

Feds find 'major fraud,' poor oversight at failed Bridgeport bank whose CEO killed himself

The former Washington Federal Bank for Savings on South Archer Avenue in Chicago is seen Dec. 28, 2017, bearing the name of its new owner, Royal Savings Bank. A federal investigation found loan fraud and weak regulatory oversight led to Washington Federal's failure. (Terrence Antonio James/Chicago Tribune)

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A federal investigation found “major fraud” and weak regulatory oversight led to the failure of Washington Federal Bank for Savings, whose CEO killed himself ahead of the Bridgeport bank’s December collapse.

The report issued this week by the Treasury Department’s Office of Inspector General said fraudulent loan activity by Washington Federal employees, including its CEO and president, John Gembara, depleted the bank’s capital and left it insolvent.

Gembara and an unnamed bank employee allegedly falsified payments for at least 29 loans totaling about \$68 million, according to the report.

In addition, the report said lax bank supervision by inexperienced examiners at the federal Office of the Comptroller of the Currency led to several “missed opportunities” for enforcement actions related to the bank’s loan portfolio.

“We believe that had the OCC examination teams identified and addressed these issues timely, the fraud at Washington Federal may have been uncovered sooner and the loss ... may have been reduced,” the report said.

As of Sept. 30, the Federal Deposit Insurance Corp. estimated the loss to the deposit insurance fund at \$82.6 million.

Washington Federal, a family-run institution in the city’s Bridgeport neighborhood for 104 years, had \$61.5 million in bad loans on its books when it closed in December.

In June 2017, the bank reported negligible losses and received a “clean opinion” on its financial statements, according to the FDIC.

Contributing to the problem was the perception that Washington Federal was a “non-complex bank with a low risk profile,” prompting the OCC to assign a string of first-time examiners to review the bank’s books between 2011 and 2016. Washington Federal was considered a “practice bank” for the inexperienced examiners.

The fraudulent loan practices were uncovered when a new assistant deputy comptroller assumed responsibility for the supervision of Washington Federal before its October 2017 examination.

The supervisor noticed several “red flags” at the beginning of the examination, including the bank’s slow response to provide requested loan information and the absence of several key executives, including the chief financial officer and the designated loan officer, both of whom were on vacation, according to the report.

The examiners met with Washington Federal’s board on Nov. 28 to express concerns about the slow response. That same day, a member of Washington Federal’s management team told the examiners there was “major fraud” at the bank, accusing Gembara and an employee of falsifying loan payments for at least 29 loans totaling about \$68 million.

After reviewing the 29 loans in question, examiners confirmed “that there was fraud on a magnitude that jeopardized Washington Federal’s safety and soundness,” according to the report.

When the OCC completed its review, it found loan losses totaling at least \$61.5 million. The bank was closed and the FDIC appointed as receiver on Dec. 15.

Washington Federal had \$166.3 million in assets at the time of its closing. Royal Savings Bank bought the insured deposits and \$23.7 million of the assets, and it took over Washington’s two locations — on South Archer Avenue and West Taylor Street — under the new owner’s name.

Gembara, 56, CEO and president of Washington Federal, whose grandfather launched the bank in 1913, took his own life in Park Ridge less than two weeks before the bank’s closure, according to a medical examiner’s report.

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