



Audit Report



OIG-13-043

SAFETY AND SOUNDNESS: Failed Bank Review of First East Side Savings Bank, Tamarac, Florida

July 2, 2013

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 Barron /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of First East Side Savings Bank,
Tamarac, Florida

This memorandum presents the results of our review of the failure of First East Side Savings Bank (First East Side), located in Tamarac, Florida, and the supervision of the bank by the Office of the Comptroller of the Currency (OCC) and the former Office of Thrift Supervision (OTS). OTS regulated First East Side until July 21, 2011, when OCC assumed regulatory responsibility for federal savings associations pursuant to P.L. 111-203.

First East Side was established in January 1920 in Chicago, Illinois, as a mutual savings and loan under the name East Side Savings and Loan Association. In 1994, East Side Savings and Loan Association changed its name to First East Side; it converted to a federal savings association in 2002. First East Side sold its Chicago home office, and moved its operations to its Tamarac, Florida, branch location in October 2007. OCC closed First East Side and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on October 19, 2012. As of June 30, 2012, First East Side had approximately \$67.2 million in total assets. As of April 30, 2013, FDIC estimated the loss to the Deposit Insurance Fund to be \$12.3 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 First East Side 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 OCC and OTS reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

We performed our fieldwork during November and December 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 First East Side Savings Bank's Failure

OCC appointed FDIC as receiver based on the following grounds: (1) the bank experienced a substantial dissipation of assets or earnings due to unsafe or unsound practices; (2) 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; (3) the bank was undercapitalized, and failed to submit an acceptable capital restoration plan within the time prescribed; and (4) the bank was critically undercapitalized.

The primary causes of First East Side's failure were its (1) concentration in higher-risk speculative land loans and construction and development (C&D) loans, mostly in southeastern Florida; and (2) ineffective board of directors and management. Despite repeated criticism from OTS, followed by OCC, the bank's board and management failed to implement and adhere continually to the appropriate credit administration and risk management practices commensurate with the bank's concentrations in C&D loans. In addition, the bank failed to adjust timely or effectively to changing economic conditions within the local markets. As a result, First East Side's asset quality deteriorated, classified asset levels increased, and capital and earnings declined, leading eventually to its failure.

Our review of First East Side revealed certain matters that we referred to the Treasury Inspector General's Office of Investigation.

Conclusion

Based on our review of the causes of First East Side'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. In making this determination, we took into consideration that the federal savings association functions of OTS, First East Side'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 that it agreed with our

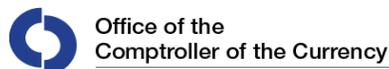
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conclusion as to the causes of the failure of First East Side and that it had no concerns with our determination that an in-depth review of the bank's failure is not warranted. The response is provided as Attachment 1. A list of the recipients of this 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



MEMORANDUM

To: Susan Barron, Director, Banking Audits

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

Date: June 21, 2013

Subject: Response to Failed Bank Review of First East Side Savings Bank

We have received and reviewed your draft report titled "Failed Bank Review of the First East Side Savings Bank (First East Side)" located in Tamarac, Florida. 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 First East Side that was limited to: (1) ascertaining the grounds identified by the Office of the Comptroller of the Currency (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 your review you (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OCC and Office of Thrift Supervision reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit during November and December 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 First East Side's failure were its (1) concentration in higher-risk speculative land loans and construction and development loans, mostly in southeastern Florida; and (2) ineffective board of directors and management. We agree.

You determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. 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 202-649-5420.

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

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