.[4] Regarding supervision, OTS examiners did not timely or adequately respond to ensure the Irwin Union board of directors and management acted independent of IFC and IUBT when representing the thrift's interests. Throughout Irwin Union's existence, OTS also did not adequately assess the thrift's dependence on its affiliates for profitability. From inception through its failure in September 2009, Irwin Union remained well-capitalized under PCA provisions. Accordingly, since the thrift's capital ratios were within the prescribed guidelines, OTS was not required to, and did not, take PCA actions.

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 Irwin Union 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] IFC, located in Columbus, Indiana, was a multibank holding company that owned Irwin Union and its sister bank, IUBT. IUBT was a state member bank also headquartered in Columbus, and regulated by the Indiana Department of Financial Institutions (IDFI) and the Federal Reserve Bank of Chicago, under delegated authority from the Board of Governors of the Federal Reserve System (FRB).
[4] IUBT was closed and FDIC named receiver on September 18, 2009. On October 29, 2009, FDIC estimated the loss to the Deposit Insurance Fund at $552.4 million on total assets of $2.7 billion. The FRB Office of Inspector General completed a material loss review on the IUBT failure and issued its report on April 29, 2010. For a description of the facts and circumstances surrounding the failure of IUBT, please refer to http://www.federalreserve.gov/oig/files/Irwin_UBT_final_report_4_29_10.pdf .

# Causes of Irwin Union's Failure

The primary cause of Irwin Union's failure was an overreliance on, and transactions with, its affiliates, IFC and IUBT. In addition, the board of directors and management of the thrift engaged in risky management practices, including high concentrations in CRE loans and a high concentration of business with a troubled affiliate, IUBT. Irwin Union never achieved profitability independent of its affiliates. When IUBT failed on September 18, 2009, OTS deemed Irwin Union unable to continue operations as a separate entity and closed the thrift.

### Transactions With Affiliates

Beginning in 2000, IFC, the parent company of Irwin Union and IUBT, pursued an aggressive growth strategy. To carry out that strategy, IFC established Irwin Union in 2000 to expand commercial banking activities in areas where IUBT could not branch under its state charter. IFC managed its subsidiaries by lines of business rather than as independent entities, with Irwin Union treated as part of IUBT's commercial lending line of business. From its inception in October 2000, Irwin Union's business plan involved shared management with IFC and IUBT, and in many cases, the same operating policies. When OTS approved Irwin Union's charter, OTS accepted shared management as a means to reduce expenses and allowed Irwin Union to use the expertise of its affiliates' management. At that time, the charter application correspondence between the OTS regional office and headquarters documented OTS's intention to use the examination and supervisory process to ensure that Irwin Union operated as a distinct entity.

From 2001 to 2008, OTS examiners repeatedly documented the need for Irwin Union to be managed and operated independent of its affiliates. However, the thrift did not operate independently from its affiliates. By 2008, Irwin Union and IUBT shared over 110 employees in the commercial banking line of business, including the president, vice president, and treasurer. In addition, from inception, Irwin Union's board of directors was comprised of many individuals who had already established relationships with IFC and IUBT. OTS documented its concerns about the board of director's lack of independence during its review of Irwin Union's charter application in 2000. The independence of the board of directors and management remained a concern in 2008 enforcement actions.

OTS reports of examination (ROE) documented numerous examples of Irwin Union's shared management approving transactions that were not in the best interest of the thrift, including:

- Insufficient interest rates charged by Irwin Union for Federal funds sold to IUBT.
- Inadequate collateral received on Irwin Union assets pledged to secure loans for IUBT.
- Excessive fees paid by Irwin Union to IUBT for management services.
- Low interest rates charged on loans made by Irwin Union to IUBT's customers—the interest rates charged did not cover Irwin Union's cost of funds.

Irwin Union's business plan focused on originating loans in high-growth markets that IUBT was unable to pursue under its state charter. From its inception through 2003, Irwin Union sold almost all its CRE loans to IUBT. Although the extent that CRE loans were sold to affiliates dropped after 2003, OTS noted in 2008 that the thrift still was selling over half of its CRE loans to IUBT. The thrift's core income[5] net of loan loss provision was negative in 8 of 9 years of its existence. Transactions with IUBT accounted for 70 percent of the thrift's non-interest income in 2008, primarily through the purchase of CRE loans originated by Irwin Union. In 2008, OTS stated that the thrift's success in achieving earnings projections depended on IUBT's ability to continue purchasing loans from the thrift. When IUBT failed, Irwin Union lost its primary source of income.

