



# SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL  
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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## FORMER CHIEF FINANCIAL OFFICER OF TAYLOR, BEAN & WHITAKER SENTENCED TO 5 YEARS IN PRISON FOR FRAUD SCHEME WHICH CONTRIBUTED TO THE FAILURES OF TBW AND COLONIAL BANK

*Colonial Bank Had Received Conditional Approval to Receive \$553 Million in TARP Funding Which SIGTARP Prevented from Being Disbursed*

WASHINGTON, DC - Delton de Armas, a former chief financial officer (CFO) of Taylor, Bean & Whitaker Mortgage Corp. (TBW), was sentenced today to 60 months in prison for his role in a more than \$2.9 billion fraud scheme that contributed to the failure of TBW.

De Armas was sentenced today by U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. The sentence was announced today by Christy Romero, Special Inspector General, Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Assistant Attorney General Lanny A. Breuer of the Criminal Division; U.S. Attorney Neil H. MacBride for the Eastern District of Virginia; Assistant Director in Charge James W. McJunkin of the FBI's Washington Field Office; David A. Montoya, 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 Richard Weber, Chief of the Internal Revenue Service Criminal Investigation (IRS-CI).

De Armas, 41, of Carrollton, Texas, pleaded guilty in March to one count of conspiracy to commit bank and wire fraud and one count of making false statements.

"Rather than blow the whistle on billions of dollars in fraud, de Armas chose to help conceal it," said Special Inspector General Romero. "This CFO lied to investors, banks, regulators and auditors to cover up the massive fraud scheme which resulted in the failure of both TBW and Colonial Bank. The court's decision to sentence de Armas to five years in prison reflects the seriousness of his role as a gatekeeper within TBW and the contribution of his crime to our nation's financial crisis."

"For years, Mr. de Armas, the CFO of one of the country's largest private mortgage companies, helped defraud financial institutions by concealing from them billions of dollars in losses," said Assistant Attorney General Breuer. "His lies and deceits contributed to the devastating losses suffered by major institutional investors. As a consequence for his crimes, he will now spend the next five years of his life behind bars."

“As CFO, Mr. de Armas could have – and should have – put a stop to the massive fraud at TBW the moment he discovered it,” said U.S. Attorney MacBride. “Instead, he and others lied for years on end to investors, banks, regulators and auditors and caused more than \$2.4 billion in losses to major financial institutions.”

“The actions of Mr. De Armas and others resulted in the loss of billions of dollars to major financial institutions,” said Assistant Director in Charge McJunkin. “Today’s sentence serves as a warning to anyone who attempts to take advantage of investors and our banking system. Together with our law enforcement partners, the FBI will pursue justice for anyone involved in such fraudulent schemes.”

According to court documents, de Armas joined TBW in 2000 as its CFO and reported directly to its chairman, Lee Bentley Farkas, and later to its CEO, Paul Allen. He previously admitted in court that from 2005 through August 2009, he and other co-conspirators engaged in a scheme to defraud financial institutions that had invested in a wholly-owned lending facility called Ocala Funding. Ocala Funding obtained funds for mortgage lending for TBW from the sale of asset-backed commercial paper to financial institutions, including Deutsche Bank and BNP Paribas. The facility was managed by TBW and had no employees of its own.

According to court records, shortly after Ocala Funding was established, de Armas learned there were inadequate assets backing its commercial paper, a deficiency referred to internally at TBW as a “hole” in Ocala Funding. De Armas knew that the hole grew over time to more than \$700 million. He learned from the CEO that the hole was more than \$1.5 billion at the time of TBW’s collapse. De Armas admitted he was aware that, in an effort to cover up the hole and mislead investors, a subordinate who reported to him had falsified Ocala Funding collateral reports and periodically sent the falsified reports to financial institution investors in Ocala Funding and to other third parties. De Armas acknowledged that he and the CEO also deceived investors by providing them with a false explanation for the hole in Ocala Funding.

De Armas also previously admitted in court that he directed a subordinate to inflate an account receivable balance for loan participations in TBW’s financial statements. De Armas acknowledged that he knew that the falsified financial statements were subsequently provided to Ginnie Mae and Freddie Mac for their determination on the renewal of TBW’s authority to sell and service securities issued by them.

In addition, de Armas admitted in court to aiding and abetting false statements in a letter the CEO sent to the U.S. Department of Housing and Urban Development, through Ginnie Mae, regarding TBW’s audited financial statements for the fiscal year ending on March 31, 2009. De Armas reviewed and edited the letter, knowing it contained material omissions. The letter omitted that the delay in submitting the financial data was caused by concerns its independent auditor had raised about the financing relationship between TBW and Colonial Bank and its request that TBW retain a law firm to conduct an internal investigation. Instead, the letter falsely attributed the delay to a new acquisition and TBW’s switch to a compressed 11-month fiscal year.

In April 2011, a jury in the Eastern District of Virginia found Lee Bentley Farkas, the chairman of TBW, guilty of 14 counts of conspiracy, bank, securities and wire fraud. On June 30, 2011, Judge Brinkema sentenced Farkas to 30 years in prison. In addition, six individuals have pleaded guilty for their roles in the fraud scheme, including: Paul Allen, former chief executive officer of TBW, who was sentenced to 40 months in prison; Raymond Bowman, former president of TBW, who was sentenced to 30 months in

prison; Desiree Brown, former treasurer of TBW, who was sentenced to six years in prison; Catherine Kissick, former senior vice president of Colonial Bank and head of its Mortgage Warehouse Lending Division (MWLD), who was sentenced to eight years in prison; Teresa Kelly, former operations supervisor for Colonial Bank's MWLD, who was sentenced to three months in prison; and Sean Ragland, a former senior financial analyst at TBW, who was sentenced to three months in prison.

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 Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury also provided support in the investigation. The Department would also like to acknowledge the substantial assistance of the SEC in the investigation of the fraud scheme.

This prosecution was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes. SIGTARP is a member of the task force. To learn more about the President's Financial Fraud Enforcement Task Force, please visit [www.stopfraud.gov](http://www.stopfraud.gov).

#### **About SIGTARP**

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