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FORMER CHAIRMAN OF TAYLOR, BEAN & WHITAKER SENTENCED TO 30 YEARS IN PRISON AND ORDERED TO FORFEIT $38.5 MILLION

WASHINGTON – The former chairman and owner of Taylor, Bean & Whitaker (TBW) was sentenced today to 30 years in prison and ordered to forfeit approximately $38.5 million for his role in a more than $2.9 billion fraud scheme that contributed to the failure of TBW and Colonial Bank. At one time, TBW was one of the largest privately held mortgage lending companies in the United States and Colonial Bank was one of the 25 largest banks in the United States.

Lee Bentley Farkas 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).

On April 19, 2011, after a 10-day trial, a federal jury found Farkas, 58, of Ocala, Fla., guilty of 14 counts, including one count of conspiracy to commit bank, wire and securities fraud; six counts of bank fraud; four counts of wire fraud; and three counts of securities fraud. According to court documents and evidence presented at trial, Farkas and his co-conspirators engaged in a scheme that misappropriated more than $1.4 billion from Colonial Bank's Mortgage Warehouse Lending Division (MWLD) in Orlando, Fla., and approximately $1.5 billion from Ocala Funding, a mortgage lending facility controlled by TBW. Farkas and his co-conspirators misappropriated this money to, among other things, cover TBW's operating expenses. The fraud scheme contributed to the failures of Colonial Bank and TBW.

Six other individuals have pleaded guilty and have been sentenced for their roles in the fraud scheme. Catherine Kissick, a former senior vice president of Colonial Bank and head of the mortgage warehouse lending division MWLD was sentenced to eight years in prison. Desiree Brown, the former treasurer of TBW, was sentenced to six years in prison. Paul Allen, the former chief executive officer of TBW, was sentenced to 40 months in prison. Ray Bowman, the former president of TBW, was sentenced to 30 months in prison. Teresa Kelly, a former operations supervisor for Colonial Bank's MWLD, and Sean Ragland, a former senior financial analyst at TBW, were each sentenced to three months in prison.

The Securities and Exchange Commission (SEC) has civil actions pending against Farkas, Brown, Kissick, Kelly and Allen in the Eastern District of Virginia.

"Lee Farkas' boundless greed ultimately led not to a life of luxury, but to a prison cell," said Assistant Attorney General Breuer. "Mr. Farkas orchestrated a fraud of staggering proportions, the effects of which are still being felt by the thousands of former employees of TBW and Colonial Bank, and shareholders of Colonial BancGroup. From a $28 million private jet and vacation homes in Maine and Key West, to expensive antique cars and restaurants, Mr. Farkas plundered his company and Colonial Bank to prop up his failing business and to feed his ostentatious lifestyle. When greed and risky behavior lead individuals to break the law, we will do everything in our power to investigate, prosecute and punish those responsible."

"Today's sentence ensures that Lee Farkas will spend the rest of his life in prison and is just punishment for a man who pulled off one the largest bank frauds in history," said U.S. Attorney MacBride. "Between 2007 and August 2009, as the country faced one of the worst financial crises in recent history – largely sparked by fraudulent mortgage-related transactions – Farkas ramped up his scheme to rip off banks through sales of fake mortgage assets and by double-and triple-selling mortgage loans. By causing the failure of Colonial Bank and TBW, two significant players in the mortgage market, Farkas's scheme affected those at the heart of the financial crisis, including major financial institutions, government agencies, taxpayers, and employees and investors."

According to court documents and evidence presented at trial, the fraud scheme began in 2002, when Farkas and his co-conspirators ran overdrafts in TBW bank accounts at Colonial Bank in order to cover TBW's cash shortfalls. Farkas and his co-conspirators at TBW and Colonial Bank transferred money between accounts at Colonial Bank to hide the overdrafts. Evidence presented at trial showed that after the overdrafts grew to more than $100 million, Farkas and his co-conspirators covered up the overdrafts and operating losses by causing Colonial Bank to purchase from TBW over time more than $1.5 billion in what amounted to worthless mortgage loan assets, including loans that TBW had already sold to other investors and fake pools of loans purportedly being formed into mortgage-backed securities. Farkas and his co-conspirators caused Colonial Bank to report these assets on its books at face value when in fact the mortgage loan assets were worthless. By August 2009, approximately $500 million in fake pools of loans remained on Colonial Bank's books.

According to court documents and evidence presented at trial, Farkas and his co-conspirators at TBW also misappropriated more than $1.5 billion from Ocala Funding. Ocala Funding sold asset-backed commercial paper to financial institution investors, including Deutsche Bank and BNP Paribas Bank. Ocala Funding, in turn, was required to maintain collateral in the form of cash and/or mortgage loans at least equal to the value of outstanding commercial paper.

