



Audit Report



OIG-11-040

SAFETY AND SOUNDNESS: Failed Bank Review of Maritime Savings Bank, West Allis, Wisconsin

November 30, 2010

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 30, 2010

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MEMORANDUM FOR JOHN E. BOWMAN
ACTING DIRECTOR
OFFICE OF THRIFT SUPERVISION

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of Maritime Savings Bank, West Allis,
Wisconsin

This memorandum presents the results of our review of the failure of Maritime Savings Bank (Maritime) located in West Allis, Wisconsin. Maritime was established as a mutual thrift in 1912, insured as an Office of Thrift Supervision (OTS) regulated federal mutual savings and loan association in 1937, and converted to a state-chartered mutual savings bank in 1993. Maritime converted back to a federal mutual savings and loan association under OTS's supervision in June of 2007 to expand its business in Arizona. Maritime operated a main office in West Allis and seven full-service locations in Milwaukee County, Wisconsin. OTS closed Maritime and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on September 17, 2010. As of June 30, 2010, Maritime had approximately \$350.5 million in total assets and \$248.1 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$83.6 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 Maritime that was limited to (1) ascertaining the grounds identified by OTS 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, and (3) interviewed OTS examination personnel.

We conducted this performance audit during September and October 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 Maritime's Failure

OTS appointed FDIC as receiver based on the following grounds: (1) the thrift's capital had been severely impaired and (2) the thrift's board of directors consented to the appointment.

The primary cause of Maritime's failure was significant asset quality problems that management failed to properly recognize and report. The thrift's asset quality deterioration was directly attributed to the thrift's high exposure to commercial real-estate lending, primarily construction and land development. The thrift's loan portfolio consisted of low-quality assets that posed a significant risk to the thrift's capital, which threatened the thrift's viability. In addition, Maritime had a significant lending concentration in Arizona and an elevated risk profile due to a high level of construction (multi-family, nonresidential, and speculative single-family housing), nonresidential mortgage, and land loans. As of March 31, 2008, approximately half of the thrift's loans in Arizona were high-end, speculative construction loans.

The majority of the thrift's classified assets were troubled debt restructurings, where loans had several modifications – payment advances, deferrals, or reductions – to borrowers who lacked the ability to repay the loans. While the increase in the number of the thrift's classified loans were partially due to the decline in the economy, management failed to properly underwrite, administer, and classify problem credits. The inappropriate use of interest reserves, a deficient loan review process, and inadequate appraisal and credit reviews of loan modifications exacerbated the thrift's asset quality problems.

Conclusion

Based on our review of the causes of Maritime's failure and the grounds identified by OTS for appointing FDIC as receiver, we determined that there were no unusual circumstances surrounding the thrift's failure or the supervision exercised by OTS. Accordingly, we have determined that a more in-depth review of the thrift's failure by our office is not warranted.

We provided a draft of this memorandum to OTS management for comment. In its response, OTS stated that the primary causes of Maritime's failure summarized in

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this memorandum are consistent with the information contained in its reports of examinations and documents in support of the grounds for receivership. 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 Rashmi Bartlett, Audit Manager, at (202) 927-5839.

Attachments



Office of Thrift Supervision
Department of the Treasury

Thomas A. Barnes
Deputy Director, Examinations, Supervision, and Consumer Protection

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October 28, 2010

MEMORANDUM FOR: Jeffrey Dye
Director, Banking Audits
Office of Inspector General
U.S. Department of the Treasury

FROM: Thomas A. Barnes /s/
Deputy Director

SUBJECT: Draft Failed Bank Review of
Maritime Savings Bank, West Allis, Wisconsin (Maritime)

Thank you for the opportunity to comment on the Office of Inspector General's draft memorandum entitled "Failed Bank Review of Maritime Savings Bank, West Allis, Wisconsin." Because the estimated loss of \$83.6 million to the Deposit Insurance Fund is below the \$200 million threshold set forth in section 38(k) of the Federal Deposit Insurance Act, the review of the failure of Maritime was limited to (1) ascertaining the grounds identified by OTS 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.

The memorandum summarizes the causes of Maritime's failure, which are consistent with the information contained in the OTS Reports of Examination and documents in support of the grounds for the receivership. Specifically, the memorandum cites significant asset quality problems that management failed to properly recognize and report as the primary cause of failure. The memorandum identified no unusual circumstances surrounding the thrift's failure or the supervision exercised by OTS that would warrant a more in-depth review by the Office of the Inspector General.

No recommendations for OTS were made in the memorandum.

Thank you again for the opportunity to review and respond to the draft review of Maritime. OTS appreciates the professionalism and courtesies provided by the staff of the Office of the Inspector General.

Department of the Treasury

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

Office of Thrift Supervision

Acting Director
Liaison Officer

Office of Management and Budget

OIG Budget Examiner