

FDIC Office of Inspector General

Failed Bank Review – Pulaski Savings Bank, Chicago, IL

Memorandum | Office of Audits

June 2025 | No. REV-25-02



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Date: June 2, 2025

Memorandum To: Ryan Billingsley
Acting Director, Division of Risk Management Supervision

/S/

From: Jason M. Yovich
Acting Assistant Inspector General for Audits

Subject: Failed Bank Review – Pulaski Savings Bank, Chicago, IL
OA Memorandum No. REV-25-02

This Memorandum examines whether the subject bank failure warrants an in-depth review.¹ The OIG considers a series of factors to determine whether to conduct an in-depth review. Overall, we determined that an in-depth review of Pulaski Savings Bank is warranted.

Background

On January 17, 2025, the Illinois Department of Financial and Professional Regulation (IDFPR), Division of Banking, took possession and control of Pulaski Savings Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as the receiver. Pulaski Savings Bank was a state-chartered mutual savings bank that became FDIC insured on August 9, 1989. Pulaski Savings Bank was a certified Community Development Financial Institution that operated from one location in Chicago, IL.²

According to the FDIC, the estimated loss to the Deposit Insurance Fund (DIF) was \$28,449,000 or 62 percent of the bank's \$45,919,248 in total assets. Following a period of supervisory actions by regulators, the IDFPR took possession of Pulaski Savings Bank because

¹ When the Deposit Insurance Fund incurs a loss under \$50 million, the Federal Deposit Insurance Act, 12 U.S.C. § 1831o(k)(5), requires the Inspector General of the appropriate federal banking agency to determine the grounds identified by the state or federal banking agency for appointing the FDIC as receiver and to determine whether any unusual circumstances exist that might warrant an in-depth review of the loss. An in-depth review is a formal evaluation of the FDIC's supervision of the failed institution, including the FDIC's implementation of the Prompt Corrective Action provisions of Section 38 of the Federal Deposit Insurance Act. We address our criteria for triggering an in-depth review in the OIG Analysis section of this memorandum.

² Community Development Financial Institution funds can be given to institutions to help promote access to capital and local economic growth in urban and rural low-income communities through monetary awards and tax credits. Financial and technical assistance awards are available for certified and emerging Community Development Financial Institutions to support affordable financial services and products, including single-family mortgage lending.

FDIC and IDFPR examiners verified significant unresolved and unexplained discrepancies within suspense accounts as well as large deposits maintained off the bank's core system.³

In conducting this failed bank review, we assessed key documents related to the bank's failure, including the Division of Risk Management Supervision's Supervisory History, the Division of Resolutions and Receiverships' Failing Bank Case, and specific examination and visitation reports issued from 1990 to 2024.

Causes of Failure

Based on our review of key FDIC documents, including examination reports and prompt corrective action letters to the bank, Pulaski Savings Bank's failure occurred due to impaired capital. The bank had deposit liabilities of at least \$20.7 million not accounted for in the core system. Since assets corresponding with these deposits were not identified, the recording of these deposits exceeded the bank's equity capital, at which point, the bank became critically undercapitalized.⁴

FDIC Supervision

Pulaski Savings Bank primarily focused on 1-4 single family residential loans, which were originated internally or purchased from another local savings bank, Mutual Federal Bank, Chicago, IL. In 2020, Pulaski Savings Bank increased multifamily lending and began purchasing commercial real estate loans to improve earnings and reduce interest rate risk exposure.

Pulaski Savings Bank received a Composite Rating of "3" from 2017 to 2023.⁵ The bank's composite rating was downgraded from a "2" to a "3" in 2017 due to deficient board and management oversight, inadequate management depth and succession, poor earnings, and unacceptable interest rate risk exposure. The bank entered into a memorandum of understanding (MOU) with the FDIC and IDFPR in October 2017 and revised the MOU in 2020 and 2023. The MOUs established actions the bank agreed to take to address management oversight and succession, strategic planning, and profit planning. Also, the bank did not have positive core earnings from 2005 until its closing.⁶ The Earnings component had been rated "3" or worse since 2006, while the Management component had been rated "3" or worse since 2011.

³ A core system is a computer system used to process and manage the operation of a bank or financial institution. It typically consists of several modules including account management, payments, loans, accounting, onboarding, and anti-money laundering.

⁴ The FDIC deems a supervised institution "Critically Undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0 percent. 12 U.S.C. 1831o; 12 C.F.R. § 324.403(b)(5).

⁵ Financial institution regulators evaluate a bank's performance in six components represented by the CAMELS acronym: Capital adequacy, Asset quality, Management capabilities, Earnings sufficiency, Liquidity position, and Sensitivity to market risk. Examiners assign each CAMELS component and an overall, composite score, a rating of "1" (strong) through "5" (critically deficient), with "1" having the least supervisory concern and "5" having the greatest concern.