Evidence presented at trial established that Farkas and his co-conspirators diverted cash from Ocala Funding to TBW to cover its operating losses, and as a result, created significant deficits in the amount of collateral Ocala Funding possessed to back the outstanding commercial paper. To cover up the diversions, the conspirators sent false information to Deutsche Bank, BNP Paribas Bank and other financial institution investors and led them to falsely believe that they had sufficient collateral backing the commercial paper they had purchased. When TBW failed in August 2009, the banks were unable to redeem their commercial paper for full value. Farkas and his co-conspirators also caused approximately $900 million in loans to be held on Colonial Bank's books when in fact the loans had already been sold to Freddie Mac and other investors.

According to court documents and evidence at trial, in the fall of 2008, Colonial Bank's holding company, Colonial BancGroup Inc., applied 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). In connection with the application, Colonial BancGroup submitted financial data and filings that included materially false information related to mortgage loans and securities held by Colonial Bank as a result of the fraudulent scheme perpetrated by Farkas and his co-conspirators. Colonial BancGroup's TARP application was conditionally approved for $553 million contingent on the bank raising $300 million in private capital.

Evidence at trial established that Farkas and his co-conspirators falsely informed Colonial BancGroup that they had identified sufficient investors to satisfy the TARP capital contingency. Farkas and his TBW co-conspirators diverted $25 million from Ocala Funding into an escrow account and falsely represented that the money was on behalf of capital raise investors. Farkas and his TBW co-conspirators caused Colonial BancGroup to issue a false and misleading financial statement to the SEC and a press release announcing the success of the capital raise. Ultimately, Colonial BancGroup did not receive any TARP funds.

Evidence at trial also established that Farkas and his co-conspirators caused Colonial BancGroup to file materially false financial data with the SEC regarding its assets in annual reports contained in Forms 10-K and quarterly filings contained in Forms 10-Q. Colonial BancGroup's materially false financial data included overstated assets for mortgage loans that had little to no value that Farkas and his co-conspirators caused Colonial Bank to purchase. Farkas and his co-conspirators also caused TBW to submit materially false financial data to the Government National Mortgage Association (Ginnie Mae) in order to extend TBW's authority to issue Ginnie Mae mortgage-backed securities.

According to court documents and evidence presented at trial, Farkas also personally misappropriated more than $38.5 million from TBW and Colonial Bank to finance his lifestyle, including purchasing multiple homes, scores of cars, a jet and sea plane, and restaurants and bars.

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.

"During the housing and financial crisis, while many American taxpayers struggled just to keep their heads above water, Farkas lived in the lap of luxury using the more than $38 million that he stole from TBW and Colonial Bank," said Acting Inspector General Romero of SIGTARP. "Farkas used the stolen money to buy a jet, expensive antique and collector cars including a Rolls Royce, and multiple vacation homes, all while masterminding a fraud of stunning scope. His fraud began to unravel when he tried to obtain TARP funds to fill the billions of dollars of holes at TBW and Colonial Bank. He failed and his fraud was discovered by SIGTARP and its law enforcement partners. Shameless in his duping of investors and regulators, he attempted to deceive taxpayers. The judge's sentence today makes it clear that Farkas will leave his lavish lifestyle behind and spend his golden years locked up in prison."

"Through his scheme, Lee Farkas and his co-conspirators victimized innocent people and in the process their actions led to the collapse of two major U.S. financial institutions, no doubt a contributing factor to the nation's financial downturn," said Assistant Director McJunkin. "Today's sentence does not make the victims whole, but it does punish the major architect of these crimes."

"Lee Farkas was the mastermind behind one of the largest fraud schemes in history involving a mortgage lending company. For more than eight years, Farkas perpetuated his scam to defraud banks, regulators and taxpayers," said Deputy Inspector General Stephens of the HUD-OIG. "We remain firmly committed to rooting out fraud at all levels of an institution – from the bottom to the very top – and holding those who engage in such destructive activity ultimately accountable to the American people."

"We are pleased to join our colleagues in announcing the sentencing of Lee Farkas, whose actions contributed to the failure of Colonial Bank, causing a $4.2 billion loss to the FDIC's Deposit Insurance Fund," said Inspector General Rymer of the FDIC-OIG. "We appreciate the collaborative relationships with law enforcement partners that led to the successful outcomes of this case, one of the largest bank fraud prosecutions of our time. We also acknowledge the efforts of our FDIC colleagues, who, acting in their receivership capacity, assisted the prosecution in unraveling the complexities of this fraud. The American public needs to know that those who undermine the integrity of the financial services system will be held accountable. We are committed to helping maintain confidence in the financial system, ensure the safety and soundness of FDIC-insured institutions, and protect the viability of the insurance fund."

"In the midst of the worst housing finance crisis since the great depression, Lee Farkas led a scheme that defrauded Freddie Mac and, in turn, the American taxpayers who have invested over $63 billion in Freddie Mac to cover its losses," said Inspector General Linick of the FHFA-OIG. "Today's sentence makes it clear that mortgage-related fraud will not be tolerated."

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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