FDIC Office of Inspector General

Failed Bank Review – Tioga-Franklin Savings Bank, Philadelphia, PA

Memorandum | Office of Audits

October 2026 | REV-27-01

Office of Inspector General

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NOTICE

Pursuant to Pub. L. 117-263, section 5274, non-governmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Comments must be submitted to comments@fdicoig.gov within 30 days of the report publication date as reflected on our public website. Any comments will be appended to this report and posted on our public website. We request that submissions be Section 508 compliant and free from any proprietary or otherwise sensitive information.

Date: October 29, 2026

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

From: Matthew Simber
/S/
Assistant Inspector General for Audits

Subject: Failed Bank Review – Tioga-Franklin Savings Bank, Philadelphia, PA Memorandum No. REV-27-01

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.[2] Overall, we determined that an in-depth review of Tioga-Franklin Savings Bank (Tioga-Franklin) is not warranted.

Background

On August 21, 2026, the Commonwealth of Pennsylvania Department of Banking and Securities, Bureau of Bank Supervision (DoBS), took possession and control of Tioga-Franklin and appointed the Federal Deposit Insurance Corporation (FDIC) as the receiver. Tioga-Franklin was a state-chartered mutual savings bank that became FDIC-insured on July 1, 2000. The bank had no holding company and operated from a single location in Philadelphia. The bank focused on residential mortgages and small business loans.

According to the FDIC, the estimated loss to the Deposit Insurance Fund (DIF) was $5,445,000 or approximately 8 percent of the bank's $66,849,160 total assets. Following a period of supervisory actions by regulators, the DoBS took possession of Tioga-Franklin because it experienced an extended period of structural unprofitability which ultimately eroded Tioga-Franklin's capital position.[3]

[1] When the DIF incurs a loss under $50 million, the Federal Deposit Insurance (FDI) 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 causes of the institution's failure, resulting loss to the DIF, and the FDIC's supervision of the failed institution, including the FDIC's implementation of the Prompt Corrective Action provisions of Section 38 of the FDI Act. We address our self-developed criteria for triggering an in-depth review in the OIG Analysis section of this memorandum.
[2] See "OIG Analysis" for the factors considered.
[3] Structural unprofitability occurs when an organization establishes business practices where overhead expenses exceed the level of net interest income.

In conducting this failed bank review, we assessed key documents related to Tioga-Franklin's failure, including the Division of Risk Management Supervision (RMS) Supervisory History, the Division of Resolutions and Receiverships (DRR) Failing Bank Case, and specific examination and visitation reports issued from 2011 to 2026.[4]

Cause of Failure

Tioga-Franklin's failure occurred due to the continued decline in earnings, caused by high overhead expenses from expanding its mortgage banking division, resulting in the deterioration of the bank's capital. From 2020 to 2022, Tioga-Franklin's earnings primarily benefited from Paycheck Protection Program loan fees.[5] However, it was unclear whether earnings would be sustainable after the Program ended. Further, in 2022, an expanded management team and Board of Trustees at Tioga-Franklin began growing the bank's mortgage division, which reduced the bank's profitability due to high overhead expenses. Examiners noted Tioga-Franklin became unprofitable in 2023, which led to ongoing operating losses that eroded the bank's capital levels. While the bank attempted to resolve its liquidity and capitalization issues by securing new investors, it was unable to find new investors to stabilize its finances.

FDIC Supervision

From 2008 to 2012[6] and from 2015 through 2022 Tioga-Franklin received a Composite "2" rating.[7] The following is a summary of the subsequent examinations conducted by the FDIC and DoBS listed by examination start date:

> **July 2023**: The FDIC downgraded Tioga-Franklin to a Composite "4" rating for the first time due to asset quality, insufficient earnings, and management oversight. The report of examination included Matters Requiring Board Attention related to Board and management oversight, strategic planning, and the bank's Anti-Money Laundering /Countering the Financing of Terrorism (AML/CFT) program.[8] During this examination, the FDIC examiner designated Tioga-Franklin's President a dominant official.[9]

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[4] This review does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards.

