

Office of Inspector General

Semiannual Report to the Congress

April 1, 2010 – September 30, 2010

*Including the OIG's Performance Report for
Fiscal Year 2010*



The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's banking system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Approximately 7,400 individuals within seven specialized operating divisions and other offices carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured more than \$5.4 trillion in deposits in about 7,830 institutions, of which the FDIC supervised approximately 4,814. Although the balance of the Deposit Insurance Fund declined by \$38.1 billion during 2009, and totaled negative \$15.2 billion as of June 30, 2010, the fund's liquidity was enhanced during the fourth quarter of 2009 by 3 years of prepaid assessments and the fund is well positioned to fund resolution activity in 2010 and beyond. Receiverships under FDIC control as of June 30, 2010 totaled 265, with \$39.5 billion of assets in liquidation.

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Inspector General's Statement

A significant milestone of the past reporting period was the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) on July 21, 2010. The stated aim of the legislation is: "To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end 'too big to fail,' to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes."

The Dodd-Frank Act creates a new Financial Stability Oversight Council, of which the Federal Deposit Insurance Corporation (FDIC) is a voting member. It also establishes an independent, new Consumer Financial Protection Bureau within the Federal Reserve System; abolishes the Office of Thrift Supervision and transfers its supervisory responsibilities for federal and state-chartered thrift institutions and thrift holding companies to the Office of the Comptroller of the Currency, the FDIC, and the Federal Reserve, respectively; and gives the FDIC new authorities to help address the risks in systemically important institutions. So that the FDIC can best carry out its responsibilities under the Dodd-Frank Act, on August 10, 2010, the Board of Directors approved some internal organizational changes, establishing a new Office of Complex Financial Institutions and a new Division of Depositor and Consumer Protection. In connection with those changes, the Division of Supervision and Consumer Protection will be re-named the Division of Risk Management Supervision. The coming months will be challenging for the FDIC and all of the regulatory agencies as they carry out the mandates of the Dodd-Frank Act and continue to write rules implementing key sections.

The legislation has impacted the FDIC Office of Inspector General (OIG) in a number of ways. We will now be carrying out our oversight mission in an agency undergoing transition—one taking on new regulatory responsibilities and authorities while at the same time addressing the turmoil created by the recent financial and economic crisis that has shaken

public confidence and trust. Notably for the OIG, this Act also amended the Federal Deposit Insurance Act and changed the definition of a "material loss" requiring an OIG review to a loss that exceeds \$200 million for the period January 1, 2010 to December 31, 2011. This threshold contrasts with the \$25 million threshold under the Federal Deposit Insurance Act. Importantly, however, in accordance with the new law, we must still examine the failures of all FDIC-regulated institutions to determine whether unusual circumstances exist that warrant an in-depth review, conduct additional work, as indicated, and then report the results of all such reviews semiannually. We have chosen to do so in connection with our semiannual reporting to the Congress and, as such, have included the results of our failure reviews as Appendix 2 of this report. During the reporting period, we issued 19 material loss reviews (MLR), 2 in-depth reviews, and conducted 53 failure reviews.

As I pointed out in our last semiannual report, to the extent possible, we have shifted resources to an area of FDIC operations that is currently of utmost importance—the resolution and receivership activities of the FDIC. With 139 institution failures during 2010 to date, the FDIC is currently managing 265 receiverships with \$39.5 billion in assets. Additionally, through purchase and assumption agreements with acquiring institutions, the Corporation is engaged in more than 180 loss share agreements involving \$200 billion in assets, where the FDIC agrees to absorb a portion of the loss—generally 80-95 percent. The Corporation's overall exposure in these areas is staggering. We are providing audit coverage of a number of different activities to ensure that the FDIC's interests are protected, and that all transactions are effective, efficient, and economical. Given the volume of receivership and resolution-related contracts alone—up to \$1.8 billion worth—it is critical to have controls in place to mitigate risks and ensure integrity in contracting activities. As our MLR work continues to subside going forward, we hope to add additional audit, evaluation, and

investigative resources to this area. Over the past 6 months, we issued five reports addressing the FDIC's recent resolution and receivership activities.

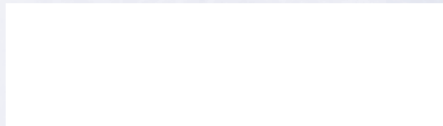
In our last semiannual report, I also mentioned our work related to the failure of Washington Mutual Bank. That report was issued in April and, in combination with certain provisions in the Dodd-Frank Act, has had a significant impact on the FDIC in its role as deposit insurer and back-up regulator. As we recommended, the FDIC entered into a new interagency agreement that provides enhanced authority for the FDIC to conduct special examinations. The Corporation has also received additional back-up authority for large non-bank holding companies and bank holding companies or any depository institution holding company posing risks to the Deposit Insurance Fund. Additionally, the Corporation took steps to revise its deposit insurance assessment system and is now addressing Dodd-Frank Act requirements to redefine the assessment base for large institutions. I am pleased to have joined our Department of the Treasury OIG colleagues in conducting this work and proud of what the team recommended and accomplished for the banking industry and the public.

Our Office of Investigations continued to pursue a heavy caseload involving financial institution fraud at both open and closed institutions during the reporting period, in partnership with the Department of Justice, the Federal Bureau of Investigation, colleagues in the Inspector General community, and other federal and state law enforcement colleagues. Our investigative results during the period include 122 indictments, 77 convictions, and over \$160 million in fines, restitution, and asset forfeitures. We continue efforts to ensure integrity in the financial services industry and are currently focusing on maximizing the impact that our investigators can have in the FDIC's resolution and receivership activities.

In closing, and in connection with the Dodd-Frank Act, Inspectors General are now required to report the results of the peer review activities that they have been engaged in—both from a reviewed and a reviewing Inspector General perspective. In accordance with the Act, our peer review activities are presented in Appendix 3. Peer reviews of both an OIG's audit and investigative operations are critical to ensuring quality operations, and the new requirements for public disclosure of results in semiannual reports serve to provide a transparent view of the core activities of an OIG.

I am especially pleased to report that the Railroad Retirement Board OIG completed its peer review of the audit organization of my office during the reporting period, and we received a rating of pass—indicating that the system of quality control for our audit organization has been suitably designed and complied with to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Given the extraordinary circumstances under which we were conducting our MLR and other work during the period covered by the peer review, I am especially proud of the OIG's audit, MLR, and evaluation leadership and staff, whose completed assignments were closely examined as part of the peer review. Our most recent investigative peer review, completed by the Department of the Interior OIG in September 2009, was equally successful. That review team found that our system of internal safeguards and investigative management procedures complied with applicable quality standards and Attorney General guidelines and provided us reasonable assurance of complying with professional standards in conducting our investigations.

I am committed to sustaining the quality of all of our work and assisting the FDIC in its efforts to restore the vitality and stability of the financial system over the coming months.



Jon T. Rymer
Inspector General
October 2010

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Abbreviations and Acronyms

ADC	acquisition, development, and construction
ASBD	Alabama State Banking Department
BDO	BDO USA, LLP
BSA	Bank Secrecy Act
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CDFI	California Department of Financial Institutions
CFI	Office of Complex Financial Institutions
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CPP	Capital Purchase Program
CRE	commercial real estate
DIF	Deposit Insurance Fund
DOC	Department of Commerce
DOI	Department of the Interior
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRR	Division of Resolutions and Receiverships
DSC	Division of Supervision and Consumer Protection
ECIE	Executive Council on Integrity and Efficiency
ECU	Electronic Crimes Unit
Fannie Mae	Federal National Mortgage Association
FBI	Federal Bureau of Investigation
FBOP	FBOP Corporation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FISMA	Federal Information Security Management Act
Freddie Mac	Federal Home Loan Mortgage Corporation
GAO	Government Accountability Office
GPRA	Government Performance and Results Act of 1993
IDFPR	Illinois Department of Financial and Professional Regulation
IDR	in-depth review
IG	Inspector General
IT	Information Technology
LIDI	Large Insured Depository Institution
LSA	loss share agreement
MLR	Material Loss Review
MWL	mortgage warehouse lending
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
P&A	purchase and assumption
PCA	Prompt Corrective Action
PCIE	President's Council on Integrity and Efficiency
SIGAR	Special Inspector General for Afghanistan Reconstruction
TIGTA	Treasury Inspector General for Tax Administration
UCB	United Commercial Bank
UCBH	United Commercial Bank Holdings, Inc.
WaMu	Washington Mutual Bank
VISION	Virtual Supervisory Information on the Net
WaMu	Washington Mutual Bank



Highlights and Outcomes

The OIG works to achieve five strategic goals that are closely linked to the FDIC's mission, programs, and activities, and one that focuses on the OIG's internal business and management processes. These highlights show our progress in meeting these goals during the reporting period. Given our statutorily mandated MLR workload, most of our efforts during the reporting period have continued to focus on our first and second goals of assisting the Corporation to ensure the safety and soundness of banks and the viability of the insurance fund. Based on the risks inherent in the resolution and receivership areas, we have shifted scarce available audit resources to conduct work in support of our fourth goal. We have not devoted as much coverage as in the past in the two goal areas involving consumer protection and the FDIC's internal operations during the past 6 month period. A more in-depth discussion of OIG audits, evaluations, investigations, and other activities in pursuit of all of our strategic goals follows.

Strategic Goal 1

Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. In early May 2009, we conveyed to the FDIC Audit Committee and the Division of Supervision and Consumer Protection (DSC) our perspectives on the commonalities in the eight MLR reports we had drafted or finalized to date. The Corporation has taken and continues to take a number of actions that address the concerns since that time. We continue a very cooperative working relationship with DSC on these matters. During the reporting period, we completed 21 reports on institutions whose failures resulted in substantial losses to the

Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. Many of our initial MLR observations continue to be confirmed in our more recent work, and we continued to share and supplement our views on trends in the failures and the FDIC's supervision of the institutions during the reporting period. In fact, we engaged in a cooperative training effort with DSC to share perspectives on institution failures and supervisory activities in early April. We also conducted a follow-up review of the actions DSC has taken in response to issues and trends identified in MLRs, and that project was ongoing as of the end of the reporting period. Given requirements of the Dodd-Frank Act, we undertook 53 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the new threshold of \$200 million and determined whether any unusual circumstances existed that would warrant an in-depth review in those cases. Ongoing work in support of this goal at the end of the reporting period also included 17 MLRs or in-depth reviews of failed FDIC-regulated banks, 19 failure reviews, and an evaluation related to the effectiveness of the Prompt Regulatory Action provisions of the Federal Deposit Insurance Act.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of mortgage fraud and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the sentencing of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failure. For example, a former senior vice president and chief lending officer at the Bank of Clark County,

Vancouver, Washington was sentenced to 4 months in prison and fined for scheming to conceal property appraisal records from bank examiners. The former president of the Bank of Alamo was sentenced to 3 years of probation and ordered to pay restitution in excess of \$1.4 million for his part in falsifying bank records and making loans in excess of the bank's legal lending limits. Three former customers of Omni National Bank received stiff penalties for their roles in bank fraud, wire fraud, mail fraud, and identity theft. One of the three was sentenced to 16 years and 2 months of incarceration and ordered to pay \$2.2 million in restitution. Also of note during the reporting period was our success in several mortgage fraud cases worked in connection with the Mortgage Fraud Strike Force, Southern District of Florida.

The Office of Investigations also continued its close coordination and outreach with DSC, the Division of Resolutions and Receiverships (DRR), and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with DSC and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 9-26.)

Strategic Goal 2

Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

Our MLR work fully supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses. We issued the results of our work with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction involving Washington Mutual Bank (WaMu), including evaluating the Office of Thrift Supervision's supervision of WaMu and the FDIC's supervision and monitoring of WaMu in its role as back-up regulator and insurer. In that report, we made three recommendations, including two related to the FDIC's role as insurer and back-up regulator. Actions taken in connection with these recommendations and as a result of the Dodd-Frank Act will enhance the FDIC's back-up authority and its conduct of

special examinations, and bring about changes in its deposit insurance assessment system. (See pages 27-30.)

Strategic Goal 3

Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Audits and evaluations can contribute to the FDIC's protection of consumers in several ways. We did not devote substantial resources of this type to specific consumer protection matters during the past 6 month period because for the most part, we have continued to devote resources to MLR work and more recently to critical FDIC activities in the resolution and receivership realms. Our Office of Investigations, however, supports this goal through its work, particularly by way of its Electronic Crimes Unit (ECU). The ECU responded to instances where fraudulent emails and facsimiles purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The ECU successfully deactivated 10 fraudulent email accounts and several telephone numbers used for such purposes. (See pages 31-32.)

Strategic Goal 4

Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships

We completed five assignments in this goal area during the reporting period. Some months ago, we contracted with KPMG to perform a risk assessment and develop audit programs for resolution and receivership activities. We prioritized audit work to address the risks that KPMG identified as well as the OIG's own assessment of vulnerable program areas and issued the results of three assignments related to loss share agreements and an audit of the proforma process for Corus Bank, N.A. With respect to the impact of our audits of loss share agreements, FDIC management has agreed with \$33.9 million in monetary benefits related to questioned loss claims and is taking action on nearly 60 recommendations to address our concerns. We also issued an evaluation report, conducted at the request of the Ranking Member of the House Committee on Oversight and Government Reform, related to the timeliness and factors considered in closing Broadway Bank,

Chicago, Illinois. As of the end of the reporting period, ongoing work included additional audits of loss share agreements, structured sales, and franchise marketing activities.

From an investigative standpoint, we concluded the case of a former FDIC contractor working in an FDIC receivership who was sentenced and fined for releasing confidential information. We also continued to provide forensic support at bank closings where fraud was suspected and to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed. (See pages 33-39.)

Strategic Goal 5

Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

In support of this goal area, we conducted work on the FDIC's information security practices pursuant to the Federal Information Security Management Act. The objective of that audit is to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Act and related policies, procedures, standards, and guidelines. The final report will be issued in mid-November 2010.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline and other referrals and coordination with the FDIC's Divisions and Offices, including the Ethics Office, as warranted. (See pages 40-42.)

Strategic Goal 6

OIG Resources Management: Build and Sustain a High-Quality OIG Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

Importantly with respect to this goal, during the reporting period we received a rating of pass on the peer review of our audit organization, indicating that our system of quality control has been designed and complied with to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

To ensure effective and efficient management of

OIG resources, among other activities, we continued realignment of the OIG investigative resources with FDIC regions and satellite offices, hired additional audit staff for resolution and receivership work, and examined staffing plans and budget resources to ensure our office is positioned to handle our increasing workload and risks to the FDIC. We monitored OIG expenses for Fiscal Year 2010 and our funding status for Fiscal Year 2011 to ensure availability of funds on October 1, 2010. We formulated the FDIC OIG's Fiscal Year 2012 budget and provided it to the FDIC Chairman for approval (received on October 26, 2010). This budget requests \$45.3 million to support 144 full time equivalents. It will be provided to the Office of Management and Budget for inclusion in the President's budget.

We implemented a new process for reviewing all failures of FDIC-supervised institutions not meeting the new \$200 million threshold triggering an MLR and made changes to our information tracking system to capture this and other reporting information now required under the Dodd-Frank Act. We continued to contract with qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the Inspector General feedback form for the Office of Material Loss Reviews, Office of Audits, and Office of Evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by employing a number of college interns on a part-time basis to assist us, some of whom returned permanently under the FDIC's Student Career Experience Program. We also offered opportunities for OIG staff to attend graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry and supported staff taking FDIC leadership training courses.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the Government Accountability Office. Senior OIG executives were speakers at a number of

professional organization and government forums, for example those sponsored by the Association of Government Accountants, the American Institute of Certified Public Accountants, Department of Justice, and FDIC Divisions and Offices. The OIG participated in corporate diversity events, and we developed a new public inquiry intake system and maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work. (See pages 43-47.)

Significant Outcomes	
(April 2010– September 2010)	
Material Loss Review, Audit , and Evaluation Reports Issued	28
Questioned Costs and Funds Put to Better Use	\$36,042,671
Nonmonetary Recommendations	43
Investigations Opened	39
Investigations Closed	20
OIG Subpoenas Issued	3
Judicial Actions:	
Indictments/Informations	122
Convictions	77
Arrests	75
OIG Investigations Resulted in:	
Fines of	\$8,600
Restitution of	\$147,841,876
Asset Forfeiture of	\$12,265,173
Total	\$160,115,649
Cases Referred to the Department of Justice (U.S. Attorney)	58
Cases Referred to FDIC Management	0
OIG Cases Conducted Jointly with Other Agencies	116
Hotline Allegations Referred	80
Proposed Regulations and Legislation Reviewed	3
Proposed FDIC Policies Reviewed	6
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Strategic Goal 1

The OIG Will Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for approximately 4,800 FDIC-insured, state-chartered institutions that are not members of the Board of Governors of the Federal Reserve System (Federal Reserve)—generally referred to as "state non-member" institutions. The Department of the Treasury (the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS)) or the Federal Reserve supervise other banks and thrifts, depending on the institution's charter. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 3,000 national banks, state-chartered banks that are members of the Federal Reserve, and savings associations.

The examination of the institutions that it regulates is a core FDIC function. Through this process, the FDIC assesses the adequacy of management and internal control systems to identify, measure, monitor, and control risks; and bank examiners judge the safety and soundness of a bank's operations. The examination program employs risk-focused supervision for banks. According to examination policy, the objective of a risk-focused examination is to effectively evaluate the safety and soundness of the bank, including the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing resources on the bank's highest risks. Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act (BSA), which requires financial institutions to keep records and file reports on certain financial transactions. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of a BSA examination.

With passage of the Dodd-Frank Act, the coming

months will bring significant organizational changes to the FDIC's current supervision program in the Division of Supervision and Consumer Protection (DSC). That is, the FDIC Board of Directors approved the establishment of an Office of Complex Financial Institutions (CFI) and a Division of Depositor and Consumer Protection. In that connection, DSC will be renamed the Division of Risk Management Supervision. CFI will begin operations soon and will focus on overseeing bank holding companies with more than \$100 billion in assets and their corresponding insured depository institutions. CFI will also be responsible for non-bank financial companies designated as systemically important by the Financial Stability Oversight Council, of which the FDIC is a voting member. CFI and DSC will coordinate closely on all supervisory activities for insured state non-member institutions that exceed \$100 billion in assets, and DSC will be responsible for the overall Large Insured Depository Institution program.

Prior to passage of the Dodd-Frank Act, in the event of an insured depository institution failure, the Federal Deposit Insurance (FDI) Act required the cognizant OIG to perform a review when the DIF incurs a material loss. Under the FDI Act, a loss was considered material to the insurance fund if it exceeded \$25 million and 2 percent of the failed institution's total assets. With the passage of Dodd-Frank Act, the loss threshold was increased to \$200 million for failures occurring between January 1, 2010 and December 31, 2011. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the Federal Reserve perform reviews when their agencies are the primary regulators. These reviews identify what caused the material loss, evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action (PCA) requirements of the FDI Act), and generally propose recommendations to prevent

future failures. Importantly, under the Dodd-Frank Act, the OIG is required to review all losses incurred by the DIF under the \$200 million threshold to determine (a) the grounds identified by the state or Federal banking agency for appointing the Corporation as receiver and (b) whether any unusual circumstances exist that might warrant an in-depth review (IDR) of the loss. During the past 6 month reporting period, 87 FDIC-insured institutions failed. The OIG has implemented processes to conduct and report on MLRs and IDRs of failed FDIC-supervised institutions, as warranted, and continues to review all failures for any unusual circumstances.

The number of institutions on the FDIC's "Problem List" has also continued to rise. As of June 30, 2010, there were 829 insured institutions on the "Problem List," indicating a probability of more failures to come and an increased asset disposition workload. Total assets of problem institutions increased to \$403 billion. Given these numbers, many more institution failures are likely in the months ahead.

The OIG's audits and evaluations are generally designed to address various aspects of the Corporation's supervision and examination activities. Through their investigations of financial institution fraud, the OIG's investigators also play a critical role in helping to ensure the nation's banks operate safely and soundly. Because fraud is both purposeful and hard to detect, it can significantly raise the cost of a bank failure, and examiners must be alert to the possibility of fraudulent activity in financial institutions.

The OIG's Office of Investigations works closely with FDIC management in DSC and the Legal Division to identify and investigate financial institution crime, especially various types of fraud. OIG investigative efforts are concentrated on those cases of most significance or potential impact to the FDIC and its programs. The goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Pursuing appropriate criminal penalties not only serves to punish the offender but can also deter others from participating in similar crimes. Our criminal investigations can also be of benefit to the FDIC in pursuing enforcement actions to prohibit offenders from continued participation in the banking system. When investigating instances of financial institution

fraud, the OIG also defends the vitality of the FDIC's examination program by investigating associated allegations or instances of criminal obstruction of bank examinations and by working with U.S. Attorneys' Offices to bring these cases to justice.

The OIG's investigations of financial institution fraud currently constitute about 89 percent of the OIG's investigation caseload. The OIG is also committed to continuing its involvement in interagency forums addressing fraud. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, the OIG engages in industry outreach efforts to keep financial institutions informed on fraud-related issues and to educate bankers on the role of the OIG in combating financial institution fraud.

To assist the FDIC to ensure the nation's banks operate safely and soundly, the OIG's **2010 performance goals** were as follows:

- Help ensure the effectiveness and efficiency of the FDIC's supervision program, and
- Investigate and assist in prosecuting BSA violations, money laundering, terrorist financing, fraud, and other financial crimes in FDIC-insured institutions.

OIG Work in Support of Goal 1

The OIG issued 21 reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. These reports communicated the results of MLRs and IDRs. We also conducted failure reviews of an additional 53 failures to determine whether unusual circumstances existed to pursue an IDR. Appendix 2 in this report presents the results of the failure reviews that we conducted. Ongoing audit work in support of the goal area as of the end of the reporting period included 17 MLRs/IDRs to determine the causes for the failures of FDIC-supervised financial institutions and assess the FDIC's supervision of the institutions.

OIG Identifies MLR Trends

In May 2009, quite early-on in our MLR work, the OIG identified and shared with the Audit Committee and DSC our perspectives on MLR trends. Our initial

observations on the common characteristics of failures were based on six completed and two draft MLR reports.

Based on that early work, we suggested that greater consideration of risk in assigning Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS) component and composite ratings in addition to reliance on current financial condition appeared to be needed. Risky behaviors that did not seem to have had a meaningful impact on CAMELS ratings included: pursuit of aggressive growth in commercial real estate (CRE) and acquisition, development, and construction (ADC) loans; excessive levels of asset concentration with little risk mitigation; reliance on wholesale funding to fund asset growth; ineffective leadership from bank boards of directors and management; inadequate loan underwriting and lack of other loan portfolio and risk management controls, including appropriate use of interest reserves; allowance for loan and lease losses methodology and funding; and compensation arrangements that were tied to quantity of loans rather than quality.

