



Audit Report



OIG-12-058

SAFETY AND SOUNDNESS: Failed Bank Review of Fort Lee,
Federal Savings Bank

July 12, 2012

Office of
Inspector General

DEPARTMENT OF THE TREASURY



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 12, 2012

OFFICE OF
INSPECTOR GENERAL

OIG-12-058

MEMORANDUM FOR THOMAS J. CURRY
COMPTROLLER OF THE CURRENCY

FROM: Susan Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Fort Lee Federal Savings Bank, Fort
Lee, New Jersey

This memorandum presents the results of our review of the failure of Fort Lee Federal Savings Bank (Fort Lee) located in Fort Lee, New Jersey, and supervision of the institution by the former Office of Thrift Supervision's (OTS) and Office of the Comptroller of the Currency (OCC). OTS regulated Fort Lee until July 21, 2011, when OCC assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203.

Established in 2001, Fort Lee was an insured federal savings association with stock ownership. It was a full service community bank that operated from a single office located in Fort Lee, New Jersey. OCC closed Fort Lee and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 20, 2012. As of December 31, 2011, Fort Lee had approximately \$51.9 million in total assets. As of April 30, 2012, FDIC estimated the loss to the Deposit Insurance Fund to be \$14.0 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 Fort Lee 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 reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel. We performed our fieldwork during April and May 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 Fort Lee's Failure

OCC appointed FDIC as receiver based on the grounds that the bank: (1) experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) was in an unsafe and unsound condition to transact business, (3) 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, and (4) the bank was critically undercapitalized and failed to submit an acceptable capital restoration plan.

The primary causes of Fort Lee's failure were excessive concentrations in commercial business loans and indirect subprime auto loans,¹ weak credit risk management, deficient credit administration practices, and ineffective board and management oversight. Despite repeated criticisms by OCC and the former OTS, Fort Lee's board and management did not adequately address weaknesses related to loan underwriting, problem loan identification and, the allowance for loan and lease loss level and methodology. As a result, the bank experienced excessive losses in its loan portfolio, high levels of classified assets, high provisions for allowance for loan and lease loss, and the erosion of capital, which ultimately led to Fort Lee's failure.

Conclusion

Based on our review of the causes of Fort Lee's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no 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, Fort Lee's regulator until July 2011, transferred to OCC. We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated it that it agreed with our conclusion as to the causes of the failure of Fort Lee and that it had no concerns with our determination that an in-depth review of the bank's failure is not warranted. The

¹ Indirect subprime auto loans are loans to borrowers with poor a credit history that are purchased by banks from automobile dealerships. These loans are generally underwritten by the dealerships and funded by the bank. The loans were closed in the bank's name and serviced by the bank.

OIG-12-058

Page 3

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 Barron, Banking Audits

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

Date: July 10, 2012

Subject: Response to Failed Bank Review of Fort Lee Federal Savings Bank, Fort Lee, NJ

We have received and reviewed your draft report titled "Failed Bank Review of Fort Lee Federal Savings Bank (Fort Lee), Fort Lee, New Jersey." 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 Fort Lee 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. Your report presents the results of your review of Fort Lee's failure and the former Office of Thrift Supervision's (OTS) supervision of the institution. In performing your review you: (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OTS reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit during April and May 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 causes of Fort Lee's failure were excessive concentrations in commercial business loans and indirect subprime auto loans, weak credit risk management, deficient credit administration practices, and ineffective board and management oversight. 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 the Currency

Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner