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FORMER COLONIAL BANK SENIOR VICE PRESIDENT SENTENCED TO 8 YEARS IN PRISON FOR FRAUD SCHEME

WASHINGTON – A former senior vice president and head of Colonial Bank's Mortgage Warehouse Lending Division was sentenced today to eight years in prison for her role in a more than $2.9 billion fraud scheme that contributed to the failures of Colonial Bank and Taylor, Bean & Whitaker (TBW). Colonial Bank was one of the 25 largest banks in the United States and TBW was one of the largest privately-held mortgage lending companies in the United States in 2009.

Catherine Kissick was sentenced today by U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. The sentence was 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 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, Deputy 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).

Kissick, 50, of Orlando, Fla., pleaded guilty in March 2011 to one count of conspiracy to commit bank, wire and securities fraud. Co-conspirator Teresa Kelly, a former operations supervisor at Colonial Bank who reported to Kissick, was also sentenced today by Judge Brinkema to three months in prison. Kelly, 35, of Ocoee, Fla., pleaded guilty in March 2011 to one count of conspiracy to commit bank, wire and securities fraud. Kissick and Kelly 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 civil actions pending against Farkas and Kissick in the Eastern District of Virginia.

Co-conspirators Paul Allen, the former chief executive officer of TBW; Raymond Bowman, the former President of TBW; Desiree Brown, the former Treasurer of TBW; and Sean Ragland, a former senior financial analyst at TBW, have also pleaded guilty for their participation in the scheme. Earlier this month, Brown and Bowman were sentenced to six years in prison and 30 months in prison, respectively.

"As a senior executive at Colonial Bank, Catherine Kissick helped execute one of the largest bank frauds in history," said Assistant Attorney General Breuer. "For years, she used her position within the bank to buy hundreds of millions of dollars in worthless assets from TBW, deceiving shareholders, investors and regulators. If she had refused to participate in the fraud, Lee Farkas' scheme could have been stopped dead in its tracks. Ms. Kissick ultimately cooperated with the government, and that assistance is reflected in today's sentence. But she, like her co-conspirators, will pay for her crimes with substantial time in prison."

"Lee Farkas pulled off one of history's largest bank frauds because he had people inside Colonial Bank with the power to do it and hide it," said U.S. Attorney MacBride. "Without help from Catherine Kissick – a high-level executive at one of the nation's top regional banks – the fraud scheme might have been discovered in its infancy. Her conviction and sentence should be a cautionary tale to other financial executives who may be tempted to bend the rules for favored clients."

According to court documents and information presented at trial, Kissick and Kelly participated in the scheme from 2002 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, Kissick, Kelly 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." 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. According to court documents, Kissick played a leadership role in the sweeping and Plan B portions of the fraud scheme and directed Kelly's activities in the scheme.

Additionally, the co-conspirators at TBW 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. Kissick and Kelly did not participate in the Ocala Funding misappropriations.

According to court documents, the fraud scheme also included an effort by certain conspirators in the fall of 2008 to obtain $570 million in taxpayer funding through the Capital Purchase Program (CPP), a sub-program of the U.S. Treasury Department's TARP. In connection with the application, Colonial BancGroup submitted financial data and filings that included materially false information related to mortgage loan and securities assets held by Colonial Bank as a result of the fraudulent activity at TBW. Colonial BancGroup never received the TARP funding. According to court documents, Kissick knew that Colonial BancGroup's TARP application relied upon false bank financial data; however, Kelly was not aware of this aspect of the fraud scheme.

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.

"As a senior bank official of Colonial Bank, Catherine Kissick had a fiduciary duty to speak up and report fraud but instead played an active role in perpetrating and concealing this large-scale fraud, including attempting to deceive the federal government and steal over $550 million from TARP," said Acting Special Inspector General for the TARP Romero. "SIGTARP and its partners in the Financial Fraud Enforcement Task Force skillfully discovered the fraud and prevented the loss of significant taxpayer funds. SIGTARP will continue to vigorously investigate and prosecute persons who commit fraud or attempt to do so in connection with any program implemented under TARP, regardless of whether such person receives TARP funds."

"This was a complex investigation that required careful efforts of investigators, forensic accountants and analysts poring through thousands of pages of complicated mortgage and lending documents," said Assistant Director in Charge McJunkin. "Today's result is a testament to the hard work and close cooperation of our law enforcement partners. Together we are committed to ensuring the integrity of our banking and mortgage systems."

"We will continue to work side-by-side with our partners to protect the American dream and the American taxpayers and ensure that criminals who try to enrich themselves through fraud schemes are brought to justice," said Deputy Inspector General Stephens of HUD.

"The FDIC Office of Inspector General is pleased to join our law enforcement colleagues in defending the integrity of the financial services industry," said FDIC Inspector General Rymer. "We are particularly concerned in cases like this one where fraudulent activities involving employees of Colonial Bank and officials of Taylor Bean and Whitaker contributed to the failure of Colonial Bank, resulting in a $3.8 billion loss to the Deposit Insurance Fund. We are committed to continuing our investigations of such criminal misconduct to help maintain the safety and soundness of the nation's financial institutions and the viability of the fund."

"This sentence sends a strong message to individuals who would try to defraud Freddie Mac and American taxpayers, who have invested $64.2 billion in Freddie Mac to date," said Inspector General Linick of the FHFA-OIG. "FHFA-OIG looks forward to future cooperative efforts with law enforcement partners to combat fraud against FHFA, Freddie Mac, Fannie Mae, and the Federal Home Loan Banks."

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-CI. 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. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. For more information about the task force visit: www.stopfraud.gov.

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