We also identified special issues with regard to “de novo” institutions, and we emphasized the need to monitor business plans closely; consider growth exceeding the plan as a risk to be managed; and ensure that management expertise and operations/administrative structures kept pace with asset growth. We further observed that PCA did not appear to have prevented failure of the institutions we had reviewed to date. Also, examiners generally had not used the non-capital provisions of PCA to curtail activities that contributed to losses to the DIF.

Our MLR work has continued to validate the earlier issues we identified. Other issues contributing to institution failures and losses have surfaced in subsequent reviews. These include, for example, banks that had purchased loan participations—sometimes out-of-territory—in order to rapidly grow the loan portfolio or as a change in strategic business direction. In some cases, the banks did not conduct adequate due diligence or adequately administer these loans after purchase. We have also seen instances of significant losses related to collateralized debt obligations, collateralized mortgage obligations, and government-sponsored enterprise stocks such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home

Loan Mortgage Corporation (Freddie Mac) preferred stock. In some cases as well, banks had concentrations in large borrowing relationships and may not have properly assessed the borrower’s global financial condition, including the impact that problems on projects financed at other institutions might have on the borrower’s repayment capacity. With respect to bank Boards and management, we noted in some of our MLRs instances where there was a lack of sufficient expertise or an inability to deal with a sudden change in business strategy, for example purchasing complex credit products without knowledgeable staff on board to handle these products. Such risky practices were not always acted upon early enough through the FDIC’s on-site examination process or off-site monitoring tools.

The OIG has continued to communicate these and other issues to DSC senior management and staff by way of numerous visits to FDIC regional offices and through constructive meetings and dialogue with DSC representatives throughout the MLR process. Additionally, during the reporting period, in monthly Audit Committee meetings, the OIG presented the results of all completed MLRs, and that forum has continued to focus high-level attention on evolving MLR issues.

FDIC Actions to Address MLR Trends and Related Supervisory Issues

The FDIC’s actions, generally taken to address the recurring characteristics in institution failures, have been manifested in a “Forward Looking Supervision” approach that focuses on lessons learned from the economic crisis, including common risk characteristics noted at problem and failed institutions. DSC completed a training initiative on this approach for its entire supervisory workforce. The training emphasizes the rapidly changing financial environment and stresses the importance of considering a financial institution’s high-risk practices in addition to the bank’s financial condition when assessing risk, assigning CAMELS ratings, and determining when and what type of supervisory/enforcement action to recommend.

In addition to emphasizing consideration of risk, the FDIC has established Corporate Performance Goals related to certain MLR issues. Also, in January 2010, DSC issued guidance that defines a standard approach for communicating matters requiring

Board attention (e.g., examiner concerns and recommendations) in examination reports. The guidance states that examination staff should request a response from the institution regarding the action that it will take to mitigate the risks identified during the examination and correct noted deficiencies. This approach provides examiners with another tool to hold Board and management accountable for improved performance and should also facilitate effective supervisory follow-up.

The FDIC has also taken specific actions related to conducting interim visitations and accelerating on-site examinations, and enhancing off-site monitoring activities. In addition, the FDIC has extended the de novo period from 3 to 7 years and issued revised guidance related to de novo banks including, but not limited to, the review of de novo bank deposit insurance application processing, reviewing a bank's compliance with its business plan, and determining whether a financial institution has materially deviated from its business plan. Other DSC actions to address supervisory concerns include interagency efforts to address more systemic MLR trends such as capital definitions and levels and liquidity.

At the end of the reporting period, we were completing a follow-up review to publicly report on actions the FDIC has taken to enhance its supervision program since May 2009 and identify trends and issues in subsequent MLRs, the results of which will be conveyed in our next semiannual report. Additionally, we have initiated an evaluation of the role and federal regulators' use of the Prompt Regulatory Action provisions of the FDIC Act and will communicate those results in an upcoming report.

Material Loss Review Results During the Reporting Period

In accordance with the FDI Act, and as amended by the Dodd-Frank Act, the audit objectives for each of the reviews we conducted during the reporting period were to (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision of the institution, including implementation of the PCA provisions of section 38.

The following selected MLR summaries present three MLRs of particular interest conducted during

the reporting period. The first is the MLR of United Commercial Bank (UCB), a bank headquartered in San Francisco, whose rapid expansion created risks that the bank's Board and management failed to adequately oversee. Adding to the bank's problems were inaccuracies, omissions, and misrepresentations affecting key UCB financial data. UCB's loss to the DIF is estimated at \$1.5 billion. The second MLR discussed below is that of Colonial Bank, Montgomery, Alabama. This failure, which caused an estimated loss of \$3.8 billion resulted from a liquidity crisis brought on by management's failure to manage risks associated with high concentrations in ADC loans and higher risk mortgage-backed securities; deficiencies in loan underwriting, credit administration and risk analysis; and an alleged fraud in its mortgage warehouse lending operation. Finally, we discuss the failures of North Houston Bank, Houston, Texas, and Madisonville State Bank, Madisonville, Texas, two of nine wholly-owned subsidiaries of the FBOP Corporation, a privately held financial holding company headquartered in Oak Park, Illinois. All nine subsidiaries failed. The FDIC was the primary federal regulator for North Houston and Madisonville Banks. These two institutions failed because their Boards and management did not effectively manage the risks associated with the institutions' investment securities, in particular, Fannie Mae and Freddie Mac preferred stock. The combined losses to the DIF resulting from these two failures were of a smaller magnitude, totaling \$74.7 million.

United Commercial Bank

On November 6, 2009, the California Department of Financial Institutions (CDFI) closed UCB, San Francisco, California, and named the FDIC as receiver. On January 20, 2010, the FDIC notified the OIG that UCB's total assets at closing were \$10.9 billion and the estimated loss to the DIF was \$1.4 billion. As of June 25, 2010, the estimated loss to the DIF had increased to \$1.5 billion.

UCB was a state, nonmember commercial bank, and the only significant subsidiary of United Commercial Bank Holdings, Inc. (UCBH), a one-bank holding company, which operated essentially as a shell company. UCB's assets comprised 99.5 percent of UCBH's assets. UCB was founded as United Federal Savings and Loan Association in 1974 to serve the financial needs of San Francisco's Chinese commu-

Failure Reviews

The Dodd-Frank Wall Street Reform and Consumer Protection Act amends section 38(k) of the Federal Deposit Insurance Act (FDI Act) by increasing the material loss review (MLR) threshold from \$25 million to \$200 million for losses that occur for the period January 1, 2010 through December 31, 2011.

The Act also requires the OIG to review all other losses incurred by the DIF to determine (a) the grounds identified by the state or Federal banking agency for appointing the Corporation as receiver and (b) whether any unusual circumstances exist that might warrant an in-depth review (IDR) of the loss. We make our determination regarding the need for an IDR based upon the following criteria: (1) the dollar value and/or percentage of loss; (2) the institution's background, such as charter type and history, geographic location, affiliations, business strategy, and de novo status; (3) an uncommon cause of failure based on prior MLR findings; (4) the existence of unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and the FDIC; and (5) other factors, such as apparent fraud, or a request by the FDIC Chairman or management, a Member of Congress, or the Inspector General.

As required under the Dodd-Frank Act, Appendix 2 of this report summarizes the results of our review of institution failures for which the loss was not material, as newly defined by the Act. As shown in the appendix, we completed 53 failure reviews of institutions whose losses to the DIF did not exceed \$200 million. As of September 30, 2010, these reviews resulted in decisions to continue work on eight failures that were begun as MLRs and conduct one IDR because of unusual circumstances. Nineteen failure reviews were ongoing as of the end of the reporting period.

nity. As the Chinese-American population grew and expanded throughout California, the institution became United Savings Bank, Federal Savings Bank, enabling it to provide statewide banking services. In 1998, to reflect its rapidly growing focus on commercial banking activities, the institution converted its charter from a savings and loan regulated by the OTS to a commercial bank regulated by the FDIC, and was renamed UCB. The bank was headquartered in San Francisco and provided a full range of commercial and consumer banking products to small- and medium-sized businesses,

professionals, and other individuals. Beginning in the late 1990s, UCB expanded beyond its core market of California through mergers and acquisitions, both domestically and abroad.

Causes of Failure and Material

Loss: The primary reason for UCB's failure was inadequate oversight by the Board of Directors (Board) and management. In particular, UCB's Board and management failed to control the risks associated with the institution's rapid expansion, which began in 2002. Further, management controls were insufficient to prevent the occurrence of inaccuracies, omissions, and misrepresentations that affected key UCB financial data. In this regard, examiners informed UCB's external auditor of asset quality issues identified in the FDIC's April 2009 targeted review, which in part led to an investigation commissioned by UCBH's audit committee in May 2009. The investigation found that various UCB officials misrepresented or omitted relevant loan performance data, altered documents to improve the perception of loan quality, and made other misrepresentations that impacted UCBH's financial statements. UCBH reported that its 2008 financial statements were materially inaccurate and required revision. The investigation and UCBH's inaccurate financial statements made it harder

for UCB to raise the capital the bank needed in 2009 to absorb substantial provisions and losses associated with its loan portfolio.

Also contributing to the failure were UCB's high concentrations in ADC and CRE loans and heavy reliance on non-core funding sources to support its expansion efforts, all of which increased the bank's risk profile. UCB management was reluctant to downgrade troubled loans in a timely manner, in an effort to mask deteriorating financial conditions. As the real estate market declined, UCB experienced increasing levels of adversely classified

assets and associated losses, which required significant increases to its allowance for loan and lease losses. Losses and provisions associated with ADC and CRE concentrations eroded the bank's earnings and capital and led to deficient liquidity. Absent an adequate capital infusion and improvement to the bank's liquidity position, the CDFI closed UCB on November 6, 2009 because it was no longer viable.

The FDIC's Supervision of UCB: The FDIC conducted timely and regular examinations of UCB and monitored its condition through offsite monitoring mechanisms. The examinations included onsite reviews of UCB's Hong Kong branch and a bank that it owned in China in 2008 and 2009, respectively. San Francisco Regional Office officials told us that misrepresentations and financial reporting matters that were identified in the investigation masked the bank's true financial condition and frustrated examination efforts in late 2008 and into 2009. Through its supervisory efforts, the FDIC identified key risks in UCB's operations and brought these risks to the attention of the institution's Board and management in examination reports and other correspondence. The FDIC also instituted a Bank Board Resolution in 2008 to address UCB's non-compliance with BSA and a Cease and Desist Order in 2009 requiring UCB to develop an adequate capital restoration plan. Finally, the FDIC implemented applicable PCA provisions of section 38 of the FDI Act in a timely manner.

Notwithstanding these supervisory efforts:

- Given UCB Board and management weaknesses reported during 2007 through 2009, a lower Management component rating may have been justified earlier than April 2009;
- While DSC downgraded UCB's Asset Quality component rating in consecutive examinations and targeted reviews during 2008 and 2009, given the bank's rapidly deteriorating financial condition, an informal supervisory action based on the December 2008 visitation may have been warranted; and
- Although DSC noted that it closely monitored UCB in 2008, had DSC transitioned UCB to a targeted review schedule during that year, the FDIC may have had additional information upon which to base its October 2008 Capital Purchase Program (CPP) funding recommendation.

We also determined that while the FDIC monitored

UCB through the FDIC's Large Insured Depository Institution (LIDI) program, as required, the FDIC's quarterly LIDI ratings were lower than UCB examination ratings during 2008, reflecting the more forward-looking orientation of the LIDI program.

Capital Purchase Program: In November 2008, UCB's holding company, UCBH, received \$298.7 million through the Department of the Treasury's Troubled Asset Relief Program's (TARP) CPP, which resulted in a loss to the Department of the Treasury when UCB failed. As a result, we added a third objective to this review, which was to determine whether the FDIC followed applicable procedures in recommending UCBH for CPP funding and in monitoring UCB's compliance with the CPP securities purchase agreement with the Department of the Treasury.

UCB was the first depository institution to lose CPP funds. Nevertheless, we determined that (1) the FDIC followed applicable procedures in recommending UCBH for CPP funding and (2) examiners evaluated UCB's compliance with the CPP Securities Purchase Agreement in accordance with DSC guidance. The FDIC was not aware of UCB's serious financial reporting matters when it assessed UCB's Troubled Asset Relief Program application in October 2008; these matters became apparent in 2009, after the investigation by UCBH's audit committee.

In its response to our report, DSC reiterated the OIG's conclusions regarding the causes of UCB's failure. With regard to our assessment of the FDIC's supervision of UCB, DSC stated that from 2005 through 2009, the FDIC and the CDFI jointly and separately completed several examinations, visitations, reviews, and other oversight activities of UCB. Through these activities, examiners identified key risks and brought them to the attention of UCB's Board and management in examination reports and other correspondence. DSC pointed out that in December 2008, the FDIC and the CDFI downgraded UCB's Asset Quality and Earnings component ratings to "3" and identified further deterioration during an April 2009 joint targeted review. DSC also stated that UCBH's external auditor found that UCB's management had begun to conceal serious financial reporting issues around October 2008. Finally, DSC stated that it has issued guidance from 2006 through 2009 that re-emphasizes the importance of monitoring institutions that have concentrated ADC and CRE exposures and rely on volatile non-core funding sources.

Colonial Bank, Montgomery Alabama

On August 14, 2009, the Alabama State Banking Department (ASBD) closed Colonial Bank (Colonial) and named the FDIC as receiver. On October 24, 2009, the FDIC notified the OIG that Colonial's total assets at closing were \$25.2 billion and that the estimated loss to the DIF was \$2.7 billion. As of March 31, 2010, the estimated loss to the DIF had increased to \$3.8 billion. As discussed throughout our report, Colonial switched its charter from a national to a state nonmember bank in June 2008, just 14 months prior to its failure. As a result, our MLR also addressed the OCC's supervisory activities as the primary federal regulator and the FDIC's monitoring of the bank as back-up federal regulator from 2004 through 2008.

Colonial was a state-chartered nonmember bank that was insured in 1934. The bank converted its charter three times between 1997 and 2008, most recently in June 2008 when it converted from a national charter to a state-chartered nonmember bank. For the period of our review, the bank was supervised by the OCC, the FDIC, and the ASBD. Colonial was headquartered in Montgomery, Alabama and had 346 offices located in Alabama, Georgia, Florida, Texas, and Nevada. The bank segmented its operations into five regional bank groups and one mortgage warehouse lending (MWL) operation, located in Orlando, Florida. Asset growth averaged 12 percent, annually, from 2002 through 2007. Colonial's loan portfolio was concentrated in CRE with an emphasis ADC loans. The bank's ADC loan portfolio, higher-risk security investments, and MWL-related loans were concentrated within the high-growth real estate markets of Florida, Georgia, and Nevada and were negatively impacted when these real estate markets experienced a downturn in 2007.

Causes of Failure and Material Loss: Colonial failed due to a liquidity crisis brought on by (1) bank management's failure to implement adequate risk management practices pertaining to its significant concentrations in ADC loans and investments in higher-risk, mortgage-backed securities; (2) deficiencies in loan underwriting, credit administration, and risk analysis and recognition; and (3) an alleged fraud affecting its MWL operation. In the years preceding the bank's failure, the OCC, the FDIC, and the ASBD each expressed concern about Colonial's

risk management practices and made recommendations for improvement. However, the actions taken by Colonial's Board and management to address these concerns and recommendations were not timely or adequate.

Weaknesses in Colonial's risk management practices translated into a decline in the quality of the bank's ADC loans, mortgage-backed securities, and MWL operation, as the bank's primary real estate lending markets began to deteriorate in 2007. From January 2006 to June 2009, the bank charged off \$998 million in loans, of which \$752 million (75 percent) were losses within the ADC loan portfolio. In addition, loan delinquencies significantly increased and, as of June 2009, 25 percent of the bank's ADC loan portfolio was 90 days past due or on nonaccrual. The loan-related losses and provisions associated with this decline depleted earnings, eroded capital, and impaired the bank's liquidity position. As of June 2009, the bank also had \$377 million in unrealized securities losses in its Other Mortgage-Backed Securities portfolio, which increased to a realized loss of \$760 million upon sale of the securities by the FDIC through its resolution process. Further, the FDIC estimated that the bank incurred an approximate loss of \$1.7 billion due to activities related to the MWL operation. Ultimately, the ASBD closed Colonial based on a determination that the institution did not have a sufficient level of liquidity, losses would deplete capital, and the bank had no credible prospect for raising additional equity.

Regulatory Supervision of Colonial: When the bank became a state-chartered institution in June 2008, the FDIC promptly devoted substantial resources to overseeing Colonial, primarily through a continuous on-site examination of the bank. As the bank's primary federal regulator, the FDIC identified and addressed key risks in Colonial's management practices and operations – including some that the OCC had already reported on and was in the process of addressing through rating downgrades and a Cease and Desist Order – and brought these risks to the attention of the bank's Board and management through regular discussions and correspondence, timely targeted reviews and memoranda, and an examination report. These risks included weak risk management practices pertaining to the bank's ADC loan concentrations, loan underwriting, credit administration, and risk analysis and recognition.

To address the weaknesses identified at the institution, the FDIC utilized various tools to obtain corrective actions, including recommendations, interim rating downgrades, and informal and formal actions. Within 3 months of becoming Colonial's primary federal regulator, the FDIC downgraded the bank's composite rating and, 3 months later, executed a Memorandum of Understanding with Colonial. Six months after executing the Memorandum of Understanding, the FDIC further downgraded the bank and issued a Cease and Desist Order. Although bank management made some improvements to the bank's operations, its actions were insufficient to prevent Colonial's failure.

Based on the supervisory actions taken with respect to Colonial, the FDIC properly implemented applicable PCA provisions of section 38. However, by the time Colonial's capital levels fell below the required thresholds necessary to implement PCA, the bank's condition had deteriorated to the point at which the institution could not raise additional capital in the time period necessary to prevent its failure. As a result, the ASBD closed Colonial on August 14, 2009.

The FDIC's Monitoring of Colonial as Back-up

Regulator: In its role as insurer and back-up regulator, the FDIC is responsible for regularly monitoring and assessing potential risk to the DIF at all insured institutions, including those for which it is not the primary federal regulator. In the case of Colonial, from 2004 to 2008, the FDIC performed its back-up monitoring activities in accordance with policies, procedures, and practices in effect at the time. Case managers reviewed OCC examination reports and other financial data and produced reports that indicated their assessment of risk at Colonial was consistent with that of the OCC. Further, at the end of 2007, the FDIC's case manager noted that a high concentration in ADC and CRE loans, primarily in Florida, were keys risks and regulatory concerns—as the OCC had also concluded at that time.

On April 9, 2010, the OIGs of the FDIC and the Department of the Treasury jointly issued a report, entitled, *Evaluation of Federal Regulatory Oversight of Washington Mutual Bank* (Report No. EVAL-10-002). The report provides a comprehensive look at a failed institution from both the primary and back-up regulatory perspective. The report highlighted two major concerns related to deposit insurance regula-

tions and the interagency agreement governing back-up authority and included two recommendations, which the FDIC implemented to address these concerns. (See WaMu write-up later in this report.)

We issued a draft of this report to FDIC management on April 9, 2010. We also provided the draft to the ASBD and the OCC for their review. The FDIC and the ASBD provided formal written comments on April 23, 2010. The OCC provided informal feedback on the draft report. The views of the FDIC, ASBD, and OCC were incorporated in our report, as appropriate. In its response, DSC reiterated the OIG's conclusions regarding the causes of Colonial's failure. With regard to our assessment of the FDIC's supervision of Colonial, DSC's response stated that after converting to a state-chartered institution in June 2008, Colonial was placed under DSC's continuous examination program, and ratings were adjusted and corrective actions taken as warranted by Colonial's practices and condition. DSC also stated that "FDIC has the authority to conduct special or 'back-up' examinations of insured institutions for which FDIC is not the primary federal regulator. However, under the terms of an Interagency Agreement with the other primary federal regulators, that examination authority is limited for insured institutions that have a composite rating of "1" or "2." In recognition that greater information sharing is needed to adequately assess risks to the DIF, the FDIC has proposed to the other primary federal regulators modifications to strengthen that Interagency Agreement. We are hopeful that a consensus can be reached on those changes in the near future." In its comments, the ASBD stated that attempts by regulators over the years to discourage or limit Colonial's CRE and ADC exposures were viewed as attempts to micromanage the bank and change its basic business model. With regard to the cause of failure, the ASBD indicated that our report is accurate.

In commenting on the supervision of Colonial, the ASBD reiterated our findings regarding the effectiveness of coordination among the regulators after Colonial converted to a state-chartered bank in 2008 and agreed with our assessment of the FDIC's post-conversion supervision of the institution. The ASBD also provided its views on the policy statement on regulatory conversions, PCA guidelines, and the FDIC's exercise of back-up authority.

FBOP Corporation Banks

We conducted an MLR of the failures of North Houston Bank, Houston, Texas (North Houston) and Madisonville State Bank, Madisonville, Texas (Madisonville). On October 30, 2009, the Texas Department of Banking closed the institutions and named the FDIC as receiver. On November 20, 2009, the FDIC notified the OIG that North Houston's total assets at closing were \$325.3 million and the estimated loss to the DIF was \$38 million and that Madisonville's total assets at closing were \$237.8 million and the estimated loss to the DIF was \$33.1 million. As of January 29, 2010, the estimated loss for North Houston had increased to \$47.1 million and the estimated loss for Madisonville had decreased to \$27.6 million.

North Houston and Madisonville were wholly-owned subsidiaries of the FBOP Corporation (FBOP), a privately held financial holding company headquartered in Oak Park, Illinois. Because both institutions were under common ownership and followed a similar business model, we addressed both failures in one report. FBOP controlled one other FDIC-supervised institution, the Community Bank of Lemont (Lemont), Lemont, Illinois, which was closed by the Illinois Department of Financial and Professional Regulation on October 30, 2009. We did not include Lemont in this review because the loss was not material as that term is defined in the FDI Act. The combined assets of North Houston and Madisonville represented approximately 3 percent of the total assets held by FBOP's nine subsidiary institutions as of October 30, 2009. Almost 95 percent of the total assets held by FBOP's subsidiary institutions pertained to four national banks. The Department of the Treasury OIG was conducting a separate MLR of these four national banks.

North Houston was established in 1963 as a state chartered nonmember institution. The institution was acquired by FBOP in 1995, and at the time of its closing, operated a single office in Houston, Texas. North Houston's loan portfolio consisted primarily of CRE loans, a large percentage of which pertained to ADC. North Houston also maintained a securities portfolio consisting primarily of preferred shares in Fannie Mae and Freddie Mac—two Government Sponsored Enterprises.

