



Audit Report



OIG-11-099

SAFETY AND SOUNDNESS: Failed Bank Review of Western Springs National Bank and Trust, Western Springs, Illinois

September 14, 2011

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 JOHN G. WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Western Springs National Bank and
Trust

This memorandum presents the results of our review of the failure of Western Springs National Bank and Trust (Western Springs). Western Springs opened in January 1916. It had one office in Western Springs, Illinois, and another in Countryside, Illinois. The bank was a subsidiary of Western Springs Bancorp, Inc, a one-bank holding company, located in Hoffman Estates, Illinois. The Office of the Comptroller of the Currency (OCC) closed Western Springs and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on April 8, 2011. As of December 31, 2010, the bank had \$186.8 million in total assets. As of June 30, 2011, FDIC estimated that the loss to the Deposit Insurance Fund to be \$34 million.

Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act (FDIA), we conducted a review of the failure of Western Springs 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 during April and May 2011 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 Western Springs National Bank and Trust's Failure

OCC appointed FDIC receiver based on the following grounds: (1) Western Springs was in an unsafe or unsound condition to transact business, (2) the bank experienced substantial dissipation of assets or earning due to unsafe or unsound practice, (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, (4) the bank's unsafe or unsound practices or condition were likely to seriously prejudice the interests of the Deposit Insurance Fund, and (5) the bank was critically undercapitalized.

The primary cause of Western Spring's failure was its pursuit of a growth strategy which resulted in significant commercial real estate concentrations, combined with poor credit administration and risk management practices. Deficiencies included overly liberal underwriting practices, ineffective problem loan identification and loan review processes, and weaknesses in the collateral valuation process. The poor performance of loan participations purchased from Mutual Bank, Harvey, Illinois, a failed institution where Western Spring's Chairman of the Board served as Vice Chairman, was also a factor in the bank's failure.

During our review, we were informed of ongoing reviews by OCC and other agencies into the bank's activities and we provided further details to the Treasury Inspector General's Office of Investigations.

Conclusion

Based on our review of the causes of Western Spring'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 Western Spring's failure and that it had no concerns with our determination that an in-depth review of the bank's failure was 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) 927-0384 or James Lisle, Audit Manager, at (202) 927-6345.

Attachments



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Jeffrey Dye, Director, Banking Audits

From: John Walsh, Acting Comptroller of the Currency /s/

Date: September 1, 2011

Subject: Response to Failed Bank Review of Western Springs National Bank and Trust of Western Springs, IL

We have received and reviewed your draft report titled "Failed Bank Review of Western Springs Bank and Trust (Western Springs)." Because the loss to the Deposit Insurance Fund is less than \$200 million, as set forth by section 38(k) of the Federal Deposit Insurance Act, you conducted a review of the failure of Western Springs 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 OCC reports of examination; and, (3) interviewed OCC personnel.

You conducted your audit during April and May 2011 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 Western Springs' failure was its pursuit of a growth strategy which resulted in significant commercial real estate concentrations, combined with poor credit administration and risk management practices. We agree.

You determined that there were no unusual circumstances surrounding the bank's failure or the supervision exercised by OCC. 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 me at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Office of the Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner