



Department of Justice



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FORMER COLONIAL BANK MORTGAGE LENDING SUPERVISOR PLEADS GUILTY TO FRAUD SCHEME

WASHINGTON – Teresa Kelly, a former operations supervisor in Colonial Bank’s Mortgage Warehouse Lending Division (MWLD), pleaded guilty today to conspiring to commit bank, wire and securities fraud for her role in a fraud scheme that contributed to the failures of Colonial Bank and Taylor, Bean & Whitaker (TBW).

The guilty plea was announced today by Assistant Attorney General Lanny A. Breuer of the Criminal Division; U.S. Attorney Neil H. MacBride for the Eastern District of Virginia; Special Inspector General Neil Barofsky for the Troubled Asset Relief Program (SIGTARP); Assistant Director in Charge James W. McJunkin of the FBI’s Washington Field Office; Michael P. Stephens, 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 F. O. Song, Chief of the Internal Revenue Service (IRS) Criminal Investigation.

Kelly, 35, of Ocoee, Fla., pleaded guilty before U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. Kelly faces a maximum penalty of five years in prison when she is sentenced on June 17, 2011. In a related action, the U.S. Securities and Exchange Commission (SEC) today filed civil charges against Kelly in the Eastern District of Virginia.

According to court documents, Kelly admitted that from 2002 through August 2009, she and her co-conspirators at Colonial Bank and TBW engaged in a scheme to defraud various entities and individuals, including Colonial Bank, a federally-insured bank; Colonial BancGroup Inc.; and the investing public. Kelly admitted that she knowingly and intentionally placed Colonial Bank and Colonial BancGroup at significant risk by causing them to purchase more than \$400 million in assets that had no value.

Court documents state that in early 2002, 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. Kelly and her 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 this by sending mortgage data to Colonial Bank for loans that did not exist or that TBW had already committed or sold to other third-party investors. Kelly admitted that she knew and understood she and her co-conspirators had caused Colonial Bank to pay TBW for assets that were worthless to the bank.

According to court documents, Kelly and her conspirators also caused TBW to engage in sales to Colonial Bank of fictitious trades that had no collateral backing them and had no value. To obtain fraudulent funding through these trades, TBW co-conspirators would contact Kelly or another co-conspirator at Colonial Bank when the mortgage company needed an advance from the bank. Conspirators at TBW would wire a request that included false documentation purporting to represent the sale of the trades to Colonial Bank to support the release of the funds. Kelly and others caused the false information to be entered into Colonial Bank's books and records, giving the appearance that Colonial Bank owned a 99 percent interest in legitimate securities, when in fact the securities had no value and could not be sold.

Kelly admitted today that she and her co-conspirators took steps to hide the fraud scheme from Colonial Bank's and Colonial BancGroup's senior management, auditors and regulators, and Colonial BancGroup's shareholders, including by providing materially false information that significantly overstated assets held in the MWLD portfolio. Kelly knew that these actions caused materially false financial data to be reported to Colonial BancGroup and incorporated in its publicly filed statements.

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.

Raymond Bowman, the former president of TBW; Desiree Brown, the former treasurer of TBW; and Catherine Kissick, a former senior vice president of Colonial Bank and head of its Mortgage Warehouse Lending Division, previously pleaded guilty for their roles in the fraud scheme.

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.

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.

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