

OFFICE OF THRIFT SUPERVISION

Receivership of a Federal Savings Association

Date: September 18, 2009
Order No.: 2009-53
OTS Docket No. 16835

The Acting Director of the Office of Thrift Supervision (OTS), or his designee, in cooperation with the Federal Deposit Insurance Corporation (FDIC), has determined to appoint the FDIC as receiver of Irwin Union Bank, F.S.B., Louisville, Kentucky (Savings Bank).

GROUND FOR APPOINTMENT OF FDIC AS RECEIVER FOR THE SAVINGS BANK

The Acting Director, or his designee, based upon the administrative record, finds and determines the following:

- (i) The Savings Bank is in an unsafe and unsound condition to transact business; and
- (ii) The Savings Bank, by resolution of its board of directors, has consented to the appointment of a receiver.

The Savings Bank is a federally chartered stock savings bank, the accounts of which are insured by the Deposit Insurance Fund. The Savings Bank has its home office in Louisville, Kentucky. In addition, it has 8 branch offices, which are scattered among seven additional market areas located in six additional states. The Savings Bank is primarily engaged in retail deposit activities, residential real estate lending, commercial real estate lending, and commercial lending.

The Savings Bank is wholly owned by Irwin Financial Corporation, Columbus, Indiana (Holding Company), which also owns all of the outstanding common stock of Irwin Union Bank and Trust, Columbus, Indiana (IUBT). The Holding Company is a bank holding company, regulated by the Board of Governors of the Federal Reserve System.

As of June 30, 2009, the Savings Bank reported approximately \$518.151 million in assets, \$476.862 million in liabilities, and \$41.276 million in stockholders' equity. The Savings Bank reported net losses of approximately \$12.178 million for the fiscal year ended December 31, 2008. In addition, the Savings Bank reported net losses for the quarter ended March 31, 2009, and the six month period ended June 30, 2009, of approximately \$4.1 million and \$15.2 million, respectively. Additional losses are anticipated and the Savings Bank has not developed a plan to operate profitably.

DISCUSSION OF GROUNDS FOR APPOINTMENT OF A RECEIVER FOR THE SAVINGS BANK

Section 5(d)(2)(A) of the Home Owners' Loan Act (HOLA), 12 U.S.C. § 1464(d)(2)(A), provides that OTS may appoint a receiver for any insured savings association if OTS determines that one or more grounds specified in section 11(c)(5) of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1821(c)(5), exist.

Unsafe or Unsound Condition to Transact Business

Under § 11(c)(5)(C) of the FDIA, OTS may appoint a receiver if a savings association is in an unsafe and unsound condition to transact business.

The Savings Bank has suffered losses each quarter, starting with the first quarter of 2008, and it currently has an unacceptable capital level for its particular circumstances, increasing asset quality problems, poor operating performance, and weaknesses in its management. In July 2009, OTS obtained a Cease and Desist Order (C&D) against the Savings Bank that requires, *inter alia*, that the Savings Bank achieve and maintain Tier 1 and Risk-Based capital ratios of 10 percent and 12 percent, respectively. However, there is no expectation, or reasonable prospect, that the Savings Bank will meet the required capital percentages under the C&D.

At calendar year end 2008, the Savings Bank had approximately \$60.3 million of classified assets, which equaled 89.6 percent of core capital plus allowances for loan and lease losses (ALLL). Subsequently, classified assets have significantly increased, to 124.62 percent of capital at June 30, 2009. There is a trend of increasing classified assets over the previous six quarters, and there is a likelihood of further asset quality deterioration due to the concentration of loans made in unstable market areas. Moreover, the Savings Bank's internal classifications lag behind the deterioration in its loan quality.

The Savings Bank operations have been intertwined with its affiliated bank, IUBT, and the Savings Bank does not have a business plan designed to operate successfully as an independent entity. In addition, the Savings Bank has inadequate management. In particular, the chief credit officer is now serving as the Savings Bank's acting president. The Savings Bank's most recent capital and business plan was to merge into IUBT. The merger has not been accomplished and is unlikely to occur. The Savings Bank's alternative strategy is to undertake a massive asset shrinkage strategy. The asset shrinkage strategy is unlikely to succeed in increasing capital significantly, because the Savings Bank is likely to suffer additional losses on such asset sales.

It is likely that a receiver will be appointed for IUBT. If a receiver is appointed for IUBT, the Savings Bank may be liable under the cross guarantee provision, 12 U.S.C. § 1815(e), for any loss incurred by the FDIC. Capital at the Savings Bank is probably inadequate to cover this risk and the potential cross guarantee liability likely would prevent the Savings Bank and the Holding Company from raising new capital from third parties. In addition, the Holding

Company does not have capital available to invest in the Savings Bank and the Holding Company's efforts to raise capital have been unsuccessful.