Irwin Union's expenses were also dependent on its relationship with IFC and IUBT. The thrift had high non-interest expenses based on services provided by affiliates under contractual agreements. These agreements provided the basis for allocating costs for joint management and services to each affiliate. OTS noted that Irwin

[5] OTS defined core income as net interest margin plus fees earned from loan servicing and other sources of recurring and reasonably predictable income, minus general and administrative expenses. Core income does not include gains/losses from the sale of loans.

Union's fees paid under these arrangements were often higher than similar expenses for a thrift of Irwin Union's size and complexity. From 2002 to 2008, Irwin Union's general and administrative expenses were on average, 39 percent higher than its peer institutions.

**High Concentration of CRE Loans**

As part of its growth strategy, IFC through Irwin Union extended operations into areas such as California, Arizona, Nevada, and Florida. These geographic markets were significantly impacted by the economic crisis that began in 2007. The thrift and its affiliates had significant exposure to real estate declines that resulted in deterioration in the thrift's overall asset quality and earnings.

OTS broadly defined concentrations of credit as a group of similar assets or liabilities that, when aggregated, exceed 25 percent of a thrift's core capital plus allowance for loan and lease losses (ALLL). For most of Irwin Union's existence, OTS ROEs reported concentrations in CRE loans in excess of this threshold. By 2006, Irwin Union's nonresidential permanent and construction mortgage loans represented 234 percent of core capital plus ALLL. Two years later, the concentration in CRE loans was so problematic that OTS issued an enforcement action to prevent the thrift from entering into any new construction or land loans without prior approval from the OTS Regional Director. By December 2008, total classified assets increased to 90 percent of tier 1 capital plus ALLL, with commercial loans dominating the portfolio. The risk associated with these high concentrations in CRE loans became apparent during the economic downturn that began in 2007. The quality of Irwin Union's CRE loans deteriorated rapidly during this time which forced Irwin Union to recognize extensive loan losses and make large provisions to its ALLL, eroding its earnings and capital. Irwin Union reported losses of $12.2 million in 2008 and $15.2 million for the first two quarters in 2009. Irwin Union's management failed to identify, measure, monitor, and control the risks associated with high concentrations in CRE loans.

## OTS's Supervision of Irwin Union

OTS performed timely examinations of Irwin Union in accordance with examination guidelines but did not timely or adequately ensure the Irwin Union board of directors and management acted independently when representing the thrift's interests. Throughout Irwin Union's existence, OTS did not adequately assess the quality of Irwin Union's earnings and its dependence on affiliates for profitability. As such, the thrift was never compelled to establish a separate sustainable corporate existence and its risk exposure to IFC and IUBT was allowed to increase significantly.

When we discussed these matters with the examiners, they stated that in the early years, IFC and IUBT were viewed as a source of strength because both entities were well-established institutions and IFC was providing capital infusions to support Irwin Union's growth. These were among the reasons cited in OTS's ROEs for the relatively high CAMELS management and earnings ratings assigned to Irwin Union until 2008. It was only when the affiliated entities faltered that the examiners started to react stronger but by then it was too late.

Table 1 summarizes the results of OTS's safety and soundness and limited examinations of Irwin Union from 2001 until its closure in September 2009. Generally, matters requiring board attention (MRBA) represent the most significant items reported in ROEs requiring corrective action.

**Table 1. OTS Examinations of Irwin Union (July 2001-September 2009)**

| | | Examination Results | | | |
|---|---|---|---|---|---|
| **Date started** | **Total assets (in $ millions) at time of examination** | **CAMELS rating** | **No. of MRBAs** | **No. of corrective actions** | **Enforcement actions** |
| 7/23/2001 Full-scope examination | $125 | 2/222311 | 2 | 7 | None |
| 10/7/2002 Full-scope examination | $289 | 2/222211 | 0 | 15 | None |
| 12/3/2003 Full-scope examination | $425 | 2/122212 | 7 | 14 | None |

