



Audit Report



OIG-15-016

SAFETY AND SOUNDNESS: Failed Bank Review of GreenChoice Bank, fsb, Chicago, Illinois

November 19, 2014

Office of
Inspector General

Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 19, 2014

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MEMORANDUM FOR THOMAS J. CURRY
COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of GreenChoice Bank, fsb

This memorandum presents the results of our review of the failure of GreenChoice Bank, fsb (GreenChoice), located in Chicago, Illinois. GreenChoice, formally known as Family Federal Savings of Illinois (FFSI), began operation as a federally chartered mutual thrift in January 1910. In July 2010, GreenChoice Holding Company, Inc. (holding company) acquired FFSI after it completed a voluntary supervisory conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank. FFSI changed its legal name to GreenChoice Bank, fsb, in February 2011. The Office of the Comptroller of the Currency (OCC) closed GreenChoice and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 25, 2014.¹ As of March 31, 2014, GreenChoice had approximately \$72.9 million in total assets. As of October 31, 2014, FDIC estimated the loss to the Deposit Insurance Fund to be \$14.2 million.

Because the loss to the Deposit Insurance Fund was less than \$50 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, we conducted a review of the failure of GreenChoice that was limited to (1) ascertaining the grounds identified by OCC for appointing 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 Office of Thrift Supervision and OCC reports of examination for the 5-year period before the bank's failure, and (3) interviewed an OCC problem bank specialist.

We performed our fieldwork during August and September 2014. 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

¹ OCC assumed supervisory responsibilities for GreenChoice in July 2011 from the former Office of Thrift Supervision pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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 GreenChoice Bank, fsb's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank had experienced substantial dissipation of assets or earnings due to any unsafe or unsound practice; (2) the bank was in an unsafe or unsound condition to transact business; (3) the bank's unsafe or unsound practices or conditions are likely to cause insolvency or substantial dissipation of assets or earnings; (4) the bank's unsafe or unsound practices or conditions were likely to weaken the bank's condition; (5) the bank incurred or is likely to incur losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the bank to become adequately capitalized without Federal assistance; (6) the bank is undercapitalized, and has no reasonable prospect of becoming adequately capitalized; (7) the bank is undercapitalized, and has failed to submit a capital restoration plan acceptable to the OCC within the time prescribed; and (8) the bank is critically undercapitalized.

The primary causes of GreenChoice's failure were (1) deficient Board and management oversight and supervision, (2) excessive concentrations in construction and commercial real estate loans, and (3) weak credit administration and risk management practices. Prior to the holding company's acquisition of the bank, its Board and management pursued a new high-risk lending strategy in construction and commercial real estate loans without adequate risk management practices and capital to protect the bank from a prolonged period of deteriorating asset quality. As part of the acquisition, the holding company replaced all senior executive officers and Board members and infused \$8.8 million of capital into the bank. Subsequently, in March 2012, the holding company infused an additional \$2.9 million of capital. However, the new Board and management could not resolve the inherited problems within the high-risk loan portfolio. In addition, the bank failed to adjust timely or effectively to changing market conditions. As a result, GreenChoice's asset quality deteriorated, and its capital and earnings declined, eventually leading to its failure.

Conclusion

Based on our review of the causes of GreenChoice's 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. We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated it agreed with our conclusion as to the

OIG-15-016

Page 3

causes of the failure of GreenChoice 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 Alicia Weber, Audit Manager, at (202) 927-5811.

Attachments



Office of the
Comptroller of the Currency

MEMORANDUM

To: Susan Barron, Director, Banking Audits

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

Date: November 18, 2014

Subject: Response to Failed Bank Review of GreenChoice Bank, fsb

The Office of the Comptroller of the Currency (OCC) has received and reviewed the Treasury Office of Inspector General (OIG) draft report titled “Failed Bank Review of GreenChoice Bank, fsb (GreenChoice)” located in Chicago, Illinois. The loss to the Deposit Insurance Fund is less than \$50 million. Therefore, as set forth by section 38(k) of the Federal Deposit Insurance Act, the OIG conducted a review of the failure of GreenChoice that was limited to: (1) ascertaining the grounds identified by the OCC for appointing the Federal Deposit Insurance Corporation (FDIC) as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing the review the OIG (1) examined documentation related to the appointment of FDIC as receiver and (2) interviewed OCC examination personnel.

The OIG conducted the audit from August to September 2014 in accordance with generally accepted government auditing standards. Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the OIG findings and conclusions. The OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions.

The OIG concluded the primary cause of GreenChoice’s failure was deficient board and management oversight and supervision, excessive concentrations in construction and commercial real estate loans, and weak credit administration and risk management practices. Prior to the holding company’s acquisition of the bank, its board and management pursued a new high risk lending strategy in construction and commercial real estate loans without adequate risk management practices and capital to protect the bank from a prolonged period of deteriorating asset quality. In addition, the bank failed to adjust timely or effectively to changing market conditions. As a result, GreenChoice’s asset quality deteriorated, and its capital and earnings declined, eventually leading to its failure. We agree.

The OIG determined that there were no circumstances surrounding the bank’s failure that would necessitate an in-depth review. The OCC has no concerns with the determination.

If you need additional information, please contact Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, at 202-649-5420.

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

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