Madisonville was established in 1902 as the First

National Bank of Madisonville. In 1980, the institution was purchased by the First City Bancorporation of Texas, Inc., and in 1993 it was acquired by FBOP. Madisonville operated a single office in the small community of Madisonville, Texas, which is located approximately 90 miles north of Houston. Because local loan demand was low, the majority of the institution's loan portfolio consisted of out-of-territory loan participations purchased through FBOP. These loan participations generally pertained to CRE. Madisonville also maintained a securities portfolio consisting primarily of preferred shares in Fannie Mae and Freddie Mac.

Causes of Failures and Material Losses: North Houston and Madisonville failed primarily because their Boards and management did not effectively manage the risks associated with the institutions' investment securities, particularly Fannie Mae and Freddie Mac preferred stock. Between November and December 2007, North Houston and Madisonville purchased \$46.5 million and \$28 million, respectively, in the preferred shares of Fannie Mae and Freddie Mac. Although these securities were generally viewed as having low credit risk at the time they were purchased, the amounts acquired exceeded the institutions' capital as of December 31, 2007. In addition, neither institution had a viable exit strategy to mitigate losses in the event that market conditions for these securities became adverse. In July 2008, investor concern over the financial condition of Fannie Mae and Freddie Mac resulted in a significant decline in the market value of their preferred shares. The securities declined further during the following month, and on September 7, 2008, the Government Sponsored Enterprises were placed into conservatorship, eliminating much of the remaining market value of the preferred shares.

The losses incurred by North Houston and Madisonville on their investments in Fannie Mae and Freddie Mac materially impaired the institutions' capital positions. In an effort to recapitalize the institutions, FBOP made capital infusions into North Houston and Madisonville on September 30, 2008 totaling \$22.4 million and \$7.8 million, respectively. In addition, both institutions recognized significant amounts of deferred tax assets as regulatory capital based on their losses in the Fannie Mae and Freddie Mac preferred shares. However, the FDIC subse-

quently determined that the capital infusions were ineligible for treatment as regulatory capital and that the amounts of deferred tax assets included in the institutions' regulatory capital significantly exceeded regulatory limitations.

Adding to the financial difficulties at North Houston and Madisonville was a deterioration in the quality of the institutions' CRE loan portfolios. Both institutions, which had histories of high CRE loan concentrations, grew their CRE loan portfolios substantially in late 2007 and early 2008, just as the nation's credit and real estate markets were beginning to decline. This growth increased the institutions' exposure to a sustained downturn in the real estate market and reduced their ability to absorb losses due to unforeseen adverse events. Further, a lack of due diligence pertaining to loan purchases and weak credit administration and loan review practices contributed to the loan quality problems that developed when the real estate market declined. The losses associated with North Houston's and Madisonville's investment securities, together with a decline in their CRE loan portfolios, depleted the institutions' capital and strained their liquidity. The Texas Department of Banking closed North Houston and Madisonville on October 30, 2009 because the institutions were unable to raise sufficient capital to support their operations.

The FDIC's Supervision of North Houston and Madisonville: The FDIC, in coordination with the Texas Department of Banking, provided ongoing supervisory oversight of North Houston and Madisonville through regular onsite risk management examinations, visitations, and offsite monitoring activities. The FDIC also coordinated extensively with representatives of OCC and the Federal Reserve on supervisory issues of mutual interest. Further, the FDIC had regular discussions with representatives of FBOP regarding issues affecting the holding company and its subsidiary institutions, such as FBOP's ongoing efforts to raise needed capital. Through these efforts, the FDIC identified risks in North Houston's and Madisonville's operations and brought these risks to the attention of the institutions' Boards and management.

With respect to key risks and issues, the FDIC's supervisory oversight of the risks associated with North Houston's and Madisonville's investments in

Fannie Mae and Freddie Mac preferred shares was generally reasonable. However, the failures of North Houston and Madisonville offer an important lesson learned with respect to investment securities that are not explicitly backed by the full faith and credit of the U.S. government. That is, when institutions make significant investments in such securities, the FDIC should ensure that sound risk management controls are in place and implemented. Such controls include prudent limits relative to total capital and viable exit strategies to mitigate losses when market conditions for the securities become adverse.

We also reviewed the FDIC's supervision of FBOP's efforts to recapitalize the institutions by infusing capital and including deferred tax assets in regulatory capital. Regarding the capital infusions, the FDIC took appropriate steps to support its final determination that the infusions provided to North Houston and Madisonville on September 30, 2008 were ineligible for treatment as regulatory capital. However, the FDIC's final determination could have been made sooner. The FDIC expressed concern about the capital infusions to FBOP and the institutions' management on multiple occasions. However, state examination reports transmitted to the institutions while the capital infusions were under review did not raise concerns regarding the matter. An earlier final determination may have impacted the FDIC's supervisory strategy for the institutions and prompted more immediate corrective action by FBOP. With respect to the deferred tax assets, the FDIC took appropriate steps to ensure that the amounts of deferred tax assets included in the institutions' regulatory capital were consistent with the limitations defined in the FDIC Rules and Regulations. However, the FDIC's communications with FBOP regarding this matter were generally informal and not always documented.

Finally, examiners could have expanded their criticisms of North Houston's and Madisonville's CRE concentration risk management practices in the November 2006 and March 2007 examination reports. Expanded criticism in this regard may have influenced the institutions to curb their CRE loan growth in late 2007 and early 2008 and implement stronger controls before the real estate market began to decline.

Section 38, Prompt Corrective Action, of the FDI Act establishes a framework of mandatory and discretionary supervisory actions pertaining to all insured depository institutions. The section requires regulators to take progressively more severe actions, known as “prompt corrective actions,” as an institution’s capital level deteriorates. The purpose of section 38 is to resolve problems of insured depository institutions at the least possible long-term cost to the DIF. Based on the supervisory actions taken with respect to North Houston and Madisonville, the FDIC properly implemented applicable PCA provisions of section 38.

FDIC management provided a written response to a draft of this report. In its response, DSC reiterated the OIG’s conclusions regarding the causes of failure for North Houston and Madisonville. DSC also noted that it worked cooperatively with the OCC, the Federal Reserve, and the Texas Department of Banking in coordinating the supervision of FBOP and its subsidiary institutions.

Successful OIG Investigations Uncover Financial Institution Fraud

As mentioned previously, the OIG’s Office of Investigations’ work focuses largely on fraud that occurs at or impacts financial institutions. The perpetrators of such crimes can be those very individuals entrusted with governance responsibilities at the institutions—directors and bank officers. In other cases, individuals providing professional services to the banks, others working inside the bank, and customers themselves are principals in fraudulent schemes.

The cases discussed below are illustrative of some of the OIG’s most important investigative success during the reporting period. These cases reflect the cooperative efforts of OIG investigators, FDIC divisions and offices, U.S. Attorneys’ Offices, and others in the law enforcement community throughout the country.

A number of our cases during the reporting period involve bank fraud, wire fraud, obstructing the examination of a financial institution, embezzlement, identity theft, and mortgage fraud. Many involve senior-level officials and customers at financial institutions whose fraudulent activities harmed the viability of the institutions and ultimately caused losses to the DIF. The OIG’s success in all such investi-

gations contributes to ensuring the continued safety and soundness of the nation’s banks.

Successful Bank Fraud Cases

Former Bank Vice President Sentenced for Hiding Facts in Bank Examination

A former bank vice president was sentenced on May 14, 2010 to 4 months in prison, 3 years of supervised release and a \$5,000 fine for a scheme to conceal material facts in connection with an examination of the former Bank of Clark County, Vancouver, Washington, in the fall of 2008.

According to the plea agreement, the former vice president attempted to hide property appraisal records that called into question the solvency of the Bank of Clark County. In 2004, he was hired as the vice president and chief lending officer for the bank. During the course of 2008, he and bank leaders became concerned that the bank had made loans to various development projects that now had a much lower appraised value. As a federal examination to check the safety and soundness of the bank approached, he identified various appraisals that he did not want bank examiners to see. He then instructed staff to exclude the appraisals from both the bank’s loan files and its computerized record system. After receiving these instructions, one of the bank employees hid recently received appraisals under his desk. The appraisals revealed that the collateral the bank had taken for the loans had depreciated in value by millions of dollars.

During the examination in November 2008, the former vice president falsely represented that all available appraisals were in the computerized system. Based on the appraisals the examiners were able to review, the bank was instructed to increase its loan loss reserves by more than \$3 million. Just prior to the termination of the examination, investigators learned of the hidden appraisals on some 15 different projects. In response, the former vice president first claimed that the appraisals had been overlooked because of a heavy work load. He unsuccessfully attempted to get a bank employee to promote this story. After the examiners saw the additional appraisals, they determined the bank needed an additional \$16.7 million of capital for loan reserves. On January 16, 2009, the Washington State Department of Financial Institutions declared

the Bank of Clark County insolvent and appointed the FDIC as receiver.

Under the terms of his plea agreement, signed in February 2010, the former vice president is prohibited from working for a financial institution regulated by the FDIC or the Federal Credit Union Act, without written approval of the agency.

Source: DSC. **Responsible Agencies:** The case was investigated by the FDIC OIG and the Federal Bureau of Investigation (FBI). Prosecuted by the U.S. Attorney's Office, Western District of Washington.

Sentencings and Guilty Plea in Omni National Bank Case

During the reporting period, two defendants were sentenced and one pleaded guilty in the Northern District of Georgia for their involvement in bank frauds related to Omni National Bank (Omni), Atlanta, Georgia. On April 1, 2010, a former customer was sentenced to 16 years and 2 months of incarceration, 5 years of supervised release and was ordered to pay \$2,197,529 in restitution. The customer previously pleaded guilty to a two-count criminal information charging him with conspiracy to commit bank fraud, wire fraud, mail fraud, and bankruptcy fraud. Between 2001 and September 2008, the customer executed schemes to defraud Omni National Bank and other insured financial institutions by submitting false information for mortgage loans, lines of credit, vehicle loans, and other credit extensions in his name, his aliases, in stolen identities, and in identities of other unqualified borrowers. His schemes involved the use of the U.S. Postal Service as well as other interstate carriers, and the use of interstate wire communications. In May 2008, he made false statements in relation to his personal bankruptcy case by using the name and social security number of another person. While falsely certifying that he had never filed bankruptcy in the past, he in fact, had used his true name on seven prior petitions in order to stay foreclosures on various owned properties, as well as to prevent collection on other debts.

On August 3, 2010, another former customer was sentenced to a total of 3 years and 3 months of incarceration, to be followed by 5 years of supervised release as a result of his guilty plea to false statements made to the FDIC and aggravated identity theft. Between September 2009 and December

2009, the defendant attempted to negotiate the short sale purchase of 14 residential loans from the FDIC as receiver for Omni by presenting false commitment letters and false residential sales contracts. The amount of the new contracts for the 14 properties was approximately \$2.2 million less than the outstanding loan balances on the Omni loans. To further his scheme, he used a stolen name, social security number, and date of birth of an individual in the documents negotiated to the FDIC.

On May 11, 2010, a third loan customer of Omni pleaded guilty to a two-count indictment that charged him with bank fraud, conspiracy to commit bank fraud, wire fraud, and mail fraud. Between December 2003 and May 2007, this individual and others operated fraudulent mortgage schemes to obtain monies from FDIC-insured institutions. To do so, the loan customer and others formed companies to obtain mortgage loans in Atlanta, Georgia and surrounding areas, in the names of unqualified borrowers based upon false information. They used a variety of methods, including "flipping" properties at inflated prices, recruiting unqualified investors, submitting false borrower qualifying information, fronting down payments, paying kickbacks, and failing to complete renovations. In addition, the indictment charged that from January 2006 to March 2009, the loan customer formed companies and conspired with others using the U.S. Postal Service and other interstate carriers and wire communications to defraud banks and individual investors in similar mortgage schemes. He and others recruited investors from California, Arizona, and Georgia and collected fees from those investors ranging from \$15,000 to \$30,000 in exchange for promises of discounted properties and reduced rate funding opportunities, while at the same time paying kickbacks to a loan officer and keeping Section 8 housing payments due to others.

Omni Bank was closed by the OCC on March 27, 2009, and FDIC was named receiver.

Source and Responsible Agencies: These cases are being investigated by Special Agents of a Mortgage Fraud Task Force formed for Omni-related cases, made up of the Department of Housing and Urban Development OIG, the U.S. Postal Inspection Service, the FDIC OIG, the Office of the Special Inspector General for the Troubled Asset Relief Program, and the FBI. Assistant United States Attorneys for the Northern District of Georgia are prosecuting the cases.

Former Bank President and Former Borrower of Bank of Alamo Sentenced

On April 9, 2010, the former president of the Bank of Alamo (Alamo), Alamo, Tennessee, was sentenced to 3 years of probation and ordered to pay restitution of \$1,409,033. The defendant previously pleaded guilty to conspiracy in connection with his role in causing false entries to be made in the books and records of Alamo and concealing from the bank's Board of Directors loans made to a borrower in violation of the bank's legal lending limits. These actions resulted in a false report of the true financial condition of Alamo.

The borrower made false statements to, and omitted material facts from, both FDIC and state bank examiners to hide the true nature of the loans he received from Alamo. He furthered the scheme by using nominee borrowers to obtain loans. The borrower pleaded guilty to bank fraud charges and on April 8, 2010 he was sentenced to 30 months of imprisonment and ordered to pay restitution of \$1,760,364.

Alamo's former Chairman of the Board and 2 other borrowers previously pleaded guilty and were all sentenced within the last 12 months for their roles in this fraud. Restitution orders in those cases total nearly \$1.7 million.

The Bank of Alamo was a State Bank that was chartered in the State of Tennessee and located in Alamo, Tennessee. The Bank of Alamo was insured by the FDIC prior to its failure on November 8, 2002, when the FDIC took over the bank's assets. As part of the FDIC's and the State's regulatory function, examiners inspect banks to ensure, among other things, that the bank is not lending too much money to any one particular customer, in violation of its legally established lending limits, and that the bank is not engaged in other unsound banking practices which could expose the bank to a risk of substantial loss.

Alamo bank officials conspired to approve loans made to or on behalf of the borrower knowing at the time the loans were made that there were unreported outstanding debts, the funds were for other uses, and/or the borrower was a nominee. The approval of these loans caused the bank to violate its legal lending limits.

To further his scheme, the borrower approached other individuals to act as nominees at other financial institutions. The borrower offered to fund the cash down payments for the nominees to obtain loans on his behalf. These individuals fraudulently represented to the banks that they had provided the down payments on their loan applications. The borrower pleaded guilty to bank fraud in connection with his role in submitting false statements and reports to First South Bank (First South). Two of the nominees he recruited previously pleaded guilty and were sentenced. These loans were uncovered when the nominees applied for second mortgages at the Bank of Alamo to pay back the borrower for the original down payments.

Source: DRR. **Responsible Agencies:** Joint investigation by the FDIC OIG and the FBI. Prosecuted by the U.S. Attorney's Office for the Western District of Tennessee, Eastern Division.

Judge Reinstates Sentences and Orders Four Defendants to Pay the FDIC in Excess of \$157 Million

On April 1, 2010, a former business owner was resentenced for his role in defrauding BestBank, Boulder, Colorado, that resulted in its failure. Earlier, in August 2005, the defendant and his partner, both owners of Century Financial Services, Inc and Century Financial Group, Inc (collectively referred to as Century), were found guilty on 63 of the 95 counts detailed in the indictment which included conspiracy, bank fraud, wire fraud, filing false bank reports, and continuing financial crimes. They were both originally sentenced in August 2007 to 10 years in prison.

Three former BestBank executives were previously found guilty in February 2007 on 15 counts in the same indictment and two of them were sentenced later that year. The bank's former chief executive officer and chairman of the board died prior to sentencing. In August 2008, the Tenth Circuit Court of Appeals affirmed the counts of conviction, but remanded back to the judge with directions to vacate the sentences and resentence the defendants after making an effort to determine loss and restitution. The judge resented all four defendants earlier this year.

On March 31 and April 1, 2010, the two Century business owners were each sentenced to 135 months of imprisonment, 36 months of supervised release and a special assessment of \$3,400. One owner was also

ordered asset forfeiture of \$11,604,179 and restitution to FDIC of \$49,543,912. The other owner was ordered asset forfeiture of \$11,747,091 and restitution to the FDIC of \$49,401,000.

The former president and director of BestBank, was sentenced to 90 months of imprisonment, 36 months of supervised release, a special assessment of \$1,500, forfeiture of \$4,743,909, and to pay the FDIC restitution of \$11,893,816. The former chief financial officer was sentenced to 72 months of imprisonment, 36 months of supervised release, a special assessment of \$1,500, asset forfeiture of \$92,643, and restitution to the FDIC of \$16,545,082.

By way of background, the defendants conspired to market credit cards to subprime borrowers funded with insured deposits. Between 1994 and July 1998, BestBank and Century created a portfolio of more than 500,000 credit card loans, the largest asset of BestBank. From 1996 through July 1998, the defendants, through Century, applied \$20 credits to the accounts of numerous cardholders who did not pay their credit card bill and whose accounts otherwise would have grown increasingly delinquent. These payments made the portfolio appear to be performing better than it was. During this same period of time, BestBank continued to fund the growing credit card portfolio with insured deposits. When the FDIC was appointed receiver in July 2008, depositors' claims totaled \$27 million and losses from the fraudulent conduct exceeded \$200 million. As of September 30, 2010, the total estimated loss to the DIF as a result of the BestBank failure is \$218,152,147.

Source: FDIC DSC. **Responsible Agencies:** Investigation by the FBI, Internal Revenue Service, and FDIC OIG. Prosecution by the U.S. Attorney's Office, District of Colorado, Denver, Colorado.

Former Nashville Resident Sentenced to 51 Months in Prison for \$2.7 Million Bank Fraud

A bank customer was sentenced on April 29, 2010 to serve 51 months in prison followed by 36 months of supervised release and ordered to pay \$2.7 million in restitution for engaging in a bank fraud scheme. The customer, who had no prior criminal record, pleaded guilty in October 2009. He admitted that from May 2005 to February 2006, he had engaged in a hybrid Ponzi scheme and check kite fraud which was designed to make it appear as though there were sufficient funds on deposit in his checking account

to cover large cash withdrawals and checks he was writing on the account. The eventual collapse of the checking account resulted in a loss of \$981,661 to the Bank of Nashville, and additional losses of approximately \$1.8 million to 10 individuals.

The bank customer, who was then an automobile broker and car salesman, funded the checking account he held with Bank of Nashville with millions of dollars in checks he obtained from various individuals in an on-going fashion, who were led to believe that they were providing capital for car sales he was brokering and on which they would obtain a profit. During the scheme, the car salesman falsely claimed that he was brokering hundreds of individual car sales a month— as many as 500 per month toward the end of the scheme. In reality, most of the car sales that he claimed to be brokering were fictitious.

He used portions of the money he obtained from his capital investors by these false representations for personal expenses, and repaid investors with money that he borrowed from other investors. As time went on he was required to obtain these short-term loans more frequently and in ever-increasing amounts from his group of investors, to maintain what appeared to be a positive balance in his checking account. He was eventually doing little more than trading checks between himself and these investors, and as a result, the balance of his checking account was artificially inflated. The scheme was ultimately discovered when one of the investors stopped payment on a large check, and the account collapsed due to grossly insufficient funds.

Source: FDIC DSC, U.S. Secret Service, and Suspicious Activity Reports. **Responsible Agencies:** Joint investigation by FDIC OIG and U.S. Secret Service. Prosecuted by the U.S. Attorney's Office in the Middle District of Tennessee and an OIG Associate Counsel designated as a Special Assistant U.S. Attorney in the Middle District of Tennessee.

Former Executive Vice President and Senior Lending Officer Pleads Guilty to Bank Fraud

On August 17, 2010, in the Eastern District of Arkansas, a former executive vice president and senior lending officer pleaded guilty to two counts of bank fraud. Between January 2003, and June 2008, the former banker created a shell entity to form business partnerships to operate Richmark Services, LLC, and Invest Four of Arkansas, LLC. In

his capacity as executive vice president and senior lending officer of Timberland Bank, he authorized loans totaling over \$1.3 million to these partnerships without disclosing his ownership interest to Timberline Bank. He then personally received monetary benefit from the loans.

Specifically, he originated a loan for Invest Four of Arkansas, LLC only 6 days after the partnership was formed. On the day the loan was funded, he received approximately one-third of the loan proceeds and none of the funds were used for their intended purpose. He also originated another loan to Richmark Services. In the process of originating the loan, he concealed his ownership interest in Richmark Services by submitting a fraudulent operating agreement to the bank, indicating that Richmark Services was 100-percent owned by his partner. The former senior vice president actually owned 50 percent of Richmark Services, but he altered the original operating agreement prior to submitting it to the bank.

Source: FDIC Legal Division and a Suspicious Activity Report.
Responsible Agencies: Joint investigation by the FDIC OIG and FBI.

Businessman and Developer Conspire to Defraud Community Bank and Trust, Cornelia, GA

On August 27, 2010, a businessman and a real estate developer each pleaded guilty to conspiracy to commit bank fraud. The charges against the two relate to a conspiracy to defraud Community Bank & Trust (CBT), Cornelia, Georgia, which took place in 2005. On August 10, 2005, the businessman received a loan from CBT to finance the purchase of a 98-acre tract of land in Hart County, Georgia in the amount of \$672,086. The chief credit officer at CBT approved the loan and agreed to help the borrower find a buyer for the 98-acre tract. The real estate developer was approached by CBT's chief credit officer about purchasing the land, and the developer agreed to the scheme. On August 18, 2005, the businessman sold the 98-acre tract to the developer for \$1,625,184. Financing was approved by the chief credit officer and received from CBT.

With the proceeds from the 98-acre tract sale to the developer, the businessman then paid the chief credit officer \$371,139.84 as a "finders fee" for providing a buyer and funding. He also paid

the developer \$200,000 for his participation in the scheme.

Source: The case was initiated based on a referral from the FBI, based on a Suspicious Activity Report filed by Community Bank & Trust. **Responsible Agencies:** This is a joint investigation by the FDIC OIG and the FBI. Prosecuted by the United States Attorney's Office for the Northern District of Georgia.

Developers Sentenced in Ponzi Scheme

Two former principals of Peerless Real Estate Services (Peerless) were sentenced for their roles in a conspiracy involving the development of the Village of Penland project, located in Mitchell County in the Western District of North Carolina. On June 3, 2010, one developer was sentenced to 121 months of imprisonment, 36 months of supervised release and restitution of an amount to be determined. He previously pleaded guilty to conspiracy, money laundering conspiracy, and false statements on a tax return in a plea agreement filed on August 4, 2008.

The other developer was sentenced on June 30, 2010 to 120 months of imprisonment, 36 months of supervised release and restitution of an amount to be determined but tied jointly and severally with co-conspirators who were previously sentenced in this scheme. This developer had earlier pleaded guilty on August 4, 2008, to conspiracy and federal tax evasion.

