SIGTARP | OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM
ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

FOR IMMEDIATE RELEASE
FRIDAY, June 10, 2011
WWW.SIGTARP.GOV

FORMER TREASURER AND PRESIDENT OF TAYLOR, BEAN & WHITAKER EACH SENTENCED TO PRISON FOR FRAUD SCHEME

WASHINGTON – The former treasurer and the former president of Taylor, Bean & Whitaker (TBW) were sentenced today to 72 months in prison and 30 months in prison, respectively, for their roles in a more than $2.9 billion fraud scheme that contributed to the failures of TBW and Colonial Bank. TBW was one of the largest privately-held mortgage lending companies in the United States in 2009.

Desiree Brown, the former treasurer of TBW, and Raymond Bowman, the former president of TBW, were each sentenced today by U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. The sentences were announced by Assistant Attorney General Lanny A. Breuer of the Criminal Division; U.S. Attorney Neil H. MacBride for the Eastern District of Virginia; Acting Special Inspector General Christy L. Romero for the Troubled Asset Relief Program (SIGTARP); Assistant Director in Charge James W. McJunkin of the FBI's Washington Field Office; Michael P. Stephens, Acting Inspector General of the Department of Housing and Urban Development (HUD-OIG); Jon T. Rymer, Inspector General of the Federal Deposit Insurance Corporation (FDIC-OIG); Steve A. Linick, Inspector General of the Federal Housing Finance Agency (FHFA-OIG); and Victor S. O. Song, Chief of the Internal Revenue Service-Criminal Investigation (IRS-CI).

Brown, 45, of Hernando, Fla., pleaded guilty in February 2011 to one count of conspiracy to commit bank, wire and securities fraud. Bowman, 45, of Braselton, Ga., pleaded guilty in March 2011 to one count of conspiracy to commit bank, wire and securities fraud and one count of making false statements to federal agents. Both admitted to conspiring with Lee Bentley Farkas, the former chairman of TBW, and others, to fraudulently obtain funding for TBW to cover expenses related to operations and servicing payments owed to third-party purchasers of loans and/or mortgage-backed securities.

Farkas was convicted on April 19, 2011, on 14 counts of fraud for his role in masterminding the scheme, which was one of the largest bank frauds in the country. Farkas is scheduled to be sentenced on June 27, 2011. The Securities and Exchange Commission (SEC) has a civil action pending against Farkas in the Eastern District of Virginia.

Co-conspirators Paul Allen, the former chief executive officer of TBW; Catherine Kissick, a former senior vice president of Colonial Bank and head of its Mortgage Warehouse

Lending Division (MWLD); Teresa Kelly, a former operations supervisor for Colonial Bank's MWLD; and Sean Ragland, a former senior financial analyst at TBW, have also pleaded guilty for their participation in the scheme and are scheduled to be sentenced later this month.

"This fraudulent scheme reached its pinnacle during the financial crisis when an attempt was made to deceive regulators and to steal over $550 million from the American taxpayers through the TARP," said Christy L. Romero, the Acting Special Inspector General for the Troubled Asset Relief Program. "SIGTARP and its partners in the Financial Fraud Enforcement Task Force stopped the scheme dead in its tracks before any taxpayer funds were expended. Today, two of the culpable individuals are being held accountable."

Investigators working for SIGTARP originally identified suspicious activity in 2009, in connection with Colonial BancGroup's application for $570 million in taxpayer funding through the Capital Purchase Program (CPP), a sub-program of the U.S. Treasury Department's Troubled Asset Relief Program (TARP). Colonial BancGroup's TARP application was conditionally approved for $553 million contingent on the bank raising $300 million in private capital. A subsequent investigation by SIGTARP and other law enforcement agencies uncovered that Farkas and his co-conspirators, including Brown, caused Colonial BankGroup to falsely represent to Treasury that its subsidiary, Colonial Bank, had secured $300 million in funding from private investors. The investigation later determined that the private capital supposedly invested by TBW and two investors instead was money that the co-conspirators had improperly diverted from Ocala Funding, a mortgage lending facility controlled by TBW. In connection with the application for TARP funds, Colonial BancGroup submitted financial data and filings that included materially false and misleading information related to mortgage loans and securities held by Colonial Bank as a result of the fraudulent activity at TBW. Colonial BancGroup never received the TARP funding.

