



Audit Report



OIG-11-056

SAFETY AND SOUNDNESS: Failed Bank Review of First Arizona Savings, Scottsdale, Arizona

January 03, 2011

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 3, 2011

OIG-11-056

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

FROM: Jeffrey Dye /s/
Director, Banking Audits

SUBJECT: Failed Bank Review of First Arizona Savings, Scottsdale,
Arizona

This memorandum presents the results of our review of the failure of First Arizona Savings (First Arizona) located in Scottsdale, Arizona. First Arizona was established in May 1988 as First Arizona Savings and Loan Association. On November 1, 1995, First Arizona changed from a savings and loan association to a federal savings bank. First Arizona operated a main office in Scottsdale and maintained 7 branches. The Office of Thrift Supervision (OTS) closed First Arizona and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on October 22, 2010. As of June 30, 2010, First Arizona had approximately \$272.2 million in total assets and \$198.8 million in total deposits. FDIC estimated that the loss to the Deposit Insurance Fund is \$32.3 million as of October 31, 2010.

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 First Arizona 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 October and November 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 Arizona's Failure

OTS appointed FDIC as receiver based on the following grounds: (1) the thrift's capital had been severely impaired, (2) the thrift had failed to submit an acceptable capital restoration plan to OTS, and (3) the thrift's board of directors consented to the appointment.

The primary cause of First Arizona's failure was the thrift's high concentrations in construction and land lending. Management and the board poorly positioned the thrift by concentrating assets in single-family residential construction loans, non-traditional mortgages, and traditional mortgages. As a consequence, the thrift suffered large operating losses due to high loan loss provisions and declining net interest margins. In this regard, First Arizona's earnings had been poor for several years, and the thrift had not reported positive annual earnings since 2007. Management tried to maintain the thrift's capital ratios by reducing assets and limiting new lending but these efforts were ultimately unsuccessful.

Conclusion

Based on our review of the causes of First Arizona'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 First Arizona's failure summarized in 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

1700 G Street, N.W., Washington, DC 20552 • (202) 906-5650

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

December 21, 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
First Arizona Savings, a f.s.b.
Scottsdale, Arizona

Thank you for the opportunity to comment on your draft memorandum entitled "Failed Bank Review of First Arizona Savings, Scottsdale, Arizona." Because the estimated loss of \$32.3 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 First Arizona Savings (First Arizona or the Bank) was limited to ascertaining the grounds identified by OTS for appointment of a receiver and determining whether any unusual circumstances exist warranting a more in-depth review.

The memorandum summarizes the primary causes of First Arizona's failure, which are consistent with the information contained in the OTS Reports of Examination and documents in support of the grounds for receivership. Specifically, the memorandum cites high concentrations in construction and land loans, and notes that management and the board poorly positioned First Arizona by concentrating assets in single-family residential construction loans, nontraditional mortgage loans, and traditional mortgage loans. As a consequence, the Bank suffered large operating losses due to high loan loss provisions and declining net interest margins. The memorandum further noted that First Arizona had not been profitable since 2007. The Bank's management tried to maintain capital ratios by reducing assets and limiting new lending but those efforts were ultimately unsuccessful. Finally, the memorandum identified no unusual circumstances surrounding First Arizona's failure or the supervision exercised by OTS warranting a more in-depth review by the Office of Inspector General.

Thank you again for the opportunity to review and respond to the draft review of First Arizona Savings. OTS appreciates the professionalism and courtesies provided by the staff of the Office of 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