

Press Releases

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OTS 96-54 - California Thrift Fails; Is Transferred to FDIC

Office of Thrift Supervision

News Release

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For further information

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CALIFORNIA THRIFT FAILS; IS TRANSFERRED TO FDIC

WASHINGTON, D.C., Aug. 9, 1996 -- The Office of Thrift Supervision (OTS) today placed Union Federal Bank, FSB, Los Angeles, in receivership and turned the institution over to the Federal Deposit Insurance Corporation (FDIC). It was the first thrift failure since May 1995 and the first transfer by OTS to the FDIC since the Resolution Trust Corporation (RTC) ceased operations.

Union Federal, of which certain assets and liabilities were immediately sold by the FDIC, was a \$2 billion asset thrift in 1991 when it became troubled, but had only \$32.5 million in assets when closed. The downsizing had been undertaken by new management that took over the thrift in 1991. With the approval of regulators, management then embarked on a program of liquidating most of the assets and deposit liabilities in an attempt to resolve the institution's problems.

The gains from these sales offset most of the losses in the portfolio of non-performing loans, and provided the institution an opportunity to work out its remaining problem assets consisting primarily of foreclosed commercial real estate. Union Federal could not, however, generate sufficient income to avoid capital depletion and became insolvent.

"The aggressive downsizing by Union Federal's management, with the cooperation of regulators, significantly reduced the cost of the failure and exposure to the federal deposit insurance funds," said John Downey, executive director for supervision at OTS. "Had Union Federal failed a couple of years ago, the cost would likely have been more than \$100 million, which at that time would have been paid out of taxpayer funds."

He added that the number of problem thrifts remains very small, and the "financial condition of the industry continues to be excellent."

Union Federal's assets and liabilities that were sold were acquired by Dean Witter Trust FSB. It is a subsidiary of Dean Witter, Discover & Co., which was selected as the acquirer through an FDIC bidding process. The receivership and sale did not result in any interruption of Union

Federal's day-to-day operations. The new institution will remain open for business as usual. Holders of insured accounts are not affected by the action, which was taken by OTS to protect insured depositors and the interests of the thrift insurance fund. Deposits remain insured to the \$100,000 legal limit.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.