[5] The Paycheck Protection Program was a federal loan program administered by the Small Business Administration designed to provide a direct incentive for small businesses to maintain workers' payroll during the COVID-19 pandemic. Tioga-Franklin's financial results for calendar year as of September 30, 2021, reflected net income of $1.1 million and Return on Assets of 1.83 percent. Tioga-Frankling management estimated that during that period, net income without the benefit of Paycheck Protection Program income was only about $144,000.

[6] In 2013 there were no Reports of Examination. In 2014, Tioga-Franklin received a Composite "3" rating primarily due to Management and Asset Quality.

[7] Financial institution regulators evaluate a bank's performance in six components represented by the CAMELS acronym: **C**apital adequacy, **A**sset quality, **M**anagement capabilities, **E**arnings sufficiency, **L**iquidity position, and **S**ensitivity to market risk. Examiners assign each CAMELS component 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.

[8] Matters Requiring Board Attention represent material risk management deficiencies that require Board attention and corrective actions.

[9] A dominant official is a person who has material influence over virtually all decisions involving the institution's policies and operations. FDIC RMS *Manual of Examination Policies*, Section 4.1, Directors of Banks with Dominant Management Officials (October 2025).

March 2024: The FDIC and DoBS commenced a visitation and downgraded Tioga-Franklin's Liquidity rating from "4" to "5" due to a material decline in readily accessible cash and lack of availability in contingent funding sources.

April 2024: The FDIC and DoBS issued parallel Consent Orders with Board requirements for addressing deficiencies and weaknesses in the AML/CFT program, Office of Foreign Asset Control compliance, the Strategic Plan, the funds management program, Interest Rate Risk Management Plan, and credit administration procedures, and establishing a Compliance Committee Plan.[10]

June 2024 – August 2025: The FDIC and DoBS continued to rate Tioga-Franklin a Composite "4" rating citing similar issues, including asset quality, insufficient earnings, and management oversight. These reports of examination included Matters Requiring Board Attention related to Allowance for Credit Losses, Grant Accounting, Capital Stress Testing, and Consent Orders. In addition, examiners noted that there were seven independent Trustees, and that they appeared to mitigate the bank President's dominance.

December 2025: The FDIC issued a Problem Bank Memorandum (PBM) citing that problems were primarily due to poor management oversight and weak risk management practices following a significant turnover in key Board and executive positions which had occurred from April 2023 to June 2023.[11] In addition, the PBM stated that the bank's overall condition was deficient due to continued operating losses that were eroding capital. For the period between March through December 2025, the bank reported a net loss of $272,000 after negative provision expenses of $153,000. For reference, in 2024, the bank reported a net loss of $1.6 million after no provision expenses.

February 2026: The FDIC downgraded the bank to a Composite rating "5" and notified the bank that it was *Undercapitalized*[12] for Prompt Corrective Action (PCA) purposes. These actions were the result of deducting deferred tax assets from capital.

May 2026: The FDIC notified the bank that it was *Significantly Undercapitalized*[13] for PCA purposes upon filing of the March 31, 2026, Reports of Condition and Income.

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[10] A Consent Order is a type of formal enforcement action that is issued by regulatory agencies. The Consent Order is agreed to by the bank and contains specific provisions for improvement, usually within a specific period of time. Agencies review the bank's progress in addressing Consent Order provisions and recommend termination of the Order when appropriate corrective actions have been taken to resolve Order provisions.

[11] A problem bank memorandum documents the FDIC's concerns with an institution and the corrective action in place or to be implemented.

[12] The FDIC deems a supervised institution *Undercapitalized* if it has (1) a total risk-based capital ratio that is less than 8.0 percent; or (2) a Tier 1 risk-based capital ratio that is less than 6.0 percent; or (3) a common equity tier 1 capital ratio that is less than 4.5 percent; or (4) a leverage ratio that is less than 4.0 percent. 12 C.F.R. § 324.403(b)(4).