| Table 1. OTS Examinations of Irwin Union (July 2001-September 2009) | | | | | |
|---|---|---|---|---|---|
| | | Examination Results | | | |
| Date started | Total assets (in $ millions) at time of examination | CAMELS rating | No. of MRBAs | No. of corrective actions | Enforcement actions |
| 3/7/2005 Full-scope examination | $375 | 2/122211 | 4 | 8 | None |
| 9/25/2006 Full-scope examination | $515 | 2/122221 | 4 | 14 | None |
| 4/28/2008 Full-scope examination | $692 | 4/333442 | 15 | 15 | Supervisory Directive issued 5/5/2008; Troubled Condition Letter issued 5/9/2008; Memorandum of Understanding issued 7/29/2008 |
| 5/7/2008 Limited examination | $692 | 4/323441 | N/A | | None |
| 12/1/2008 Limited examination | $630 | 4/343442 | N/A | | Supervisory Agreement issued 10/10/2008 |
| 3/2/2009 Full-scope examination | $630 | 5/554543 | 15 | 21 | Cease and Desist Order issued 7/24/2009 |

Source: OTS ROEs examination history and enforcement actions.

### OTS Did Not Ensure the Irwin Union Board of Directors and Management Acted Independently When Representing the Thrift's Interests

Irwin Union was created as a financial institution with shared management with IFC and IUBT. At the time the thrift was chartered in 2000, application correspondence between the OTS regional office and headquarters documented that OTS would use the examination and supervisory process to ensure that Irwin Union operated as a distinct entity. Irwin Union's initial business plan stated that the thrift president, along with other senior executives, would start out as dual employees of both Irwin Union and IUBT, and would eventually become full-time employees of Irwin Union as it grew. However, when Irwin Union's assets peaked at

$692 million in June 30, 2008, the thrift still did not have a full time president or other executives that were independent of IFC and IUBT. OTS raised its concerns about dual management in its 2003 ROE, stating that the management approach taken by Irwin Union was not sufficiently attentive to the needs of the thrift as a separate entity. The 2006 ROE also mentioned that Irwin Union used dual employees. However, that ROE did not include any corrective actions or MRBAs to compel management to address the issue. When OTS issued its 2008 ROE, many of the same issues identified in the past were reported. Examiners once again stated that the line-of-business management approach did not always result in sufficient risk management reporting and controls for Irwin Union as an independent entity. From 2001 to 2008, OTS examiners repeatedly documented transactions approved by the joint management that were not in Irwin Union's best interest and the need to manage and operate the thrift independently of its affiliates. However, it was not until IUBT faced a possible liquidity failure in 2008, that OTS finally took more forceful measures with a May 2008 supervisory directive (an informal, non-public enforcement action) to require Irwin Union to obtain separate management. This action and subsequent enforcement actions were not effective and the thrift did not achieve management independence from IFC and IUBT.

Although OTS had repeatedly documented concerns about transactions with affiliates and the independence of thrift management, OTS assigned Irwin Union a CAMELS management rating of 2 from 2001 through 2007, reflecting OTS's assessment of Irwin Union's risk management by the board of directors and management as satisfactory. Section 070 of the OTS handbook states that the CAMELS management rating reflects the capability of the board of directors and management to identify, measure, monitor, and control the risks of an institution's activities to ensure a financial institution is safe and sound. OTS's management rating of Irwin Union did not accurately reflect the thrift's ability to manage risks. It was not until 2008 when IUBT's condition had significantly deteriorated that OTS downgraded Irwin Union's CAMELS management component to a 3.

### OTS Did Not Adequately Assess Irwin Union's Dependence on Its Affiliates for Profitability

As early as the 2002 ROE, examiners were reporting that Irwin Union heavily relied on fees from the sale of commercial loans to IUBT. Much of Irwin Union's earnings came from non-recurring, non-interest income sources. Core income adjusted for loan loss provisions showed that the thrift had losses every year of operation except 2006. For 2006 and 2007, 80 percent of Irwin Union's non-interest income came from selling loans to IUBT, and servicing those loans.

OTS's Examination Handbook required examiners to test for the quality of the thrift's earnings. Examiners must look at the thrift's statement of operations to determine the sources of income, and to determine if the income sources are volatile in nature. Given the large amount of non-interest and non-recurring income from affiliates that Irwin Union depended on for profitability, we believe OTS should have raised concerns about the concentration and source of the thrift's income. In this regard, OTS's ROEs from 2005 and 2006 clearly reflect that core income was not a sufficient portion of Irwin Union's income base; however OTS did not raise this issue as a concern or require corrective action. The thrift's CAMELS earnings component was rated a 2 from 2002 through 2007, reflecting OTS's assessment of Irwin Union's quality and quantity of earnings as satisfactory. It was not until 2008 when IUBT's condition had significantly deteriorated that the thrift's CAMELS earnings component was downgraded to a 4. We believe that OTS should have acted sooner and more forcefully to compel Irwin Union to diversify its customer base and increase additional sources of interest income. Beginning in 2008, attempts were made by OTS to use enforcement actions to compel Irwin Union to separate its management and operations from IUBT and IFC, but limited actions were taken to address the concentration of business Irwin Union had with IUBT.

