



# Audit Report



OIG-11-003

SAFETY AND SOUNDNESS: Failed Bank Review of Home Federal Savings Bank

October 18, 2010

## Office of Inspector General

Department of the Treasury





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

October 18, 2010

OIG-11-003

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 Home Federal Savings Bank

This memorandum presents the results of our review of the failure of Home Federal Savings Bank (Home Federal). Home Federal, a designated minority depository institution, was established in May 1947 and was granted a federal mutual savings bank charter in March 1985. The thrift had a main office and one branch in Detroit, Michigan. The Office of Thrift Supervision (OTS) closed Home Federal and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on November 6, 2009. At the time of closure the thrift had \$14.9 million in total assets. FDIC estimated that the loss to the Deposit Insurance Fund is \$5.4 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 Home Federal 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 Home Federal's Failure**

The primary causes of Home Federal's failure were ineffective management, inadequate board oversight, and deterioration in asset quality due to the economic downturn in Detroit, the thrift's market area. Home Federal experienced rapid asset deterioration beginning in 2007, resulting in significant increases in problem assets and loan losses. These loan losses, combined with high general and administrative costs and minimal deposit gathering and loan generation, significantly diminished earnings and capital and ultimately led to Home Federal's failure.

## **Conclusion**

Based on our review of the causes of Home Federal'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 Home Federal'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 Deborah Harker, Audit Manager, at (202) 927-5762.

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  
Home Federal Savings Bank (Home Federal)

Thank you for the opportunity to comment on the Office of Inspector General's draft memorandum entitled "Failed Bank Review of Home Federal Savings Bank." Because the estimated loss of \$5.4 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 Home Federal 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 Home Federal'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 ineffective management, inadequate board oversight, and deterioration in asset quality due to the economic downturn in Detroit, the thrift's market area, as the primary causes 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 Home Federal. 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