[13] The FDIC deems a supervised institution *Significantly Undercapitalized* if it has (1) a total risk-based capital ratio that is less than 6.0 percent; or (2) a Tier 1 risk-based capital ratio that is less than 4.0 percent; or (3) a common equity tier 1 capital ratio that is less than 3.0 percent; or (4) a leverage ratio that is less than 3.0 percent. 12 C.F.R. § 324.403(b)(4).

June 2026: The FDIC commenced a visitation and issued a PBM citing that the bank's financial condition was determined to be critically deficient. Capital was adversely impacted by assets classified as a loss totaling $558,000 and a deferred tax asset valuation allowance totaling $290,000. As of March 31, 2026, the bank reported a Return on Assets of negative 1.14 percent, and earnings would further decline due to the visitation findings that identified deficiencies with Board management and oversight and the bank's compliance program. The total impact to capital was $608,000, resulting in the March 31, 2026 Tier 1 leverage ratio declining from the reported level of 3.27 percent at that time to 2.41 percent.

August 2026: The FDIC and DoBS visitation resulted in required capital adjustments of $517,000, due to write-offs of prepaid mutual-to-stock conversion costs.[14] The recalculated June 30, 2026, Tangible Equity Capital to Total Assets was 1.32 percent. As a result, the FDIC determined that Tioga-Franklin's capital category had changed from *Significantly Undercapitalized*[15] to *Critically Undercapitalized*[16] for purposes of PCA.[17]

OIG Analysis

When conducting failed bank reviews, the OIG considers the following factors to determine whether unusual circumstances warrant further review: (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, and (3) other relevant conditions or unusual circumstances that significantly contributed to the bank's failure or the loss to the DIF.

1. With respect to the first factor, the loss to the DIF in relation to Tioga-Franklin's total assets was approximately 8 percent, which was smaller than the average losses to the DIF of other failures within the last 5 years (20 percent). Therefore, we did not find this loss to be of sufficient magnitude or significance to warrant an in-depth review.

2. With respect to the second factor, we found that the FDIC's supervision overall identified and effectively addressed the issues that led to the bank's failure or the loss to the DIF. Since 2022, the FDIC's supervision identified several concerns at Tioga-Franklin, and the FDIC took several formal and informal actions intended to resolve the issues in a timely manner.

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[14] A mutual-to-stock conversion is the process by which a mutually owned financial institution (owned by its depositors) changes its legal structure to become a publicly or privately traded stock corporation (owned by shareholders). An institution that is categorized as Significantly or Critically Undercapitalized for PCA purposes may qualify for a supervisory conversion. Supervisory Conversions are a type of Mutual-to-Stock conversion that allows certain requirements to be waived. As of the 2024 Report of Examination, Tioga-Franklin's Strategic Plan included scenarios for raising capital through a Mutual-to-Stock Supervisory Conversion.
[15] *Supra* note 13.
[16] 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 C.F.R. § 324.403(b)(5).
[17] 12 C.F.R. § 324.402(b).

3. With respect to the third factor, we did not identify other relevant conditions or circumstances that significantly contributed to the bank's failure or the loss to the DIF. If we learn about potentially fraudulent activity during our review of a failed bank, it is our practice to refer the matter to appropriate authorities for consideration and potential action.

Conclusion

Our review did not find unusual circumstances that would warrant an in-depth review of the loss.

Tioga-Franklin's failure occurred primarily due to an extended period of structural unprofitability that began when the bank expanded its mortgage banking division in 2022. Over time, the bank's condition deteriorated due to weak earnings which led to liquidity and capital issues. Tioga-Franklin's unprofitability was primarily caused by high overhead expenses due to significant hiring of employees in an expanded mortgage banking division. While the bank attempted to resolve its liquidity and capitalization issues by securing new investors, it was unable to do so. The bank finally failed because it was unable to find new investors to stabilize its finances.

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