From 2002 through May 2007, Peerless recruited investors by promising to arrange for their mortgage loans from various banks in order to purchase Penland lots. They claimed that after a specified period of time, they would purchase the lots back from the investors and the investors would realize a guaranteed profit after the initial investment period had elapsed. The developers represented that substantial development had been completed and future development was ongoing when there was in fact very little development. The lots were subdivided numerous times without updating the associated plats which resulted in the overvaluing of lots and substandard lot sizes that would not be able to support the construction as represented by Peerless.

Peerless caused investors to claim on their loan applications that they had made the down payments for their loans when Peerless in fact provided the funds for down payment. Peerless also made the mortgage payments for investors, a

fact that was undisclosed to the banks. The investors were told that their loan proceeds would be distributed to Peerless to develop Penland, when the developers knew that the funds were to be used to pay mortgage payments for earlier investors in Ponzi scheme fashion. Some of the funds were also diverted to projects being developed by Peerless-related entities.

Two other principals of Peerless previously pleaded guilty and were sentenced in this case; one receiving 60 months of imprisonment and the other 39 months of imprisonment.

Source: FBI. **Responsible Agencies:** Joint investigation by the FDIC, FBI, and the Internal Revenue Service Criminal Investigation Division. Prosecuted by the U.S. Attorney's Office for the Western District of North Carolina.

OIG Mortgage Fraud Cases

Our office has successfully investigated a number of mortgage fraud cases over the past 6 months, several of which are described below. Perpetrators of these mortgage schemes are receiving stiff penalties and restitution orders. Our involvement in such cases is often the result of our participation in a growing number of mortgage fraud task forces. Mortgage fraud has continued to take on new characteristics in the current economic crisis as perpetrators seek to take advantage of an already bad situation. Such illegal activity can cause financial ruin to homeowners and local communities. It can further impact local housing markets and the economy at large. Mortgage fraud can take a variety of forms and involve multiple individuals.

Successful Mortgage Fraud Strike Force Cases, Southern District of Florida

The FDIC, FBI, and the Internal Revenue Service participate in the Mortgage Fraud Strike Force in Miami, Florida, and is pleased to report the following actions from the semiannual reporting period:

- On August 17, 2010, a straw borrower involved in a multi-million dollar mortgage fraud scheme was sentenced to 36 months of imprisonment for conspiracy to commit bank fraud. The straw borrower also received 3 years of supervised release, and \$100 special assessment. The total restitution amount will be determined at a future hearing. From 2006 through 2007, with the help of straw borrowers, four other individuals

engaged in a mortgage fraud scheme to defraud several financial institutions. One of the four located potential properties and then recruited family members and acquaintances to participate as straw borrowers. The sentenced individual was one such straw borrower. These straw borrowers then submitted loan application documents to two others involved in the scheme-- the owners of Miami Dade Mortgage Professionals. Miami Dade Mortgage Professionals falsified bank statements, W-2s, and employment information in an effort to qualify the straw borrowers and defraud the eventual lender and used a fourth individual's firm, Trinity Closing Group, to conduct the real estate closings. Trinity Closing Group released the lender funds prematurely to the seller, who would then wire the funds to the straw borrower's bank account. The straw borrower would then purchase a cashier's check with the newly wired funds to be used as the down payment at closing.

- On July 21, 2010, an employee of Alliance Mortgage pleaded guilty to conspiracy to commit wire fraud. In this case, from September 2004 through June 2007, four individuals conspired to search for and identify properties in Miami-Dade County, Florida that could be used to defraud lenders and recruited straw borrowers to pose as purchasers for the properties. These straw borrowers then submitted loan application documents to four individuals who were employees of Alliance Mortgage. They then falsified bank statements, W-2s, and employment information in an effort to qualify the straw borrowers and defraud the eventual lender. The straw borrowers allowed their identities and credit information to be used in false and fraudulent mortgage loan applications in exchange for a fee. The various lenders approved the loan requests based on the false and fraudulent loan applications and HUD-1 Statements submitted to the lenders which caused approximately \$11,250,000 in loans to be funded as a result of this fraudulent scheme.
- On April 5, 2010, an individual was sentenced to 48 months of probation for committing wire fraud. He also received a \$100 special assessment and was ordered to pay \$234,473 in total restitution. This individual admitted to conspiring with nine other subjects to commit wire fraud.

They used straw borrowers to purchase residential property in the straw borrowers' names; submitted false and fraudulent loan documents on behalf of straw borrowers to lending institutions and the Department of Housing and Urban Development, thereby causing unqualified loan applicants to receive loans, including Federal Housing Administration insured loans, which the straw buyers could not otherwise qualify to purchase; paid the straw buyers' cash-to-close obligations in order to allow the unqualified borrowers to purchase the targeted residential properties; and diverted the fraudulently obtained loan proceeds for their personal use and benefit and to further the fraud scheme.

Source: These investigations were initiated based upon a referral from the Mortgage Fraud Strike Force in Miami, Florida. **Responsible Agencies:** These are joint FDIC OIG investigations with the FBI and are being prosecuted by the U.S. Attorney for the Southern District of Florida.

Keeping Current with Mortgage Fraud Activities Nationwide	
The FDIC OIG participates in the following mortgage fraud working groups throughout the country. We benefit from the perspectives, experience, and expertise of all parties involved in combating the growing incidence of mortgage fraud schemes.	
National Bank Fraud Working Group	National Mortgage Fraud Working Sub-group.
Northeast Region	Long Island Mortgage Fraud Task Force; Eastern District New York Mortgage Fraud Task Force; the Northern Virginia Real Estate Fraud Initiative Working Group, Manassas, Virginia; Maryland Mortgage Fraud Task Force; the New England Mortgage Fraud Working Group.
Southeast Region	Middle District of Florida Mortgage and Bank Fraud Task Force; Southern District of Florida Mortgage Fraud Working Group; Northern District of Georgia Mortgage Fraud Task Force; Eastern District of North Carolina Bank Fraud Task Force; Northern District of Alabama Financial Fraud Working Group.
Midwest Region	Illinois Mortgage Fraud Task Force; Dayton Area Mortgage Task Force; Cincinnati Area Mortgage Fraud Task Force; St. Louis Mortgage Fraud Task Force; Kansas City Mortgage Fraud Task Force; Detroit Mortgage Fraud Task Force; Southern District of Illinois Bank Fraud Working Group; Illinois Bank Fraud Working Group and Fraud Working Group; Indiana Bank Fraud Working Group and Financial Crimes Working Group; Kansas/Missouri Regional Procurement Fraud Working Group.
Western Region	FBI Seattle Mortgage Fraud Task Force; Fresno Mortgage Fraud Working Group for the Eastern District of California; Sacramento Mortgage Fraud Working Group for the Eastern District of California; Sacramento Suspicious Activity Report Working Group; Los Angeles Mortgage Fraud Working Group for the Central District of California.
Southwest Region	Mortgage Fraud Task Force for the Southern District of Mississippi; Oklahoma City Financial Crimes Suspicious Activity Report Review Work Group; North Texas Mortgage Fraud Working Group; the Eastern District of Texas Mortgage Fraud Task Force; the Texas Attorney General's Residential Mortgage Fraud Task Force; Houston Mortgage Fraud Task Force.

Strong Partnerships with Law Enforcement Colleagues

The OIG has partnered with various U.S. Attorneys' Offices throughout the country in bringing to justice individuals who have defrauded the FDIC or financial institutions within the jurisdiction of the FDIC, or criminally impeded the FDIC's examination and resolution processes. The alliances with the U.S. Attorneys' Offices have yielded positive results during this reporting period. Our strong partnership has evolved from years of hard work in pursuing offenders through parallel criminal and civil remedies resulting in major successes, with harsh sanctions for the offenders. Our collective efforts have served as a deterrent to others contemplating criminal activity and helped maintain the public's confidence in the nation's financial system.

During the reporting period, we partnered with U.S. Attorneys' Offices in the following states: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Puerto Rico.

We also worked closely with the Department of Justice; FBI; other OIGs; other federal, state, and local law enforcement agencies; and FDIC divisions and offices as we conducted our work during the reporting period.

Strategic Goal 2 **The OIG Will Help the FDIC Maintain the Viability of the Insurance Fund**

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the Nation's financial system. With enactment of the Emergency Economic Stabilization Act of 2008, the limit of the basic FDIC deposit insurance coverage was raised temporarily from \$100,000 to \$250,000 per depositor, through December 31, 2009. Coverage of up to \$250,000 was subsequently extended through December 31, 2013. Estimated insured deposits based on the current limit rose to \$5.4 trillion as of June 30, 2010. A priority for the FDIC is to ensure that the DIF remains viable to protect depositors in the event of an institution's failure. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

The DIF has suffered from the failures of the past. Losses from failures in 2008 totaled \$35.1 billion and from failures in 2009 totaled \$38.1 billion. In September 2009, the FDIC's DIF balance—or the net worth of the fund—fell below zero for the first time since the third quarter of 1992. During the second quarter of 2010, the DIF balance increased by \$5.5 billion to negative \$15.2 billion. This increase was principally due to a \$3.2 billion increase in assessments earned and a \$2.6 billion decrease in the provision for insurance losses, offset by a \$381.8 million increase in operating expenses.

The FDIC, in cooperation with the other primary federal regulators, proactively identifies and evaluates the risk and financial condition of every insured depository institution. The FDIC also identifies broader economic and financial risk factors that affect all insured institutions. The FDIC is committed to providing accurate and timely bank data related to the financial condition of the banking industry. Industry-wide trends and risks are communicated to the financial industry, its supervisors, and policymakers through a variety of regularly produced publications and ad hoc reports. Risk-management

activities include approving the entry of new institutions into the deposit insurance system, off-site risk analysis, assessment of risk-based premiums, and special insurance examinations and enforcement actions. In light of increasing globalization and the interdependence of financial and economic systems, the FDIC also supports the development and maintenance of effective deposit insurance and banking systems world-wide.

Primary responsibility for identifying and managing risks to the DIF lies with the FDIC's Division of Insurance and Research, DSC, and DRR. To help integrate the risk management process, the FDIC established the National Risk Committee, a cross-divisional body. Also, a Risk Analysis Center monitors emerging risks and recommends responses to the National Risk Committee. In addition, a Financial Risk Committee focuses on how risks impact the DIF and financial reporting.

Over recent years, the consolidation of the banking industry resulted in fewer and fewer financial institutions controlling an ever-expanding percentage of the Nation's financial assets. The FDIC has taken a number of measures to strengthen its oversight of the risks to the insurance fund posed by the largest institutions, and its key programs include the following:

- Large Insured Depository Institution Program,
- Dedicated Examiner Program,
- Shared National Credit Program, and
- Off-site monitoring systems.

Importantly, with respect to the largest institutions, Title II of the Dodd-Frank Act will help address the notion of "Too Big to Fail." The largest institutions will be subjected to the same type of market discipline facing smaller institutions. Title II provides the FDIC authority to wind down systemically important bank holding companies and non-bank financial

companies as a companion to the FDIC's authority to resolve insured depository institutions. As noted earlier, the FDIC's new Office of Complex Financial Institutions will play a key role in overseeing these activities.

The FDIC Board of Directors closely monitors the viability of the DIF. In February 2009, the FDIC Board took action to ensure the continued strength of the fund by imposing a one-time emergency special assessment on institutions as of June 30, 2009. On two occasions, the Board also set assessment rates that generally increase the amount that institutions pay each quarter for insurance and made adjustments to widen the rate band. The Corporation had adopted a restoration plan in October 2008 to increase the reserve ratio to the 1.15 percent designated threshold within 5 years. In February 2009, the Board voted to extend the restoration plan horizon to 7 years and in September 2009 extended the time frame to 8 years. As of June 30, 2010, the reserve ratio was negative 0.28 percent.

To further bolster the DIF's cash position, the FDIC Board approved a measure on November 12, 2009 to require insured institutions to prepay 3 years' worth (2010, 2011, and 2012) of deposit insurance premiums – about \$45.7 billion – at the end of 2009. The intent of this measure was to provide the FDIC with the funds needed to carry on with the task of resolving failed institutions in 2010 and beyond, but without accelerating the impact of assessments on the industry's earnings and capital. The Corporation will face challenges going forward in its ongoing efforts to replenish the DIF and implement a deposit insurance premium system that differentiates based on risk to the fund.

To help the FDIC maintain the viability of the DIF, the OIG's **2010 performance goal** was as follows:

- Evaluate corporate programs to identify and manage risks in the banking industry that can cause losses to the fund.

We would note that the OIG's work referenced in Goal 1 also fully supports the goal of helping the FDIC maintain the viability of the DIF. Each institution for which we conduct an MLR, by definition, causes a substantial loss to the DIF. The OIG's MLR work is designed to help prevent such losses in the future. Similarly, investigative activity described in Goal 1 fully supports the strategic goal of helping

to maintain the viability of the DIF. The OIG's efforts often lead to successful prosecutions of fraud in financial institutions and/or fraud that can cause losses to the fund.

OIG Work in Support of Goal 2

At the beginning of the reporting period, we concluded a joint review with the Department of the Treasury OIG related to the failure of Washington Mutual Bank (WaMu) on September 25, 2008. We issued our report on April 9, 2010. WaMu was the largest bank failure in the history of the United States, but because the resolution structure resulted in no loss to the Fund, the threshold for conducting an MLR was not triggered. However, it is estimated that WaMu's failure could have caused a loss of \$41.5 billion to the DIF. Given the size, the circumstances leading up to the resolution, and the non-fund losses (i.e., loss of shareholder value), we initiated a review with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction. The team evaluated the OTS's supervision of WaMu, including implementation of PCA provisions of section 38, and the FDIC's supervision and monitoring of WaMu in its role as backup regulator and insurer. This evaluation was the first to comprehensively analyze the supervisory efforts of the OTS and the FDIC with respect to a single failure.

Federal Regulatory Oversight of Washington Mutual Bank

WaMu was a federally-chartered savings association established in 1889 and FDIC-insured since January 1, 1934. This bank failed on September 25, 2008, when the OTS closed WaMu and appointed the FDIC as receiver. At the time of its failure, WaMu was one of the eight largest federally insured financial institutions, operating 2,300 branches in 15 states, with total assets of \$307 billion. WaMu was immediately merged with JP Morgan Chase & Co. and subsequently operated as part of JP Morgan Chase Bank, National Association, in Columbus, Ohio.

As indicated above, this FDIC-facilitated sale in a closed bank transaction resulted in no loss to the DIF. However, the OIGs of the Department of the Treasury and the FDIC felt it was important to initiate a review of WaMu to evaluate the actions

of the OTS—WaMu's primary federal regulator—and the FDIC, as WaMu's insurer and back-up regulator. The Department of the Treasury OIG focused on the causes of WaMu's failure and the OTS's supervision of the institution. The FDIC OIG evaluated the FDIC's role as insurer and back-up supervisor.

The team members reported that WaMu failed primarily because of management's pursuit of a high-risk lending strategy that included liberal underwriting standards and inadequate risk controls. WaMu's high-risk strategy, combined with the housing and mortgage market collapse in mid-2007, left WaMu with loan losses, borrowing capacity limitations, and a falling stock price. In September 2008, depositors withdrew significant funds after high-profile failures of other financial institutions and rumors of WaMu's problems. WaMu was unable to raise capital to keep pace with depositor withdrawals, prompting OTS to close the institution on September 25, 2008.

The team also determined that OTS's examinations of WaMu identified concerns with WaMu's high-risk lending strategy, including repeat findings concerning WaMu's single-family loan underwriting, management weaknesses, and inadequate internal controls. However, OTS's supervision did not adequately ensure that WaMu corrected those problems early enough to prevent a failure of the institution. Further, OTS largely relied on a WaMu system to track the thrift's progress in implementing corrective actions on hundreds of OTS examination findings. The team concluded that had OTS implemented its own independent system for tracking findings memoranda and WaMu's corrective actions, OTS could have better assessed WaMu management's efforts to take appropriate and timely action.

The team's findings validated a number of earlier recommendations to OTS communicated in completed MLRs of failed thrifts; however, the team identified one new recommendation—specifically, that OTS should use its own internal report of examination system to formally track the status of examiner recommendations and related thrift corrective actions.

As for the FDIC's role, as the deposit insurer for WaMu, the FDIC was responsible for monitoring and assessing WaMu's risk to the fund. As insurer, the FDIC had authority to perform its own back-up

examination of WaMu and impose enforcement actions to protect the DIF, provided statutory and regulatory procedures were followed. The FDIC conducted its required monitoring of WaMu from 2003 to 2008 and identified risks with WaMu's lending strategy and internal controls. The risks noted in FDIC monitoring reports were not, however, reflected in WaMu's deposit insurance premium payments.

Based on its work, the team identified two major concerns related to deposit insurance regulations and the interagency agreement governing the FDIC's back-up authority. First, the team concluded that the FDIC deposit insurance regulations were too restrictive in prescribing the information used to assign an institution's insurance category and premium rate. The team recommended that the FDIC Chairman, in consultation with the FDIC Board of Directors, revisit FDIC deposit insurance regulations to ensure those regulations provide the FDIC with the flexibility needed to make its own independent determination of an institution's risk to the fund rather than relying too heavily on the primary regulator's (in this case the OTS's) risk examination results and on the institution's capital levels. The team believed that the bank failures of this current economic crisis show that factors other than examination ratings were better indicators of an institution's risk to the fund.

Second, the team concluded that the interagency agreement governing back-up examination did not provide the FDIC with the access to information that it needed to assess WaMu's risk to the fund. As noted earlier, in the case of WaMu, if not for the FDIC-facilitated sale, WaMu's failure could have caused a \$41.5 billion loss to the insurance fund. Although there is clearly a need to balance FDIC information needs and the regulatory burden imposed on a financial institution, the team reported that the interagency agreement in place at the time did not allow the FDIC sufficient flexibility to obtain information necessary to assess risk in order to protect the fund. As such, the team recommended that the FDIC Chairman, in consultation with the FDIC Board of Directors, revisit the interagency agreement to ensure it provides the FDIC with sufficient access to the information necessary to assess an institution's risk to the fund.

This body of work was high-impact. The joint team's efforts produced a thorough and informative report that was well received by numerous stakeholders, including senior management of the OTS and the FDIC, and two testimonies presented to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate, by the Inspectors General of the Department of the Treasury and the FDIC. The report supported a number of earlier recommendations made by the Department of the Treasury OIG to enhance the OTS's supervision of the institutions it regulates and also made an additional recommendation, with which OTS agreed.

With respect to the FDIC, the report recommended changes to the level of access to information that the FDIC has to non-supervised institutions, and more significantly, changes to the types of business risks and factors that should be considered for pricing deposit insurance. The FDIC agreed with both recommendations and began implementing them immediately. In fact, exact passages of the report were included in a proposed revised inter-agency agreement, notice of proposed rulemaking on insurance pricing, the Permanent Subcommittee on Investigations report and exhibits, and the FDIC Chairman's testimony before the Permanent Subcommittee on Investigations. Actions taken in connection with these recommendations and as a result of the Dodd-Frank Act will enhance the FDIC's back-up authority and its conduct of special examinations, and bring about changes in its deposit insurance assessment system. The impact of our WaMu work will benefit the banking industry, the public, and the overall health of the insurance fund.

Strategic Goal 3

The OIG Will Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. For example:

- The **Community Reinvestment Act** encourages federally insured banks to meet the credit needs of their entire community.
- The **Equal Credit Opportunity Act** prohibits creditor practices that discriminate based on race, color, religion, national origin, sex, marital status, or age.
- The **Home Mortgage Disclosure Act** was enacted to provide information to the public and federal regulators regarding how depository institutions are fulfilling their obligations towards community housing needs.
- The **Fair Housing Act** prohibits discrimination based on race, color, religion, national origin, sex, familial status, and handicap in residential real-estate-related transactions.
- The **Gramm-Leach Bliley Act** eliminated barriers preventing the affiliations of banks with securities firms and insurance companies and mandates new privacy rules.
- The **Truth in Lending Act** requires meaningful disclosure of credit and leasing terms.
- The **Fair and Accurate Credit Transaction Act** further strengthened the country's national credit reporting system and assists financial institutions and consumers in the fight against identity theft.

The FDIC serves a number of key roles in the financial system and among the most important is its work in ensuring that banks serve their communities and treat consumers fairly. The FDIC carries out its role by providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations and examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws

and regulations governing consumer protection, fair lending, and community investment. As a means of remaining responsive to consumers, the FDIC's Consumer Response Center investigates consumer complaints about FDIC-supervised institutions and responds to consumer inquiries about consumer laws and regulations and banking practices.

Going forward, the FDIC will be experiencing and implementing changes related to the Dodd-Frank Act that have direct bearing on consumer protections. The Dodd-Frank Act establishes a new Consumer Financial Protection Bureau within the Federal Reserve and transfers to this bureau the FDIC's examination and enforcement responsibilities over most federal consumer financial laws for insured depository institutions with over \$10 billion in assets and their insured depository institution affiliates. Also during early 2011, the FDIC will establish a new Division of Depositor and Consumer Protection, responsible for the Corporation's compliance examination and enforcement program as well as the depositor protection and consumer and community affairs activities that support that program.

Historically, turmoil in the credit and mortgage markets has presented regulators, policymakers, and the financial services industry with serious challenges. The Chairman is committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs of the economy, especially the needs of creditworthy households that may experience distress. Another important priority is financial literacy. The FDIC Chairman has promoted expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream.

Consumers today are also concerned about data security and financial privacy. Banks are increasingly using third-party servicers to provide support for core information and transaction processing func-

tions. Of note, the increasing globalization and cost saving benefits of the financial services industry are leading many banks to make greater use of foreign-based service providers. The obligations of a financial institution to protect the privacy and security of information about its customers under applicable U.S. laws and regulations remain in full effect when the institution transfers the information to either a domestic or foreign-based service provider.

Every year fraud schemes rob depositors and financial institutions of millions of dollars. The OIG's Office of Investigations can identify, target, disrupt, and dismantle criminal organizations and individual operations engaged in fraud schemes that target our financial institutions or that prey on the banking public. OIG investigations have identified multiple schemes that defraud depositors. Common schemes range from identity fraud to Internet scams such as "phishing" and "pharming."

The misuse of the FDIC's name or logo has also been identified as a scheme to defraud depositors. Such misrepresentations have led depositors to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These depositors have lost millions of dollars in the schemes. The OIG has been a strong proponent of legislation to address such misrepresentations. The Emergency Economic Stabilization Act of 2008, signed by the former President on October 3, 2008, contained provisions that address this issue.

Investigative work related to such fraudulent schemes is ongoing and will continue. With the help of sophisticated technology, the OIG continues to work with FDIC divisions and other federal agencies to help with the detection of new fraud patterns and combat existing fraud. Coordinating closely with the Corporation and the various U.S. Attorneys' Offices, the OIG helps to sustain public confidence in federal deposit insurance and goodwill within financial institutions.

