



Audit Report



OIG-14-040

SAFETY AND SOUNDNESS: Failed Bank Review of DuPage National Bank, West Chicago, Illinois

June 24, 2014

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: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of DuPage National Bank

This memorandum presents the results of our review of the failure of DuPage National Bank (DuPage). DuPage was founded as the Bank of Newton and Smiley in 1891. It was converted to a national bank charter in 1962 and assumed its present name in 1982. DuPage was wholly owned by F.F. Holding Corporation, a one-bank holding company. The bank's main office and two branches were located in West Chicago and Hinsdale, Illinois. OCC closed DuPage and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on January 17, 2014. As of September 30, 2013, the bank had \$61.7 million in total assets. As of April 30, 2014, FDIC estimated that the loss to the Deposit Insurance Fund is \$1.6 million.

Because the loss to the Deposit Insurance Fund is less than \$50 million, as set forth by section 38(k) of the Federal Deposit Insurance Act (FDIA), we conducted a review of the failure of DuPage 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 and (2) interviewed OCC examination personnel.

We conducted this performance audit from January 2014 to April 2014 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.

Cause of DuPage National Bank's Failure

OCC appointed FDIC receiver based on the following grounds: (1) the bank had experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) the bank was in an unsafe or unsound condition to transact business, (3) the bank's unsafe or unsound practices or conditions were 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 institution's condition, (5) the bank had 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, (6) the bank was undercapitalized and had no reasonable prospect of becoming adequately capitalized, (7) the bank was undercapitalized and had failed to submit a capital restoration plan acceptable to the OCC within the time prescribed, and (8) the bank was critically undercapitalized.

The primary cause of DuPage's failure was its pursuit of a loan growth strategy funded increasingly by non-core funding sources, which resulted in significant concentrations in commercial real estate (CRE) loans outside of the bank's local market areas without appropriate risk management practices or capital to protect the bank from a prolonged period of deteriorating asset quality. Beginning around 2003, DuPage's loan portfolio mix shifted from a combination of residential real estate loans and CRE loans toward increased CRE lending. As the bank continued to grow, weaknesses in its strategic planning, budget monitoring, and concentration risk management caused increasing strain on DuPage's financial condition. Board and management's lax oversight and failure to promptly adjust to changing economic conditions and the declining local real estate market became increasingly apparent as DuPage's asset quality deteriorated, concentration levels increased, other real estate owned increased, and earnings and capital declined. The problems created by the board and management's unsafe or unsound growth strategy were severe and led to depletion of the bank's capital.

Conclusion

Based on our review of the causes of DuPage'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. 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 DuPage's failure 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

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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) 927-0384 or James Lisle at (202) 927-6345.

Attachments



Office of the
Comptroller of the Currency

MEMORANDUM

To: Jeffrey Dye, Director, Banking Audits

From: Thomas J. Curry, Comptroller of the Currency

Date: June 16, 2014

Subject: Response to Failed Bank Review of DuPage National Bank

We have received and reviewed your draft report titled "Failed Bank Review of the DuPage National Bank (DuPage)" 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, you conducted a review of the failure of DuPage 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 reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC personnel.

You conducted your audit from January to April 2014 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 the primary cause of DuPage's failure was its pursuit of a loan growth strategy funded increasingly by non-core funding sources, which resulted in significant concentrations in commercial real estate (CRE) loans outside of the bank's local market areas without appropriate risk management practices or capital to protect the bank from a prolonged period of deteriorating asset quality. Beginning around 2003, DuPage's loan portfolio mix shifted from a combination of residential real estate loans and CRE loans toward increased CRE lending. As the bank continued to grow, weaknesses in its strategic planning, budget monitoring, and concentration risk management caused increasing strain on DuPage's financial condition. Board and management's lax oversight and failure to promptly adjust to changing economic conditions and the declining local real estate market became increasingly apparent as DuPage's asset quality deteriorated, concentration levels increased, other real estate owned increased, and earnings and capital declined. The problems created by the board and management's unsafe or unsound growth strategy were severe and led to depletion of the bank's capital. 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

OIG Budget Examiner