



Audit Report



OIG-11-001

SAFETY AND SOUNDNESS: Failed Bank Review of MainStreet Savings Bank, FSB

October 13, 2010

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 13, 2010

OIG-11-001

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

FROM: Kieu T. Rubb /s/
Director, Procurement and Manufacturing Audits

SUBJECT: Failed Bank Review of MainStreet Savings Bank, FSB

This memorandum presents the results of our review of the failure of MainStreet Savings Bank, FSB (MainStreet). MainStreet opened in 1924 and had a main office in Hastings, Michigan, and one branch in Lake Odessa, Michigan. The thrift was wholly owned by MainStreet Financial Corporation, a bank holding company located in Hastings, Michigan. The Office of Thrift Supervision (OTS) closed MainStreet and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on July 16, 2010. At March 31, 2010, the thrift had \$97.4 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$11.4 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 MainStreet 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 August and September 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 MainStreet's Failure

The primary causes of MainStreet's failure were its large investment in fixed assets, high overhead costs, and a very competitive local market. In 1998, MainStreet purchased a \$22 million branch office and constructed a \$4 million main office, which represented approximately 30 percent of the thrift's total assets. The occupancy and related personnel expense increased the thrift's overhead costs significantly and resulted in weak earnings. Management tried to implement a growth strategy in deposits and commercial real estate lending but was unsuccessful due to the highly competitive local market and a low net interest margin. Consequently, MainStreet could not absorb the increased overhead costs and incurred losses in 8 of the previous 11 years. These conditions were exacerbated by the deterioration in the Michigan economy. Loan delinquencies and classified assets increased significantly, which resulted in higher net operating losses that further diminished earnings and capital, and ultimately, led to MainStreet's failure.

Conclusion

Based on our review of the causes of MainStreet'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 MainStreet's failure summarized in this memorandum are consistent with the information contained in its reports of examination 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) 927-5904 or Katherine Johnson, Audit Manager, at (202) 927-8783.

Attachments



Office of Thrift Supervision
Department of the Treasury

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

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October 7, 2010

MEMORANDUM FOR: Kieu T. Rubb
Director, Procurement and Manufacturing Audits
Office of Inspector General
U.S. Department of the Treasury

FROM: Thomas A. Barnes /s/
Deputy Director

SUBJECT: Draft Failed Bank Review of
MainStreet Savings Bank, FSB (MainStreet)

Thank you for the opportunity to comment on the Office of Inspector General's draft memorandum entitled "Failed Bank Review of MainStreet Savings Bank, FSB." Because the estimated loss of \$11.4 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 MainStreet 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 primary causes of MainStreet'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 large investments in fixed assets, high overhead costs, and a very competitive local market as the primary causes of failure. The deterioration in the Michigan economy exacerbated these conditions. 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 MainStreet. 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