⁶ Core earnings are defined as income that is generated from a bank's main operations. Core earnings are a metric that is used to assess a bank's ongoing profitability.

Between July 2018 and December 2024, the FDIC and IDFPR conducted seven joint examinations that identified financial and managerial issues at the bank. A summary of the joint examinations by the FDIC and IDFPR are listed below by examination start date:

- July 9, 2018: Examiners reported that earnings were deficient and unable to support operations and augment capital as the bank was structurally unprofitable.
- July 29, 2019: Examiners reported that the bank's financial condition was less than satisfactory. Capital eroded due to net operating losses, and earnings were insufficient to support operations and augment capital. Sensitivity to market risk also continued to be a concern. Examiners also found that management performance remained less than satisfactory.
- July 6, 2020: Examiners reported that management had not provided a satisfactory Strategic Plan or Capital Plan for improving the bank's financial condition. Additionally, examiners found that management weaknesses identified in a 2017 examination were not addressed.
- August 9, 2021: Examiners reported that the overall condition of the bank remained less than satisfactory. The bank had sensitivity to market risk due to weak earnings. Management and Board performance and oversight were also less than satisfactory.
- September 12, 2022: Examiners reported that the bank's risk profile was elevated due to ongoing concerns with management oversight, core earnings, sensitivity to market risk, and information technology management. The overall condition of the bank remained less than satisfactory.
- September 25, 2023: Examiners reported that management had not made sufficient progress in addressing the provisions of the 2023 memorandum of understanding related to effective oversight, a succession plan, a profit plan, commercial real estate risk management, and business continuity testing. During this time, the Chief Executive Officer (CEO) of Pulaski Savings Bank was not as present at the bank due to illness. The absence of the CEO highlighted concerns with the bank's staffing levels and succession planning as many documents could not be provided to examiners.

During the December 9, 2024, joint examination by the FDIC and IDFPR, examiners confirmed the observations of a contractor engaged by the bank to update its general ledger; specifically, that the bank had not posted some certificates of deposit to the core banking system. On December 13, 2024, the FDIC notified the bank of the FDIC's decision to downgrade the bank's CAMELS rating from 234333/3 to 335333/4 due to serious financial and managerial deficiencies. The bank had significant unresolved and unexplained discrepancies within suspense accounts as well as large deposits maintained off the bank's core system. According to the joint examiners, the bank's Board of Directors also did not provide appropriate oversight and ensure accurate records were maintained.

On December 19, 2024, the FDIC issued a Problem Bank Memorandum stating that the bank's overall condition was deficient and that the Board and management failed to provide appropriate oversight and ensure that there were sufficient personnel to maintain accurate books and records. The recording of certificates of deposit without corresponding assets depleted the bank's capital. Finally, on December 27, 2024, the FDIC notified Pulaski Savings Bank of the FDIC's determination that the bank was critically undercapitalized and changed the bank's interim CAMELS rating to 555544/5.

OIG Analysis

When conducting failed bank reviews, the OIG considers a series of factors to determine whether unusual circumstances warrant further review. These factors include: (1) the magnitude and significance of the loss to the DIF in relation to the total assets of the failed institution, (2) the extent to which the FDIC's supervision identified and effectively addressed the issues that led to the bank's failure or the loss to the DIF, (3) indicators of fraudulent activity that may have significantly contributed to the loss to the DIF, and (4) other relevant conditions or circumstances that significantly contributed to the bank's failure or the loss to the DIF.

- With respect to the first factor, the loss to the DIF in relation to Pulaski Savings Bank's total assets was 62 percent, which was significantly larger than average losses to the DIF of other failures within the last 5 years (17 percent). We found this loss to be of sufficient magnitude or significance that an in-depth review is warranted.
- With respect to the second factor, we found that since 2017, the FDIC's supervision identified several issues at Pulaski Savings Bank and implemented informal actions through MOUs. The issues with Pulaski Savings Bank's books and records were identified by a contractor engaged by the bank.
- With respect to the third factor, if we learn about potentially fraudulent activity during our review of the failed bank, it is our practice to refer the matter to appropriate authorities for consideration and potential action.
- With respect to the fourth factor, the bank had deposit liabilities of at least \$20.7 million not accounted for in the core system.

Conclusion

We determined that an in-depth review of the loss is warranted given the high estimated loss rate (62 percent) and unaccounted for deposit liabilities. Pulaski Savings Bank's failure occurred primarily due to impaired capital. Specifically, the bank had deposit liabilities of at least \$20.7 million not accounted for in its core system. The recording of these deposits depleted the bank's capital.



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