To assist the FDIC to protect consumer rights and ensure customer data security and privacy, the OIG's **2010 performance goals** were as follows:

- Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions.
- Support corporate efforts to promote fairness and inclusion in the delivery of products and services to consumers and communities.
- Conduct investigations of fraudulent representations of FDIC affiliation or insurance that nega-

tively impact public confidence in the banking system.

OIG Work in Support of Goal 3

During the reporting period, we did not devote audit or evaluation resources directly to this goal area. However, investigative work related to misrepresentation of FDIC insurance or affiliation, and protection of personal information supported this strategic goal area, as described below.

Office of Investigations Works to Prevent Misrepresentations of FDIC Affiliation

Unscrupulous individuals sometimes attempt to misuse the FDIC's name, logo, abbreviation, or other indicators to suggest that deposits or other products are fully insured or somehow connected to the FDIC. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance or the FDIC name while misleading them as to the true nature of the investments or other offerings. Abuses of this nature not only harm consumers, they can also erode public confidence in federal deposit insurance.

The ECU responded to allegations of fraudulent emails that represented they were from the FDIC. The emails purported to be from the FDIC offered assistance to the recipients in recovering stock losses incurred through the "insurance" provided by the FDIC. Because most of the recipients of these emails were outside the United States, they were unaware that the FDIC does not insure against such losses. The ECU had 10 fraudulent email accounts deactivated during the reporting period that were related to such schemes.

Identity theft also continues to become more sophisticated, and the number of victims is growing. Identity theft includes using the Internet or phone lines for schemes such as "phishing" and "pharming" that attempt to trick people into divulging their private financial information. Schemers pretend to be legitimate businesses or government entities with a need for the information that is requested. The OIG's ECU also responds to these types of scams involving the FDIC and, in some cases, the OIG.

During the reporting period, the ECU responded to reports that private individuals were receiving telephone calls from people fraudulently claiming they were from the FDIC. The ECU traced these calls to Voice Over Internet Protocol, internet communication provided by Skype. The ECU worked with Skype security officials to have the telephone service for the numbers used in these fraudulent calls deactivated.

Strategic Goal 4

The OIG Will Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships

In the FDIC's history, no depositor has experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. One of the FDIC's most important roles is acting as the receiver or liquidating agent for failed FDIC-insured institutions. The success of the FDIC's efforts in resolving troubled institutions has a direct impact on the banking industry and on taxpayers.

DRR's responsibilities include planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient administration of failing and failed financial institutions in order to maintain confidence and stability in our financial system.

- The **resolution process** involves valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept and working with the acquiring institution through the closing process.
- The **receivership process** involves performing the closing function at the failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims.

The FDIC's resolution and receivership activities pose tremendous challenges. As indicated by earlier trends in mergers and acquisitions, banks have become more complex, and the industry is consolidating into larger organizations. As a result, the FDIC has been called upon to handle failing institutions with significantly larger numbers of insured deposits than it has had to deal with in the past. The sheer volume of all failed institutions, big and small, poses tremendous challenges and risks to the FDIC.

One hundred forty institutions failed during 2009, with total assets at failure of \$171.2 billion and total

estimated losses to the DIF of approximately \$38.1 billion. During 2009, the number of institutions on the FDIC's "Problem List" also rose to its highest level in 16 years. As of December 31, 2009, there were 702 insured institutions on the "Problem List." By June 30, 2010, that number had risen to 829 institutions, with assets of more than \$403 billion. This number indicates a probability of more failures to come and an increased resolution workload. As of the end of June 2010, DRR was managing 265 active receiverships, with assets totaling about \$39.5 billion.

Of special note, the FDIC is retaining large volumes of assets as part of purchase and assumption (P&A) agreements with institutions that are assuming the insured deposits of failed institutions. A number of the P&A agreements include loss share agreements (LSA) with other parties that involve pools of assets worth billions of dollars and that can extend up to 10 years. From a dollar standpoint, the FDIC's exposure is staggering: About \$200 billion in assets have been purchased through more than 180 LSAs. Because the assuming institutions are servicing the assets and the FDIC is reimbursing a substantial portion of the related losses and expenses, there is significant risk to the Corporation. Additionally, the FDIC is increasingly using structured sales transactions to sell assets to third parties that are not required to be regulated financial institutions. Such arrangements need to be closely monitored to ensure compliance with all terms and conditions of the agreements at a time when the FDIC's control environment is continuing to evolve.

It takes a substantial level of human resources to handle the mounting resolution and receivership workload, and effectively administering such a complex workforce is challenging. The Corporation has established temporary satellite offices on the East Coast, West Coast, and Midwest to resolve failed institutions and manage resulting receiverships. DRR staffing grew from approximately 400 employees at the start of 2009 to the current

staffing level of 1,158 full-time equivalents. The FDIC Board of Directors approved a further increase in the Division's staffing to 2,310 for 2010. Most of these new employees have been hired on 2-year non-permanent appointments with possible extensions of up to 5 years. Additionally, over \$1.8 billion will be available for contracting for receivership-related services during 2010. As of the end of the reporting period, in addition to its permanent staff, DRR was relying on over 1,600 term or temporary employees and about 1,700 contractor personnel.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. That is, in the case of bank closings where fraud is suspected, our Office of Investigations sends case agents and computer forensic special agents from the ECU to the institution. ECU agents use special investigative tools to provide computer forensic support to OIG investigations by obtaining, preserving, and later examining evidence from computers at the bank.

The OIG also coordinates closely with DRR on concealment of assets cases. In many instances, the FDIC debtors do not have the means to pay fines or restitution owed to the Corporation. However, some individuals do have the means to pay but hide their assets and/or lie about their ability to pay. Our Office of Investigations works closely with both DRR and the Legal Division in aggressively pursuing criminal investigations of these individuals.

To help ensure the FDIC efficiently and effectively resolves failing banks and manages receiverships, the OIG's **2010 performance goals** were as follows:

- Evaluate the FDIC's plans and systems for managing bank resolutions.
- Investigate crimes involved in or contributing to the failure of financial institutions or which lessen or otherwise affect recoveries by the DIF, involving restitution or otherwise.

OIG Work in Support of Goal 4

During the reporting period, the OIG continued to carry out and plan a number of new assignments involving resolution and receivership activities. Additionally, we completed an investigation

involving a former FDIC contract employee at an FDIC receivership. These efforts are discussed below.

OIG Audit Work Focuses on New Resolution and Receivership Challenges

The OIG contracted earlier with KPMG to conduct a risk assessment of resolution and receivership activities at the FDIC. From September through November 2009 KPMG assessed processes within the FDIC's resolution and receivership business units and assigned risk categories. KPMG did not include either LSAs or structured sales specifically in its assessment due to conflicts of interest created by contracts with DRR. The OIG assessed these latter areas. Overall, the OIG and KPMG conducted numerous meetings with DRR management to discuss inherent risks and risk mitigation activities. We used the KPMG and OIG risk information to determine initial areas for audit coverage as part of our risk-based planning process. We also met with the U.S. Government Accountability Office (GAO) on its coverage of key areas as part of the annual audit of FDIC financial statements.

Currently our work is focusing on the following areas:

Loss Share Agreements: Under such agreements, the FDIC agrees to absorb a portion of the loss on a specified pool of assets in order to maximize asset recoveries and minimize losses to the FDIC. We are evaluating loss share provisions to ensure compliance with all related terms. About \$200 billion in assets (mostly loans and owned real estate) have been purchased through more than 180 LSAs. Treatment of loans covered under LSAs consistent with the acquiring institution's credit administration practices for its loan portfolio is a key underlying expectation in such agreements. Compliance with the LSAs is important to ensuring that FDIC pays only for those losses for which it is obligated. (See below for further discussion of the OIG's LSA audits conducted during the reporting period.)

Structured Sales: Structured asset sales are the sale of asset pools through public/private partnerships that use the asset management expertise of the private sector while retaining for the FDIC a participation interest in all future cash flows. The FDIC, acting on behalf of failed bank receiverships, had engaged in about \$17 billion in sales through

16 structured sale transactions through early July 2010. Differences in objectives and controls in place for regulated financial institutions and private capital investors can present challenges to effective oversight of these sales. Compliance with the agreements is important to ensuring that FDIC receives the cash flows to which it is entitled.

Proforma Financial Statements: The FDIC closing process for failed financial institutions includes preparation of proforma financial statements. The primary focus of proforma is to produce an accurate adjusted statement of financial condition (balance sheet) of the failed institution through the date of closing. The proforma financial statements are the basis for opening balances of both the FDIC as the receiver and the assuming or acquiring institution, as appropriate. It is from this set of financial statements, based on the terms of the legal documents, that the assets and liabilities are divided between the receivership and the acquiring institution. Proforma audit coverage focuses on ensuring that failed institution assets are properly allocated to the receivership and purchaser in accordance with the applicable P&A agreement.

Franchise Marketing: As of September 30, 2010, 127 institutions had failed during the calendar year. The FDIC pursues the least-costly resolution (as viewed from the perspective of the DIF) for each failing institution. Each failing institution is subject to the FDIC's franchise marketing process, which includes valuation, marketing, bidding and bid evaluation, and sale components. The FDIC is often able to market institutions such that all deposits, not just insured deposits, are purchased by the acquiring institution, thus avoiding losses to uninsured depositors.

Post-Closing Asset Management: FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through P&A agreements. As of July 31, 2010, the FDIC was managing about \$37 billion in assets, mostly securities, delinquent commercial real estate and single-family loans, and participation loans. Post-Closing Asset Managers are responsible for managing many of these assets and rely on receivership assistance contractors to perform day-to-day asset management functions. Since these loans are often sub-performing and nonperforming, workout and asset disposition efforts are more intensive.

Audits of Loss Share Agreements

We issued the results of three audits of LSAs during the reporting period. Because these reports contain sensitive information about the acquiring institutions' internal control environments, we do not make the reports publicly available. However, it is important to report the overall nature of the findings and recommendations, and the associated potential monetary recoveries to the FDIC as a result of this ongoing body of OIG work.

One of the resolution methods that the FDIC uses for resolving failed institutions is through P&A transactions, in which an acquiring institution purchases assets and assumes liabilities of the failed institution. LSAs are a means to facilitate P&A transactions. Loss sharing is a feature that the FDIC introduced into selected P&A transactions in 1991, and the use of LSAs was significantly expanded in 2008 and 2009. Under loss sharing, the FDIC agrees to absorb a portion, generally 80 to 95 percent, of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers.

We contracted with BDO USA, LLP (BDO) to conduct audits of three institutions' LSAs with the FDIC related to their purchase of assets from failed institutions. The objective of these audits was to assess the acquiring institutions' compliance with the terms of their LSAs with the FDIC. Overall, in each of the three cases, BDO concluded that the acquiring institutions' compliance with the terms of their LSAs with the FDIC could be improved. In each case, BDO identified associated questioned loss claims, calculated questioned costs and funds put to better use, and made a number of non-monetary recommendations to both the acquiring institution and the FDIC. In total, for these three audits, agreed-to monetary benefits exceed \$33.9 million and nearly 60 recommendations are being implemented by DRR. Details on the recommendations made and the FDIC responses for each audit follow:

- **In the first audit,** BDO recommended that the FDIC develop comprehensive procedures for monitoring LSAs and monitoring plans for each agreement, review loss share claims of other

acquiring institutions that had included accrued interest on sales of REO assets at the inception of the LSA, disallow the acquiring institution's loss claims that were not in compliance with the terms of the LSAs, provide guidance to the acquiring institution on improving LSA administration procedures that were not in compliance with the agreements, and require the acquiring institution to strengthen key controls such as those related to restructuring losses and maintaining supporting documentation for REO sale transactions.

DRR agreed with 18 of the 20 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining 2 recommendations, which concerned funding additional loan commitments and disallowing claim amounts related to the recovery of mortgage insurance proceeds. BDO questioned a total of \$13,105,913 in shared loss claims submitted by the institution. The FDIC's share of the losses for the questioned claims is \$10,484,731 (80 percent of \$13,105,913).

- **The second LSA audit** report contained recommendations that the FDIC disallow the questioned loss claims in areas involving charge-offs, accrued interest, book values, mortgage insurance premium collections, expense documentation, and mortgage loan modifications. The report also recommended that the acquiring institution review the remainder of the loans not in the audit sample for similar erroneous claim amounts and develop appropriate procedures to review charge-off calculations. BDO also recommended that the FDIC require that the acquiring institution implement or improve policies and procedures for charge-off and accrued interest calculations, compliance with the LSA charge-off notification requirements, recovery of mortgage insurance collections, maintenance of expense documentation, and loan servicer compliance with LSA provisions. Further, BDO recommended that the FDIC clarify guidance related to syndication loans, mortgage loan modification restructuring losses, the definition of a single-family charge-off event, and disclosure of gains on LSA assets. Finally, the report recommended that related-party loans be removed from the covered asset listing.

DRR agreed with 19 of the 20 recommendations and provided alternative actions that were sufficient to resolve the remaining recommendation concerning changing the LSA to include charge-off loss events in the single-family loss definition and to include a reporting template exhibit. The total amount questioned by BDO in this second audit was \$11,712,333 in shared loss claims. The FDIC's 80-percent share is \$9,369,867. The FDIC's 80-percent share of funds that could be put to better use resulting from implementation of the related audit recommendations is \$231,256.

- **In the final LSA audit** that we conducted during the reporting period, BDO recommended that the FDIC disallow the questioned loss claims related to accrued interest, participations sold, charge-offs, and mortgage loan modifications. The report also recommended that the acquiring institution review the remainder of the loans not in the audit sample for similar erroneous claim amounts and develop appropriate procedures to review charge-off calculations. Further, the FDIC should require that the acquiring institution implement or improve policies and procedures related to accrued interest, participations sold, charge-off calculations, compliance with the LSA charge-off notification requirements, and selling LSA-covered municipal securities. The report also points out that the FDIC needs to clarify guidance related to accrued interest, loan modification calculations, supplemental guidance, the definition of a single-family charge-off event, and disclosure of gains on LSA assets. Finally, the report recommended that the FDIC establish policies and implement procedures for modifying the LSA agreement and approve a reporting certificate for covered securities.

DRR agreed with 17 of the 18 recommendations and provided alternative actions that were sufficient to resolve the remaining recommendation concerning changing the LSA to include charge-off loss events in the single-family loss definition and to include a reporting template exhibit. In this third report BDO questioned a total of \$19,722,788 in shared loss claims submitted by the acquiring institution, of which the FDIC's 80 percent share is \$15,778,231. Additionally, implementation of the recommendations could result in \$223,233 in funds put to better use, of which the FDIC's 80-percent share is \$178,586.

Proforma Process for Corus Bank, N.A.

As noted earlier, the FDIC relies on the governing P&A agreement with an assuming institution as the basis for allocating the assets and liabilities between the assuming institution and receivership, and the proforma financial statements are key to ensuring this allocation is properly completed.

Corus Bank, N.A. (Corus Bank) was closed by the Comptroller of the Currency on September 11, 2009, and the FDIC was appointed receiver. To protect the depositors, the FDIC entered into a P&A agreement with MB Financial Bank, National Association, Chicago, Illinois (hereafter, MB Financial Bank), to purchase some assets and assume all of the deposits of Corus Bank. As of the date of closing, Corus Bank had estimated total assets of approximately \$7.4 billion and total deposits of approximately \$6.6 billion. The bank also had 25 subsidiaries designed to hold real estate acquired in foreclosure. These investments were valued at \$399.6 million.

We contracted with Reed & Associates, CPAs, Inc. (Reed) to assess the proforma closing process for Corus Bank, including the reliability of the related proforma financial statements, and compliance with applicable provisions of the P&A agreement with MB Financial Bank.

By way of background, completion of the proforma closing process is a key objective of a bank closing weekend. To prepare the proforma financial statements, staff involved in the proforma process are responsible for reconciling and confirming the general ledger accounts of the failed institution and adjusting, if necessary, the account balances. This process is controlled through the use of proforma jackets - files that contain support for the closed institution's final account balances. Subsidiaries of failed banks are separate legal entities that can remain going concerns and are subject to proforma procedures for all balance sheet accounts. DRR's Proforma Training Manual is the authoritative reference for the accumulation and presentation of DRR proforma procedures and serves as guidance for the proforma process.

Overall, Reed concluded that the FDIC's DRR had implemented a proforma closing process that was generally adequate to achieve the objective of producing reasonably reliable proforma financial statements. However, policies and proce-

dures governing the proforma closing process needed updates and improvement. Specifically, the Proforma Training Manual had not been updated since 2004 although significant organizational and system changes have occurred. In addition, Reed noted several key areas where the Proforma Training Manual did not reflect the actual proforma process that DRR used at Corus Bank. Without current and complete policies and procedures, the FDIC lacks assurance that the proforma closing process is being implemented consistently in accordance with management's direction and produces reliable financial information.

Reed determined that the proforma financial statements for Corus Bank, the assuming institution, and the receivership were generally reliable. However, the reliability of the proforma financial statements could be improved by implementing more effective monitoring controls. Based on the sample of proforma jackets Reed tested, the cumulative effect of the exceptions noted was not material to the proforma financial statements; however, the presence of misstatements and the lack of supporting documentation decreases the reliability of proforma financial information and increases the risk that material misstatements may occur and not be detected.

To address these concerns, the report recommended that DRR (1) promptly complete the update of the Proforma Training Manual, including guidance related to subsidiaries and closings involving P&A agreements, and (2) strengthen monitoring controls over the process for preparation of proforma financial statements to ensure that information in the statements is reliable, complete, and current. Management concurred with our recommendations and is taking responsive action.

OIG Responds to Congressional Concern Regarding the Closure of Broadway Bank, Chicago, Illinois

On April 23, 2010, the Illinois Department of Financial and Professional Regulation (IDFPR), Division of Banking, closed Broadway Bank, Chicago, Illinois, (Broadway) and appointed the FDIC as receiver. On May 6, 2010, the Ranking Minority Member of the Committee on Oversight and Government Reform raised concerns that politics may have played

a role in the timing of Broadway's closure and requested that we expedite our MLR of Broadway so that the report would be completed before a November 2010 U.S. Senate election. Specifically, he was concerned because a former Broadway Senior Vice President was a U.S. Senate candidate.

We informed the Ranking Member that we would plan and conduct the MLR consistent with our standard MLR work program and time frames, with an anticipated completion date of not later than November 14, 2010, but to address his concern, we initiated an evaluation to review the timeliness and factors considered in closing Broadway. Specifically, we determined:

- The timeline of events leading to the closing of the bank.
- The factors that the FDIC considered in scheduling the bank closing.
- Whether the timing of the closing of Broadway was consistent with PCA provisions.
- Whether there was any indication of political or inappropriate influence associated with the closing.

Timeliness and Factors Considered in Closing Broadway Bank, Chicago, Illinois

We reported that the FDIC and IDFPF could have reviewed, processed, and delivered a joint, IDFPF-led April 2009 examination and a January 2010 formal enforcement action to Broadway in a more timely fashion; however, we did not see any evidence that the examination or enforcement action were delayed for political reasons or that the timeliness of the examination or the enforcement action impacted Broadway's closing date. Instead, we concluded that delays in processing the examination and issuing the enforcement action resulted from the complexity and condition of Broadway, the increased regulatory workload from the rise in bank failures, and the need for coordination between the FDIC and IDFPF.

Broadway was a state-chartered bank; therefore, the IDFPF was responsible for closing the bank. The primary factor that prompted the IDFPF's decision to close Broadway was the bank's capital level. Shortly after receiving December 31, 2009 Call Report information showing that Broadway

was Significantly Undercapitalized, IDFPF issued an order requiring Broadway to become Well Capitalized and correct other conditions or face closure in 60 days. This order effectively began the bank closing, or resolution process, for the FDIC. Broadway was closed 63 days after IDFPF issued the state order. We concluded that the FDIC's resolution of Broadway was timely and ahead of the Corporation's preferred 90-day closing time frame.

With respect to PCA provisions, the FDIC notified Broadway that the bank had become Undercapitalized in July 2009 and required Broadway to submit a capital restoration plan. The FDIC should have notified Broadway in writing that its capital restoration plan was insufficient, in addition to the oral notification provided. It would also have been prudent to notify Broadway management that, as a result of submitting an unacceptable capital restoration plan, Broadway was subject to the restrictions applicable to Significantly Undercapitalized institutions. Instead, FDIC officials focused on establishing a definitive value for certain Broadway investments in order to determine the bank's capital requirements and understand the bank's true financial condition. The FDIC concluded these investments had declined in value during the April 2009 examination. However, Broadway was reluctant to realize a loss in its financial statements and Call Reports. Broadway sold the investments at a significant loss in December 2009.

The FDIC became aware of the impact of the loss on Broadway's capital position during a visitation in late January 2010, and the FDIC notified Broadway that it was Significantly Undercapitalized in February 2010. It does not appear that notifying Broadway earlier that it was subject to the provisions for Significantly Undercapitalized institutions would have affected Broadway's closing date. The FDIC is generally required by the FDI Act to appoint a receiver or conservator for a Critically Undercapitalized institution within 90 days. However, Broadway was not Critically Undercapitalized prior to its failure.

We also performed evaluation steps to identify evidence of political or inappropriate influence associated with any examination or enforcement activities or the closing of Broadway. These steps included reviewing selected officials' e-mail and calendar entries related to Broadway or meetings with the Administration or Congress-

sional officials and reviewing telephone records. Nothing came to our attention to suggest that FDIC officials or the FDIC examination, enforcement action, or closing processes were subject to any political or inappropriate influence.

We provided a draft version of this report for the FDIC's review. DSC acknowledged that the time period required to review, process, and deliver the Report of Examination and draft the enforcement action was extended but was considered within reason because Broadway had become a complex, problem institution. DSC also noted that while written notification of the insufficiency of Broadway's capital restoration plan would have been appropriate, the circumstances surrounding the value of Broadway's investments made this case somewhat unique. DRR did not provide comments.

OIG's Electronic Crimes Unit Responds to Bank Closings

During the reporting period, the ECU responded to six bank closings. At the closings, the ECU coordinated with the FDIC contractor for the collection of all relevant electronic evidence. This electronic evidence consisted of computer hard drives, email files, network storage files, cell phone data and hard drives from copier machines. The ECU collected approximately 5 terabytes of electronic data and continues to analyze the evidence. Where appropriate, the ECU is now collecting data from hard drives in copier machines. These hard drives may contain evidence that either does not exist on other electronic media or was intentionally destroyed.

The OIG uses forensic software that can process large amounts of data, search for key words, sort information by date or name, identify falsified documents, and find other relevant information that can provide evidence of fraudulent activities. This electronic evidence is analyzed and provided to FDIC OIG agents working fraud cases related to the failed financial institutions.

