



Audit Report



OIG-11-055

SAFETY AND SOUNDNESS: Failed Bank Review of Ideal Federal Savings Bank

December 29, 2010

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 29, 2010

OIG-11-055

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

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

SUBJECT: Failed Bank Review of Ideal Federal Savings Bank

This memorandum presents the results of our review of the failure of Ideal Federal Savings Bank (Ideal). Ideal opened on April 4, 1920, and operated from a single office in Baltimore, Maryland. Ideal was a mutual, minority owned thrift. The Office of Thrift Supervision (OTS) closed Ideal and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 9, 2010. As of March 31, 2010, the thrift had \$6.3 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$2.1 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 Ideal 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 August and 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 Ideal's Failure

OTS appointed the FDIC as receiver based on the following grounds: (1) the thrift was in an unsafe or unsound condition to transact business; (2) the thrift, by resolution of its board of directors, consented to the appointment; and (3) the thrift was undercapitalized.

The primary causes of Ideal's failure were its ineffective board and management oversight, excessive concentrations in higher-risk nonresidential and land loans, and insufficient capital relative to the risk level of its loan portfolio. Ideal also had a concentration of loans held by just a few borrowers. For example, Ideal granted several loans to one corporation which when aggregated amounted to 61 percent of total capital, as of December 31, 2008, and 58 percent of the thrift's total classified assets, as of February 9, 2009. In 2007, Ideal experienced rapid asset deterioration resulting in significant increases in its problem assets and loan losses. In turn, these loan losses, combined with its high operating expenses, significantly diminished earnings and capital and, ultimately, led to Ideal's failure.

It should be noted that our review of Ideal revealed certain questionable transactions. We referred these matters to the Treasury Inspector General's Office of Investigations.

Conclusion

Based on our review of the causes of Ideal'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 Ideal'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.

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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

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

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December 9, 2010

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

FROM: Thomas A. Barnes, Deputy Director /s/
Examinations, Supervision, and Consumer Protection

SUBJECT: Draft Failed Bank Review of
Ideal Federal Saving Bank, FSB

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of Ideal Federal Saving Bank, FSB." Because the estimated loss of \$2.1 million to the Deposit Insurance Fund is below the \$200 million threshold set forth in section 38(k) of the Federal Deposit Insurance Fund, the review of the failure of Ideal 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 Ideal'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 ineffective oversight by the Bank's board and management, excessive concentrations in higher-risk nonresidential and land loans, and insufficient capital relative to the risk in the Bank's loans. The memorandum also notes that Ideal had a concentration of loans to just a few borrowers, including loans to one corporation which when aggregated amounted to 61 percent of total capital and 58 percent of the thrift's total classified assets. Rapid deterioration in asset quality resulted in loan losses, which combined with the Bank's high operating expenses, diminished earnings and capital.

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. The memorandum does note that the review revealed certain questionable transactions, which have been referred to the Treasury Inspector General's Office of Investigations.

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