### OTS's Use of Prompt Corrective Action

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.

From inception through its failure in September 2009, Irwin Union's capital remained well-capitalized under PCA provisions. As the thrift's ratios were within the prescribed guidelines, OTS was not required to, and did not, take PCA actions.

**OTS's Internal Failed Bank Review**

In accordance with its policy, OTS completed an internal failed bank review of Irwin Union and, similar to our material loss review, concluded that the thrift's failure resulted primarily from transactions with, and overreliance on, its affiliates. IFC, IUBT, and Irwin Union operated using a "line of business" structure with shared management and employees. As part of the commercial lending line of business, Irwin Union's profitability was dependent upon gains from the sale of commercial loans to IUBT and high non-interest expenses for services provided by the thrift's affiliates under contractual agreements. OTS found that Irwin Union never established "core franchise value" independent of its affiliates, and consequently when IUBT failed, Irwin Union also failed. Regarding supervision, the report stated that OTS actions prior to the 2007 economic and market disruptions should have been timelier to ensure that Irwin Union operated as a separate entity. We concur with the review findings.

The internal review recommended that OTS implement guidance to (1) communicate to the industry and regulatory staff that thrifts should implement business practices demonstrating an operational focus on the institution's charter as a stand-alone entity rather than as a line of business of a parent or affiliate, (2) require a thrift to obtain OTS's prior written approval for any collateral pledged on behalf of a holding company or affiliate, (3) require regulatory staff to evaluate the adequacy of a thrift's management on a stand-alone basis separate from its affiliates, and (4) instruct regulatory staff to consider the benefits of requiring an independent audit or an agreed upon procedures report of a thrift's holding company financial statements to address issues that are not considered to be in the best interest of the thrift. While these are prudent actions, we are not making any recommendations as a result of our material loss review of the Irwin Union 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 Deborah Harker, Audit Manager, at (202) 927-5762. Major contributors to this report are listed in appendix 4.

/s/
Kieu Rubb
Audit Director

We conducted this material loss review of Irwin Union, FSB (Irwin Union), of Louisville, Kentucky, in response to our mandate under section 38(k) of the Federal Deposit Insurance Act.[6] 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 Irwin Union based on the loss estimate by the Federal Deposit Insurance Corporation (FDIC), which on the date of failure (September 18, 2009) was $119.5 million. As of March 31, 2011, FDIC estimated that the loss to the Deposit Insurance Fund from Irwin Union's failure would be $138.7 million.

Our objectives were to determine the causes of Irwin Union'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 field office in Indianapolis, Indiana; and Irwin Union's former administrative offices in Columbus, Indiana. We also interviewed OTS and FDIC officials and personnel. We conducted our fieldwork from October 2009 through April 2010.

To assess the adequacy of OTS's supervision of Irwin Union we performed the following work:

- We reviewed Irwin Union's supervisory files and records from 2000 to 2009. We analyzed examination reports, supporting workpapers, and related supervisory correspondence to gain an

[6] 12 U.S.C. § 1831o(k).

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 reviewed examination reports of IUBT and IFC from 1998 to 2009 to gain an understanding of their impact on Irwin Union's failure and to help assess OTS's supervision of the thrift. The reports were prepared by the Indiana Department of Financial Institutions (IDFI) and the Federal Reserve Bank of Chicago, under delegated authority from the Board of Governors of the Federal Reserve System (FRB).

- We reviewed the FRB Office of Inspector General material loss review report on the IUBT failure, dated April 29, 2010, to gain an understanding of its impact on Irwin Union's failure and to help assess OTS's supervision of the thrift.

- We interviewed and discussed various aspects of the supervision of Irwin Union with OTS officials and examiners to obtain their perspectives on the thrift's condition and the scope of the examinations. We also interviewed FDIC officials responsible for monitoring Irwin Union for federal deposit insurance purposes.