The Savings Bank's primary source of income is from its commercial mortgage and nonmortgage lending activities. The Savings Bank reduced its loan production in 2008 and 2009. Reduced originations, combined with loan runoff, have also resulted in a declining loan servicing portfolio. The Savings Bank's loans serviced for others, composed primarily of commercial mortgage and nonmortgage loans sold to IUBT, significantly declined and resulted in a reduced potential for servicing income on the sold loan portfolio. With the problems of and likely failure of IUBT, income from loan sales and servicing will disappear unless the Savings Bank is able to find new buyers who are willing to purchase loans, servicing released.

The Savings Bank's net interest margin (NIM) has consistently been insufficient to cover operating expenses, and has not provided a sufficient return commensurate with the risks accepted in the commercial mortgage and nonmortgage portfolios. The Savings Bank's operating expenses are high and unsustainable in the current operating environment. The inability of the Savings Bank's pre-provision NIM to cover operating expenses is due in large part to the high level of noninterest expenses. The high operating expenses are due, in part, to the Savings Bank's past strategy of opening new branches in markets where there were then rapid growth expectations and staffing those branches with experienced commercial lending/commercial relationship personnel. More recently, there has been an increase in the number of employees, growing from 89 full time equivalents (FTEs) at June 30, 2008 to 103 FTEs at June 30, 2009.

In sum, over the past year and a half the Savings Bank has recorded significant losses. These losses have significantly reduced the Savings Bank's capital. Additional losses are anticipated and the Savings Bank has not developed a plan to operate profitably. The Savings Bank's increasing operating losses, deteriorating asset quality, deteriorating capital position, lack of realistic prospects for raising capital, lack of an acceptable business plan to operate independently, and inadequate management support the conclusion that the Savings Bank is in an unsafe and unsound condition to transact business.

The Acting Director, or his designee, concludes that the Savings Bank is in an unsafe and unsound condition to transact business.

Consent

Under section 11(c)(5)(I) of the FDIA, OTS may appoint a receiver if the institution, by resolution of its board of directors consents to the appointment. On September 17, 2009, the board of directors of the Savings Bank, by resolution, consented to the appointment of a conservator or receiver by OTS and, on that day the Savings Bank entered into a consent agreement for such an appointment by OTS.

The Acting Director, or his designee, concludes that the Savings Bank's board of directors consented to the appointment of a receiver by their adopting the aforementioned resolution.

The Acting Director, or his designee, therefore, has determined that grounds for the appointment of a receiver for the Savings Bank exist under section 5(d)(2) of the HOLA, 12 U.S.C. § 1464(d)(2), and sections 11(c)(5)(C) and (I) of the FDIA, 12 U.S.C. §§ 1821(c)(5)(C) and (I).

ACTIONS ORDERED OR APPROVED

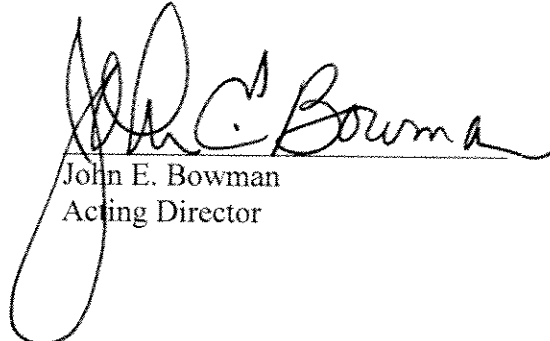
Appointment of a Receiver

The Acting Director, or his designee, hereby appoints the FDIC as receiver for the Savings Bank, for the purpose of liquidation or winding up the affairs of the Savings Bank, pursuant to section 5(d)(2) of the HOLA, 12 U.S.C. § 1464(d)(2), and section 11(c)(6)(B) of the FDIA, 12 U.S.C. § 1821(c)(6)(B).

DELEGATION OF AUTHORITY TO ACT FOR OTS

The Acting Director, or his designee, hereby authorizes the OTS Central Regional Director, or his designee, and the Deputy Chief Counsel for the Business Transactions Division of the Chief Counsel's Office, or his designee, to: (1) certify orders; (2) sign, execute, attest or certify other documents of OTS issued or authorized by this Order; (3) designate the person or entity that will give notice of the appointment of a receiver for the Savings Bank and serve the Savings Bank with a copy of this Order pursuant to 12 C.F.R. § 558.2; and (4) perform such other actions of OTS necessary or appropriate for the implementation of such Order. All documents to be issued under the authority of this Order must be first approved, in form and content, by the Chief Counsel's Office. In addition, the Acting Director, or his designee, hereby authorizes the Deputy Chief Counsel for the Business Transactions Division, or his designee, to make any subsequent technical corrections, that might be necessary, to this Order, or any documents issued under the authority of this Order.

By Order of the Acting Director of OTS, or his designee, effective immediately upon service of this Order on the Savings Bank, this 8th day of September, 2009.



John E. Bowman
Acting Director