



# Audit Report



OIG-11-054

SAFETY AND SOUNDNESS: Failed Bank Review of Security Savings Bank, FSB

December 22, 2010

## Office of Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

December 22, 2010

OIG-11-054

MEMORANDUM FOR JOHN E. BOWMAN  
ACTING DIRECTOR  
OFFICE OF THRIFT SUPERVISION

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

SUBJECT: Failed Bank Review of Security Savings Bank, FSB

This memorandum presents the results of our review of the failure of Security Savings Bank, FSB (Security Savings), of Olathe, Kansas. Security Savings opened in January 1957 as Security Savings and Loan Association, a state-chartered stock institution. The bank converted to a federal stock savings bank and changed its name to Security Savings Bank in 1993. Security had its home office in Olathe, Kansas, and eight additional branches in Kansas including the Kansas City metropolitan area, Salina, and Wichita. The thrift was wholly owned by Brittany Savings Corporation, a unitary, non-diversified savings and loan company. The Office of the Thrift Supervision (OTS) closed Security Savings and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on October 15, 2010. As of June 30, 2010, the bank had \$508.4 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$82.2 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 Security Savings 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 October and November 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 Security Savings' Failure**

OTS appointed FDIC as receiver based on the following grounds: (1) the bank was undercapitalized, and had no reasonable prospect of becoming adequately capitalized; (2) the bank failed to submit a capital restoration plan acceptable to OTS within the time prescribed; and (3) the bank, by resolution of its board of directors, consented to the appointment.

The primary causes of Security Savings' failure were its aggressive growth strategy and excessive concentrations in higher-risk commercial real estate, land, and construction loans, including purchases of out-of-territory loan participations. In addition, credit administration practices at the bank showed undisciplined lending and recurring weaknesses. These practices included lack of current financial information and tax returns on borrowers/guarantors, failure to document periodic property inspections, and the lack of independent internal loan reviews. These conditions were exacerbated by the downturn in the real estate market. As a result, the bank experienced significant increases in problem assets and loan losses. In turn, the loan losses significantly diminished earnings and capital and, ultimately, led to Security Savings' failure.

## **Conclusion**

Based on our review of the causes of Security Savings' 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 Security Savings' 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.

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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

**Office of Thrift Supervision**  
**Department of the Treasury**

1700 G Street, N.W., Washington, DC 20552 • (202) 906-5650

Thomas A. Barnes  
*Deputy Director, Examinations, Supervision, and Consumer Protection*

December 7, 2010

**MEMORANDUM FOR:** Susan L. 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  
Security Savings Bank, FSB  
Olathe, Kansas

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of Security Savings Bank, FSB." Because the estimated loss of \$88.2 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 Security Savings Bank (the Bank) was limited to ascertaining the grounds identified by OTS for appointment of a receiver and determining whether any unusual circumstances exist warranting a more in-depth review.

The memorandum summarizes the primary causes of Security Savings Bank's failure, which are consistent with the information contained in the OTS Reports of Examination and documents in support of the grounds for receivership. Specifically, the memorandum cites the Bank's aggressive growth strategy and excessive concentrations in higher-risk commercial real estate, land, and construction loans, including purchases of out-of-territory loan participations. In addition, credit administration practices at the Bank showed undisciplined lending and recurring weaknesses. These practices included lack of current financial information and tax returns on borrowers/guarantors, failure to document periodic property inspections, and the lack of independent internal loan reviews. These conditions were exacerbated by the downturn in the real estate market. As a result, Security Savings Bank experienced significant increases in problem assets and loan losses. In turn, the loan losses significantly diminished earnings and capital and, ultimately, led to the Bank's failure. The memorandum identified no unusual circumstances surrounding the Bank's failure or the supervision exercised by OTS warranting a more in-depth review by the Office of Inspector General.

Note: We confirmed with OTS after the management response was issued that the response should have cited the estimated loss as \$82.2 million instead of \$88.2 million.

Susan L. Barron  
Office of Inspector General  
December 7, 2010

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Thank you again for the opportunity to review and respond to the draft review of Security Savings Bank. 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