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

- We assessed OTS's actions based on its internal guidance and requirements of the Federal Deposit Insurance Act.[7]

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

[7] 12 U.S.C. § 1811 et seq.

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## History of Irwin Union

Irwin Union, FSB (Irwin Union) and its sister bank, Irwin Union Bank and Trust (IUBT), were owned by Irwin Financial Corporation (IFC), a multibank holding company. IUBT and IFC were founded in 1871 and 1972, respectively. In October 2000, the Office of Thrift Supervision (OTS) approved IFC's request to establish Irwin Union as a federal savings bank. IFC's goal for Irwin Union was to expand IUBT's commercial banking activities outside of Indiana, where IUBT maintained a state charter.

IFC managed Irwin Union and IUBT by line of business rather than as separate entities. Irwin Union and IUBT operated as the commercial lending line of business and Irwin Union's business plan involved shared management with IFC and IUBT. Irwin Union had branch offices in 9 states and was headquartered in Louisville, Kentucky, with administrative offices located with affiliates in Columbus, Indiana. Irwin Union was supervised by OTS, while IUBT was supervised jointly by the Federal Reserve Bank of Chicago, under delegated authority from the Board of Governors of the Federal Reserve System, and by the Indiana Department of Financial Institutions (IDFI). On September 18, 2009, when IDFI closed IUBT, OTS deemed Irwin Union unable to operate without its sister bank and also closed the thrift.

## OTS Assessments Paid by Irwin Union

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 <u>thrift financial report</u>, 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 <u>recourse</u> 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 Irwin Union paid to OTS from 2001 through 2009.

**Table 2: Assessments Paid by Irwin Union to OTS, 2001–2009**

| Billing Period | Exam Rating | Amount Paid |
|---|---|---|
| 7/1/2001-12/31/2001 | - | $15,610 |
| 1/01/2002-6/30/2002 | 2 | 21,914 |
| 7/1/2002-12/31/2002 | 2 | 28,149 |
| 1/1/2003-6/30/2003 | 2 | 35,669 |
| 7/1/2003-12/31/2003 | 2 | 43,493 |
| 1/1/2004-6/30/2004 | 2 | 48,533 |
| 7/1/2004-12/31/2004 | 2 | 56,793 |
| 1/1/2005-6/30/2005 | 2 | 43,166 |
| 7/1/2005-12/31/2005 | 2 | 51,134 |
| 1/1/2006-6/30/2006 | 2 | 62,173 |
| 7/1/2006-12/31/2006 | 2 | 60,782 |
| 1/1/2007-6/30/2007 | 2 | 59,573 |
| 7/1/2007-12/31/2007 | 2 | 67,438 |
| 1/1/2008-6/30/2008 | 2 | 77,197 |
| 7/1/2008-12/31/2008 | 4 | 160,548 |
| 1/1/2009-6/30/2009 | 4 | 153,256 |
| 7/1/2009-12/31/2009 | 5 | 133,194 |

Source: OTS Electronic Continuing Examination Folder system.

**Number of OTS Staff Hours Spent Examining Irwin Union**

Table 3 shows the number of OTS staff hours spent examining Irwin Union from 2001 to 2009.

**Table 3: Number of OTS Hours Spent on Irwin Union, 2001-2009**

| Examination Start Date | Number of Examination Hours |
|---|---|
| 7/23/2001 | 366 |
| 10/7/2002 | 636 |
| 12/3/2003 | 913 |
| 3/7/2005 | 1,158 |
| 9/25/2006 | 1,412 |
| 4/28/2008 | 1,899 |
| 12/1/2008 | 129 |
| 3/2/2009 | 2,238 |

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 2, 2011

Subject: Response to Material Loss Review of Irwin Union Bank, FSB of Louisville, KY

We have received and reviewed your draft report titled "Material Loss Review of Irwin Union Bank, FSB (Irwin Union)." This review is mandated by section 38(k) of the Federal Deposit Insurance Act because of the magnitude of the Irwin Union's estimated loss to the Deposit Insurance Fund at the time of its failure. Your objectives were to determine the causes of Irwin Union'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 Irwin Union's failure were overreliance on transactions with affiliates and high concentration of CRE Loans.

You also concluded that the OTS did not ensure the Irwin Union board of directors and management acted independently when representing the thrift's interest and did not adequately assess Irwin Union's dependence on its affiliates for profitability and that OTS was not required to, and did not, take PCA actions.

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.

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**Department of the Treasury**

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**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