Audit Report

OIG-13-001

SAFETY AND SOUNDNESS: Failed Bank Review of Inter Savings Bank, FSB, Maple Grove, Minnesota

October 3, 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 Inter Savings Bank, FSB, Maple Grove, Minnesota

This memorandum presents the results of our review of the failure of Inter Savings Bank, FSB (Inter Savings), located in Maple Grove, Minnesota. The former Office of Thrift Supervision (OTS) regulated Inter Savings 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. Inter Savings was chartered in July 1965 as a federal mutual savings association under the name of Falls Federal Savings and Loan Association. In May 1990, the institution converted its charter to a federal stock savings association and changed its name to International Savings Bank, FSB. Inter Savings changed to its current name in 1992. Besides its main office in Maple Grove, Inter Savings had three branch offices that were also in the Minneapolis/St. Paul, Minnesota, area. OCC closed Inter Savings and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 27, 2012. As of December 31, 2011, Inter Savings had approximately $481.6 million in total assets. As of June 30, 2012, FDIC estimated the loss to the Deposit Insurance Fund to be $119.2 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, we conducted a review of the failure of Inter Savings 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 and OCC reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel. We performed our field work between May and July 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 Inter Savings' Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had experienced a substantial dissipation of assets or earnings due to unsafe or unsound practices; (2) the bank was in an unsafe and unsound condition to transact business; and (3) the bank incurred or was likely to incur losses that would deplete all or substantially all of its capital, and there was no reasonable prospect for it to become adequately capitalized without federal assistance.

The primary cause of Inter Savings' failure was the board of directors' and management's pursuit of an aggressive growth strategy that resulted in concentrations in nontraditional mortgage loans with high loan-to-value ratios to low credit score borrowers. This growth was undertaken without establishing appropriate concentration risk management practices and adequate capital for its risk profile. In addition, the decline in the Minneapolis/St. Paul real estate market was a contributing factor in Inter Savings' failure. Many of Inter Savings' borrowers were laid off from construction-related jobs, resulting in increased loan delinquencies. Failure by the board and management to adjust quickly or effectively to changing economic conditions led to the deterioration in the bank's asset quality and decline in earnings and capital, which ultimately led to Inter Savings' failure.

Conclusion

Based on our review of the causes of Inter Savings' failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no unusual 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, Inter Savings' 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 Inter Savings' 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 Amni Samson, Audit Manager, at (202) 927-0264.

Attachments

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Susan L. Barron, Director, Banking Audits

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

Date: September 7, 2012

Subject: Response to Failed Bank Review of Inter Savings Bank, FSB, Maple Grove, Minnesota

We have received and reviewed your draft report titled "Failed Bank Review of Inter Savings Bank, FSB, Maple Grove, Minnesota (Inter Savings)." 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 Inter Savings 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. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OTS and OCC reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit during May and June 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 cause of Inter Savings' failure was its pursuit of an aggressive growth strategy that resulted in concentrations in nontraditional mortgage loans with high loan-to-value ratios to low credit score borrowers. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure. 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

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

Office of the Comptroller of Currency

Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner