

FDIC Office of Inspector General

Failed Bank Review – Metropolitan Capital Bank & Trust, Chicago, IL

Memorandum | Office of Audits

May 2026 | REV-26-01



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Date: May 29, 2026

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

/S/

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

Subject: Failed Bank Review – Metropolitan Capital Bank & Trust, Chicago, IL
Memorandum No. REV-26-01

This Memorandum examines whether the subject bank failure warrants an in-depth review.¹ The OIG considers a series of factors² to determine whether to conduct an in-depth review. Overall, we determined that an in-depth review of Metropolitan Capital Bank & Trust (Metro Capital) is not warranted.

Background

On January 30, 2026, the Illinois Department of Financial and Professional Regulation (IDFPR), Division of Banking, took possession and control of Metro Capital and appointed the Federal Deposit Insurance Corporation (FDIC) as the receiver. Metro Capital was a state-chartered bank that became FDIC-insured on January 25, 2005, and operated from a single leased office in Chicago, IL.³ Metro Capital focused on relationship banking with high net-worth individuals, with an emphasis on unsecured lending and loans secured by privately held stock or interest in limited liability companies.

According to the FDIC, the estimated loss to the Deposit Insurance Fund (DIF) was \$19,647,000 or 8 percent of the bank's \$232,051,439 in total assets. Following a period of

¹ When the DIF 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 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 (PCA) provisions of Section 38 of the Federal Deposit Insurance 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 Metro Capital was wholly owned by Metropolitan Capital Bancorp, Inc. – a privately held, one bank holding company.

supervisory actions by regulators, the IDFPR took possession of Metro Capital because it experienced continued asset quality issues, which ultimately eroded its capital position.

In conducting this failed bank review, we assessed key documents related to Metro Capital's failure, including the Division of Risk Management Supervision's (RMS) Supervisory History, the Division of Resolutions and Receiverships' (DRR) Failing Bank Case, and specific examination and visitation reports issued from 2018 to 2025.⁴

Cause of Failure

Based on our review of key FDIC documents, Metro Capital's failure occurred due to the continued decline in asset quality within its loan portfolio, which contributed to significant loan losses, resulting in the deterioration of the bank's capital. Historically, Metro Capital engaged in a high-risk business strategy with high concentration levels in risky assets (e.g., unsecured and Private Interest Collateral (PIC)⁵ loans) without applying sufficient Board and management oversight and the appropriate controls and credit risk management practices to address the inherent risks associated with this portfolio. Bank management routinely applied unreasonable risk scoring practices over the PIC loan portfolio and failed to adequately reserve for losses for its high-risk lending strategy.

FDIC Supervision

From 2005 through 2016, Metro Capital received a Composite "2" rating.⁶ The following is a brief summary of the subsequent examinations conducted by the FDIC and IDFPR listed by examination start date:

May 2018 - May 2019: The FDIC downgraded Metro Capital to a Composite "4" rating for the first time due to poor asset quality, deficient credit administration practices, concentration risk, and management performance. Metro Capital's composite rating remained unchanged for over a year, as examiners noted that asset quality continued to be deficient given the level of adverse classifications and risk management practices that were not commensurate with the high credit risk in the loan portfolio.

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

⁵ Private interest collateral loans are loans secured by privately held stock or interests in limited liability companies.

⁶ 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 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.

August 2019: The FDIC and IDFPF jointly issued a Consent Order⁷ with requirements for maintaining a minimum capital level, managing credit concentrations, and reviewing the adequacy of the Allowance for Loan and Lease Losses (ALLL).⁸

June 2020: The FDIC and IDFPF upgraded Metro Capital to a Composite “3” rating due to noted improvements in the operations of the bank, a reduction in adversely classified loans, and an increase in capital ratios through asset reduction strategies. The rating remained unchanged through 2021. However, during this period, examiners continued to report that the overall financial condition remained less than satisfactory, that Board oversight remained deficient, and that credit underwriting, loan administration, and risk identification were still weaknesses.