Former FDIC Contract Employee Who Disclosed Confidential Information Is Convicted and Sentenced

On July 1, 2010, in the United States District Court for the District of Kansas, a former FDIC contract employee at Columbian Bank and Trust (CBT), Over-

land, Kansas, was convicted of releasing confidential information, and was sentenced to serve 24 months of supervised release and to pay a fine of \$3,600. Columbian Bank and Trust was an FDIC-regulated institution prior to its failure on August 28, 2008.

Commencing in August 2008 and continuing until she was removed from the bank in July 2009, the former contract employee used her position to obtain information regarding the potential sale of troubled loans and assets by the FDIC following the failure of CBT. As a former loan processor for CBT, the contract employee also attempted to profit by brokering various defaulted loans in FDIC receivership to outside investors. During the brokering process, she provided confidential information such as customer loan files, tax documents, and other financial documents belonging to the FDIC.

*Source: Investigation initiated based on information provided by an anonymous source. **Responsible Agencies:** FDIC OIG conducted the investigation with assistance from the U.S. Secret Service. The case was prosecuted by the U. S. Attorney's Office for the District of Kansas.*

5

Strategic Goal 5 **The OIG Will Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources**

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, information technology (IT), and physical resources. Importantly, and as referenced in earlier sections of this report, in the coming months, as the Corporation responds to Dodd-Frank Act requirements and continues to pursue its long-standing mission in the face of lingering financial and economic turmoil, the resources of the entire FDIC organization will be challenged. New responsibilities, reorganizations, and changes in senior leadership and the FDIC Board make-up will greatly impact the FDIC workforce in the months ahead.

Human Resources: Of particular note, FDIC staffing levels have increased dramatically. The Board approved a 2010 FDIC staffing level of 8,653, reflecting an increase from 7,010 positions in 2009. These staff—mostly temporary, and including a number of rehired annuitants—will perform bank examinations and other supervisory activities to address bank failures, and, as mentioned previously, an increasing number will be devoted to managing and selling assets retained by the FDIC when a failed bank is sold. The FDIC opened three temporary Satellite Offices (East Coast, West Coast, and Midwest) for resolving failed financial institutions and managing the resulting receiverships.

As referenced earlier, the Corporation's contracting level has also grown significantly, especially with respect to resolution and receivership work. As a good steward, the FDIC must ensure it receives the goods and services purchased with corporate funds and have effective contractor oversight controls in place as well.

In an age of identity theft risks, an important human capital management responsibility at the FDIC is to maintain effective controls to protect personal employee-related information that the Corporation possesses. The appointment of a chief privacy

officer and implementation of a privacy program have been positive steps in addressing that challenge. Further, the FDIC has established a process for conducting privacy impact assessments of its information systems containing personally identifiable information that is consistent with relevant privacy-related policy, guidance, and standards.

Financial Resources: The Corporation does not receive an annual appropriation, except for its OIG, but rather is funded by the premiums that banks and thrift institutions pay for deposit insurance coverage, the sale of assets recovered from failed banks and thrifts, and from earnings on investments in U.S. Department of the Treasury securities.

To support increases in FDIC and contractor resources, the Board approved a nearly \$4.0 billion 2010 Corporate Operating Budget, approximately \$1.4 billion higher than for 2009. The operating budget provides resources for the operations of the Corporation's three major programs or business lines—Insurance, Supervision, and Receivership Management—as well as its major program support functions (legal, administrative, financial, IT, etc.). The FDIC's operating expenses are largely paid from the insurance fund, and consistent with sound corporate governance principles, the Corporation's financial management efforts must continuously seek to be efficient and cost-conscious.

In addition to the Corporate Operating Budget, the FDIC has a separate Investment Budget that is composed of individual project budgets approved by the Board of Directors for major investment projects. Budgets for investment projects are approved on a multi-year basis, and funds for an approved project may be carried over from year to year until the project is completed. Expenditures from the Corporate Operating and Investment Budgets are paid from two funds managed by the FDIC—the DIF and the Federal Savings and Loan Insurance Corporation Resolution Fund.

IT Resources: At the FDIC, the Corporation seeks to leverage IT to support its business goals in insurance, supervision and consumer protection, and receivership management, and to improve the operational efficiency of its business processes. Along with the positive benefits that IT offers comes a certain degree of risk. In that regard, information security has been a long-standing and widely acknowledged concern among federal agencies. The Federal Information Security Management Act (FISMA) requires each agency to develop, document, and implement an agency-wide information security program to provide adequate security for the information and information systems that support the operations and assets of the agency. Section 522 of the Consolidated Appropriations Act of 2005 requires agencies to establish and implement comprehensive privacy and data protection procedures and have periodic third-party reviews performed of their privacy programs and practices.

Physical Resources: The FDIC is headquartered in Washington, D.C., but conducts much of its business in six regional offices and in field offices throughout the United States. Additionally, as referenced earlier, three new temporary satellite offices have been established on the East and West coasts and in the Midwest. Ensuring the safety and security of the human and physical resources in all of these offices is a fundamental corporate responsibility that is directly tied to the Corporation's successful accomplishment of its mission. The FDIC needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

Corporate Governance and Risk Management: The FDIC is managed by a five-person Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. The Board includes the Comptroller of the Currency and the Director of OTS. With passage of the Dodd-Frank Act, the OTS Board Member will no longer serve on the FDIC Board. Instead, the Director of the new Consumer Financial Protection Bureau will become the fifth Board Member. Given the relatively frequent changes in the Board make-up, it is essential that strong and sustainable governance and communication processes are in place throughout

the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and make sound policy and management decisions.

Enterprise risk management is a key component of governance. The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved. To further enhance risk monitoring efforts, the Corporation has established six new Program Management Offices to address risks associated with such activities as loss share agreements, contracting oversight for new programs and resolution activities, the systemic resolution authority program, and human resource management concerns. Additionally, the FDIC Chairman has charged members of her senior staff with planning for and presenting a Board case for creation of a Chief Risk Officer at the FDIC to ensure that risks to the Corporation are identified and mitigated to the fullest extent.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the OIG's **2010 performance goals** were as follows:

- Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically.
- Promote integrity in FDIC internal operations.
- Promote alignment of IT with the FDIC's business goals and objectives.
- Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information.
- Promote personnel and physical security.
- Promote sound corporate governance and effective risk management and internal control efforts.

OIG Work in Support of Goal 5

Given the need to devote most all of the OIG's resources to the conduct of MLRs and other pressing priorities, the OIG did not commit substantial resources to work in this strategic goal area during the reporting period. Ongoing work in this area as of the end of the reporting period included our audit in accordance with FISMA. The objective of that audit is to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Act and related policies, procedures, standards, and guidelines. The final report will be issued in mid-November 2010.

Strategic Goal 6

Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders. Currently, a major challenge for the OIG is ensuring that we have the resources needed to effectively and efficiently carry out the OIG mission at the FDIC, given a sharp increase in the OIG's statutorily mandated work brought about by numerous financial institution failures, and in light of the new activities and programs that the FDIC is engaged in to restore public confidence and stability in the financial system that require vigilant, independent oversight.

To ensure a high-quality staff, we must continuously invest in keeping staff knowledge and skills at a level equal to the work that needs to be done, and we emphasize and support training and development opportunities for all OIG staff. We also strive to keep communication channels open throughout the office. We are mindful of ensuring effective and efficient use of human, financial, IT, and procurement resources in conducting OIG audits, evaluations, investigations, and other support activities, and have a disciplined budget process to see to that end.

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the Inspector General (IG) and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. The OIG adheres to the *Quality Standards for Federal Offices of Inspector General*, issued by the former President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Further, the OIG conducts its audit work in accordance with generally accepted *Government Auditing Standards*; its evaluations in

accordance with *PCIE Quality Standards for Inspections*; and its investigations, which often involve allegations of serious wrongdoing that may involve potential violations of criminal law, in accordance with *Quality Standards for Investigations* established by the former PCIE and ECIE, and procedures established by the Department of Justice.

Strong working relationships are fundamental to our success. We place a high priority on maintaining positive working relationships with the FDIC Chairman, Vice Chairman, other FDIC Board members, and management officials. The OIG is a regular participant at Audit Committee meetings where recently issued MLR, audit, and evaluation reports are discussed. Other meetings occur throughout the year as OIG officials meet with division and office leaders and attend and participate in internal FDIC conferences and other forums.

The OIG also places a high priority on maintaining positive relationships with the Congress and providing timely, complete, and high quality responses to congressional inquiries. In most instances, this communication would include semiannual reports to the Congress; issued MLR, audit, and evaluation reports; information related to completed investigations; comments on legislation and regulations; written statements for congressional hearings; contacts with congressional staff; responses to congressional correspondence; and materials related to OIG appropriations.

The FDIC OIG is a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), an organization created by the IG Reform Act of 2008 and that combined the former PCIE and ECIE. We fully support and participate in CIGIE activities and coordinate closely with representatives from the other the financial regulatory OIGs. Additionally, the OIG meets with representatives of the GAO to coordinate work and minimize duplication of effort and with representatives of the Department of

Justice, including the FBI and U.S. Attorneys' Offices, to coordinate our criminal investigative work and pursue matters of mutual interest.

The FDIC OIG has its own strategic and annual planning processes independent of the Corporation's planning process, in keeping with the independent nature of the OIG's core mission. The Government Performance and Results Act of 1993 (GPRA) was enacted to improve the management, effectiveness, and accountability of federal programs. GPRA requires most federal agencies, including the FDIC, to develop a strategic plan that broadly defines the agency's mission and vision, an annual performance plan that translates the vision and goals of the strategic plan into measurable objectives, and an annual performance report that compares actual results against planned goals.

The OIG strongly supports GPRA and is fully committed to applying its principles of strategic planning and performance measurement and reporting to our operations. The OIG's Business Plan lays the basic foundation for establishing goals, measuring performance, and reporting accomplishments consistent with the principles and concepts

of GPRA. We are continuously seeking to better integrate risk management considerations in all aspects of OIG planning—both with respect to external and internal work.

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, the OIG's **2010 performance goals** were as follows:

- Effectively and efficiently manage OIG human, financial, IT, and physical resources.
- Ensure quality and efficiency of OIG audits, evaluations, investigations, and other projects and operations.
- Encourage individual growth and strengthen human capital management and leadership through professional development and training.
- Foster good client, stakeholder, and staff relationships.
- Enhance OIG risk management activities.

A brief listing of OIG activities in support of these performance goals follows.

Effectively and Efficiently Manage OIG Human, Financial, IT, and Physical Resources	
1	Continued realignment of the OIG's resources to address the need for additional investigative coverage in FDIC regions and satellite offices, sufficient resources for MLR assignments, additional audit coverage for resolution and receivership work in the Dallas region, and adequate staffing for the OIG's human resources function.
2	Monitored FDIC OIG expenses for Fiscal Year 2010 and funding status for Fiscal Year 2011 to ensure availability of funds on October 1, 2010.
3	Formulated the FDIC OIG's Fiscal Year 2012 budget and provided it to the FDIC Chairman for approval (received on October 26, 2010). This budget requests \$45.3 million to support 144 full time equivalents. It will be provided to the Office of Management and Budget for inclusion in the President's budget.
4	Continued to partner with the Division of Information Technology to ensure the security of OIG information in the FDIC computer network infrastructure.
5	Contracted for specialized personnel assistance and brought a reemployed annuitant on board to assist with the OIG's increasing human resources workload.
6	Developed new inquiry intake system to better capture inquiries from the public, media, Congress, and the Corporation, in the interest of prompt and more effective handling of such inquiries.

7	Coordinated with the Assistant Inspectors General for Investigations at the Department of the Treasury and the Federal Reserve to leverage resources by planning joint investigative work.
8	Coordinated with counterparts at the Department of the Treasury, Federal Reserve, and National Credit Union Administration OIGs to discuss the impact of Dodd-Frank legislation and plan for a consistent, efficient, and effective response to new requirements of the Act.
9	Developed and implemented a new assignment management process for FDIC OIG review of failures when losses are not material under the Dodd-Frank Act. Made corresponding changes to the OIG's audit tracking system to capture information needed for Dodd-Frank Act reporting purposes.
10	Updated the OIG's Web site to reflect changes brought on by the Dodd-Frank Act and to provide more timely, relevant information to stakeholders.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Developed a comprehensive Quality Assurance Plan for October 2010–March 2013 to ensure quality in all audit and attestation engagement work, in keeping with Government Auditing Standards.
2	Coordinated with Railroad Retirement Board OIG regarding that office's peer review of the audit operations of the FDIC OIG and received a rating of pass in the report issued by the review team.
3	Awarded contracts to qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct MLRs, audits, and evaluations, and closely monitored contractor performance.
4	Continued use of the IG's feedback form to assess time, cost, and overall quality and value of MLRs, audits, and evaluations.
5	Relied on OIG Counsel's Office to provide legal advice and counsel to teams conducting MLRs, resolution and receivership audits, and evaluations, and to support investigations of fraud and other criminal activity, in the interest of ensuring legal sufficiency and quality of all OIG work.
6	Coordinated the IG community's audit peer review activities for OIGs government-wide to ensure a consistent and effective peer review process for the federal audit function.
7	Conducted training for all OIG investigative staff to ensure quality of their work, which included both hands-on and classroom instruction on flying armed, defensive tactics, tactical shooting, bank operations, and legal updates.
8	<p>At the request of the Special Inspector General for Afghanistan Reconstruction (SIGAR), the Chair of CIGIE requested that the chairman of the CIGIE audit committee--the FDIC IG-- and the chairman of the CIGIE investigations committee--the Tennessee Valley Authority IG--lead a multi-agency team to conduct audit and investigative operations peer reviews and a management and operations review of SIGAR.</p> <p>The FDIC IG and TVA IG assembled a team comprised of representatives from the TVA, FDIC, Department of Defense, Department of the Interior, Department of State, U.S. Department of Agriculture, and U.S. Agency for International Development OIGs to perform the reviews. The FDIC OIG took the lead on the audit peer review and the TVA OIG spearheaded the investigative peer review. The management and operations review was an evaluation, based on the entire team's collective knowledge and experience, as to whether SIGAR's practices aligned with the Quality Standards for Federal Offices of Inspector General (Silver Book) and to what extent SIGAR had implemented those practices. This review focused on activities not subject to the audit and investigative peer reviews and provided observations and suggestions for improvement. The final report, which reflected the results of all three reviews, was issued to SIGAR on August 10, 2010.</p>

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training

1	Continued to support members of the OIG attending long-term graduate banking school programs sponsored by Stonier, the Southeastern School of Banking at Vanderbilt University, and the University of Wisconsin to enhance OIG staff expertise and knowledge of the banking industry.
2	Employed college interns on a part-time basis in the OIG to provide assistance to the OIG.
3	Arranged for a number of part-time college interns to proceed to the Student Career Experience Program, under which they were offered permanent employment by the OIG pending successful completion of college coursework.
4	Continued implementation of the IG community's introductory auditor training sessions designed to provide attendees with an overall introduction to the community and enrich their understanding of fundamental aspects of auditing in the federal environment.
5	Acknowledged 10 members of the OIG with IG Commendation Awards to recognize individuals who made outstanding accomplishments related to the FDIC OIG mission.
6	Nominated three teams and one individual in the FDIC OIG for the annual CIGIE awards in recognition of their outstanding efforts and contributions to the IG community.

Foster Good Client, Stakeholder, and Staff Relationships

1	Maintained congressional working relationships by briefing various Committee staff on issues of interest to them; providing our Semiannual Report to the Congress for the 6-month period ending March 31, 2010; testifying on the results of the FDIC and Department of the Treasury OIG report on WaMu; notifying interested congressional parties regarding the OIG's completed MLR, audit, and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; and coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest.
2	Communicated with the FDIC Chairman, Vice Chairman, Director Curry, the Chief Financial Officer, and other senior FDIC officials through the IG's regularly scheduled meetings with them and through other forums.
3	Participated in numerous outreach efforts with such external groups as the Federal Financial Institutions Examination Council, the Association of Government Accountants, the Mortgage Bankers Association, and the American Institute of Certified Public Accountants, to provide general information regarding the OIG and share perspectives on issues of mutual concern and importance to the financial services industry.
4	Held quarterly meetings with FDIC Division Directors and other senior officials to keep them apprised of ongoing OIG reviews and results.
5	Kept DSC, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing Office of Investigations' quarterly reports to DSC, DRR, the Legal Division, and the Chairman's Office outlining activity and results in our cases involving closed and open banks.
6	Participated at FDIC Audit Committee meetings to present the results of significant completed MLRs, audits, and evaluations for consideration by Committee members.
7	Reviewed six proposed or revised corporate policies related to, for example, dispute resolution among institutions controlled by the FDIC, FDIC records management, acceptable use of IT resources, and the Corporation's anti-harassment policy.
8	Supported the IG community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group, including introductory auditor training and oversight of the community's audit peer review process and scheduling; attending monthly CIGIE meetings and participating in Investigations Committee, Inspection & Evaluation Committee, and Council of Counsels to the IGs meetings; providing resource assistance to other OIGs; and providing support to the IG community's investigative meetings.

9	Met and coordinated regularly with representatives of the OIGs of the federal banking regulators (Federal Reserve, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, Export-Import Bank, and Special IG for Troubled Asset Relief Program) to discuss audit and investigative matters of mutual interest and leverage knowledge and resources.
10	Met and communicated with the Financial Crisis Inquiry Commission on issues of interest to them as they conducted work on the events leading to the nation's financial and economic crisis.
11	Responded to Senator Grassley's and Senator Coburn's request regarding IG independence. The Senators also requested information on agency cooperation, closed non-public investigations, OIG communication with the Congress, and outstanding recommendations.
12	Participated in the Department of Justice's press conference in June 2010 to announce the results of a nationwide take-down, Operation Stolen Dreams, which targeted mortgage fraudsters throughout the country. The sweep was organized by President Obama's interagency Financial Fraud Enforcement Task Force, established to lead an aggressive, coordinated, proactive effort to investigate and prosecute financial crimes. Starting on March 1 and ending on June 18, this initiative involved 1,215 criminal defendants nationwide, including arrests of 485 of them, who are allegedly responsible for more than \$2.3 billion in losses.

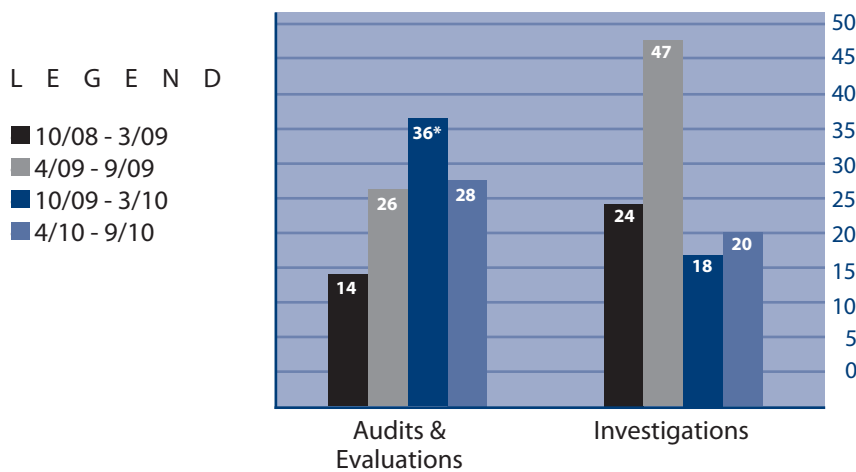
Enhance OIG Risk Management Activities

1	Held planning sessions to identify and discuss risk areas both internal and external to the OIG. Developed a rating process to assess the likelihood of occurrence and the severity of the risks to assist in overall planning of assignments going forward. Developed risk listings to determine which assignments to incorporate in our Fiscal Year 2011 Business Plan.
2	Participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly.
3	Worked to prepare the OIG's 2010 assurance letter to the FDIC Chairman, under which the OIG provides assurance that it has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, Office of Management and Budget A-123, and other key legislation.
4	Kept current with issues raised in the OIG's assessment of the management and performance challenges facing the FDIC, in accordance with the Reports Consolidation Act of 2000. We identified the following overall areas of challenge: Restoring and Maintaining Public Confidence and Stability in the Financial System; Resolving Failed Institutions and Managing Receiverships; Ensuring the Viability of the Deposit Insurance Fund; Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program; Protecting and Educating Consumers and Ensuring an Effective Compliance Program; and Effectively Managing the FDIC Workforce and Other Corporate Resources.

Cumulative Results (2-year period)

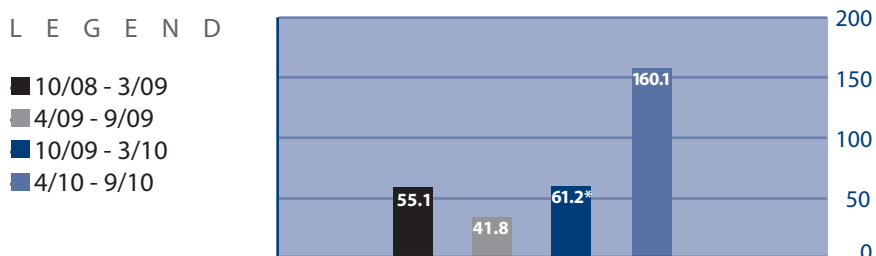
Nonmonetary Recommendations	
October 2008 – March 2009	28
April 2009 – September 2009	12
October 2009 – March 2010	11
April 2010 – September 2010	43

Products Issued and Investigations Closed



*Includes four audit or evaluation memoranda.

Fines, Restitution, and Monetary Recoveries Resulting from OIG Investigations (in millions)



*Includes \$5 million asset seizure.

Fiscal Year 2010 Performance Report

This performance report presents an overview of our performance compared to our Fiscal Year 2010 annual performance goals in our Business Plan. It provides a statistical summary of our qualitative goals as well as a narrative summary of performance results by Strategic Goal. It also shows our results in meeting a set of quantitative goals that we established for the year.

We formulated six strategic goals, as shown in the table below. Each of our strategic goals, which are long-term efforts, has annual performance goals and associated efforts that represent our initiatives in Fiscal Year 2010 toward accomplishing the strategic goal. The table reflects the number of performance goals that were Met, Substantially Met, or Not Met. This determination is made through ongoing discussions at the OIG Executive level and a qualitative assessment as to the impact and value of the audit, evaluation, investigation, and other work of the OIG supporting these goals throughout the year.

As shown in the table, we met or substantially met 79 percent of our performance goals in Fiscal Year 2010. A discussion of our success in each of the goals begins on page 51.