"Raymond Bowman and Desiree Brown used their positions as high-level executives at TBW to help Lee Farkas perpetrate a sprawling $2.9 billion fraud," said Assistant Attorney General Breuer. "Their crimes contributed to the failure of Colonial Bank and the collapse of TBW, harming hundreds of shareholders, investors and employees. Today's prison sentences reflect the seriousness of their conduct, while also recognizing the substantial assistance they ultimately provided to the government in investigating and prosecuting Mr. Farkas and other co-conspirators."

"These TBW executives helped pull off one of the largest, longest-running bank fraud schemes in history that led to the collapse of Colonial Bank and TBW," said U.S. Attorney MacBride. "They knew that without their fraud scheme, TBW would fail. They helped Lee Farkas do what they knew was wrong, and now they will pay for their crimes. At the same time, these defendants agreed to cooperate with the government and that cooperation was clearly taken into account in the sentences imposed today."

According to court documents and information presented at trial, Bowman and Brown participated in the scheme from 2003 through August 2009. The fraud scheme caused Colonial Bank and Colonial BancGroup to purchase tens of millions of dollars of worthless assets, caused

Colonial BancGroup to report false information in its financial statements, and artificially inflated the value of TBW's mortgage servicing rights.

According to court documents and information presented at trial, TBW began running overdrafts in its master bank account at Colonial Bank because of TBW's inability to meet its operating expenses, which included payroll, servicing payments owed to third-party purchasers of loans and/or mortgage-backed securities and other obligations. In or about 2002, Farkas, Bowman and other co-conspirators, engaged in a series of fraudulent actions to cover up the overdrafts, first by sweeping overnight money from one TBW account with excess funds into another, and later through the fictitious "sales" of mortgage loans to Colonial Bank, a fraud scheme the conspirators dubbed "Plan B." Brown joined the conspiracy in late 2003 shortly after Plan B commenced. The conspirators accomplished Plan B by selling Colonial Bank mortgage loans that did not exist or that TBW had already committed or sold to other third-party investors.

As Plan B evolved, co-conspirators at TBW also caused TBW to engage in sham sales of groups of mortgage loans, known as "pools," to Colonial Bank that other entities already owned. As a result, false information was entered on Colonial Bank's books and records, giving the appearance that the bank owned interests in legitimate pools of mortgage loans, when in fact the pools had no value and could not be securitized or sold. Additionally, the conspirators, including Brown, caused TBW to misappropriate more than $1.5 billion in collateral from Ocala Funding LLC, a mortgage lending facility owned by TBW. The misappropriation caused Colonial Bank and the Federal Home Loan Mortgage Corporation (Freddie Mac) to falsely believe that they each had an undivided ownership interest in thousands of the same loans worth hundreds of millions of dollars.

In August 2009, the Alabama State Banking Department, Colonial Bank's regulator, seized the bank and appointed the FDIC as receiver. Colonial BancGroup also filed for bankruptcy in August 2009.

The case is being prosecuted by Deputy Chief Patrick Stokes and Trial Attorney Robert Zink of the Criminal Division's Fraud Section and Assistant U.S. Attorneys Charles Connolly and Paul Nathanson of the Eastern District of Virginia. This case was investigated by SIGTARP, FBI's Washington Field Office, FDIC-OIG, HUD-OIG, FHFA-OIG and the IRS Criminal Investigation. The department recognizes the substantial assistance of the SEC. The department also recognizes the assistance of the Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury. This prosecution was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force.

###