July 2021: Due to the overall progress observed at Metro Capital in satisfying the conditions of the Consent Order, the FDIC and IDFPF terminated and replaced it with a memorandum of understanding (MOU)⁹ to address the remaining weaknesses identified in the 2020 examination.

August 2022: The FDIC and IDFPF upgraded Metro Capital to a Composite “2” rating with examiners noting that the overall condition was satisfactory and that management had taken corrective actions to address recommendations in the MOU. However, examiners continued to note that capital was less than satisfactory and that concentration risk within the loan portfolio kept Metro Capital’s risk profile at a high level.

March 2024: Examiners downgraded Metro Capital to a Composite “3” rating, citing asset quality deterioration and deficiencies in credit risk management practices. The adequacy of management’s credit risk oversight was demonstrated by the downgrading of credit ratings of Metro Capital’s two largest unsecured and PIC borrower relationships.

October 2024: Metro Capital again entered into an MOU with the FDIC and IDFPF, which included certain provisions including maintaining minimum capital ratios, improving credit risk grading,¹⁰ monitoring concentration risk, and correcting the Allowance for Credit Losses (ACL)¹¹ methodology.

⁷ 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.

⁸ Each institution must maintain an ALLL that is appropriate to absorb estimated credit losses associated with the held for investment loan and lease portfolio (i.e., loans and leases that the institution has intent and ability to hold for the foreseeable future or until maturity or payoff). *FDIC RMS Manual of Examination Policies*, Section 3.2, Loans (May 2023).

⁹ An MOU is an informal action and agreement used by regulatory agencies to obtain a commitment from a bank’s Board of Directors to implement corrective measures.

¹⁰ The MOU required Metro Capital to develop a credit risk grading system that consistently and accurately identified the credit risk within all loan relationships and that adequately considered collateral protection, covenant compliance, reliability of repayment sources, and actual payment performance.

¹¹ The ACL for loans and leases is the term used for those banks that adopted *ASU 2016-13*, which implements ASC Topic 326, Financial Instruments – Credit losses replacing the ALLL used under the incurred loss methodology. Metro Capital had adopted ASC Topic 326 by March 2024.

April 2025: Examiners reported that management performance was critically deficient, and the Board and management’s tolerance for assets exhibiting a high degree of risk had led to material risk to the DIF. Metro Capital was downgraded to a Composite “5” because management and the Board had not demonstrated the ability to correct problems and implement appropriate risk management practices. Notably, FDIC examiners noted that the management and the Board had not satisfactorily addressed eight of the nine MOU provisions.

Specifically, examiners noted that the risk tolerance of the Board and senior management was excessive, as evidenced by (1) high levels of examiner-identified loan classifications (e.g., substandard, doubtful, and loss), (2) concentration in a high-risk lending segment, (3) high levels of borrower concentrations, (4) its failure to properly reserve for adversely classified items, and (5) an inadequate ACL methodology. Further, asset quality and credit administration practices were critically deficient. The severity of adverse classifications, including the institution’s largest relationship being classified as Doubtful,¹² presented an imminent threat to the institution’s viability. Examiners also determined that capital was critically deficient and wholly inadequate relative to the risk profile of the institution. Lastly, examiners designated Metro Capital’s Chairman and CEO as a dominant official.¹³

Throughout the FDIC’s supervision of Metro Capital between 2018 and 2025, examiners routinely classified sampled assets from the bank’s loan portfolio at lower levels than bank management when applying their internal scoring methodology. This resulted in additional adjustments to the ACL for the bank because of inadequate reserves, which reduced capital. Although improvements were regularly recommended by examiners and associated enforcement actions addressed these concerns, bank management continued to apply erroneous and overly optimistic risk scoring practices and failed to adequately reserve for losses for its high-risk lending strategy.

September 2025: The FDIC directed Metro Capital to charge off \$12.6 million of a \$15 million PIC loan¹⁴ and to make a provision of \$7.9 million to its ACL. As a result of these transactions, Metro Capital was notified that it was *Significantly Undercapitalized*¹⁵

¹² Adversely classified loans are allocated on the basis of risk to three categories: Substandard; Doubtful; and Loss. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. *FDIC RMS Manual of Examination Policies*, Section 3.2, Loans (May 2023).