Fiscal Year 2010 Annual Performance Goal Accomplishment (Number of Goals)				
Strategic Goals	Performance Goals			
	Met	Substantially Met	Not Met	Total
Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly	2			2
Insurance: Help the FDIC Maintain the Viability of the Insurance Fund	1			1
Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy	1		2	3
Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships	2			2
FDIC Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources		4	2	6
OIG Internal Processes: Build and Sustain a High-Quality OIG Work Environment	5			5
Total	11	4	4	19
Percentage	58	21	21	100

Quantitative Performance Measures 2010

Performance Measure	FY 2010 Target	FY 2010 Actual	Status
Financial Benefit Return ^a	100%	760%	Met
Other Benefits ^b	75	129	Met
Past Recommendations Implemented ^c	95%	100%	Met
Complete 100% of Audit/Evaluation Assignments Required by Statute by the Required Date	100%	100%	Met
Audit Assignments Completed Within 30 Days of Established Final Report Milestone	90%	96%	Met
Evaluation Assignments Completed Within 30 Days of Established Final Report Milestone	90%	75%	Not Met
Audit Assignments Completed Within 15 Percent of Established Budget	90%	86% ^d	Not Met
Evaluation Assignments Completed Within 15 Percent of Established Budget	90%	80%	Not Met
Investigation Actions ^e	200	379	Met
Closed Investigations Resulting in Reports to Management, Convictions, Civil Actions, or Administrative Actions	80%	80%	Met
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	70%	56%	Not Met
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%	94%	Met
Closing Reports Issued to Management Within 30 Days of Completion of all Judicial Actions	100%	71%	Not Met

^a Includes all financial benefits, including audit-related questioned costs; recommendations for better use of funds; and investigative fines, restitution, settlements, and other monetary recoveries divided by the OIG's total actual Fiscal Year budget obligations.

^b Benefits to the FDIC that cannot be estimated in dollar terms which result in improved services; statutes, regulations, or policies; or business operations and occurring as a result of work that the OIG has completed over the past several years. Includes outcomes from implementation of OIG audit/evaluation recommendations.

^c Fiscal Year 2008 recommendations implemented by Fiscal Year-end 2010.

^d Includes only 5 of 49 MLRs/IDRs. Average cost of all 49 MLRs/IDRs=\$194,282.

^e Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencing, monetary actions, employee actions, and other administrative actions.

Notes on Our Results: In reviewing our qualitative performance results, we note that the demands of our material loss review workload and our more recent focus on resolution and receivership activities have precluded us from devoting resources to certain other important goal areas. We are hopeful that the Dodd-Frank Act change in the MLR threshold, which we pursued vigorously, will eventually allow us to resume more discretionary audit, evaluation, and investigative coverage of other important areas of risk at the FDIC during the upcoming fiscal year. With respect to quantitative results, we are pleased to have completed all of the 49 statutorily required MLRs/IDRs and our FISMA review on time. In the case of MLRs/IDRs, we accomplished each of these comprehensive reviews within 6-months of the FDIC's notification to us of the loss amounts. We did, however, fall short in several areas. For example, we were unable to meet our timeliness and cost goals for the conduct of evaluations. This is in part attributable to the reassignment of evaluation staff to conduct MLRs and to a number of special, unanticipated assignments, including congressional requests and a request from the FDIC Chairman, that diverted evaluation resources from previously planned work. Again, we are hopeful that going forward, our workload will become more stabilized and we will be able to meet the quantitative measures that we establish.

Strategic Goal 1 – Supervision: Assist the FDIC to Ensure the Nation’s Banks Operate Safely and Soundly

Our work in helping to ensure that the nation’s banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. In early May 2009, we conveyed to the FDIC Audit Committee and DSC our perspectives on the commonalities in the eight MLR reports we had drafted or finalized to date. The Corporation has taken and continues to take a number of responsive actions that address the concerns since that time. We continue a very cooperative working relationship with DSC on these matters. During the fiscal year, we completed 47 MLRs and 2 in-depth reviews of institutions whose failures resulted in losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC’s supervision of the institution. Many of our initial MLR observations were confirmed in this more recent work and we continued to share and supplement our views on trends in the failures and the FDIC’s supervision of the institutions throughout the past fiscal year. We partnered with staff from the Division of Supervision and Consumer Protection in a day-long collaborative forum to discuss MLR issues and the actions taken by the Corporation to enhance its supervision and examination processes going forward.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of mortgage fraud and other financial services working groups also supported this goal. During Fiscal Year 2010, investigative results included 168 indictments, 109 convictions, 102 arrests, and \$221 million in potential monetary recoveries. Particularly noteworthy results from our casework include the sentencing of two brothers to 57 months and 46 months of incarceration and fines of over \$3.2 million

for their role in a mortgage fraud scheme. A number of defendants also pleaded guilty in a case involving the failure of Omni National Bank, Atlanta, Georgia. One was a former executive vice president who caused materially false statements that overvalued bank assets to be made in Omni’s books and records. Three former customers of Omni received stiff penalties for their roles in bank fraud, wire fraud, mail fraud, and identity theft. One of the three was sentenced to 16 years and 2 months of incarceration and ordered to pay \$2.2 million in restitution. Also of note during the past fiscal year was the guilty plea of Pamrapo Bank, Bayonne, New Jersey, to conspiracy to violate the Bank Secrecy Act, a federal law enacted to prevent banks from being used to facilitate and perpetuate criminal activity such as narcotics trafficking, organized crime, terrorist financing, and other financial crimes. In another case, a former senior vice president and chief lending officer at the Bank of Clark County, Vancouver, Washington, was sentenced to 4 months in prison and fined for scheming to conceal property appraisal records from bank examiners. The former president of the Bank of Alamo was sentenced to 3 years of probation and ordered to pay restitution in excess of \$1.4 million for his part in falsifying bank records and making loans in excess of the bank’s legal lending limits. Sentences for those responsible for defrauding BestBank were reinstated, and defendants were ordered to pay \$157 million in restitution.

The Office of Investigations also continued its close coordination and outreach with DSC, the Division of Resolutions and Receiverships (DRR), and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with DSC and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest.

Strategic Goal 2 – Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

Our MLR work fully supported this goal, as did the investigative work highlighted above. In both cases, our work served to prevent future losses to the fund by way of findings and observations that help to prevent future failures, and the deterrent aspect of investigations and the ordered restitu-

tion that helps to mitigate an institution's losses. A significant ongoing effort during the year involved our work with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction involving Washington Mutual Bank (WaMu), including evaluating the Office of Thrift Supervision's supervision of WaMu and the FDIC's supervision and monitoring of WaMu in its role as back-up regulator and insurer. In that report, issued in April 2010, we made three recommendations, including two related to the FDIC's role as insurer and back-up regulator. Actions taken in connection with these recommendations and as a result of the Dodd-Frank Act will enhance the FDIC's back-up authority and its conduct of special examinations, and bring about changes in its deposit insurance assessment system.

Strategic Goal 3 – Consumer Protection:

Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Audits and evaluations can contribute to the FDIC's protection of consumers in several ways. We did not devote substantial resources of this type to specific consumer protection matters during the past fiscal year because the majority of those resources was devoted to MLR work and to the initiation of critical work related to the Corporation's resolution and receivership responsibilities and activities. Our Office of Investigations, however, supported this goal through its work, particularly by way of its Electronic Crimes Unit (ECU). The ECU responded to instances where fraudulent emails and facsimiles purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The ECU successfully deactivated 25 fraudulent email accounts, 8 Web sites, 2 fraudulent facsimile numbers, and other phone lines used for such purposes.

Strategic Goal 4 – Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships

We completed several assignments in this goal area during the past fiscal year. We issued the

results of our assessment of the FDIC's implementation of loan modification programs at various institutions to modify "at-risk" mortgages and the internal controls in place over the program. We made five recommendations for program enhancements, with which the FDIC agreed. We contracted with KPMG to perform a risk assessment and develop audit programs for resolution and receivership activities. We prioritized audit work to address the risks that KPMG identified as well as the OIG's own assessment of vulnerable program areas and completed three assignments related to loss share agreements and one related to proforma financial statements as a result. Importantly, with respect to the impact of our audits of loss share agreements, FDIC management has agreed with \$33.9 million in monetary benefits related to questioned loss claims and is taking action on nearly 60 recommendations to address our concerns. We also issued an evaluation report, conducted at the request of the Ranking Member of the House Committee on Oversight and Government Reform, related to the timeliness and factors considered in closing Broadway Bank, Chicago, Illinois. At the end of the fiscal year, ongoing work in this goal area included audits of several loss share agreements, a structured sale, franchise marketing, and post-closing asset management. This important body of work will continue in earnest going forward.

From an investigative standpoint, we pursued and closed the case of a former FDIC contract employee at an FDIC receivership who pleaded guilty to disclosing confidential information. We also continued to provide forensic support at bank closings where fraud was suspected and to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed.

Strategic Goal 5 – Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

In support of this goal area, we issued our 2009 review of the FDIC's information security practices pursuant to the Federal Information Security Management Act (FISMA). We reported that the

FDIC had implemented an information security program addressing principal FISMA provisions and other applicable standards. However, we identified certain access control deficiencies that presented a high risk of unauthorized disclosure of sensitive information or compromise of information technology resources. We identified nine steps to strengthen information security controls. We also undertook our 2010 FISMA review, the results of which will be reported in November 2010. We also conducted an audit of controls over FDICconnect, a secure Web site that allows FDIC-insured institutions to conduct business and exchange information with the FDIC and made six suggestions to address security control concerns.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with the FDIC's Divisions and its Ethics Office, as warranted.

Strategic Goal 6 – OIG Internal Processes: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

The FDIC OIG focused considerable attention on the overall activities of the FDIC and other regulators in response to the financial and economic crisis, and closely monitored the progress of regulatory reform. We reviewed those H.R. 4173 sections relevant to FDIC OIG operations and activities. We communicated our views to the legislation sponsors as proposed language was being crafted.


To ensure effective and efficient management of OIG resources, among other activities, we continued realignment of the OIG's investigative resources with FDIC regions and satellite offices; hired additional audit staff for resolution and receivership work; and assessed internal and external risks, staffing plans, and budget resources to ensure our office is positioned to handle our increasing workload and continuing risks to the FDIC. We reorganized temporarily to create an Office of Material Loss Reviews to address the mounting workload brought on by increased bank failures and reassigned a senior executive to lead that office and staff assigned from the Office of Audits. With passage of the Dodd-Frank

Act, we also implemented changes to processes and systems to address new requirements and workload.

We presented our Fiscal Year 2011 budget submission to the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. House of Representatives. We monitored OIG expenses for Fiscal Year 2010 and our funding status for Fiscal Year 2011 to ensure availability of funds on October 1, 2010. We formulated the FDIC OIG's Fiscal Year 2012 budget and provided it to the FDIC Chairman for approval (received on October 26, 2010). This budget requests \$45.3 million to support 144 full-time equivalents. It will be provided to the Office of Management and Budget for inclusion in the President's budget.

We continued to contract with qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the Inspector General feedback form for the Office of Material Loss Reviews, Office of Audits, and Office of Evaluations that focuses on overall assignment quality elements, including time, cost, and value. We received a rating of pass on the peer review of our audit organization, conducted by the Railroad Retirement Board OIG, indicating that our system of quality control has been designed and complied with to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We encouraged individual growth through professional development by employing a number of college interns on a part-time basis to assist us, some of whom returned permanently under the FDIC's Student Career Experience Program. We also offered opportunities for OIG staff to attend graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry. In other instances, staff took advantage of leadership development training and sought professional certifications such as certified public accountant and certified fraud examiner certifications. We acknowledged OIG staff accomplishments with Inspector General commendation awards and nominated three FDIC



OIG teams and an individual for the Inspector General community's annual awards.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction and testimony; speaking engagements at numerous professional association forums; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the Government Accountability Office. The Inspector General chaired the Audit Committee of the Council of the Inspectors General on Integrity and Efficiency. On behalf of the Council, we also played a key role in leading a multi-agency team to conduct audit and investigative operations peer reviews and a management and operations review of the Special Inspector General for Afghanistan Reconstruction.

The OIG participated in corporate diversity events, and we developed a new intake system for public inquiries and maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work.

In connection with SAS 99 and the annual financial audit of the FDIC's funds, we provided comments on the risk of fraud at the FDIC to the Government Accountability Office. We provided the OIG's 2009 statement of assurance to the Chairman regarding the OIG's efforts to meet internal control requirements and prepared to submit our 2010 statement. We also participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. In keeping with the Reports Consolidation Act of 2000, we shared the OIG's perspectives on risks and related management and performance challenges facing the FDIC for inclusion in the Corporation's annual report and monitored the issues identified as challenges throughout the fiscal year.

Reporting Requirements

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Evaluation report statistics are shown on pages 60, 61, and 62, in accordance with the Inspector General Reform Act of 2008.

Appendix 1: Information Required by the Inspector General Act of 1978, as Amended

Review of Legislation and Regulations

The FDIC OIG focused considerable attention on the review of H.R. 4173 sections relevant to FDIC OIG operations and activities. We communicated our views to the legislation sponsors as proposed language was being crafted. A brief summary of the pertinent sections follows.

Section 211(d)--FDIC Inspector General Reviews: The FDIC IG shall conduct reviews of the liquidation of any covered financial company by the Corporation as receiver. The reviews shall be conducted not later than 6 months after the date of appointment of the Corporation as receiver and repeated every 6 months until 1 year following the termination of the receivership. The IG shall include in its semiannual report findings and evaluations based on the reviews of covered financial companies. The expenses of the IG shall be paid from the receivership, or if such funds are exhausted, through risk-based assessments on eligible covered financial companies.

Section 211(f)--Primary Federal Regulator Inspector General Reviews: When the Corporation is appointed receiver for a covered financial company supervised by a federal financial regulatory agency or the Board of Governors, the IG of that agency or Board of Governors shall review and report on the supervision by the agency or the Board of Governors of the covered financial company. The IG is to provide such report to the appropriate agency or Board of Governors and be prepared to appear before appropriate Committees of Congress to present the report.

Section 327(b)--Review of OTS Implementation Plan: Within 60 days of receiving the plan, which is due 180 days after enactment of the Dodd-Frank Act, the FDIC OIG, jointly with the Department of the Treasury and Federal Reserve OIGs, will provide a written report to the agency heads and House Financial Services Committee and Senate Banking, Housing, and Urban Affairs Committee. The report will detail specific aspects of the plan relating to the transfer of employees, authority and responsibility, funds, and property, and make any needed recommendations. Not later than 6 months after the Congressional Committees receive the first report on the plan, and every 6 months thereafter, until all aspects of the plan are implemented, the OIGs will jointly provide a written report on the status of the plan and continue to provide status reports to recipients named above.

Section 987--Amendment to Definition of Material Loss and Nonmaterial Loss: Material loss is defined as: \$200,000,000, if the loss occurs during the period beginning on January 1, 2010, and ending on December 31, 2011; \$150,000,000, if the loss occurs during the period beginning on January 1, 2012, and ending on December 31, 2013; \$50,000,000, if the loss occurs on or after January 1, 2014. If the number of projected failures of depository institutions that would require MLRs for the following 12 months is greater than 30 and would hinder the effectiveness of its oversight functions, then the definition of "material loss" shall be \$75,000,000 for the duration of 1 year from the date of the certification.

For the 6-month period ending on March 31, 2010, and each 6-month period thereafter, the IG shall: identify losses that have been incurred by the DIF during that 6-month period; identify, for each loss that does not fit the definition of material loss, the grounds for which the Corporation was appointed receiver; determine if any unusual grounds exist for conducting an in-depth review of the failure; prepare a written report to the agency and Congress detailing any determination by the IG; include an identification of which losses require an IDR, and if none, why not; and include a date for completing reviews and reports on any non-material loss requiring an IDR. The written reports shall be prepared in a manner consistent with MLR reports. Each semiannual written report shall be submitted no later than 90 days following the end of the relative 6-month period.

Section 989C--Strengthening Inspector General Accountability: Each semiannual report produced by an IG shall contain an appendix which describes: the results of any peer review of the OIG conducted by another OIG during the reporting period; or if a peer review was not conducted during the reporting period, a statement identifying the date of the last peer review; and a list of outstanding recommendations from any peer review conducted by another OIG, and a statement as to the status of the implementation or why it is not complete; and a list of other peer reviews conducted by the OIG of another OIG during the reporting period, including any outstanding recommendations made from any previous peer reviews.

Section 989E--Additional Oversight of Financial Regulatory System: This section establishes a Council of Inspectors General on Financial Oversight chaired by the Department of the Treasury IG (Members: Federal Reserve, Commodity Futures Trading Commission, Department of Housing and Urban Development, Department of the Treasury, FDIC, Federal Housing Finance Agency, National Credit Union Administration, Securities and Exchange Commission, Office of the Special Inspector General for the Troubled Asset Relief Program). The Council will meet not less than quarterly to facilitate sharing of information between Inspectors General and issue an annual report highlighting each IG's concerns and recommendations and a summary of the general observations of the Council. The Council will convene a working group to evaluate the Council and issue a report to the Council and Congress on the Council's effectiveness and internal operations.

Also reviewed during the period were the following:

S. 3840, the "Protecting Cyberspace as a National Asset Act of 2010": This bill would revise how IG annual evaluations under FISMA are done and would change the annual reporting requirement to up to every 2 years. OIG Counsel's Office drafted preliminary statutory language that would enhance the role of the IGs in reviewing agency information security programs and security-related evaluations conducted by agency IT officials. We coordinated with others in the IG community and revised the proposed language, which was included in the version of S. 3840 that was passed by the Senate Homeland Security and Government Operations Committee. In analyzing S. 3840, we also considered a FISMA-related provision in H.R. 5136, the National Defense Authorization Act for Fiscal Year 2011, which was passed by the House of Representatives, and in S. 921, the "United States Information and Communications Enhancement Act of 2009" which was referred to the Senate Homeland Security and Government Operations Committee.

Improper Payments Elimination and Recovery Act of 2010, Public Law No. 111-204: The Act requires certain agency IGs to review and report on agency recovery audits. OIG Counsel's Office reviewed the law and concluded that the FDIC was not an agency for purposes of the Act; therefore, there is no need for the FDIC OIG to comply with this statute. The Act was considered in the context of Executive Order 13520, "Reducing Improper Payments," dated November 20, 2009, and a March 10, 2010, Presidential Memorandum regarding paying and recapturing improper payments.

The FDIC OIG also coordinates with others in the IG community through CIGIE's Legislative Committee in responding to legislation impacting the IG community as a whole.

Appendix 1: Information Required by the Inspector General Act of 1978, as Amended (continued)

Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, these corrective actions are different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on (1) information supplied by FDIC's Office of Enterprise Risk Management and (2) the OIG's determination of closed recommendations for reports issued after March 31, 2002. The one recommendation from one report involves improvements in operations and programs. The Office of Enterprise Risk Management has categorized the status of the recommendation as follows:

Management Action in Process: (1 recommendation from 1 report)

Management is in the process of implementing the corrective action plan, which may include modifications to policies, procedures, systems or controls; issues involving monetary collection; and settlement negotiations in process.

Table I: Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
AUD-10-002 Information Technology Security Controls over FDICconnect December 11, 2009	6	Review and revise (where appropriate) the Division of Information Technology's risk assessment methodology to ensure adequate consideration of the risks associated with electronic transactions involving the Internet.

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
MLR-10-029 April 9, 2010	Material Loss Review of Venture Bank, Lacey, Washington			
MLR-10-030 April 9, 2010	Material Loss Review of Georgian Bank, Atlanta, Georgia			
MLR-10-031 April 23, 2010	Material Loss Review of Colonial Bank, Montgomery, Alabama			
MLR-10-032 May 3, 2010	Material Loss Review of First DuPage Bank, Westmont, Illinois			
MLR-10-033 May 6, 2010	Material Loss Review of Hillcrest Bank Florida, Naples, Florida			
MLR-10-034 May 6, 2010	Material Loss Review of American United Bank, Lawrenceville, Georgia			
MLR-10-035 May 20, 2010	Material Loss Review of United Security Bank, Sparta, Georgia			
MLR-10-036 May 20, 2010	Material Loss Review of North Houston Bank, Houston, Texas, and Madisonville State Bank, Madisonville, Texas			
MLR-10-037 June 2, 2010	Material Loss Review of Prosperan Bank, Oakdale, Minnesota			
MLR-10-038 June 15, 2010	Material Loss Review of Benchmark Bank, Aurora, Illinois			
MLR-10-039 June 15, 2010	Material Loss Review of The Buckhead Community Bank, Atlanta, Georgia			
MLR-10-040 July 19, 2010	Material Loss Review of Imperial Capital Bank, La Jolla, California			
MLR-10-041 July 20, 2010	Material Loss Review of RockBridge Commercial Bank, Atlanta, Georgia			
MLR-10-042 July 20, 2010	Material Loss Review of Citizens State Bank, New Baltimore, Michigan			
MLR-10-043 July 20, 2010	Material Loss Review of United Commercial Bank, San Francisco, California			
IDR-10-001 August 24, 2010	In-Depth Review of the Failure of EvergreenBank, Seattle, Washington			
MLR-10-044 August 30, 2010	Material Loss Review of Florida Community Bank, Immokalee, Florida			
MLR-10-045 August 30, 2010	Material Loss Review of Horizon Bank, Bellingham, Washington			
IDR-10-002 September 1, 2010	In-Depth Review of the Failure of Columbia River Bank, The Dalles, Oregon			

Table II: Audit Reports Issued by Subject Area (continued)

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
MLR-10-046 September 1, 2010	Material Loss Review of Community Bank & Trust, Cornelia, Georgia			
MLR-10-047 September 1, 2010	Material Loss Review of First Regional Bank, Los Angeles, California			
Receivership Management				
AUD-10-004 May 11, 2010	FDIC's Loss Share Agreements with an Acquiring Institution	\$10,484,731	\$628,909	
AUD-10-005 September 10, 2010	FDIC's Loss Share Agreements with an Acquiring Institution	\$9,369,867	\$8,566	\$231,256
AUD-10-006 September 10, 2010	FDIC's Loss Share Agreements with an Acquiring Institution	\$15,778,231		\$178,586
AUD-10-007 September 23, 2010	FDIC's Proforma Process for Corus Bank			
Totals for the Period		\$35,632,829	\$637,475	\$409,842

Table III: Evaluation Reports Issued

Evaluation Reports		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Insurance				
EVAL-10-002 April 9, 2010	Federal Regulatory Oversight of Washington Mutual Bank			
Resources Management				
EVAL-10-003 April 9, 2010	Allegations Pertaining to the Chairman's Mortgage Loans with Bank of America			
Receivership Management				
EVAL-10-004 August 5, 2010	Timeliness and Factors Considered in Closing Broadway Bank, Chicago, Illinois			
Totals for the Period		\$0	\$0	\$0

Table IV: Audit Reports Issued with Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	0	0	0
B. Which were issued during the reporting period.	3	\$35,632,829	\$637,475
Subtotals of A & B	3	\$35,632,829	\$637,475
C. For which a management decision was made during the reporting period.	3	\$33,995,681	\$637,475
(i) dollar value of disallowed costs.	3*	\$33,995,681	\$637,475
(ii) dollar value of costs not disallowed.	0	0	0
D. For which no management decision has been made by the end of the reporting period.	0	\$1,637,148	0
Reports for which no management decision was made within 6 months of issuance.	0	0	0

* The one report included on the line for costs disallowed is also included on the line for no management decision because a management decision was not made on one recommendation in the report.

