



Audit Report



OIG-11-058

SAFETY AND SOUNDNESS: Failed Bank Review of First Suburban National Bank

February 24, 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 WALSH
ACTING COMPTROLLER OF THE CURRENCY

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of First Suburban National Bank

This memorandum presents the results of our review of the failure of First Suburban National Bank (FSNB) of Maywood, Illinois. The bank opened on September 7, 1943, and had its main office in Maywood with three branches in Broadview, Crestwood, and Chicago, Illinois. First Suburban BC Corporation, a one-bank holding company, owned 100 percent of FSNB. The Comptroller of the Currency (OCC) closed FSNB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on October 22, 2010. As of October 31, 2010, FSNB had \$147.6 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$30.9 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 FSNB 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 reports of examination, and (3) interviewed an OCC problem bank specialist and examination personnel.

We conducted this performance audit during November and December 2010 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 Suburban National Bank's Failure

OCC appointed FDIC receiver based on the following grounds: (1) the bank had experienced substantial depletion of assets or earnings due to unsafe and unsound practices, (2) the bank was in an unsafe and unsound condition to transact business, and (3) the bank's capital had been severely impaired.

The primary cause of FSNB's failure was the combination of commercial real estate (CRE) growth and the absence of sound credit administration and risk management practices. For example, the board and management failed to ensure FSNB's compliance with applicable lending limit laws and regulations.¹ The bank suffered significant credit losses in 2007 and 2008 from exposure to poorly underwritten loans, including one combinable relationship² that was underwritten without essential controls and in violation of the legal lending limit. The resulting erosion of capital left the bank in a vulnerable position with capital levels that were unable to support the high levels of CRE concentrations and other concentrations in risky unsecured loans. A deteriorating economy and declining CRE market further eroded the bank's earnings and capital to a critically deficient level.

Conclusion

Based on our review of the causes of FSNB'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 or the supervision exercised by OCC. Accordingly, we have determined that a more in-depth review of the bank's failure by our office is not warranted.

We provided a draft of this memorandum to OCC management for comment. In its response, OCC stated that it agreed with our conclusions as to the causes of FSNB'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.

¹ Banks are prohibited from making loans worth 15 percent or more of capital to one person or multiple loans to a group of related parties.

² Loans or extensions of credit to one borrower are attributed to another person and each person will be deemed a borrower.

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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 Theresa Cameron, Audit Manager, at (202) 927-1011.



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: February 17, 2011

Subject: Response to Failed Bank Review of First Suburban National Bank

We have received and reviewed your draft report titled "Failed Bank Review of First Suburban National Bank (FSNB)." 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 FSNB 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 this performance audit during November and December 2010 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 based on your audit objectives. You believe that the evidence obtained provides a reasonable basis for your findings and conclusions based on your audit objectives.

You concluded that the primary cause of FSNB's failure was the combination of commercial real estate (CRE) growth and the absence of sound 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 Jennifer Kelly, Senior Deputy Comptroller for Mid-size and Community Bank Supervision, at 202-874-5020.

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of Comptroller of the Currency

Acting Comptroller of the Currency
Liaison Officer

Office of Management and Budget

OIG Budget Examiner