¹³ 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). See also “OIG Analysis” for further details.

¹⁴ The \$15 million PIC loan was adversely classified during the April 2025 examination.

¹⁵ 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).

for PCA¹⁶ purposes due to its Tier 1 Capital ratio falling to 3.61 percent and its Total Capital Ratio falling to 4.89 percent.

December 2025: Metro Capital experienced additional losses after the FDIC and IDPFR directed the bank to reclassify two loans and make provisions to its ACL totaling approximately \$7 million. When applying these provisions to the bank's November 30, 2025, capital position, Metro Capital fell within the *Critically Undercapitalized*¹⁷ capital category under Section 38 of the FDI Act.

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, (3) indicators of suspicious 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.

1. With respect to the first factor, the loss to the DIF in relation to Metro Capital's total assets was 8 percent, which was smaller than the average losses to the DIF of other failures within the last 5 years (23 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 2018, the FDIC's supervision identified several concerns at Metro Capital and took several formal and informal actions intended to resolve the issues in a timely manner.
3. With respect to the third factor, if we learn about suspicious activity during our review of the failed bank, it is our practice to refer the matter to appropriate authorities for consideration and potential action. During our review, we determined the FDIC identified suspicious activity associated with bank insiders during its supervision. FDIC officials communicated these concerns to its internal investigation team as well as the OIG. The evidence provided by the FDIC supported the misuse of position and self-dealing of senior bank officials. However, the evidence did not suggest that these issues significantly contributed to the loss to the DIF.
4. With respect to the fourth factor, we did not identify other relevant conditions or circumstances that significantly contributed to the bank's failure or the loss to the DIF.

¹⁶ Section 38 of the Federal Deposit Insurance Act provides the FDIC with the authority to resolve the problems of insured depository institutions at the least possible long-term loss to the Deposit Insurance Fund. The Act authorizes the FDIC to take actions based on five capital levels for banks ranging from *Well Capitalized* to *Critically Undercapitalized*. 12 U.S.C. 1831o.

¹⁷ 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).

FDIC Guidance on Dominant Officials

If the presence of a dominant official is identified at an institution, FDIC guidance states that examiners should consider the risk management controls in place when assessing an official's level of influence.¹⁸ While the FDIC designated the bank's Chairman and CEO as a dominant official in April 2025, we believe this designation could have been applied earlier.

Specifically, the FDIC applied its dominant official designation to the bank's Chairman and CEO due to their position and involvement in the day-to-day management of the bank's affairs, their role as a relationship manager for the bank's PIC portfolio, and the persistent risk management concerns that existed at the bank and its problem assets. While we believe these conditions were present as early as 2022¹⁹ and an earlier designation of a dominant official could have been made, there is no evidence to suggest that an earlier designation would have materially affected the FDIC's supervision or addressed the cause of failure. We recently reported that consistent application of the dominant official designation by FDIC examiners is critical to effective supervision.²⁰ Specifically, according to FDIC guidance, the presence of a dominant official may require enhanced supervision, including additional assessment of segregation of duties and internal controls.

Conclusion

Metro Capital's failure occurred primarily due to insufficient Board and management oversight of its high-risk business strategy with extensive levels of risky assets (e.g., unsecured and PIC loans). The bank did not apply appropriate controls and credit risk management practices to measure, monitor, and address the inherent risks associated with these assets. The bank experienced continued deterioration in credit quality, which contributed to significant loan losses and rapid deterioration of its capital.

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

¹⁸ *FDIC RMS Manual of Examination Policies*, Section 4.1, Management (October 2025).

¹⁹ While we believe that an earlier designation of a dominant official could have been applied as early as 2022, we acknowledge the constraints that the FDIC had with performing an off-site examination during this period due to the COVID-19 pandemic.

²⁰ OIG Report, *In-Depth Review of Pulaski Savings Bank, Chicago, Illinois* (EVAL-26-01) (March 2026). We did not issue a formal recommendation; however, we communicated that the FDIC did not designate the CEO of the failed bank as a dominant official when it was appropriate.



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