Table V: Evaluation Reports Issued with Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	0	0	0
B. Which were issued during the reporting period.	0	0	0
Subtotals of A & B	0	0	0
C. For which a management decision was made during the reporting period.	0	0	0
(i) dollar value of disallowed costs.	0	0	0
(ii) dollar value of costs not disallowed.	0	0	0
D. For which no management decision has been made by the end of the reporting period.	0	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0	0

Table VI: Audit Reports Issued with Recommendations for Better Use of Funds

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	0
B. Which were issued during the reporting period.	2	\$409,842
Subtotals of A & B	2	\$409,842
C. For which a management decision was made during the reporting period.	2	\$409,842
(i) dollar value of recommendations that were agreed to by management.	2	\$409,842
- based on proposed management action.	2	\$409,842
- based on proposed legislative action.	0	0
(ii) dollar value of recommendations that were not agreed to by management.	0	0
D. For which no management decision has been made by the end of the reporting period.	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0

Table VII: Evaluation Reports Issued with Recommendations for Better Use of Funds

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	0
B. Which were issued during the reporting period.	0	0
Subtotals of A & B	0	0
C. For which a management decision was made during the reporting period.	0	0
(i) dollar value of recommendations that were agreed to by management.	0	0
- based on proposed management action.	0	0
- based on proposed legislative action.	0	0
(ii) dollar value of recommendations that were not agreed to by management.	0	0
D. For which no management decision has been made by the end of the reporting period.	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0

Table VIII: Status of OIG Recommendations Without Management Decisions

During this reporting period, there were no recommendations more than 6 months old without management decisions.

Table IX: Significant Revised Management Decisions

During this reporting period, there were no significant revised management decisions.

Table X: Significant Management Decisions with Which the OIG Disagreed

During this reporting period, there were no significant management decisions with which the OIG disagreed.

Table XI: Instances Where Information Was Refused

During this reporting period, there were no instances where information was refused.

Appendix 2: Information on Failure Review Activity

(required by the Dodd-Frank Wall Street Reform and Consumer Protection Act)

FDIC OIG Reviews of Institutions Failing During the Period October 1, 2009 through September 30, 2010 and Causing Losses to the DIF of Less than \$200 Million						
Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Jennings State Bank (Spring Grove, MN)	10/2/09	\$11.3	Financial condition was unsafe and unsound.	No	N/A	N/A
Riverview Community Bank (Otsego, MN)	10/23/09	\$19.4	Financial condition was unsafe and unsound.	No	N/A	N/A
Community Bank of Lemont (Lemont, IL) Subsidiary of First Bank of Oak Park Corporation	10/30/09	\$24.7	The bank was operating with impaired capital and conducting its business in an unsafe and unsound manner.	No	N/A	N/A
Gateway Bank of St. Louis (St. Louis, MO)	11/6/09	\$9.1	The bank's board placed the bank in the hands of the State pending inevitable insolvency.	No	N/A	N/A
Commerce Bank of Southwest Florida (Fort Myers, FL)	11/20/09	\$23.2	The State declared the bank insolvent because capital was negative.	No	N/A	N/A
The Tattnell Bank (Reidsville, GA)	12/4/09	\$13.8	The bank's inability to obtain the minimum levels of capitalization. The bank's capital position as of 9/24/09 was determined to be at a level that represents a significant safety and soundness exposure to the institution.	No	N/A	N/A
Town Community Bank and Trust (Antioch, IL)	1/15/10	\$17.8	The bank was conducting its business in an unsafe and unsound manner.	No	N/A	N/A
St. Stephen State Bank (St. Stephen, MN)	1/15/10	\$7.1	Financial condition was unsafe and unsound.	No	N/A	N/A
Premier American Bank (Miami, FL)	1/22/10	\$83.8	Imminently insolvent as that term is defined in Section 55.005(1)(k).	No	N/A	N/A
Bank of Leeton (Leeton, MO)	1/22/10	\$6.4	The bank's board placed the bank in the hands of the State pending inevitable insolvency.	No	N/A	N/A
Evergreen Bank (Seattle, WA)	1/22/10	\$60.7	The institution was unable to raise sufficient capital to support its operations.	Yes	Underway as an MLR as of 7/21/2010	8/24/10
Columbia River Bank (The Dalles, OR)	1/22/10	\$161.1	The bank was no longer viable due to deteriorating asset quality, poor earnings, and inadequate capital.	Yes	Underway as an MLR as of 7/21/2010	9/1/10
American Marine Bank (Bainbridge Island, WA)	1/29/10	\$58.1	Unable to continue safe and sound financial operations.	No	N/A	N/A
1 st American State Bank of Minnesota (Hancock, MN)	2/5/10	\$3.0	Financial condition was unsafe and unsound.	No	N/A	N/A
George Washington Savings Bank (Orland Park, IL)	2/19/10	\$141.3	The bank was not viable because of poor asset quality, poor earnings, and inadequate capital.	Yes	Underway as an MLR as of 7/21/2010	10/14/10

FDIC OIG Reviews of Institutions Failing During the Period October 1, 2009 through September 30, 2010 and Causing Losses to the DIF of Less than \$200 Million

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Carson River Community Bank (Carson City, NV)	2/26/10	\$7.9	Operating in an unsafe and unsound manner.	No	N/A	N/A
Rainier Pacific Bank (Tacoma, WA)	2/26/10	\$95.0	Operating in an unsafe and unsound condition.	No	N/A	N/A
Centennial Bank (Ogden, UT)	3/5/10	\$88.5	The institution was unable to raise sufficient capital to support its operations.	Yes	Underway as an MLR as of 7/21/2010	11/16/10
LibertyPointe Bank (New York, NY)	3/11/10	\$24.8	Financial condition was unsafe and unsound.	No	N/A	N/A
The Park Avenue Bank (New York, NY)	3/12/10	\$48.9	The bank could not raise sufficient capital to continue safe and sound operations.	Yes	Underway as an MLR as of 7/21/2010	12/7/10
Statewide Bank (Covington, LA)	3/12/10	\$37.9	Operating in an unsafe or unsound condition.	No	N/A	N/A
Century Security Bank (Duluth, GA)	3/19/10	\$29.8	The state closed the bank on March 19, 2010 after the bank's Board adopted a resolution not opposing possession by the state or the FDIC due to difficulties maintaining sufficient capital.	No	N/A	N/A
Bank of Hiwassee (Hiwassee, GA)	3/19/10	\$135.8	The bank was unable to raise sufficient capital to support its operations.	Yes	Underway as an MLR as of 7/21/2010	11/3/10
First Lowndes Bank (Port Deposit, AL)	3/19/10	\$37.1	The bank had not complied with outstanding orders; was in an unsafe and unsound condition; its capital was impaired; and it would likely incur losses further depleting capital.	Yes	Underway as an MLR as of 7/21/2010	12/15/10
State Bank of Aurora (Aurora, MN)	3/19/10	\$3.9	Financial condition was unsafe and unsound.	No	N/A	N/A
McIntosh Commercial Bank (Carrollton, GA)	3/26/10	\$123.0	The Tangible Equity Capital, the same as Tier 1 Leverage Capital in this case, was below 2 percent and declining.	No	N/A	N/A
Desert Hills Bank (Phoenix, AZ)	3/26/10	\$105.9	Financial condition was unsafe and unsound.	No	N/A	N/A
Lakeside Community Bank (Sterling Heights, MI)	4/16/10	\$11.2	Financial condition was unsafe and unsound.	No	N/A	N/A
AmericanFirst Bank (Clermont, FL)	4/16/10	\$10.5	Tier 1 Capital was 0.32% as of December 31, 2009.	No	N/A	N/A
Butler Bank (Lowell, MA)	4/16/10	\$22.9	Financial condition was unsafe and unsound.	No	N/A	N/A
Innovative Bank (Oakland, CA)	4/16/10	\$36.7	Inadequate capital and weakened condition.	No	N/A	N/A
Tamalpais Bank (San Rafael, CA)	4/16/10	\$79.5	Operating in an unsafe and unsound condition.	No	N/A	N/A
Citizens Bank & Trust Company of Chicago (Chicago, IL)	4/23/10	\$20.8	The bank was operating in an unsafe and unsound manner.	No	N/A	N/A
New Century Bank (Chicago, IL)	4/23/10	\$119.5	The state closed the bank because the bank was conducting its business in an unsafe and unsound manner.	No	N/A	N/A

FDIC OIG Reviews of Institutions Failing During the Period October 1, 2009 through September 30, 2010 and Causing Losses to the DIF of Less than \$200 Million

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Lincoln Park Savings Bank (Chicago, IL)	4/23/10	\$48.4	Inadequate capital and unsafe and unsound condition.	No	N/A	N/A
Peotone Bank and Trust Company (Peotone, IL)	4/23/10	\$30.6	Conducting business in an unsafe and unsound manner.	No	N/A	N/A
Wheatland Bank (Naperville, IL)	4/23/10	\$132.9	Conducting business in an unsafe and unsound manner.	Yes	Underway as an MLR as of 7/21/2010	12/22/10
Champion Bank (Creve Coeur, MO)	4/30/10	\$52.6	Operating in an unsafe or unsound condition.	No	N/A	N/A
The Bank of Bonifay (Bonifay, FL)	5/7/10	\$74.0	The bank was operating in an unsafe and unsound condition and was in imminent danger of becoming insolvent.	No	N/A	N/A
Access Bank (Champlin, MN)	5/7/10	\$5.3	Financial condition was unsafe and unsound.	No	N/A	N/A
Towne Bank of Arizona (Mesa, AZ)	5/7/10	\$41.3	Financial condition is unsafe and unsound.	No	N/A	N/A
Satilla Community Bank (Saint Marys, GA)	5/14/10	\$30.5	Operating in an unsafe or unsound condition.	No	N/A	N/A
New Liberty Bank (Plymouth, MI)	5/14/10	\$24.7	Financial condition was unsafe and unsound.	No	N/A	N/A
Southwest Community Bank (Springfield, MO)	5/14/10	\$27.2	Failure was inevitable.	No	N/A	N/A
Pinehurst Bank (St. Paul, MN)	5/21/10	\$6.0	Financial condition was unsafe and unsound.	No	N/A	N/A
Bank of Florida – SE (Fort Lauderdale, FL) Subsidiary of Bank of Florida Corporation	5/28/10	\$69.1	The bank was imminently insolvent.	No	N/A	N/A
Bank of Florida – SW (Naples, FL) Subsidiary of Bank of Florida Corporation	5/28/10	\$88.5	The bank was insolvent.	No	N/A	N/A
Bank of Florida – Tampa Bay (Tampa, FL) Subsidiary of Bank of Florida Corporation	5/28/10	\$39.9	The bank was insolvent.	No	N/A	N/A
Sun West Bank (Las Vegas, NV)	5/28/10	\$92.1	The bank was operating in an unsafe and unsound condition and was in imminent danger of becoming insolvent.	No	N/A	N/A
Arcola Homestead Savings Bank (Arcola, IL)	6/4/10	\$3.2	Capital was less than the minimum permitted and the bank was operating in an unsafe and unsound condition.	No	N/A	N/A
Washington First International Bank (Seattle, WA)	6/11/10	\$153.6	Inadequate capital and severe loan losses.	Yes	Unusual situation regarding parent and affiliate relationships	3/31/11

FDIC OIG Reviews of Institutions Failing During the Period October 1, 2009 through September 30, 2010 and Causing Losses to the DIF of Less than \$200 Million

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Nevada Security Bank (Reno, NV)	6/18/10	\$79.4		*		
Peninsula Bank (Englewood, FL)	6/25/10	\$192.6	The state considered Peninsula Bank insolvent due to the bank's negative capital balance.	No	N/A	N/A
High Desert State Bank (Albuquerque, NM)	6/25/10	\$20.9	Financial condition was unsound.	No	N/A	N/A
USA Bank (Port Chester, NY)	7/9/10	\$60.8		*		
Community Security Bank (New Prague, MN)	7/23/10	\$18.7		*		
SouthwestUSA Bank (Las Vegas, NV)	7/23/10	\$71.4		*		
Northwest Bank and Trust (Acworth, GA)	7/30/10	\$38.5		*		
Coastal Community Bank (Panama City Beach, FL)	7/30/10	\$94.2		*		
The Cowlitz Bank (Longview, WA)	7/30/10	\$63.4		*		
LibertyBank (Eugene, OR)	7/30/10	\$113.0		*		
Ravenswood Bank (Chicago, IL)	8/6/10	\$67.8		*		
Palos Bank and Trust Company (Palos Heights, IL)	8/13/10	\$70.3		*		
Butte Community Bank (Chico, CA)	8/20/10	\$17.1		*		
Sonoma Valley Bank (Sonoma, CA)	8/20/10	\$9.5		*		
ISN Bank (Cherry Hill, NJ)	9/17/10	\$23.9		*		
Bank of Ellijay (Ellijay, GA)	9/17/10	\$55.1		*		
First Commerce Community Bank (Douglasville, GA)	9/17/10	\$71.2		*		
The Peoples Bank (Winder, GA)	9/17/10	\$89.9		*		
Bramble Savings Bank (Milford, OH)	9/17/10	\$14.6		*		
Haven Trust Bank Florida (Ponte Vedra Beach, FL)	9/24/10	\$31.7		*		
North County Bank (Arlington, WA)	9/24/10	\$70.8		*		

* Failure review in process as of September 30, 2010.

Appendix 3: Peer Review Activity

(required by the Dodd-Frank Wall Street Reform and Consumer Protection Act)

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal Inspectors General are required to engage in peer review processes related to both their audit and investigative operations. In keeping with Section 989C, the FDIC OIG is reporting the following information related to its peer review activities. These activities cover our role as both the reviewed and the reviewing OIG and relate to both audit and investigative peer reviews.

Audit Peer Reviews

On the audit side, on a 3-year cycle, peer reviews are conducted of an OIG audit organization's system of quality control in accordance with the *CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, based on requirements in the *Government Auditing Standards* (Yellow Book). Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail.

- The FDIC OIG was the subject of a peer review of its audit organization during the reporting period. The Railroad Retirement Board OIG conducted the review and issued its system review report on September 21, 2010. In the Railroad Retirement Board OIG's opinion, the system of quality control for our audit organization in effect for the year ended March 31, 2010, has been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received a peer review rating of pass.

The report's accompanying letter of comment contained five recommendations that, while not affecting the overall opinion, are designed to further strengthen the system of quality control in the FDIC OIG Office of Audits.

The letter recommended actions related to:

- Completing a quality control review of individual engagements for overall compliance with professional standards, policies, and procedures.
- Enhancing procedures for obtaining independence representations via e-mail.
- Re-emphasizing existing requirements to obtain Statement of Non-Conflict of Interest certifications from staff.
- Developing procedures to obtain Annual Independence Representation confirmation from new employees and reassigned staff.
- Ensuring that the procedures for reviewing work papers prior to report issuance are followed.

Definition of Audit Peer Review Ratings

Pass: The system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Pass with Deficiencies: The system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

Fail: The review team has identified significant deficiencies and concludes that the system of quality control for the audit organization is not suitably designed to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the audit organization has not complied with its system of quality control to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We concurred with the recommendations and provided planned and completed corrective actions with which the Railroad Retirement Board OIG agreed. Action has been taken for four of the recommendations. Action to implement the fifth recommendation related to completing an overall quality control review of individual engagements will take longer to implement and will be completed by February 28, 2011.

This peer review report (the system review report and accompanying letter of comment) is posted on our Web site at www.fdicig.gov

- The FDIC OIG led an effort on behalf of CIGIE to conduct a peer review of the audit operations of SIGAR. We issued our system review report and letter of comment to SIGAR on July 14, 2010. In our opinion, the system of quality control for SIGAR's audit organization in effect for the year ended March 31, 2010, was suitably designed. Further, except for deficiencies described in the report, SIGAR complied with its system of quality control and has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. SIGAR received a rating of pass with deficiencies. The system review report contained five findings and eight recommendations. The corresponding letter of comment contained three findings and four recommendations. The FDIC OIG agreed with SIGAR's proposed corrective actions to the recommendations. According to SIGAR officials, all recommendations have been implemented.
- The FDIC OIG conducted a peer review of the audit organization of the Department of Commerce (DOC) OIG during a previous reporting period. We issued our system review report and letter of comment to DOC on December 11, 2009. DOC received a rating of pass. The letter of comment contained 15 recommendations. We agreed with DOC's proposed corrective actions to the recommendations. According to DOC officials, all recommendations have been implemented.
- In 2009, the FDIC OIG was the subject of a peer review conducted by the Department of the Interior (DOI) OIG. DOI issued its final report to us on September 9, 2009. In DOI's opinion, the system of internal safeguards and management procedures for the investigative function of the FDIC OIG in effect for the period October 1, 2007 through September 30, 2008, was in compliance with the quality standards established by CIGIE and the Attorney General guidelines. These safeguards and procedures provided reasonable assurance of conforming with professional standards in the conduct of FDIC OIG investigations. DOI issued a letter of observations but made no recommendations in that letter.
- In 2008, we conducted a peer review of the investigative operations of the Environmental Protection Agency (EPA) OIG. We issued our report on October 21, 2008. In our opinion, the system of internal safeguards and management procedures for the investigative function of the EPA OIG in effect for the period ending July 31, 2008, was in full compliance with the quality standards established by the PCIE/ECIE and the Attorney General guidelines. These safeguards provided reasonable assurance of conforming with professional standards in the conduct of EPA OIG investigations. We also issued a letter of observations but made no recommendations in that letter.

Investigative Peer Reviews

Quality assessment peer reviews of investigative operations are conducted on a 3-year cycle as well. Such reviews result in a determination that an organization is "in compliance" or "not in compliance" with relevant standards. These standards are based on *Quality Standards for Investigations* and applicable Attorney General guidelines. The Attorney General guidelines include the *Attorney General Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority* (2003), *Attorney General Guidelines for Domestic Federal Bureau of Investigation Operations* (2008), and *Attorney General Guidelines Regarding the Use of Confidential Informants* (2002).

Congratulations and Farewell



Ted Baca retired from the OIG's Office of Audits after more than 36 years of federal service. His career began in 1967 when he served in the United States Army. In 1976, he joined the United States Department of Agriculture, where he worked as an accountant. He continued his career in 1978 as an auditor at the U.S. General Accounting Office, now the Government Accountability Office (GAO), and then became an evaluator at GAO. In 1985, he joined the FDIC's Office of Corporate Audits and Internal Investigations, which later became the FDIC OIG. Since then, at the FDIC OIG he audited and reviewed numerous significant activities and practices as a

member of both the OIG's former Office of Quality Assurance and Oversight, and in the Office of Audits.

Ted's versatile background and longstanding experience at the FDIC served the OIG well, in particular through his involvement with the OIG's internal and external quality control reviews, and in numerous audits over the years to ensure the economy, efficiency, and effectiveness of the FDIC's programs and operations.



Jan Welch retired after more than 33 years of federal service. Her career began in 1977 as a clerk typist at the U.S. Civil Service Commission where, after multiple promotions, she became a personnel staffing specialist, with increasing responsibilities along the way. In 1982, she transferred to the FDIC's Office of Personnel Management and served in the Recruitment and Placement Branch, again progressing to service as a senior personnel specialist and team leader, and ultimately an employee relations specialist in the FDIC Office of Personnel Management's Employee Relations Branch, where she worked until September 1999.

She transitioned to the FDIC OIG at that time, and worked with distinction as an

employee relations specialist for nearly 11 years.

Jan played a key role in helping to successfully carry out the OIG's human resources function at the FDIC, in particular the OIG's employee relations and staffing activities. Jan was also active in the OIG's intern program by recruiting and providing guidance to our interns and helping them acclimate to the OIG work place. Throughout her tenure, she developed and fostered constructive working relationships within the OIG and with other FDIC offices, especially the Division of Administration's Human Resources Branch.

Congratulations to CIGIE Award Winners

Congratulations to the members of three OIG teams who were recognized for excellent work and received awards at the CIGIE Annual Awards Ceremony on October 19, 2010, in the Andrew W. Mellon Auditorium in Washington, DC.

Barry R. Snyder Joint Award

Introductory Auditor Training Team: *In recognition of outstanding cooperative efforts in developing and executing Introductory Auditor Training for the IG Community*



L to R: Terrie Supples, Karen Savia, IG Jon Rymer, Trina Petty, Michelle Anderson, Stephanie Katsaris.

- Trina Petty, FDIC OIG
- Karen Savia, FDIC OIG
- Terrie Supples, FDIC OIG
- Michelle Anderson, Energy OIG
- Stephanie Katsaris, Energy OIG
- Nancy LaManna, TIGTA
- Gloria Pilotti, Education OIG
- Angela Riddick, Education OIG
- Alfreda White, USDA OIG

Award for Excellence: Evaluation

Joint Evaluation of Washington Mutual Bank—FDIC OIG and the Department of the Treasury OIG: *In recognition of excellence in evaluating Federal Regulatory Oversight of Washington Mutual Bank*



L to R: Marshall Gentry, Adriana Rojas, Diana Chatfield, Margaret Wolf, IG Jon Rymer, Corinne Moriarty, Ann Lewis, and Deputy IG Fred Gibson.

- Diana Chatfield, FDIC OIG
- Marshall Gentry, FDIC OIG
- Ann Lewis, FDIC OIG
- Corinne Moriarty, FDIC OIG
- Adriana Rojas, FDIC OIG
- Peggy Wolf, FDIC OIG
- Donald Benson, Treasury OIG
- Maryann Costello, Treasury OIG
- Marla Freedman, Treasury OIG
- Jason Madden, Treasury OIG
- Robert Taylor, Treasury OIG

Congratulations to CIGIE Award Winners

Award for Excellence: Investigation

Fraud at Benton Banking Company: *In recognition of investigative excellence in uncovering a multi-million dollar bank fraud*



L to R: Deputy IG Fred Gibson, Gary Humble, IG Jon Rymer, Philip Robertson, Scott Barker, and AIGI Matt Alessandrino.

- Philip Robertson, FDIC OIG
- Gary Humble, Assistant U.S. Attorney
- Scott Barker, FBI





OIG Hotline

The Office of Inspector General (OIG) Hotline is a convenient mechanism employees, contractors, and others can use to report instances of

suspected fraud, waste, abuse, and mismanagement within the FDIC and its contractor operations. The OIG maintains a toll-free, nationwide Hotline (1-800-964-FDIC), electronic mail address (IGHotline@FDIC.gov), and postal mailing address. The Hotline is designed to make it easy for employees and contractors to join with the OIG in its efforts to prevent fraud, waste, abuse, and mismanagement that could threaten the success of FDIC programs or operations.

To learn more about the FDIC OIG and for more information on audit and evaluation reports discussed in this Semiannual Report, visit our Web site:
<http://www.fdicig.gov>